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SCHOOL OF COMMERCE AND MANAGEMENT

A PROJECT REPORT ON

“PRIORITY SECTOR LENDING (PSL) STRATEGIES & OUTCOMES & OTHERS”

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UNDER THE GUDANCE OF

PROF. ABHAY LIMAYE

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CERTIFICATE

This is to state that the work incorporated in the project on "**PRIORITY SECTOR LENDING (PSL) STRATEGIES & OUTCOMES & OTHERS**", submitted by **Oza Anurag Rajendra, Rajeshirke Aishwarya Santosh, Agrahari Harshit Akhilesh, Khose Rushikesh Gangadhar, Narkhede Om Pradeep, Walunj Siddhesh Narayan, Solapure Dipak Prakash** class of **PGDBF seat no: 1, 2, 3, 4, 5, 6 and 7 for Post Graduation Diploma in Banking and Finance**, was carried out under the guidance and supervision of **Prof. Abhay Limaye**. The material obtained from other sources has been duly acknowledge in the project.

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We **Oza Anurag Rajendra, Rajeshirke Aishwarya Santosh, Agrahari Harshit Akhilesh, Khose Rushikesh Gangadhar, Narkhede Om Pradeep, Walunj Siddhesh Narayan, Solapure Dipak Prakash** wish to express our sincere gratitude to **Prof. Abhay Limaye** for help and guidance in carrying out this study. Without his supervision and continuous encouragement, this study would not have been completed.

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I. Priority Sector Lending Strategies, Outcomes and Others

Priority Sector Lending (PSL) is a rule from the Reserve Bank of India (RBI) for banks in India. It says that banks must give a certain amount of loans to specific areas called “Priority Sectors”. These sectors are really important for the country's growth. They include things like farming, small businesses, education, and helping low-income people.

Banks have to meet targets set by the RBI for lending to these priority sectors. If they don't meet these targets, they might get in trouble. But there are different ways banks can meet these targets, like giving loans directly or investing in things related to these priority sectors.

The idea behind Priority Sector Lending is to make sure that everyone, especially those who have less money, can get loans for important things like farming or starting a small business. It's all about helping the country grow in a fair and balanced way.

II. History Of Priority Sector Lending:

- Priority sector lending started in 1966 because Morarji Desai wanted to give more money to farmers and small businesses.

- The rules for priority sector lending were made official in 1972 by the Reserve Bank of India.

- In 1974, banks were told they had to give 33.33% of their money to priority sectors. Later, this was increased to 40%.

- When banks were taken over by the government, it helped Indira Gandhi to make sure certain groups got money.

- The priority sector rules have changed over time to help more parts of the economy.

- But even now, the main focus is still on helping farmers and small businesses.

III. The Categories Under Priority Sector Are

1. Agriculture
2. Micro, Small and Medium Enterprises
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others

1. Agriculture:

Financial support given to farmers for farming activities such as growing crops, buying farming tools, and setting up irrigation systems.

2. Micro, Small and Medium Enterprises (MSMEs):

Assistance provided to small businesses to help them grow and succeed, covering needs like expanding operations, managing day-to-day expenses, and upgrading technology.

3. Export Credit:

Funding offered to businesses engaged in exporting goods, aiding them in activities like preparing goods for shipment and managing finances related to exporting.

4. Education:

Loans granted to individuals to pursue further education, including covering costs like tuition fees, textbooks, and accommodation expenses.

5. Housing:

Financial aid provided to individuals and families to buy or build homes, as well as to renovate or improve existing housing conditions.

6. Social Infrastructure:

Investment in projects related to improving community services such as healthcare facilities, sanitation systems, and access to clean drinking water.

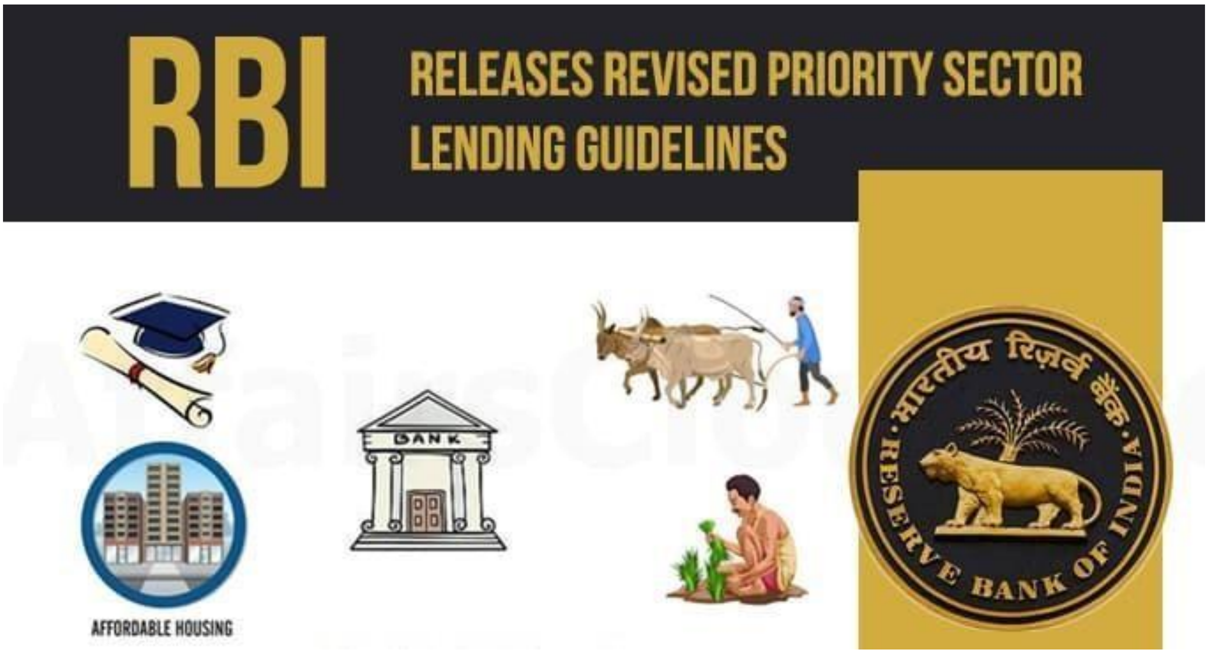
7. Renewable Energy:

