

# PRIORITY SECTOR LENDING BY BANKS IN INDIA- A RAY FOR SURVIVAL OF SMALL AND MOST WANTED

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**ABSTRACT-**The dream of overall development of an economy will be achieved only if the required financial availability is made to those sectors, which are neglected and deprived of getting loan from financial institutions at the time of necessity. On December 14, 1967 then Deputy Prime Minister and Minister of Finance, Government of India Late Sri Morarji Desai made a statement in the Lok Sabha that, there have been continual complaints that some "priority sectors" like as agriculture, small scale industries and exports have not been receiving their due share of bank credit. Thus, the concept of priority sector lending was introduced for imposing social responsibility and control on banks by amendment bill 1967 and introduced on 23<sup>rd</sup>December 1967. The Reserve Bank of India has made it mandatory to commercial as well as co-operative banks to provide loan to specific sectors, which were not getting finance earlier but are most wanted in the economy. The Reserve Bank of India has declared some important sectors as 'Priority Sector'. The broad classification of priority sector for all scheduled commercial banks includes - i. Agriculture and Allied Activities, ii. Small Scale Industries, iii. Small Business or Service Enterprises, iv. Micro Credit, v. Education Loans, vi. Housing Loans, vii. Weaker Sections

**KEY WORDS:**Amendment, commercial, development, mandatory, priority sectors

## INTRODUCTION

The dream of overall development of an economy will be achieved only if the required financial availability is made to those sectors, which are neglected and deprived of getting loan from financial institutions at the time of necessity. On December 14, 1967 then Deputy Prime Minister and Minister of Finance, Government of India Late Sri Morarji Desai made a statement in the Lok Sabha that, there have been continual complaints that some "priority sectors" like as agriculture, smallscale industries and exports have not been receiving their due share of bank credit. Thus, the concept of priority sector lending was introduced for imposing social responsibility and control on banks by amendment bill 1967 and introduced on 23<sup>rd</sup>December 1967.

Before 1969 commercial banks were in the grip of private persons who were not interested in financing to other than industrial sector and most of the most wanted sectors. Keeping this in mind the government of India lead by Late. Mrs. Indira Gandhi, then Prime Minister of India nationalized the top commercial banks. The Reserve Bank of India prepared passed a guideline for financing priority sectors. Then onwards attitude of the commercial banks changed and started identifying the most neglected sectors of the economy. All activities need finance for short, medium and long period.

The Reserve Bank of India has made it mandatory to commercial as well as co-operative banks to provide loan to specific sectors, which were not getting finance earlier but are most wanted in the economy. The RBI in its guidelines has given clearly about the different categories of priority sectors and instructed both commercial as well as co-operative banks to provide a portion of their lendings to specific sectors. Under the priority sector lending the sector will be benefitted in two ways firstly it gets priority in getting loan sanctioned and secondly gets concessions in terms and conditions including rate of interest.

## PRIORITY SECTOR

The Reserve Bank of India has declared some important sectors as 'Priority Sector'. The broad classification of priority sector for all scheduled commercial banks includes -i. Agriculture and Allied Activities, ii. Small Scale Industries, iii. Small Business or Service Enterprises, iv. Micro Credit, v. Education Loans, vi. Housing Loans, vii. Investments by banks in securities, assets, representing loans to agriculture and viii. Weaker Sections

## PRIORITY SECTOR LENDING

Priority Sector Lending means lending by commercial or co-operative bank to those sectors, which were not provided with adequate and timely loans. Reserve Bank of India has made broad classification of the sectors, which are to be advanced with adequate credit facility. According to RBI guidelines, banks have to lend to priority sectors of different categories. The lending includes direct and indirect. Direct lending includes short, medium and long-term loans known as Farm Credit. Indirect lending includes Agriculture Infrastructure and Ancillary activities, which support agriculture indirectly. Banks, according to RBI have give loan to help and support the different categories, as they need timely and adequate financial support. The government of India and RBI have targeted development of certain sectors on priority basis and categorized as 'Priority Sector'. Under the priority sector lending the sector will be benefitted in two ways firstly it gets priority in getting loan sanctioned and

secondly gets concessions in terms and conditions including rate of interest. Details about the Priority Sector Lending to different categories is given below.

**i. Priority Sector Lending under Agriculture and Allied Activities Category:** Agriculture in the economy develops if allied activities develop. The allied activities depend on agriculture and agriculture depends on allied activities. Livestock rearing, poultry, fishery, sericulture, dairying, etc., are the important allied activities, which supply necessary services to agriculture. There exists reciprocal relationship between these. For this category banks have to directly lend short, medium and long term loans directly to individuals agriculturists for agriculture and allied activities, Self Help Groups (SHGs) without limit and in case of commercial or business enterprises up to Rs. 20 Lakh.

**ii. Priority Sector Lending under Small Scale Industries Category:** Small Scale Industries play very much important role in the economic development. Most of the small-scale industries act as ancillary to other industries and other sectors by supplying required items for manufacturing final products. For this category banks have to provide direct loans to the small scale industries involved in manufacturing, processing or preservation of goods.

**iii. Priority Sector Lending under Small Business or Service Enterprises Category:** Increase in the number of small business enterprises is the result of wide unemployment in the nation. Unemployment is one of the burning issues of Indian economy. Indian government has been trying to solve this by many ways. Government has implemented many programmes for employment generation and poverty alleviation in the country. Small business or service enterprises provide employment to unemployed persons. Banks have to provide direct loans for small business, retail trading, professional and self-employed persons, operators of small water and road transport under Priority Sector Lending provision.

