

Credit Delivery System

3.25 Efforts to streamline the credit delivery system gathered further momentum in the current financial year. The coverage of Priority sector has been widened further by including incremental credit given by banks to NBFCs for on-lending to small road and water transport operators and to units in the tiny sector of industry. Investment in venture capital has also been included in the priority sector. Keeping in view the national importance of infrastructure development, guidelines for financing infrastructure projects have been issued to banks to enable them to sanction term loans for technically feasible, financially viable and bankable projects taken up by both the private and the public sector undertakings. Four broad modes of financing have been identified in this context, namely, (i) financing through funds raised by way of subordinated debt, (ii) take-out financing, (iii) direct financing through rupee term loans, deferred payment guarantees, foreign currency loans, etc. and (iv) investments in infrastructure bonds issued by project promoters/ financial institutions. In order to enhance the capacity of the Small Industries Development Bank of India (SIDBI) to cater to the financial needs of the small sector, the SIDBI Bill raising SIDBI's authorised capital to Rs. 1000 crore with an enabling provision to further increase it up to Rs. 2000 crore was passed by the Lok Sabha in the current financial year.

Sectoral Deployment of Bank Credit

3.26. The details of sectoral deployment of bank credit may be seen from Table 3.8. During 1998-99, out of the total increase in non-food gross bank credit amounting to Rs.37398 crore, 40.4 percent flowed to priority sectors comprising agriculture, small scale industries and other priority sectors while 34.7 percent flowed to industry (medium and large). The sectoral break-up of credit for the period April-October, 1999-2000 shows an increase of 5.0 percent in priority sector credit compared with 3.9 percent in the corresponding period of the previous year. Credit to large and medium industries increased at a lower rate by 1.5 percent during this period than that by 2.0 per cent in the

corresponding period of 1998-99. Credit to wholesale trade increased by 8.9 percent during this period as against a decline of 0.5 percent in the corresponding previous period. However, export credit declined by 5 percent during April-October 1999-2000 as against a smaller decline of 3.1 percent in the corresponding previous period of 1998-99.

Export Credit

3.27 Banks are required to lend 12 percent of their net bank credit to the export sector. The outstanding export credit of SCBs at Rs. 36,827 crore as on March 26, 1999 represented an increase of Rs. 2397 crore or 7.0 percent over the outstanding credit of Rs. 34,430 crore as on March 27, 1998. As on December 3, 1999, the outstanding export credit amounted to Rs. 38,136 crore, indicating an increase of Rs. 3263 crore or 9.4 percent over the same period of the previous financial year. During the current financial year, the export credit refinance limit of SCBs increased *vis-à-vis* last year and stood at Rs. 8,651 crore as on December 3, 1999. The average utilisation of export credit refinance ranged from 46.9 percent to 82.5 percent of the refinance limit during April-November, 1999. With effect from April 1, 1999, export credit refinance is provided to SCBs at the Bank Rate (8%).

Priority Sector Credit

3.28 Priority sector advances of SCBs (as per provisional data) increased by Rs.5678 crore or 5.0 percent during April-October 1999 compared with Rs. 3924 crore or 3.9 percent during the corresponding period of the previous financial year. About 70 percent of the incremental advances to the priority sector during April-October 1999 flowed to the category "Other priority sectors" in contrast to 40 percent in the corresponding period of 1998-99. Separate data on priority sector advances for banks in public and private sectors are not available for April-October, 1999. Analysis of data for 1998-99 showed that priority sector advances by public sector banks registered improvement

TABLE 3.8
Sectoral Deployment of Gross Bank Credit
Variations during¹

Items	1997-98	1998-99	April-October		1997-98	1998-99	April-October	
			1998-99	1999-2000			1998-99	1999-2000
			<i>(Rs. crore)</i>				<i>(Per cent)</i>	
I. Gross bank credit	41292	41729	12638	18589	15.9	13.9	4.2	5.4
1. Public food procurement	4888	4331	4243	4588	64.3	34.7	34.0	27.3
2. Gross non-food credit	36404	37398	8395	14001	14.5	13.0	2.9	4.3
(a) Priority sector (i+ii+iii)	14627	15104	3924	5678	17.2	15.2	3.9	5.0
(i) Agriculture	3427	4765	1750	1536	10.9	13.7	5.0	3.9
(ii) Small scale industry	7564	4975	592	174	21.0	11.4	1.4	0.4
(iii) Other priority sectors	3636	5364	1582	3698	21.5	25.4	7.5	15.0
(b) Medium and large industries	14926	12986	2293	1981	10.3	11.0	2.0	1.5
(c) Wholesale trade (excluding food procurement)	877	748	-61	1247	3.0	5.7	-0.5	8.9
(d) Other sectors	5974	8560	2239	5095	18.0	14.9	3.9	7.7
II. Export credit ²	3939	1944	-1056	-1800	1.4	5.7	-3.1	-5.0

