

FINANCING TO WEAKER SECTION BY COMMERCIAL BANKS IN INDIA: PROBLEMS AND PROSPECTS

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ABSTRACT

Finance is one of the important keys to success. Finance is a panacea for all the ills of weaker and poor section. In India still we have 27.5% of our population below the poverty line. Our policy makers and bankers should take poverty stigma as a challenge by formulating some new schemes and problems free system of financing. Commercial banks in India since nationalization, providing finance to weaker section under priority sector lending (PSL). In this system banks have some targets and sub targets of deploying fund and credit to preferred and desired section and sectors of the economy. Preferred and desire section is weaker section and sectors are agriculture, small scale industries, small business man, education, housing and micro finance. In India GDP rate is decreasing and now ranging about 6%. This growth rate is still satisfactory in comparison to Europe and other world. We need inclusive growth where all sectors and sections of the economy grow, not to exclude anyone. Banks have progressed remarkably and achieved its targets and sub targets set under PSL. Microfinance has reduced the role of money lenders in rural India. The overall effect of bank finance on the economy of weaker section is positive and banks are truly helping in poverty alleviation. Despite various qualities and goodness in the scheme of priority sector lending, it is not free from some problems. Author has made an attempt through this paper to highlight these problems and suggested some ideas for effecting working of financing to weaker section by banks.

Keywords: *Inclusive growth, priority sector lending, weaker section, microfinance, poverty alleviation.*

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INTRODUCTION

Indian economy is growing at a growth rate of 6% which is substantial and satisfactory in comparison to Europe and other world. We are still known as fastest growing economy after china. But growth is an unsustainable. The benefit of growth is not reaching to the poor. We have in India absolute poverty which is a stigma on over growth and development. Inclusive growth is need of hour. 27.5% of our population still lives below the poverty line and known as weaker, oppressed and depressed section of the society.

This section of the society should be including in this growth and benefited in this growth.

Table 1: Global GDP Growth

(percent)

Country / Region	2009	2010
1	2	3
US	(-) 2.7	1.5
UK	(-) 4.4	0.9
Euro Area	(-) 4.2	0.3
Japan	(-) 5.4	1.7
China	8.5	9.0
India	5.4	6.4
Advanced Economies	(-)3.4	1.3
Emerging and Developing Economies	1.7	5.1
World	(-)1.1	3.1

Source: IMF World Economic Outlook, October 2009.

Finance is one of the important keys to successes. It provides leverage and direct help in poverty alleviation. Finance is a panacea for all the ills of weaker and poor section. In any economy banks are the catalyst of development. Indian banking system is contributing its smart role in development and stands as friend, guide and philosopher for weaker section. Commercial banks in India since nationalization are providing finance to weaker section under priority sector lending (PSL). In this system banks have some targets and sub targets of deploying fund and credit to preferred and desired section and sectors of the economy. Preferred and desire section is weaker section and sectors are agriculture, small scale industries, small business man, education, housing and micro finance.

Table 2: Poverty Ratio

Year	Rural	Urban	Over all in %
1993-94	37.3	32.4	36.0
2004-05	28.3	25.7	27.5

WEAKER SECTION MEANS

The concept of weaker sections refer to all persons who became suppressed, depressed, and oppressed because of socio-political, socio-economic or socio-religious reasons. Weaker section includes:

- Small and marginal farmers with land holding of 5 acres and less.
- Landless laborers.
- Tenant farmers and share croppers.
- Artisans, village and small industries.
- Beneficiaries of the integrated rural development program (IRDP).
- Scheduled castes and scheduled tribes.
- Beneficiaries' different rates of interest schemes.

Preferred sectors of the economy

- 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.
- Indirect finance to other priority sectors-loans on scheduled castes and scheduled tribes, corporations, organizations.
- Housing loans to scheduled castes and scheduled tribes (SC/ST) and weaker sections.
- Consumption loans.
- To boost the country export, export sector is treated as a quasi priority sector.

TARGETS AND SUBTARGETS SET BY RBI UNDER PSL

The RBI issued certain directives to the banks regarding priority sector lending.

