Role of RBI in Priority Sector Lending

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ABSTRACT-

With The Nationalization Of Major Banks In 1969, The Main Objective Of Banks Has Changes To Sub-Serve The Society At Large Rather Than Just To Serve Private Interest. After 1969, Banks Have Enlarged Their Coverage To The Neglected Sectors Of The Economy. Thus Banks Have Emerged As An Active Agent For Social And Economic Change. In Order To Bring Allocation Of Credit In Consistent With The Plan Priorities The Concept Of Priority Sector Lending Was Evolved.

Keywords- Priority Sector Lending, Rbi, Weaker Sections, Issues.

INTRODUCTION-

The sectors which are entitled to financial facilities in the preference of others are called priority sector. Those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation are priority sector. Priority Sector Lending 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 includes (i) Agriculture (ii) Micro and Small Enterprises (iii) Education (iv) Housing (v) Export Credit (vi) Others. The RBI issues directives from time to time, which are linked to Base Rate of banks at present will, determine the rate of interest on various priority sector loans.

REVIEW OF LITERATURE-

Vadilal Dagli (1975) suggested that the main aim of priority sector is to provide financial assistance to real poor of India and make banking policy from subsistence existence to surplus existence. V.V Bhatt (1970) suggested the scheme of approved dealers to assist in collecting the information regarding loans and advances and after sale services etc. P.N Joshi (1972) suggested that the different components of priority sector should be clearly defined by RBI so that it is clear to the banks about their scope of lending. Chhimpa J (2002) suggested that NPAs are those assets which do not provide any return to bank & it is a big problem for banks. Only efficient banks can find some other sources of income to match these NPAs. Gujral N (2003) suggested that due to the changing scenario in banking sectors, banks involves in wide range of financial activity other than traditional deposits, collection and money lending. Vashisht (2004) suggested that there is requirement of parallel reforms in financial sector along with economic sector reforms. Mujumdar NA (2001)suggested that the overall profitability of banking sector increased with the deregulation of financial sector.

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1. Targets and Sub targets of bank under Priority Sector-

<table>
<thead>
<tr>
<th>Catogories</th>
<th>Domestic banks</th>
<th>Foreign banks</th>
</tr>
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<tbody>
<tr>
<td>Total Priority Sector</td>
<td>40%</td>
<td>32%</td>
</tr>
<tr>
<td>Total Agriculture</td>
<td>18%</td>
<td>No specific targets</td>
</tr>
<tr>
<td>Advances to Weaker section</td>
<td>10%</td>
<td>No specific targets</td>
</tr>
</tbody>
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2. Common guidelines for Priority Sector Loans-

- All banks should maintain their register regarding date of receipt/sanction/rejection/disbursement with reasons.
Up to Rs 25,000 no service charges should be levied.
The rate of interest will be as per RBI guidelines issued from time to time.
Banks should also issue acknowledgement for loan applications received under priority sector loans.
Discretionary powers to sanction proposals from weaker section should be vested with all branch managers.
All regional offices should have machinery to entertain the complaints from the borrowers.

Major Issues relating to Priority Sector are as under-
1. High NPAs- Majority of borrowers does not reply the loans higher NPAs in banks and this discourages banks to go for Priority sector lending.
2. Government interferences-Due to Government interferences in priority sector lending, loans are delivered in the hands of the rich rather than weaker section of the society.
3. Transaction Cost-Transaction cost is increasing due to sanctioning and monitoring of large number of small advances.
4. Lack of trained staff in banks-The banks having shortages of trained staff for dealing in various schemes of priority sector lending which causes more defaults in priority sector than non priority sector lending.

Suggestions related to Priority sector schemes-
1. Recovery of NPAs- Bank should reform the recovery procedure by adopting following suggestion which ensure the good recovery performance:
   i) Bank should monitor the progress of current dues separately.
   ii) The pre-lending appraisal system should be thorough and updated from time to time.
   iii) Repayment schedule for loans should coincide with the time when the borrower generally sells his produce & is in possession of funds.
   iv) Bank should increase the number of field staff who can remain in touch with the borrowers and their operations, supervise the use of credit & sorting out problems.
2. Rate of interest- Differential Rate of Interest Scheme on some new income criteria should be introduced as existing criteria is quite old.
3. Discretionary powers- Discretionary powers should be given to branch managers for sanctioning the priority sector lending proposals without interference of the government so that the chances of NPAs reduces.
4. Qualitative targets- Both qualitative and quantitative targets should be fixed so that viability of the banks can increase.

CONCLUSION

Inspite of increasing Priority Sector advances all the banking groups have not achieved all targets fixed by RBI. Banks faces many problems due to PSL schemes like NPAs, low profitability, transaction cost etc. RBI providing solutions of these problems by issuing different guidelines regularly and if the proper PS advances are given they will be helpful in reducing the poverty level.

REFERENCES

11. www.rbi.org.in