**iv. Priority Sector Lending under Micro Credit Category:** Poverty alleviation and increasing standard of living of the people has become a great challenge of India. Increasing the standard of living through SHGs is the weapon used by the government of India. According to the guidelines of RBI the banks have to provide for enabling the members to improve their standard of living. Directly or through a group mechanism, the banks provide loan up to Rs. 50,000 to each borrower under Priority Sector Lending.

**v. Priority Sector Lending under Education Category:** Education, the important social infrastructure enhances the speed of economic development. Government of India has implemented new and innovative programmes for increasing literacy rate and making people educated. According to RBI guidelines, banks have to advance educational loan up to Rs. 10 lakh to the individuals for studies within India and Rs. 20 lakh for studies outside India or abroad under Priority Sector Lending.

**vi. Priority Sector Lending under Housing Category:** Increasing population in India has given birth to many problems. Housing is one among the problems of India. Housing problem not only exists in urban areas but exists also in rural areas. Due to fast urbanization slums are created where the problem of housing is so harsh. The concept of nuclear family has also paved way to housing problem. The government of India has implemented many rural and urban housing schemes to tackle the problem. Under the provision of priority sector lending the banks have to advance loans up to Rs. 28 lakh (where the total cost should not exceed Rs. 35 lakh) in the places where the population is more than 10 lakh and Rs. 20 lakh (where the total cost should not exceed Rs. 25 lakh) in other places for purchasing or constructing a residential house for one family. And up to Rs. 5 lakh and Rs. 2 lakh for repairing houses at metropolitan and other centres respectively.

**vii. Priority Sector Lending under Investments Category** by banks in securities, assets, representing loans to agriculture.

**viii. Priority Sector Lending for Weaker Sections:** A section of people considered as weaker section because of non-availability of institutional credit, weaker voice in fulfilling their demands. Some of the sections have been identified as 'Weaker Sections Category' such are given below.

i. Small and marginal farmers, ii. Artisans, village and cottage industries with less than the credit limit of Rs. 50,000, iii. Beneficiaries of Swarna Jayanti Swarozgar Yojana, National Rural Livelihood Mission, iv. Persons from Scheduled Castes and Scheduled Tribes category v. Beneficiaries of Differential Rate of Interest Scheme vi. Beneficiaries of Swarna Jayanti Shahari Rozgar Yojana, vii. Beneficiaries of the scheme for Rehabilitation of Manual Scavengers viii. Loans to SHGs ix. Loans to distressed farmers to non-institutional lenders x. Loans to distressed non-farmers persons less than Rs. 50,000 for each borrower to prepare their debt to non-institutional lenders xi. Loans to individual women beneficiaries to the limit of Rs. 50,000 and less to each borrower, xii. Account holders under Pradhan Mantri Jan Dhan Yojana, xiii. Renewable energy sector, etc. are included in the weaker section category for making provision of credit facilities under priority sector lending by the banks.

#### TARGETS FIXED FOR BANKS UNDER PRIORITY SECTOR LENDING

In view of helping the targeted group, the RBI has fixed targets to the banks while lending and made it mandatory to the banks to advance loan under priority sector lending provision. Foreign Banks with less than 20 branches and Domestic Scheduled Banks and Foreign Banks with more than 20 branches have been fixed with the target at 40 percent of Adjusted Net Bank Credit. Foreign Banks with 20 branches and more have to achieve 40 percent target by 2020. 18 percent Adjusted Net Bank Credit is fixed. Of 18 percent fixed target 8 percent of Adjusted Net Bank Credit is to be allotted for small and marginal farmers. It should be achieved 7 and 8 percent by March 2016 and March 2017 respectively. The sub-target of 7.5 percent for Micro Enterprises was fixed and it should be achieved by 7 percent and 7.5 percent by March 2016 and March 2017 respectively. For the foreign banks with 20 and more branches, be made applicable after 2018. A target of 10 percent was fixed for Advances to Weaker Sections. This target was to be reached by the foreign banks with 20 and more branches within five years time period *i.e.*, is from 1<sup>st</sup> April, 2013 to 31<sup>st</sup> March 2018.

No limits have been prescribed for bank loans sanctioned to Micro, Small and Medium Enterprises those, which are engaged in the production of goods under any kind of industry, which is defined in the first schedule of the industries according to Development and Regulation Act, 1951 and government modifications time to time. Under MSMED Act, 2006, the manufacturing units are defined in terms of investment made in plant and machinery. The bank loan per unit up to Rs. 5 crore and

Rs. 10 crore to Micro and Small and Medium enterprises, which are engaged manufacturing according to the definition of MSMED Act, 2006, come under Priority Sector. Two percent additional target of priority sector lending of ANBC from the year 2016-17 to 2019-20 is to be achieved excluding exports. The following table gives details of Achievement of Priority Sector Target by the Foreign Banks having Less than 20 Branches in a Phased Manner details are given in the following table.

**Table 1. Achievement of Priority Sector Target by the Foreign Banks having Less than 20 Branches in a Phased Manner**

Financial Year	The Total Priority Sector as Percentage of ANBC or CEAOBSE whichever is higher
2015-16	32
2016-17	34
2017-18	36
2018-19	38
2019-20	40

Source:RBI guidelines, web page.

### CONCLUSION

The Reserve Bank of India has declared some important sectors as 'Priority Sector'. The broad classification of priority sector for all scheduled commercial banks includes - i. Agriculture and Allied Activities, ii. Small Scale Industries, iii. Small Business or Service Enterprises, iv. Micro Credit, v. Education Loans, vi. Housing Loans, vii. Investments by banks in securities, assets, representing loans to agriculture and viii. Weaker Sections. For providing social justice the weaker sections of the society the priority sector lending has made good contribution.

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