- Priority sector lending should constitute 40% aggregate bank credit.

- Out of the priority sector advances, at least 40% should be provided to agriculture.
- Direct advances to the weaker sections in agriculture and allied activities in rural sector should form at least 50% of the total direct lending to agriculture.

The advances to rural artisans, village craftsmen and cottage industries should be at least 12.5 % of the total advances to the small scale industries

OBJECTIVES OF THE STUDY

Following are the main objectives of this study

1. To review the existing system of financing to weaker section by commercial banks in India
2. To resent various schemes of banks for weaker section in India
3. To find out the various problems of banks in financing to weaker section
4. To find out various problems of the weaker section in getting credit from banks
5. To suggest some innovative ideas to reduce the shortcomings of this system of financing for future

RESEARCH METHODOLOGY

The nature of our study is perspective and conceptual. The universe of this study is Indian banking sector. To fulfill the above mention objectives, secondary data is used which is taken from the various reports published by Reserve bank of India (RBI) , National bank for agricultural and rural development (NABARD), Central statistical organization Economic survey of India and lead bank report. Primary data are also collected from discussion of banks officials and representative of weaker section for the problems.

VARIOUS CREDIT SCHEMES UNDER PRIORITY SECTOR

1 Differential Rates Of Interest Scheme (DRI)

This scheme was launched in India in 1972 for public sector banks to extend bank credit to the weaker section at concessional rate of interest at 4% p.a. according to new guidelines issued by BBI, banks have to deploy 1% of their total advances to the weaker section of society and further to set aside 40% of their advances meant under DRI scheme for beneficiaries belong in to the scheduled castes and scheduled tribes. The eligibility foe assistance under this scheme is now Rs.6400 annual family income in rural areas and Rs.7200 per annum per family in urban areas. The private sector banks can also participate in this scheme on a voluntary basis. Under the DRI scheme, the banks are directed by the Reserve bank to finance:

- Scheduled castes and scheduled tribes and other engaged on the modest scale in agriculture and allied activities.
- The physically-handicapped people on the modest scale by offering loans for cottage and rural industries and vocations like sewing garments, making reasonably cheap edibles, running way side tea stalls, basket-making etc.
- People engaged in elementary processing of forest products.
- Village artisans in the decentralized sector.

2 Education Loans

Student loans in India (popularly known as Education loans) have become a popular method of funding higher education in India with the cost of educational degrees going higher. The spread of self-financing institutions (which has less to no funding from the government) for higher education in fields of engineering, medical and management which has higher fees than their government aided counterparts have encouraged the trend in India. Most large public sector and private sector banks offer educational loans. Under section 80(e) of the Indian income tax act, a person can exempt the amount paid against the interest of the education loan - either for self or for his/her spouse or children - for eight years from the year (s)he starts to repay the loan or for the duration the loan is in effect, whichever is lesser. Education loan is becoming popular day by day because of rising fee structure of higher education. It came into existence in 1995 started by SBI Bank and after that many banks started offering student loans. At present, the model education loan scheme allows loan up to Rs 10 lakh for students in India and up to Rs 20 lakh for the students studying abroad. For a loan up to Rs 4 lakh, co-obligation of parents is required and for loans above Rs 4 lakh and up to Rs 7.5 lakh, co-obligation of parents together with collateral security in the form of suitable third party guarantee is required. In case of loans above Rs 7.5 lakh, co-obligation of parents together with tangible collateral security of suitable value, along with the assignment of future income of the student for payment of installments is necessary. The rate of interest for loans up to Rs 4 lakh is BPLR and for loans above Rs 4 lakh, one per cent more than BPLR is charged by the banks.

3 Housing Loans

Loans up to Rs. 15 lakh for construction of houses by individuals, (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals up to Rs.1 lakh in rural and semi-urban areas and up to Rs.2 lakh in urban areas. Assistance up to Rs. 1.25 lakh per housing unit given to any governmental agency/

nongovernmental agency (approved by the NHB for the purpose of refinance) for construction/ reconstruction of houses or for slum clearance and rehabilitation of slum dwellers.

