

Prospects and problems of priority sectors lending with special reference to India

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Abstracts

Priority sector lending has become an important component of national agenda after the nationalization of banks. Priority sector lending scheme provide loans facility to priority sectors i.e. like agriculture small scale industries, education loan, housing and weaker section etc. Priority sector lending schemes are available in various public sector banks which are helping them in development and growth that contribute to the GDP of the nation. Beneficiaries can avail the facility at every point of need, but there are some hurdles within the banking system which make the process cumbersome and time consuming. This descriptive paper describes about various problems faced by beneficiaries of priority sector.

KEYWORDS

Priority sector lending, agriculture, weaker section, GDP, small scale industries.

Introduction

Government of India initiated social control over banks with a view to maintain sector as agriculture and small scale industries, in 1967-1968. National credit council set up in February 1968, submitted its reports on July 24th, 1968 and emphasized that commercial banks should increase their involvement in the financing of the priority sector, viz., agriculture and small scale industries. The depiction of the priority sectors was later formalized 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 in May 1971. On the basis of this report, certain guidelines were issued by reserve bank of India in this connection that indicating the scope such items to be include under various categories of priority sector. Although in the beginning, there was no specific aim in respect of priority sector lending.

PRIORITY SECTORS

Priority Sectors include those sectors of economy which may not receive timely and adequate advances in the absence of this special privilege. Usually, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

PRIORITY SECTOR LENDING

Priority Sector lending includes lending to those sectors that impact large sections of the population, the weaker sections and the sectors those are employment-intensive such as small scale tiny enterprises and agriculture. Priority sector bank lending was an active instrument of our financial policy with an aim to restore sectoral balance within credit disbursement and 'to channel credit to the weaker sections within these sectors. The categories under priority sector include agriculture, micro & small enterprises, education, housing, export credit, and others.

CATEGORIES UNDER PRIORITY SECTOR

- Agriculture –both direct and indirect finance.
- Small scale industries.

- Small road and water transport operators.
- Professional and self-employed persons.
- Setting up of industrial estates.
- Education.
- Landless labourers.
- Tenant farmers and share croppers.
- Artisans, village and small industries.
- Scheduled castes and scheduled tribes.
- Beneficiaries' different rates of interest schemes

PROBLEMS AND SHORTCOMING OF PRIORITY SECTOR LENDING IN INDIA

Instead of remarkable growth of priority sector lending by the commercial banks in recent years, some basic problems and shortcomings are found in this system during the course of study.

1 excessive broad based classification of priority sector

Under the existing system, the classification of priority sector advances has remained broad-based, so that even big borrower could avail of the benefits of priority treatment provided by the banks.

2 Need to identify priority sectors appropriately

It is necessary to identify suitable sectors within the priority sectors on a rational basis. So that preferential treatment can be availed by defined and targeted persons.

3 Need to examine the viability of project under priority sectors

While granting credit to artisans, cottage industries, etc., the bank should also examine the viability of the marketability point of view if not so this loan will poses the problem of recovery for the banks.

4 Efficiency

There is always the problem of ensuring the effective end use of the loans given to the priority sectors.

5 Need to re-look at target

There is a time need to review the target fixed at the inception of scheme, for example 40% of total bank credit to priority sector and other sub-targets. At present time it should be revised on rational basis.

6 The problem of bad debt

Another problem is the problem of bad debt arising from indiscriminate lending by banks, keeping an eye on the fulfilment of the stipulated targets.

SOME PROBLEMS FACED BY BANKS IN FINANCING PRIORITY SECTORS

Increasing N.P.A.

Political issues

High over dues

PROBLEMS FACED BY PRIORITY SECTOR

High rate of interest on loan

Lack of financial knowledge

Cumbersome process of getting loan

Bank staff is not cooperative

Lack of security of collateral

Fear factor about recovery process

CONCLUSION

Thus the study reveals that priority sector lending schemes are not able to achieve their promised target regarding these sectors due to cumbersome and time consuming process of their working which lower the trust of beneficiaries in various commercial banks in India. In nutshell, major part of lending is distributed among the corporate and various industries which neglect the priority sector as a whole. Therefore it is essential to remove all the hurdles for the development of these neglected sectors.

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