Support directed towards projects aimed at generating energy from sustainable sources like solar, wind, and biomass, promoting environmental conservation.

8. Others:

This category encompasses various forms of financial assistance, including support for self- help groups, initiatives to empower women entrepreneurs, and schemes to uplift economically disadvantaged sections of society.

IV. Master Directions Given by RBI For Priority Sector Lending



Following are the Master directions given by RBI for Priority sector Lending: (Reference RBI site and circular of RBI)

1. Domestic commercial banks (excluding RRBs & SFBs) & foreign banks with 20 branches and above:

They must allocate 40% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher, to priority sector lending.

Within this, they must allocate 18% for agriculture, with a target of 10% for Small and Marginal Farmers (SMFs), 7.5% for Micro Enterprises, and 12% for Advances to Weaker Sections.

2. **Foreign banks with less than 20 branches:**
   Similar to the first category, they also need to allocate 40% of their ANBC or CEOBE to priority sector lending. However, up to 32% can be in the form of lending to exports, and not less than 8% to any other priority sector.

3. **Regional Rural Banks (RRBs):**
   They have a higher requirement, needing to allocate 75% of their ANBC or CEOBE to priority sector lending. Within this, similar to the first category, 18% is allocated for agriculture, with a target of 10% for SMFs, 7.5% for Micro Enterprises, and 15% for Advances to Weaker Sections.

4. **Small Finance Banks (SFBs):**

   Like RRBs, they also need to allocate 75% of their ANBC or CEOBE to priority sector lending. The allocation for agriculture, Micro Enterprises, and Advances to Weaker Sections is the same as the other categories.

   These requirements ensure that banks contribute to the development of key sectors like agriculture, small businesses, and support weaker sections of society through their lending activities.

   Starting from the financial year 2021-22, there will be revisions in the targets for lending to Small and Marginal Farmers (SMFs) and Weaker Sections. Here's how they will change over the specified years:

Small and Marginal Farmers target:

- 2020-21: 8% (Not applicable to Urban Cooperative Banks)
- 2021-22: 9%
- 2022-23: 9.5%
- 2023-24: 10%

Weaker Sections target:

- 2020-21: 10%
- 2021-22: 11%
- 2022-23: 11.5%
- 2023-24: 12%

It's important to note that the Weaker Sections target for Regional Rural Banks (RRBs) will remain at 15% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off- Balance Sheet Exposure (CEOBE), whichever is higher, throughout this period.

Urban Cooperative Banks (UCBs) have specific targets for priority sector lending, micro-enterprises, and advances to weaker sections. Here's a breakdown of their compliance requirements and milestones:

1. Total Priority Sector Lending:

UCBs must allocate 40% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher, in FY2019-20.

This requirement will increase to 75% of ANBC or CEOBE from FY2025-26.

- **Compliance milestones:**
  - FY2019-20: 40%
  - FY2020-21: 45%
  - FY2021-22: 50%
  - FY2022-23: 60%
  - FY2023-24: 60%
  - FY2024-25: 65%
  - FY2025-26: 75%

2. Micro Enterprises:

UCBs must allocate 7.5% of their ANBC or CEOBE, whichever is higher, towards micro-enterprises.

3. Advances to Weaker Sections:

UCBs must allocate 12% of their ANBC or CEOBE, whichever is higher, towards advances to weaker sections.

Revised targets for weaker sections will be implemented progressively as follows:

- FY2019-20: 10.00%
- FY2020-21: 11.00%
- FY2021-22: 11.50%
- FY2022-23: 11.50%
- FY2023-24: 11.50%
- FY2024-25: 11.75%
- FY2025-26: 12.00%

These requirements ensure that UCBs contribute to priority sector lending and support the development of micro-enterprises and weaker sections of society, with a gradual increase in targets over the specified years.