4 Micro Credit

Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower to the poor in rural, semi-urban and urban areas, either directly or through a group mechanism, for enabling them to improve their living standards, will constitute micro credit.

5 Agriculture (Direct and Indirect Finance)

Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporate, partnership firms and institutions) up to Rs.20 lakh, for taking up agriculture/allied activities. Indirect finance to agriculture shall include loans given for agriculture and allied activities.

6 Small Scale Industries (Direct and Indirect Finance)

Direct finance to small scale industries (SSI) shall include all loans given to SSI units which are engaged in manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) excluding land and building does not exceed the amounts specified in Section I, appended. Indirect finance to SSI shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

7 Small Business / Service Enterprises

shall include small business, retail trade, professional & self employed persons, small road & water transport operators and other service enterprises as per the definition given in Section I and other enterprises that are engaged in providing or rendering of services, and whose investment in equipment does not exceed the amount specified in Section I, appended.

Table 2: Priority Sector Lending by Public and Private Sector Banks

(Rs in cr.)

Item	Public Sector Banks		Private Sector Banks	
	2008	2009P	2008	2009P
1	2	3	4	5
Priority Sector Advances#	6,10,450 (44.7)	7,20,083 (42.5)	1,64,068 (42.5)	1,90,207 (46.8)
<i>of which:</i>				
Agriculture ^	2,49,397 (18.3)	2,98,211 (17.2)	58,566 (17.1)	76,062 (15.9)
Micro and Small Enterprises	1,51,137 (11.1)	1,91,307 (11.3)	46,912 (13.7)	47,916 (12.0)
P : Provisional.				
# : In terms of revised guidelines on lending to priority sector, broad categories include agriculture, small enterprises sector, retail trade, microcredit, education and housing.				
^ : Indirect agriculture is reckoned up to 4.5 per cent of ANBC for calculation of percentage.				

Source: RBI report on recent trends and progress of banking in India (2008-09)

PROBLEMS AND SHORTCOMING OF PRIORITY SECTOR LENDING IN INDIA

Despite a 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 Unduly broad based classification of priority sector- Under the existing system, the classification of priority sector advances has remain 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 appropriate sectors with in 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 Efficacy- 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 fulfillment of the stipulated targets.

SOME PROBLEMS FACED BY BANKS IN FINANCING WEAKER SECTION

- Increasing N.P.A.
- Political issues
- High over dues

PROBLEMS FACED BY WEAKER SECTION

- 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

SUGGESTIONS, FUTURE PROSPECTS AND CONCLUSION-

Quantitatively, public sector banks have progressed well in priority lending but their qualitative aspect is to be evaluated. For instance over dues, bad debts and NPA have been serious problems faced by the bank in respect of advances made to the weaker sections of society private sector banks are lagging behind in PSL progress. There is a need to revise time to time the targets and sub-targets set by RBI for this scheme. Eligibility for SSI and SSB and weaker section should redefined on rational basis. Projects under PSL should effectively checked and evaluated for the purpose of viability and efficacy. For under recovery of dues and NPA (Non Performing Assets) in case of weaker section advances, suggestion is, – A special model like micro financing (Bank linkage self help group) be formed, as in this model recovery rate is nearly 95%. Projects for small scale for infrastructure development in villages like road construction, electricity, drinking water and primary education projects should be preferred under priority sector lending and special sub-targets be set for these

schemes. Overall impact of priority sector lending scheme is positive. Banks are now deploying credit in desired direction and providing an impetus to the rural economy. Future prospect of the PSL is bright in India. Some more suggestions regarding weaker section financing are direct subsidy should be given to the banks for financing this section so that loss and NPA of bank be reduced. Assistance should be provided by local NGO's for identification of poor. A separate segment of banking operation "Banking for weaker section" be created and result of banks be highlighted with this segment. Interest rate should be reduced & subsidized. Financial education for weaker section be spread with more involvement of educational institutions

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