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ARTICLE 1

PRIORITY SECTOR LENDING BY INDIAN BANKS

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Introduction:-

Lending is a principle business activity of the bank without which it cannot multiply the deposits received by it. Prudent lending practices and policies help it to earn its income from the interest differential between the interests charged to the borrowers and interest offered to the depositors. Normally, banks don't earn income by directly investing its funds in the market. Banks, unless controlled by some regulatory authority, would have tendency to lend safe borrowers having covered the risk by giving collaterals and those who are able to pay higher rate of interest. Hence in the early days, the poor people got marginalized by the banking sector in India.

After nationalization, the perception changed. Banks were given additional responsibility of socio-economic objectives by the government and it was governed by the regulator the RBI. The RBI on the advice of the then respective governments , asked the nationalized bank to offer credit to the weaker sections and agriculture and the small business, in a pre-fixed ratio of their total lending. It was under the policy financial support to the borrowers who have had no collaterals to offer to obtain credit faciltiy. The identified beneficiaries were:-

- Agriculture,
- Micro, Small and Medium enterprises,
- Export Credit, Education, Housing,
- Social Infrastructure,
- Renewable Energy,
- Others.

One observes the lot of additions and deletions of items in the list of priority list from time to time since 1967, depending upon the changing requirements of Indian economy. The changes were done on the basis of recommendations of several committees appointed by the government to study the policy of PSL and also on the basis of findings of the private independent and institutional trend analysts who carried out PSL policy research analysis. There were changes also in the actual percentage of PSL to each sector indentified by the five year plans of the economy. The article aims at to study that how the banking sector has met with challenges of comparatively challenging sectors added and the revised targets under a sector. By and large, the inclination of the bankers was towards Housing Loans as that was safe lending as the house constructed through the credit was a set bet as collateral.

As said earlier the evolution of PSL begins in the year 1967. While addressing the general complaint of the small business and agriculture of not getting their due share in the bank credit, the then Deputy Primary Minister who was holding the additional charge of Finance Ministry Late Shri Morarji Desai made a statement on the floors of the parliament on 14 December, 1967. Subsequently, in order to establish social control on the banks a Banking Laws (Amendment) Bill was introduced in the house within few days. The net result of such efforts was that commercial banks were advised to increase their involvement in the financing of priority to the sectors identified by the National Credit Council of India Here begins the first phase of evolution towards PSL in the Indian economy.

The landmark decision of 14 July 1969 to nationalize first 14 Private Commercial banks in the economy compelled banking in India to realign their priorities with the developmental priorities of the economy for the first time in the country. This was the first move of financial inclusion of the weaker section in the business of banking. This gave rise to the policy PSL thereby flow of credit towards the weaker section of the economy, Progressively it went on rise to fulfill the target of more and more of financial inclusion of the poor and the needy. The policy of PSL was reviewed by several comities established by the RBI from time to time under the chairmanship of experts like Narsinham to Raghuram Rajan to Nachiket Mor etc. It shall fir into the scheme of this article to focus report of the Committee headed by Shri Nachiket Mor in 2014. According to this committee, which is produced below as verbatim:-

"The RBI should remove the stipulation that the all-inclusive interest charged on the ultimate borrower by the originating entity should not exceed the base rate of the purchasing bank plus 8% per annum. In order to enable greater regional and sectoral specialization among credits, the committee recommended…………

As mentioned by a few scholars who studied the issue of PSL that the available evidences at hands create a serious doubt about the seriousness on implementing the policy by the banking sector. This is a question quite often raised by experts in this country. To quote a few; the fixation of the targets and sub-targets given to the domestic scheduled commercial banks and foreign banks, what are the categories under Agriculture, what is exactly included under weaker section, do we include Micro Finance Institutions under PSL etc. There is an immediate need to carry out research in order to get answer to these questions.

The following is the tabular information about the categories of PSL targeted through the commercial banks and the foreign banks in the country.