All domestic banks (excluding UCBs) and foreign banks with more than 20 branches are instructed to maintain their lending to Non-Corporate Farmers (NCFs) at or above the system-wide average of the last three years' achievement, as separately notified annually.

For FY 2022-23, the target for lending to non-corporate farmers is set at 13.78% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher. Banks are encouraged to strive for higher levels of farm credit compared to the NCF target.

This directive aims to ensure a consistent and adequate flow of credit to non-corporate farmers, contributing to the agricultural sector's growth and sustainability.

V. Categories Under Priority Sector Details:

1. Agriculture:

This breakdown provides a detailed overview of the lending categories in the agriculture sector, specifying the types of loans available to individual farmers, corporate entities, FPOs/FPCs, and ancillary services.

1.1 Farm Credit - Individual farmers

Loans provided to:

- Individual farmers, including Self Help Groups (SHGs) or Joint Liability Groups (JLGs).
- Proprietorship firms of farmers engaged in Agriculture and Allied Activities such as dairy, fishery, animal husbandry, poultry, bee-keeping, and sericulture.
- Crop loans for traditional/non-traditional plantations, horticulture, and allied activities.
- Medium and long-term loans for agriculture and allied activities (e.g., purchase of agricultural machinery).
- Loans for pre and post-harvest activities like spraying, harvesting, grading, and transporting farm produce.
- Loans for distressed farmers indebted to non-institutional lenders.
- Loans under the Kisan Credit Card Scheme.
- Loans to small and marginal farmers for purchasing agricultural land.
- Loans against pledge/hypothecation of agricultural produce for up to 12 months.
- Loans for installing stand-alone Solar Agriculture Pumps and solarizing grid- connected Agriculture Pumps.
- Loans for installing solar power plants on barren/fallow land or in stilt fashion on agricultural land owned by the farmer.

1.2 Farm Credit - Corporate farmers, FPOs/FPCs, Partnership firms, and Co-operatives

- Loans for these entities will have an aggregate limit of ₹2 crore per borrowing entity for:
  - Crop loans including traditional/non-traditional plantations and horticulture.
  - Medium and long-term loans for agriculture and allied activities.
- Loans for pre and post-harvest activities.

- Loans up to ₹75 lakh against pledge/hypothecation of agricultural produce for up to 12 months.

- Loans up to ₹5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce.
- UCBs are not permitted to lend to co-operatives of farmers.

1.3 Agriculture Infrastructure

- Loans for agriculture infrastructure have an aggregate sanctioned limit of ₹100 crore per borrower from the banking system.

1.4 Ancillary Services

Loans under ancillary services:

- Up to ₹5 crore to co-operative societies of farmers for purchasing members' produce.
- Up to ₹50 crore to Start-ups in agriculture and allied services as per the Ministry of Commerce and Industry's definition.
- Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system.
- Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.
- Eligible activities under ancillary services and food processing are listed in Annex II and Annex III, respectively.

1.5 Small and Marginal Farmers (SMFs)

SMFs include:

- Farmers with landholding up to 1 hectare (Marginal Farmers).
- Farmers with landholding more than 1 hectare and up to 2 hectares (Small Farmers).
- Landless agricultural laborers, tenant farmers, oral lessees, and share-croppers within SMF landholding limits.
- Loans to SHGs or JLGs of SMFs engaged in Agriculture and Allied Activities.
- Loans up to ₹2 lakh to individuals solely engaged in Allied activities without landholding criteria.
- Loans to FPOs/FPCs of individual farmers and co-operatives where SMFs' land- holding share is not less than 75%.

1.6 Lending by banks to NBFCs and MFIs for on-lending in agriculture

- Bank credit to registered NBFC-MFIs and other MFIs for on-lending to individuals and members of SHGs/JLGs eligible as priority sector advances.

- Bank credit to registered NBFCs (other than MFIs) for 'Term lending' component under agriculture allowed up to ₹10 lakh per borrower.

2. Micro, Small and Medium Enterprises (MSMEs)

Definition:
The definition of MSMEs follows the Government of India (GoI), Gazette Notification S.O. 2119 (E) dated June 26, 2020, read with circular RBI/2020-2021/10 FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 and RBI circular FIDD.MSME & NFS. BC. No.4/06.02.31/2020-21 dated July 2, 2020, August 21, 2020, respectively, on ‘Credit flow to Micro, Small and Medium Enterprises Sector’.

These MSMEs should be engaged in manufacturing or producing goods in any manner related to industries specified in the First Schedule to the Industries (Development and Regulation) Act, 1951, or engaged in providing/rendering services.

Eligibility for Priority Sector Lending:
All bank loans to MSMEs conforming to the above guidelines qualify for classification under priority sector lending.

2.1 Factoring Transactions (not applicable to RRBs and UCBs)

'With Recourse' factoring transactions by banks with a factoring department where the 'assignor' is an MSME would be eligible for MSME classification.

Borrower’s bank must obtain periodical certificates regarding factored receivables to avoid double financing.

