THE CHANGING PRIORITY OF PRIORITY SECTOR LENDING BY COMMERCIAL BANKS: A CASE OF INDIAN AGRICULTURE

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ABSTRACT

The Government of India nationalized 14 major Indian banks in the private sector having deposits of Rs. 50 crore and over each as on the last Friday on June 1969 with effect from 19th July 1969. By nationalizing the major banks, the Government secured control over what Mrs. Indira Gandhi described as “the commanding heights of economy”. The objectives of Nationalization as explained by Smt. Indira Gandhi in a broadcast to the nation on July 19 were “….. to expand bank credit to priority areas which have hitherto been somewhat neglected ….. removal of control by a few; provision of a adequate credit for agriculture and small industry, and export; giving a professional bent to management; encouragement of new classes of entrepreneurs; and the provision of adequate training as well as terms of service for bank staff still remain and will call for continuous efforts over a long time. Nationalization is necessary for the speedy achievement of these objectives”.

At a meeting of the Union Finance Minister with the Chief Executive Officers of public sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sector to 40 per cent by March 1985. Dr. K. S. Krishnaswamy the chairman of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks also recommended for 40% lending in the total lending to priority sector lending.

The different segments of the priority sector are Agriculture, Small Scale Industries, Small Road and Water Transport Operators, Retail Trade, Small Business, Professional and Self-employed persons, Education and Housing Finance.

But with the changing in the economic scenario since 1991, banking sector also saw series of reforms to the change for better!

There was a Chaos in Indian agriculture, farmers were in dire straits, the farmer continued to take credit from money lenders. Where did the money meant for agriculture go? When the data from RBI said the share of commercial banks credit to agriculture increased. The share of metropolitan branches giving credit to agriculture, as qualified for priority sector increased from mere 4% in 1990 to 20% in 2008, the urban banks also increased their share to agriculture to 14%. Though the share for agriculture under priority sector increased, it did not reach the rural farmer!

KEY WORDS : Priority sector, commercial Banks , Agriculture, Small scale industries