

Priority sector lending guidelines – Report of the RBIs internal working group

Suggestions of INAFI India, the development network

It is the matter of delight that the internal working group of RBI has come out with many welcome and positive recommendations on revisiting the existing priority lending sector guidelines from the perspective of financial inclusion. The policy focus is on reaching out to the excluded segments of population. Of particular mention is addressing the concerns of the crowding out of some segments in the priority credit basket like sublimit of 8% for small and marginal farmers retaining 10% of weaker sections. And given the imperatives of contemporary context adding new categories such as social infra structures and renewable energy is but logical extension of expanding the scope of policy ambit to social from the extant household / individual loans such as fresh housing / house improvement / house amenities.

However, given the low capital formation in agriculture sector and also the need and urgency for greater investments in agriculture development, it is time to raise the share of agriculture credit from 18% to 20% with corresponding hike for the share of credit to small and marginal farmers from 8 % to 10%.

While the innovative recommendation on Priority Sector Lending Certificates (PSLCs) is welcome in so far as a market determined incentive is built into the system for those banks who do well in priority sector lending, it does give rise to apprehensions of being used as an instrument of avoidance and also unwittingly resulting in regional imbalances in credit flow. The question is what if a particular Commercial bank habitually takes recourse to buying of PSLCs year after year. There has to be an effective checks and balances for availing the benefit of PSLCs. We suggest that, if a bank short lands on priority lending 3 years in a row and takes the escape route of PSLCs it should be barred from not only participating in the PSLCs market but also levied a hefty penalty of 15% of the short fall and RBI could use this penalty money to promote an incentive system not only for the Banks but also for the customers.