1 As on the last reporting Friday of the period.

2 Also included in non-food credit; figures in paragraph 3.27 are more up-to-date.

Note :Data are provisional and relate to 50 scheduled commercial banks which account for 90-95 per cent of the bank credit of all scheduled commercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, Exim Bank and other approved financial institutions.

to 43.5 percent of Net Bank Credit (NBC) as on the last reporting Friday of March 1999 from 41.8 percent of NBC as on the last reporting Friday of March 1998. Advances to the agriculture sector from public sector banks in 1998-99 constituted 16.3 percent of NBC while the corresponding proportion in respect of the SSI sector was 17.3 percent. The priority sector advances of private sector banks increased from 40.9 percent of NBC as on the last reporting Friday of March 1998 to 41.4 percent of NBC as at end-March 1999. In their case, advances to agriculture constituted 9.5 percent of NBC, while advances to SSI sector accounted for 18.9 percent as on the same date. Foreign banks, for whom the priority sector lending target is 32 percent of NBC, also registered significant improvement in their priority sector advances

from 34.3 percent as at end-March 1998 to 37.0 percent as at end-March, 1999. Advances to export sector accounted for 25.0 percent of NBC as at end-March 1999 while advances to the SSI sector formed 11.0 percent as on the same date.

Rural Credit

3.29. Though rural financial institutions have played a leading role in the provision of rural credit, the rural sector, especially the agricultural sector, is still in need of more credit. The National Bank for Agriculture and Rural Development (NABARD), which is the apex organisation in the field of rural credit, has taken several initiatives in this regard. Notable developments in recent years are the introduction of Kisan Credit Card (KCC) and the linkage of Self Help Groups

(SHGs) with banks. As against the target of 20 lakh KCCs indicated in the Union Budget for 1999-2000, the issue of KCCs by the public sector banks in the country numbered 9.1 lakh during April-December 1999. The amount sanctioned through these cards was Rs. 2377 crore, which worked out to Rs. 26161 per card. In order to enable NABARD to leverage its capital funds for raising more resources, its capital base has been progressively increased from Rs. 500 crore in 1996-97 (at the rate of Rs. 100 crore by GOI and Rs. 400 crore by RBI every year) to Rs. 2000 crore as on March 31, 1999. Besides share capital contribution, Reserve Bank has been providing to NABARD a General Line of Credit (GLC) under Section 17(4E) of the RBI Act to enable it to meet the short-term credit requirements of co-operatives and Regional Rural Banks (RRBs). A line of credit of Rs.5700 crore (Rs.4850 crore under GLC-I and Rs.850 crore under GLC-II) has been sanctioned to NABARD for the year 1999-2000 (July-June). An additional limit of Rs. 400 crore under GLC-I has also been sanctioned in December 1999.

3.30. An important development in the area of rural infrastructure has been the creation of the Rural Infrastructure Development Fund (RIDF)

in 1995-96 in NABARD with a corpus of Rs. 2000 crore to provide funds to State Governments and State owned corporations to enable them to complete various types of rural infrastructure projects. So far there have been five RIDFs (RIDF-I to RIDF-V) with total corpus of Rs.13,500 crore. The funds for RIDF are mobilised from domestic commercial banks on the basis of shortfall in their priority sector advances *vis-à-vis* the stipulate targets. The cumulative sanctions and disbursements out of RIDF amounted to Rs. 12109.33 crore and Rs. 4639.48 crore respectively as at the end of November 1999. Analysis of the trends in utilisation of RIDF at the state level has revealed considerable shortfall *vis-à-vis* sanctions. There have, however, been inter-state variations in this regard. In some States, the utilisation has been poor mainly due to inadequacy of own funds to supplement the provisions under RIDF. In other cases, there have been a wide range of factors which contributed to the relatively poor utilisation of funds. In order to enable the States to enhance utilisation, the Union Budget for 1999-2000 has widened the scope of RIDF to include lending to Gram Panchayats, Self Help Groups and other eligible institutions for implementing rural infrastructure projects.