Factoring transactions via Trade Receivables Discounting System (TReDS) for MSMEs are eligible for priority sector classification.

2.2 Khadi and Village Industries Sector (KVI)

Loans to units in the KVI sector are eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.

2.3 Other Finance to MSMEs

These points outline the various types of financial support and lending opportunities available for Micro, Small, and Medium Enterprises (MSMEs), including eligibility criteria, factoring transactions, support for the Khadi and Village Industries sector, and other financing options.

Loans up to ₹50 crore to Start-ups, conforming to the MSME definition.

Loans to entities assisting decentralized sectors in supplying inputs and marketing outputs of artisans, village, and cottage industries. (Excludes UCBs from lending to certain institutions)

Loans to co-operatives of producers in decentralized sectors like artisans, village, and cottage industries. (Not applicable to UCBs)

Loans by banks to NBFC-MFIs and other MFIs (Societies, Trusts, etc.) members of RBI recognized SRO for on-lending to MSMEs.

Loans to registered NBFCs (other than MFIs) for on-lending to Micro & Small Enterprises.

Credit outstanding under General Credit Cards (e.g., Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, Weaver's Card).

Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per prescribed limits by Department of Financial Services, Ministry of Finance.

Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

3. Export Credit (not applicable to RRBs and LABs)

Export credit under the agriculture and MSME sectors is eligible for classification as Priority Sector Lending (PSL) within their respective categories.

For Export Credit outside of agriculture and MSME sectors, the classification as priority sector is determined as follows:

- **Domestic banks / WoS of Foreign banks / SFBs / UCBs:** Incremental export credit over the corresponding date of the preceding year, up to 2% of ANBC or CEOBE, subject to a sanctioned limit of up to ₹40 crore per borrower.
- **Foreign banks with 20 branches and above:** Incremental export credit over the corresponding date of the preceding year, up to 2% of ANBC or CEOBE.
- **Foreign banks with less than 20 branches:** Export credit up to 32% of ANBC or CEOBE, whichever is higher.

Export Credit Details:

Export credit includes pre-shipment and post-shipment export credit (excluding off- balance sheet items).

This aligns with the definition provided in the Master Circular on Rupee/Foreign Currency Export Credit and Customer Service to Exporters issued by the Department of Regulation, RBI vide DBR No.DIR.BC.14/04.02.002/2015-16 dated July 1, 2015, and updated periodically.

This section outlines the criteria for classifying export credit as Priority Sector Lending for the agriculture and MSME sectors, as well as the limits for other types of export credit based on the type of bank. It also describes the components of export credit, including pre-shipment and post-shipment credit, as defined by RBI's Master Circular.

4. Education:

Loans provided to individuals for educational purposes, which also include vocational courses, will be considered eligible for priority sector classification. The maximum loan amount for such educational loans is capped at ₹20 lakh.
Loans that are currently classified as priority sector will maintain this classification until their maturity.
This section specifies that loans extended to individuals for education, including vocational courses, will be classified as priority sector lending. There is a limit of ₹20 lakh for such educational loans. Additionally, loans already classified as priority sector will retain this classification until they reach maturity.

5. Housing

5.1 Housing Loans for Individuals:

- Bank loans provided for housing in the following limits are eligible for priority sector classification:
- Up to ₹35 lakh in metropolitan centers (with a population of ten lakh and above).
- Up to ₹25 lakh in other centers for purchasing or constructing a dwelling unit per family.
- The overall cost of the dwelling unit should not exceed ₹45 lakh in metropolitan centers and ₹30 lakh in other centers.
- Existing individual housing loans of Urban Cooperative Banks (UCBs) currently classified under Priority Sector Lending (PSL) will maintain this classification until maturity or repayment.
- Housing loans to the bank's own employees are not considered eligible for priority sector classification.

5.2 Loans for Repairs:

- Loans up to ₹10 lakh in metropolitan centers and up to ₹6 lakh in other centers for repairs to damaged dwelling units.
- The overall cost of the dwelling unit should align with the limits specified in 12.1.

5.3 Loans to Government Agencies:

Bank loans to any governmental agency for

- Construction of dwelling units.
- Slum clearance and rehabilitation of slum dwellers.

- Dwelling units should have a carpet area of not more than 60 sq.m.

5.4 Affordable Housing Projects:

- Bank loans for affordable housing projects utilizing at least 50% of Floor Area Ratio (FAR) or Floor Space Index (FSI) for dwelling units with a carpet area of not more than 60 sq.m.

5.5 Loans to Housing Finance Companies (HFCs):

- Bank loans to HFCs approved by the National Housing Bank (NHB) for on-lending purposes:
    - Up to ₹20 lakh for individual borrowers.
    - For purchase, construction, reconstruction of individual dwelling units, or slum clearance and rehabilitation of slum dwellers.
    - Conditions for such loans are specified in paragraphs 23 and 24.

5.6 Deposits with NHB:

Outstanding deposits with the National Housing Bank (NHB) on account of priority sector shortfall are included.