Categories	**Domestic scheduled commercial banks and Foreign banks with 20 branches and above**	**Foreign banks with less than 20 branches**
Total Priority Sector	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii)] or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Total Priority Sector Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii)] or Credit Equivalent Amount of Off- Balance Sheet Exposure, whichever is higher; to be achieved in a phased manner by 2020 as indicated in sub paragraph (ii) below.
Agriculture	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner *i.e.,* **7 per cent by March 2016 and 8 per cent by March 2017.** Foreign banks with 20 branches and above have to achieve the Agriculture Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI. The sub-target for Small and Marginal farmers would be made applicable post 2018 after a review in 2017.	Not applicable
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to be achieved in a phased manner i.e. **7 per cent by March 2016 and 7.5 per cent by March 2017.** The sub-target for Micro Enterprises for foreign banks with 20 branches and above would be made applicable post 2018 after a review in 2017.	Not Applicable

Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Weaker Sections Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.	Not Applicable

Source: RBI bulletin.

The issue of PSL becomes more important particularly for the Agricultural sector as the financial crisis in the farming sector becoming crucial these days. The PSL, if done prudently, shall help the small farmers to get escaped from the grave trap of debt.

ARTICLE 2

GRAMIN BANK

By: Dr Kishore Waghmare, Vanamati, Nagpur

Introduction:-

The architect of a well-known institutional framework created for rural credit in order to improve socio-economic conditions of the rural masses which is known as the Gramin Bank was Dr. Mohammad Yunus. A professor in Economics of the University of Chittagong, Bangladesh. The idea struck to his mind in the backdrop of the slow economic recovery of his country from a vicious war of independence in 1971. The war which had destroyed her infrastructure and productivity and killed much of its intelligentsia find out the remedy for recovery. The damage created by the war was compounded by the famine of 1974 and thus, suffering of human beings was witnessed in any town or village of Bangladesh in that period.

Prof. Yunus observed the plight of the masses and on experiment basis he lent an average of $ 0.64 to bamboo weaver and to 41 others for various business purposes. These borrowers repaid their loan and improved their lots. After this success, he began an experiment in the village, Jobra, near the University of Chittagong and some of the neighboring villages during 1976-79. Dr. Yunus, has observed that commercial banks had in-built constraints and are aimed only at those who are already well off. He contemplated an alternative institutional framework that could be used to raise the well-being of impoverished section of society. He was preparing to test the new lending model on a large scale and wanted to open dozens of branch offices in rural districts. Unfortunately, the commercial banks declined his initial request for capital. He went to 'Ford Foundation' office in Dhaka and asked for a loan of $800,000 guarantee fund as security against commercial bank lending. Ford's loan guarantee fund leveraged commercial bank lending to Gramin Bank. Gradually, the experiment of the Gramin Bank was transformed into an independent bank by a Government Ordinance. In 1983, the government provided 60% of the initial paid-up share capital of the bank and the rest procured by the borrowers of the bank.

At present, the disruptive-innovative approach by the founder in the sector of rural credit became the largest micro-finance bank in Bangladesh and probably the biggest micro-credit organization in the world. The bank selects asset-less, land-less poor people, particularly the poor women and provides credit delivery system to meet the diverse socio-economic development needs of the poor. The GB extends credit to the poor to invest in productive sectors such as processing and manufacturing, agriculture and forestry, livestock and fisheries, services and small-trade. The micro-credit provided by GB is a very effective instrument to empower the poor (especially to women). It is cost-effective and sustainable, creates self-employment for the most poor and opportunity to move out of poverty. Grass root organizational development is an integral part of GB's credit program which helps in building up viable grass root units in the form of groups and centers to promote strong group solidarity.

The GB has developed some innovative ways to raise the deposits from the savings of rural sector and has its own method to lend the needy from the rural sector. The progression in mobilizing savings and disbursal of credit changed the social and economic structure of rural Bangladesh. The success of GB of Bangladesh holds an iconic position in the world of micro-finance. It is credited with proving that the poor bankable. The GB model has been copied in more than 60 countries. India is no exception to that.

Replication in India:

In India, Regional Rural Banks were established under the provisions of an ordinance promulgated on the 26th September, 1975 and the RRB Act, 1976, with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRB's was supposed to mobilize financial resources and grant loans and advances mostly to the small and marginal farmers, agricultural laborers and rural artisans. The RRBs are jointly owned by Government of India, the concerned state governments and sponsor banks. The issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively. This initiative to help and promote the credit position in agricultural sector spread all over the states in India.

