Banks neglecting the poor

C. J. Chacko

The recommendations of the Reserve Bank panel on priority sector lending are aimed at infusing the banking community with a sense of duty towards the poor. The panel, headed by Mr M. V. Nair, Chairman, Union Bank of India, has recommended the following: The 40 per cent norm for priority sector lending shall be extended to foreign banks operating in India; 15 per cent shall be for exports and 15 per cent for micro, small units; agriculture and allied activities shall be granted finance at least to the extent of 18 per cent of total bank finance; and the share of small and marginal farmers shall reach at least 9 per cent by 2015-16. It also says that micro/ small enterprises should continue to be in priority sector; the limits for priority sector eligibility for educational loans may be enhanced to Rs 15 lakhs and Rs 25 lakhs, for studies in India and abroad; and housing loans up to Rs 25 lakhs should be treated as priority sector.

BANKING REFORMS

Priority sector classifications and lending norms underwent changes over time. Retail trade, small business, road and water transport operators, professional and self-employed, education loans and housing loans entered this group.In the 70s and 80s, the Central and state governments and the RBI implemented many poverty alleviation schemes through the banking system. Lead bank scheme, service area approach, 20-point economic programme, IRDP, SEEUY, SEPUP, DRI, development and employment schemes for women, SC/ST were some of these. Pressures from various quarters, however, led to irregularities in identifying the beneficiaries.

The Narasimham Committee Report of 1991 signalled a shift in Indian banking. New norms for asset classification and income recognition and capital adequacy were adopted to align our systems with international standards. Safety of funds and profitability became the thrust areas, and the so-called priority sectors gradually lost their pride of place. Later, when the Central Government reduced its capital share in the public sector banks and issued their shares to the public, the banks' attention shifted to higher profits. Some of the steps taken by RBI and the Government during the years also helped the bankers to dilute their role in direct lending to the priority segments. Treating investments in certain funds of NABARD/SIDBI as lending to agriculture and small-scale industries, and treating loans to NBFCs for onward lending to priority sectors as priority sector advances, were among the new developments.

BANKERS' DILEMMA

As on December 31, 2011, priority sector advances stood at Rs 12,75,920 crore, out of which Rs 4,60,638 crore was towards agriculture, and Rs 4,82,543 crore was towards MSE sector. Considering the total credit of Rs 45,20,176 crore outstanding in the banking sector, the shares of the above sectors in percentages work out to 28.23, 10.20 and 10.68 only. Last year witnessed the lowest growth in bank credit in recent years. Y-O-Y growth as on December 31, 2011, was only 15.4 per cent. Priority sector advances improved just by 5 per cent. Clearly, there is room for improvement.

(The author is a former Dy. General Manager of Syndicate Bank.)