This section outlines the various types of housing loans eligible for priority sector classification. It includes housing loans for individuals within specified limits, loans for repairs, support for affordable housing projects, loans to government agencies for construction and slum rehabilitation, and loans to Housing Finance Companies (HFCs) for on-lending purposes. It also mentions the inclusion of outstanding deposits with the National Housing Bank (NHB) for priority sector shortfall.

6. Social Infrastructure

Bank loans to the social infrastructure sector within the specified limits are eligible for priority sector classification.

6.1 Loans for Specific Facilities:

- Loans up to ₹5 crore per borrower for:
    - Setting up schools.
    - Providing drinking water facilities.
    - Establishing sanitation facilities, including construction or refurbishment of household toilets and water improvements at the household level.
- Loans up to ₹10 crore per borrower for:

- Building health care facilities, including those under the 'Ayushman Bharat' scheme.
- For Urban Cooperative Banks (UCBs), the above limits apply only in centers with a population of less than one lakh.

6.2 Loans to Microfinance Institutions (MFIs):

- Bank loans to MFIs, which are then extended for on-lending to individuals and members of Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) for water and sanitation facilities.
- Criteria for such loans are outlined in paragraph 21 of these Master Directions.

This section does not apply to Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs), and Small Finance Banks (SFBs).

These points explain the eligibility criteria for priority sector classification of bank loans in the social infrastructure sector. They cover loans for specific facilities such as schools, drinking water, sanitation, and healthcare, along with loans to MFIs for on- lending purposes. The specified limits and conditions for these loans are outlined for banks.

7. Renewable Energy

- Bank loans up to ₹30 crore to borrowers are eligible for Priority Sector classification for:
  - Solar-based power generators.
  - Biomass-based power generators.
  - Wind mills.
  - Micro-hydel plants.
  - Non-conventional energy-based public utilities like street lighting systems and remote village electrification.
  - For individual households, the loan limit is ₹10 lakh per borrower.

8. Others

8.1 Loans to Individuals and SHG/JLG Members:

- Loans directly provided by banks to individuals and members of Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) must satisfy the criteria outlined in the Master Direction on Regulatory Framework for Microfinance Loans Directions, dated March 14, 2022.

8.2 Loans to SHG/JLG for Non-Agricultural or Non-MSME Activities:

- Banks can provide loans not exceeding ₹2.00 lakh to SHGs/JLGs for activities other than agriculture or MSME.
- These activities include loans for social needs, house construction or repair, construction of toilets, or any viable common activity initiated by SHGs.

8.3 Loans to Distressed Persons:

- Loans up to ₹1.00 lakh per borrower for distressed persons (excluding distressed farmers indebted to non-institutional lenders) to prepay their debts to non-institutional lenders.

8.4 Loans to State Sponsored Organizations:

- Banks can sanction loans to State Sponsored Organizations for Scheduled Castes/Scheduled Tribes.
- These loans are specifically for purchasing and supplying inputs or marketing the outputs of the beneficiaries of these organizations.

8.6 Loans to Start-ups:

- Loans up to ₹50 crore are eligible for Priority Sector classification for Start-ups.
- Start-ups must align with the definition provided by the Ministry of Commerce and Industry, Government of India, and should be engaged in activities other than Agriculture or MSME.

These points detail the types of loans eligible for priority sector classification outside of the previously mentioned categories. It covers renewable energy projects, loans to individuals and SHGs/JLGs, distressed persons, State Sponsored Organizations, and Start-ups engaged in non-Agriculture or non-MSME activities.

8.7 Bank lending to NBFC's and MFI

Bank loans provided to non-banking financial companies (NBFCs) and microfinance institutions (MFIs) registered with the Reserve Bank of India, specifically designated for lending in the agricultural sector, are considered priority sector lending. This applies to NBFC-MFIs and other MFIs recognized by RBI, such as societies and trusts affiliated with RBI-recognized self-regulatory organizations (SROs) for the sector. These loans can be extended to individuals, as well as members of self-help groups (SHGs) and joint liability groups (JLGs), subject to certain conditions outlined in paragraph 21. However, this provision does not apply to Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs), Small Finance Banks (SFBs), and Local Area Banks (LABs).

Additionally, bank loans provided to registered NBFCs (excluding MFIs) for the purpose of 'Term lending' within the agriculture sector are permitted up to ₹10 lakh per borrower, subject to conditions specified in paragraphs 22 and 24. Similar to the previous provision, this does not apply to RRBs, UCBs, SFBs, and LABs.

9. Micro, Small, and Medium Enterprises (MSMEs)

The definition of MSMEs aligns with the Government of India's Gazette Notification S.O. 2119 (E) dated June 26, 2020, supplemented by circulars from the Reserve Bank of India (RBI) regarding credit flow to the MSME sector. These enterprises must be involved in manufacturing goods or providing services related to industries listed in the First Schedule to the Industries (Development and Regulation) Act, 1951. Bank loans to such MSMEs, meeting these criteria, are considered priority sector lending.