The RRBs in Maharashtra have had a long-standing of nearly more than 30 years. As time passed, they were made to accept the functions of sponsor, commercial and nationalized banks. The RBI and NABARD undertook a bail-out program through the sponsor bank. In some of the cases, the amalgamation of poorly performing RRBs took place resulting in reduction of 196 banks to 57 and in Maharashtra itself, 6 rural banks were reduced to 2. At present, in Maharashtra, Maharashtra Gramin Bank (MGB) and Vidarbha Konkan Gramin Bank are functioning quite well. MGB which is sponsored by Bank of Maharashtra came into existence in 2009 by merging erstwhile Marathwada and Maharashtra Godavari Bank. The bank is having a network of 391 branches and one extension counter with 6 regional offices. The product and services offered by the bank include demand deposit, time-deposits, working capital finance, term-lending, retail loans etc.

A lot of research is carried out by the individuals and the institutions of the performance of RRBs. The common conclusion is that RRBs in Maharashtra have not remarkably succeeded in mobilizing the deposits because of severe competition from other banks and financial institutions. It is also observed that there are inadequate skills in treasury management for profit-orientation. As they have hardly any exposure to innovate products limiting their lending portfolios. The most serious problem which was noticed is the loan recovery system. This created the blockage of huge funds into Non-Performing Assets. Now, the government through RBI has started undertaking certain corrective measures to improve the conditions of the RRBs. Several committees from Narsimhan to A.M. Khusro were established to find out the real causes of the ailment of RRBs. The recommendations which were given by these committees for the contribution of RRB in the development of agriculture, trade, commerce and other productive activities in the rural areas are reviewed in order to prove this financial institution for, “growth with social justice”.

An analysis of the current scenario of RRBs has allowed for the identification of the following Key Performance Indicators; District Covered, total branches, rural branches, urban branches, share capital, capital deposits, reserves, total owned funds, borrowings, recovery percentage, net profit after tax, productivity per branch, productivity per staff etc.

Though it is true that the performance of Rural Banks growth is not up to the mark as envisaged by the planners but if the rural India has to grow then such banks have to grow fast.

ARTICLE 3

AGRICULTURE CREDIT OF BANKS IN INDIA

By: Sudhakar Atre, Nagpur

Introduction:-

In spite of all talk of industrialization, Agriculture is the backbone of socio political and economic structure of our country. About 58 per cent of the rural households depend on agriculture as their principal means of livelihood. As per of the Central Statistics Office (CSO), the share of agriculture and allied sectors (including agriculture, livestock, forestry and fishery) is estimated to be 17.3 per cent of the Gross Value Added (GVA) during 2016-17 at 2011-12 prices. The Indian food processing industry accounts for 32 per cent of the country's total food market , one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80% of Gross Value Added (GVA) in Manufacturing and 8.39% GVA in Agriculture. Moreover it constitutes 13% of our exports and 6% of total industrial investment. Like all other economic activities Credit plays a very important role in development of agriculture. The lending to agriculture is governed by guidelines issued by Reserve Bank of India from time to time. The latest guidelines issued by RBI in this regard to scheduled commercial banks (SCBs) vide RBI/FIDD/2016-17/33, dtd 7th July 2016 and Updated as on 22nd December,2016

Can be summarized as under-

Domestic scheduled commercial banks and Foreign banks with 20 branches and above are mandated to lend 40 percent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to Priority Sector.

The categories under priority sector are as follows:

1.Agriculture

2.Micro, Small and Medium Enterprises

3.Export Credit

4.Education

5.Housing

6.Social Infrastructure

7.Renewable Energy

8.Others

Out of total Priority Sector, SCBs have to lend to Agriculture 18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers.

ELIGIBLE CATEGORIES UNDER PRIORITY SECTOR FOR AGRICULTURE

The lending to agriculture sector has been defined to include

1. Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers)

2. Agriculture Infrastructure and
3. Ancillary Activities

A list of eligible activities under the three sub-categories is indicated below:

1 Farm credit A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans] and Proprietorship firms of farmers, directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, beekeeping and sericulture. This will include:

(i) Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.

(ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)

(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans to farmers up to □50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

(v) Loans to distressed farmers indebted to non-institutional lenders.

(vi) Loans to farmers under the Kisan Credit Card Scheme.

(vii) Loans to small and marginal farmers for purchase of land for agricultural purposes.

B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of ₹2 crore per borrower.

This will include: (i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.

(ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)

(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

2. Agriculture infrastructure

i) Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage units/ cold storage chains designed to store agriculture produce/products, irrespective of their location.

ii) Soil conservation and watershed development.

iii) Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting. For the above loans, an aggregate sanctioned limit of ₹100 crore per borrower from the banking system, will apply.

