



Priority sector lending by gramin banks: A case study on Jharkhand State

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Abstract

The concept of priority sector lending was introduced by Reserve Bank of India in credit policy of 1967-68 to maintain a balance between the growth of different sectors of the economy. Government of India has identified certain sectors of the economy which are suffering from lack of financial assistance. Commercial banks are playing a significant role in reducing the imbalances between different sectors of the economy but what is the role of Regional rural banks known as Gramin banks in providing credit to the notified sectors? Reserve bank of India has prescribed different lending targets for commercial banks and gramin banks. This paper is an attempt to evaluate if gramin banks are meeting the Reserve bank of India norms or not, with special reference to gramin banks in Jharkhand state.

Keywords: credit, priority, rural, sector, notified

Introduction

Priority sectors are those sectors of the economy which are not fully developed and requires financial assistance. India is a developing nation where some sectors and sections of the economy are in need of special attention and assistance. Government of India has identified some particular sectors where government interference is necessary. Priority sector lending is a practice adopted by banks to provide certain portions of their loans and advances to underdeveloped areas of the economy. Reserve bank of India has made it mandatory for the banks to lend prescribed portions of their total credit to the notified sectors. Reserve banks of India in its credit policy 1967-68, introduced the concept of priority sector lending. But it attracted much attention in the year 1972, after the national credit council's recommendations that the commercial banks must lend to priority sectors. In the year 1974, reserve bank of India directed all commercial banks to lend 33.33% of their total credit to the priority sectors by march 1979. In the year 1985, Dr. K.S. Krishnaswamy committee advised that the commercial banks should lend minimum 40% of their total credit to the listed areas. In addition to above, C.S.Murthy committee, Malegam committee, M.V. Nair committee also provided notable suggestions and recommendations.

Review of literature

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Objectives of study

The study aims at discovering the role of Gramin banks in priority sector lending with special reference to Jharkhand state.

Research Methodology

The study is entirely based on analysis and interpretation of secondary data. Tabulation method has been used to summarize the large volume of data. Percentage method has been used for quick glimpse of cd ratios of different banks.

Sources of data

Data has been collected from the web portal of State Level Bankers Committee (www.slbcjharkhand.org).

Notified priority sectors

Reserve bank of India vide master circular FIDD.CO.Plan.BC.54/04.09.01/2014-15 dated April 23, 2015 has notified 8 areas of the economy as priority sector. These are,

- Agriculture.
- Micro, Small and medium enterprise.
- Export credit.
- Education.

- Housing.
- Social infrastructure.
- Renewable energy.
- Others.

Lending Targets and Sub Targets

Reserve bank of India has made it mandatory for all commercial banks operating in India to meet the priority sector lending targets.

Table 1

Category	Target
Total Priority Sector	40 percent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
Agriculture	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
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.
Advances to Weaker Sections.	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
Export Credit.	Up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
Education.	10 lakh irrespective ₹ of the sanctioned amount will be considered as eligible for priority sector.
Housing.	<ol style="list-style-type: none"> 1. Loans to individuals up to 28 lakhs in metropolitan centres and loans up to 20 lakhs in other centres for purchase/construction of a dwelling unit. 2. Loans for repairs to damaged dwelling units of families up to 5 lakh in metropolitan centres and ₹ up to 2 lakh in other centres. 3. Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of 10 lakhs per dwelling unit. 4. The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for economically weaker sections and low income groups, the total cost of which does not exceed 10 lakhs per dwelling unit. 5. Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of 10 lakh per ₹ borrower.
Social infrastructure.	Bank loans up to a limit of 5 crore per borrower for building social infrastructure for activities ₹ namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.
Renewable Energy.	Bank loans up to a limit of 15 crore to borrowers for purposes like solar based power generators, ₹ biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities.
Others.	<ol style="list-style-type: none"> 1. Loans not exceeding 50,000/- per borrower provided directly by banks to individuals and their SHG/JL. 2. Loans to distressed persons not exceeding 100,000/- per borrower to prepay their debt to non-institutional lenders 3. Overdrafts extended by banks upto 5,000/- under Pradhan Mantri Jan-DhanYojana (PMJDY) accounts provided the borrowers household annual income does not exceed ₹100,000/- for rural areas and ₹1,60,000/- for non-rural areas. 4. Loans sanctioned to State Sponsored Organisations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organisations.

Source: RBI Master Circular.

Priority sector lending norms for regional rural banks

Reserve bank of India has prescribed following guidelines for regional rural banks regarding priority sector lending.

- 75% of total advances must go to areas classified as priority sector.
- 18% of total advances must be granted agriculture and its sub categories.
- 8% of total advances will be reserved for small and marginal farmers.
- Micro enterprises will get 7.5% of total outstanding advances.
- Weaker sections of the society will be eligible for 15% of total outstanding advances.

Priority sector lending activities will be monitored on

quarterly and annual basis. In event of shortfall in lending to priority sectors, banks may purchase priority sector lending certificates to meet the lending targets. In case of lending beyond target, Regional rural banks may raise funds from commercial banks in form of Interbank Participation Certificate. Gramin banks may issue IBPC to scheduled commercial banks of a tenure up to 180 days against priority sector advances in excess of 60% of total advances.

Gramin Banks in Jharkhand

There are two gram in banks in Jharkhand, Vananchal Gramin bank sponsored by state bank of India and Jharkhand Gramin bank sponsored by bank of India. Performance of these banks in relation to priority sector lending is as below.

Table 2: Jharkhand Gramin Bank (Amt. in lakh)

Year	Total advance.	Priority sector advance.	% of P.S advance.	Agriculture advance.	% of agri. advance.
2013	59862	43584	72.81	20789	34.73
2014	66879	68550	102.50	24611	36.80
2015	78754	79165	100.52	31727	40.29
2016	95345	72998	76.56	39421	41.35
2017	97281	94818	97.47	44993	46.25

Source: State Level Bankers Committee, Jharkhand.

Table 3: Vananchal Gramin Bank (Amt. in Lakh)

Year	Total advance.	Priority sector advance.	% of P.S advance.	Agriculture advance.	% of agri. advance.
2013	87241	76754	87.98	44440	50.94
2014	102112	85332	83.57	52252	51.17
2015	112657	99435	88.26	63634	56.48
2016	126275	111093	87.98	76545	60.62
2017	136731	126208	92.30	87331	63.87

Source: State Level Bankers Committee, Jharkhand.

Conclusions and Suggestions

Jharkhand gramian bank and Vananchal gramian bank are performing well in terms of lending to priority sectors. Both banks are satisfying the guidelines of Reserve bank of India. Vananchal gramian bank is performing consistently well while there are fluctuations in the lending patterns of Jharkhand gramian bank. In the year 2014, 2015 and 2017, Jharkhand gramian bank has lent only to the priority sectors. This is due to the fact the gramian banks are situated in rural regions of the state. Both the banks have lent almost 50% of total advances to agriculture which is one of the major constituent of priority sector. Thus, both the banks are fulfilling the objectives of establishment and at the same time satisfying the Reserving bank of India norms. Jharkhand gramian bank should lend to other sectors also to ensure balanced development of all regions of the state.

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