9.1 Factoring Transactions (excluding RRBs and UCBs)

Banks engaging in 'With Recourse' factoring transactions, where the assignor is an MSME, can classify such transactions under the MSME category. Certain guidelines ensure transparency and prevent double financing. Factoring transactions through the Trade Receivables Discounting System (TReDS) also qualify for priority sector classification.

9.2 Khadi and Village Industries Sector (KVI)

Loans to units in the KVI sector are classified under the Micro Enterprises sub-target of 7.5 percent within the priority sector.

9.3 Other Finance to MSMEs

- Loans up to ₹50 crore to Start-ups meeting MSME criteria.
- Loans to entities supporting artisans, village, and cottage industries.
- Loans to producer cooperatives in decentralized sectors.
- Loans to NBFC-MFIs and other MFIs for on-lending to the MSME sector.
- Loans to registered NBFCs for on-lending to Micro & Small Enterprises.
- Credit under General Credit Cards catering to non-farm entrepreneurial credit needs.
- Overdraft facilities for Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders.
- Deposits with SIDBI and MUDRA Ltd. due to priority sector shortfall.

These measures aim to support and encourage lending to MSMEs and related sectors, ensuring their growth and development.

10. Export Credit Classification

- Export credit within the agriculture and MSME sectors can be classified as Priority Sector Lending (PSL) in their respective categories.
- For export credit outside of agriculture and MSME sectors, the classification as priority sector lending is determined based on the type of bank and the incremental export credit.

Criteria for Classification:

Domestic Banks / Wholly-owned Subsidiaries (WoS) of Foreign Banks / Small Finance Banks (SFBs) / Urban Cooperative Banks (UCBs):

Incremental export credit over the corresponding date of the preceding year, up to 2% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher, subject to a sanctioned limit of up to ₹40 crore per borrower.

- **Foreign Banks with 20 Branches and Above:**

  Incremental export credit over the corresponding date of the preceding year, up to 2% of ANBC or CEOBE, whichever is higher.

- **Foreign Banks with Less Than 20 Branches:**

  Export credit up to 32% of ANBC or CEOBE, whichever is higher.

Scope of Export Credit:

Export credit includes both pre-shipment and post-shipment export credit, excluding off-balance sheet items. This definition aligns with the Master Circular on Rupee / Foreign Currency Export Credit and Customer Service to Exporters issued by the Department of Regulation, RBI.

The analysis highlights the structured approach to categorizing export credit and emphasizes the importance of supporting key sectors through priority sector lending initiatives, ultimately contributing to economic development and export promotion.

11. Education:

- Individuals can get loans up to ₹20 lakh for education, including vocational courses, which qualify for priority sector classification.
- Existing education loans under priority sector will remain classified as such until repayment.

12. Housing:

Loans to individuals:

- Up to ₹35 lakh in metropolitan areas and ₹25 lakh in other areas for buying or building a home, with the total cost not exceeding ₹45 lakh and ₹30 lakh respectively.
- Up to ₹10 lakh for repairing damaged homes.
- Loans to government agencies for housing construction or slum rehabilitation, subject to certain conditions.
- Loans to housing finance companies (HFCs) for lending to individuals or slum rehabilitation.
- Investments by urban cooperative banks (UCBs) in certain bonds do not count towards priority sector lending.

13. Social Infrastructure:

- Loans for setting up schools, healthcare facilities, and sanitation projects, subject to specified limits.
- Microfinance institution (MFI) loans for water and sanitation projects, following certain criteria.

14. Renewable Energy:

- Loans up to ₹30 crore for solar, wind, and other renewable energy projects, with a limit of ₹10 lakh per household.

15. Others:

- Loans for microfinance, small-scale activities, distressed persons, state-sponsored organizations, and startups, with specified limits.

16. Weaker Sections:

Priority sector loans to
a. small farmers (limit not exceeding RS. 1 lakh)
b. artisans
c. Scheduled Castes/Tribes
d. Individual women (limit RS. 1 lakh per borrower) and
e. other vulnerable groups, as per defined criteria.

- Overdrafts for Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders can also be classified under weaker sections.

VI. Some General Queries Around Priority Sector Lending

- **Is there any additional cost to be incurred for PSL?**

  Lending funds to the Priority Sector requires banks to bear extra costs due to regulatory demands and the specific characteristics of the borrowers. These additional expenses encompass various aspects:

  - Regulatory Compliance Expenses: Banks must adhere to central bank regulations concerning Priority Sector Lending (PSL), which involves maintaining records, reporting, and ensuring compliance, incurring associated costs.
  - Efforts in Outreach and Supervision: Serving Priority Sector clients often necessitates extensive outreach to identify eligible recipients and oversee fund usage. This may entail establishing branches or banking agents in remote regions and monitoring how funds are utilized.
  - Risk Management Expenditures: Priority Sector lending may carry heightened credit risks due to factors like limited collateral, lower borrower creditworthiness, or exposure to sectors susceptible to economic fluctuations. Hence, banks may need to allocate more resources for risk assessment, mitigation, and provisioning.
  - Investment in Skill Development: Banks might need to invest in training programs for their staff to better grasp the needs and dynamics of Priority Sector borrowers, as well as to create specialized lending products suited to their requirements.
  - Participation in Credit Guarantee Programs: In certain cases, banks may engage in credit guarantee programs offered by government entities to mitigate lending risks associated with specific Priority Sector segments. Such participation might involve administrative expenses.
  - Enhancement of Technological Infrastructure: Banks may need to upgrade their technological infrastructure to streamline lending processes, including digital documentation, online applications, and monitoring systems, incurring significant costs.