3. Ancillary activities

(i) Loans up to ₹5 crore to co-operative societies of farmers for disposing of the produce of members.

(ii) Loans for setting up of Agriclinics and Agribusiness Centres.

(iii) Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system.

(iv) Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis.

(v) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi MultiPurpose Societies (LAMPS) for on-lending to agriculture.

(vi) Loans sanctioned by banks to Micro Financial Institutions for on-lending to agriculture sector as per the conditions specified by RBI

(vii) Outstanding deposits under Rural Infrastructure Development Fund and other eligible funds with NABARD on account of priority sector shortfall.

For the purpose of computation of achievement of the sub-target, Small and Marginal Farmers will include the following:- -

i) Farmers with landholding of up to 1 hectare (Marginal Farmers).

ii) Farmers with a landholding of more than 1 hectare and up to 2 hectares (Small Farmers).

iii) Landless agricultural labourers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within the limits prescribed for small and marginal farmers. - Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual Small and Marginal farmers directly engaged in Agriculture and Allied Activities, provided banks maintain disaggregated data of such loans.

iv)Loans to farmers' producer companies of individual farmers, and co-operatives of farmers directly engaged in Agriculture and Allied Activities, where the membership of Small and Marginal Farmers is not less than 75 per cent by number and whose land-holding share is also not less than 75 per cent of the total land-holding.

CHALLENGES

1. In India, about 60% of total net sown area comes under rain fed lands. Rain fed crops account for 48 percent area under food crops and 68 percent under non-food crops. This makes the agrarian economy totally dependent on rainfall. The draughts have become cyclic which adversely affects the crops and ultimately the repayment of agricultural loans.

2. As per Agriculture Census 2010-11,

i) Total number of operational holdings was estimated as 138.35 million.

ii) The total operated area was 159.59 million hectare.

iii) The average size of the holding has been estimated as 1.15 hectare. The average size of holdings has shown a steady declining trend over various Agriculture Censuses since, 1970-71.

iv) The Size Group wise percentage of number and area of operational holdings are given in the following table.

Sr.No.	Size-Group	Percentage of number of operational holdings to total	Percentage of area operated to total
1	Marginal (below 1.00 ha.)	67.10	22.50
2	Small (1.00 - 2.00 ha.)	17.91	22.08
3	Semi-medium (2.00 - 4.00 ha.)	10.04	23.63
4	Medium (4.00 - 10.00 ha.)	4.25	21.20
5	Large (10.00 ha. & above)	0.70	10.59

Even though small and marginal holdings serve the socio political purpose but it increases the cost of maintenance of large number of small accounts for the banks.

3. Accessibility of Bank Credit-There are about six lakh villages in the country which are served by eighty seven thousand rural and semi urban branches of SCBs. It is said that only fifty percent farmers are covered under formal credit. Recent initiative of serving unbanked centres through Business Correspondents is a good beginning but Indians in general and villagers in particular are more comfortable with brick and mortar banking. However recent Jandhan campaign has made a welcome beginning. 18.25 Crore people from rural/semi urban areas coming under banking fold will certainly enhance the access to banks.

Jandhan Yojna Beneficiaries as on 08/11/2017 (All figures in Crores)

Bank Name / Type	Number of Beneficiaries at rural/semi urban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	Number of Total Beneficiaries	Deposits in Accounts(In Crore)	Number of Rupay Debit Cards issued to beneficiaries
Public Sector Banks	13.50	11.20	24.70	53711.31	18.44
Regional Rural Banks	4.16	0.76	4.92	11862.96	3.62
Private Sector Banks	0.60	0.39	0.99	2113.46	0.92
Grand Total	18.25	12.35	30.60	67687.72	22.98

4. Political Scenario-Write offs are not taboo for commercial banks world over for business failures on account of unforeseen circumstances but due to competitive politics debt relief of agriculture loans has become a fashion which is certainly hampering the credit discipline posing a great threat to development of agriculture credit in India.

In spite of all odds agriculture credit of Domestic scheduled commercial banks has risen by 30% from Rs.7,65,900 Crores (March 2015) to Rs.9,92,500 Crores (March 2017) in last two years hence there is a ray of hope to achieve Rs Ten lakh Crore target by March 2018 as projected by Government in its 2017-18 Budget .