  In essence, while lending to the Priority Sector is a regulatory requirement for banks, it also entails extra financial burdens beyond those encountered in traditional lending. These costs are essential to ensure regulatory compliance, manage risks effectively, and cater to the financial needs of marginalized or underserved segments of the population.

- **Interest Rate Subvention in Priority Sector**
  - Interest rate subvention is a financial incentive provided by the Indian government to encourage lending to certain priority sectors at a reduced interest rate. In the context of Indian banking, interest rate subvention schemes have been introduced by the government to support specific sectors deemed crucial for socio-economic development.
  - The primary objective of interest rate subvention schemes is to ensure the availability of affordable credit to priority sectors, thereby promoting inclusive growth, rural development, and employment generation.
  - Typically, sectors such as agriculture, micro, small and medium enterprises (MSMEs), export credit, education, housing for economically weaker sections, and other priority sectors identified by the government are eligible for interest rate subvention.
  - Under these schemes, the government provides subsidies or interest rate concessions to banks or lending institutions. Banks are instructed to lend to priority sectors at the reduced interest rate, with the government compensating the difference between the actual lending rate and the subsidized rate.
  - Interest rate subvention schemes are usually implemented for a specified period, often on a yearly basis, and are subject to review and renewal by the government.
  - The beneficiaries of interest rate subvention schemes are typically farmers, small businesses, exporters, students, and individuals from economically weaker sections who require affordable credit for various purposes such as agriculture, business expansion, education, and housing.
  - Interest rate subvention schemes play a vital role in enhancing credit flow to priority sectors, fostering entrepreneurship, boosting agricultural productivity, supporting rural development, and promoting financial inclusion by making credit more accessible and affordable to marginalized sections of society.

- **Districts in Maharashtra with comparatively high and low PSL credit (as specified by SIDBI)**
  - High PSL credit – Certain districts in Maharashtra witness higher Priority Sector credit due to strong agricultural bases, MSME concentrations, government initiatives, and infrastructure development. Proactive financial inclusion efforts, banks' risk appetites, and policy support also play roles.

    Factors such as population density and urbanization contribute to credit demand. This variation reflects diverse socio-economic needs and strategic focuses, experiencing increased lending, driven by specific socio-economic and structural dynamics. Some of these districts are

    - Sambhajinagar
    - Mumbai
    - Nagpur
    - Nashik
    - Pune

- Low PSL credit – Certain districts in Maharashtra experience lower Priority Sector credit due to limited agricultural and MSME activities, underdeveloped infrastructure, and fewer government initiatives. Challenges in financial inclusion, higher credit risks, policy constraints, and population distribution also play roles. Slower urbanization and competitive market dynamics further impact credit availability. These factors collectively contribute to the disparity in Priority Sector lending across districts, emphasizing the necessity for tailored strategies to foster inclusive economic growth. Some of these districts are :
    - Gadchiroli

VII. Government Schemes for Priority Sector Lending

- Kisan Credit Card Scheme
- National Rural Livelihood Mission (NLRM)
- National Urban Livelihood Mission (NULM)
- Self-Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
- Differential Rate of Interest (DRI) scheme
- Pradhan Mantri Jan-Dhan Yojana (PMJDY)
- Interest subvention under Deendayal Antyodaya Yojana
- Pradhan Manthri Annadata Aay Sanrakshan Abhiyan (PM-AASHA)

VIII. Bank of Maharashtra:

Throughout history, Maharashtra has been a bustling hub of trade and commerce, thanks to its prime location in the Indian subcontinent and abundant natural resources. Banking has been an integral part of this economic landscape, with its roots tracing back to the 19th century.

The Bank of Bombay, established in 1840, marked the beginning of commercial banking in Maharashtra, specifically in Mumbai. As the state progressed, banking activities expanded beyond Mumbai. The Poona Bank, founded in 1889 in Pune, and subsequent banks like The Deccan Bank (1890) and the Bombay Banking Company (1898) paved the way for financial services in the region.

However, the outbreak of the First World War and subsequent economic depression had severe repercussions on banks across India. Maharashtra bore a significant brunt, with 54 out of the 380 banks that failed between 1914 and 1935 being based in the Bombay province. This downturn affected renowned banks in Maharashtra, leading to closures.

Despite the challenges, the post-depression era brought renewed optimism. Maharashtra witnessed the emergence of new enterprises across various sectors, including banking, signaling a fresh start and economic revival.

Back in 1934, the Mahratta Chamber of Commerce (MCC) started up in Poona, with a smart guy named A.R. Bhat leading the charge. He had big ideas, like checking out how banking was doing in the area. So, in honor of Lokmanya Tilak, they put out a special issue of the Kesari newspaper to talk about it. Bhat got his pal V.P. Varde, who knew a lot about cooperatives, to write about why Maharashtra needed its own bank. Even though not many people noticed Varde's article, Bhat kept chatting about it with trade and industry folks.

Bhat made sure the MCC got on board, and they hosted a big conference about business and industry in Poona in February 1935. They said, "Hey, Maharashtra needs its own bank to help out businesses here. Let's do it!"

Back in the early 1900s, the Swadeshi movement got folks interested in starting up Indian-run banks in Maharashtra. The MCC got a group together—V.G. Kale, D.K. Sathe, N.G. Pawar, G.D. Apte, and A.R. Bhat—to figure out the nitty-gritty.

Their first meeting in May 1935 had all sorts of important people from Poona, like Babasaheb Kamat, J.S. Karandikar, Rajabhau Godbole, and others. They talked about stuff like how many directors the bank should have and how much money each share should be worth.

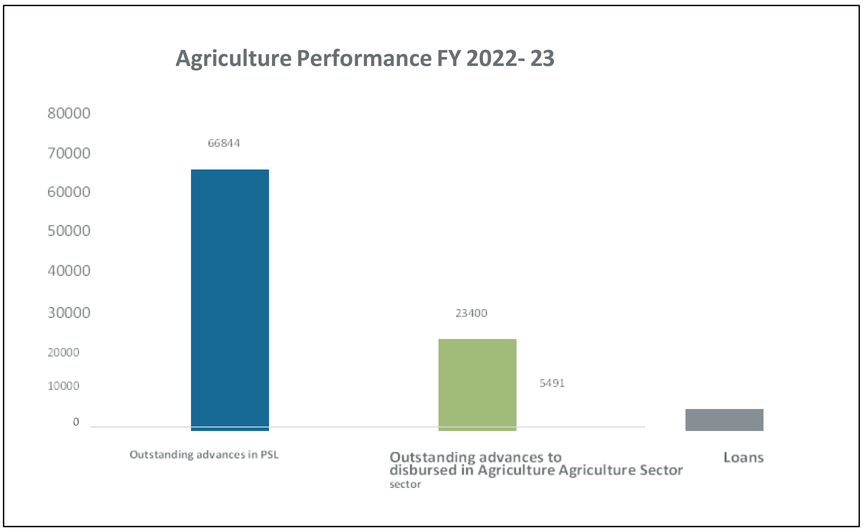
They had another meeting later that month, with even more people from the public, where they decided on things like how many shares you needed to be a director and how much each share would cost.

Bank was Registered on the auspicious day of 16 September, 1935

Priority Sector Lending It has been the constant endeavor of the Bank to facilitate equitable and sustainable economic development by timely and hassle-free availability of credit for productive purposes to Small and Marginal Farmers, Micro and Small Enterprises, Retail Traders, Professional and Self Employed, Women Entrepreneurs and entrepreneurs from economically weaker sections. Total Priority Sector Lending (PSL) of the Bank (including investments & excluding PSLC sale) stood at 58.37 % of ANBC as against the mandatory target of 40%. The advances under Priority Sector (excluding investment & PSLC sale) as of 31st March 2023 stood at Rs. 66,844.00 Cr (56.77 % of ANBC). Bank has carried PSLC Sale transaction of Rs. 700 Cr and received premium of Rs. 4.15 Cr during FY 2022-23. Bank has achieved all mandatory targets as stipulated by RBI under Priority Sector Lending during the FY 2022-23 on Quarterly Average Basis.

Agriculture:

- In the fiscal year 2022-23, Bank of Maharashtra sanctioned new loans worth Rs. 14,275 Crore for agriculture and related activities.
- By the end of the fiscal year, the total outstanding loans to the agriculture sector reached Rs. 23,400 Crore.
- Agriculture loans, which include investments but exclude certain certificate sales, constituted 20.82% of the bank's total lending capacity.
- The bank conducted Priority Sector Lending Certificate (PSLC) sale transactions amounting to Rs. 200 Crore during the fiscal year.
- Bank of Maharashtra focused on boosting investment credit under agriculture, disbursing Rs. 5,491 Crore, marking a 35.28% increase compared to the previous year.
- Special emphasis was placed on providing Agriculture Gold Loans, with disbursements totaling Rs. 1,905 Crore, resulting in a 72% increase in the gold loan portfolio.
- Collaborations were established with organizations like Shri Kshethra Dharmasthala Rural Development Project (SKDRDP) and Gramin Mahila Va Balak Vikas Mandal (GMBVM) for Self-Help Group (SHG) Finance.
- Through partnerships, Bank of Maharashtra disbursed Rs. 1,103 Crore in SHG loans during the fiscal year.
- The bank provided assistance to farmers affected by natural disasters within regulatory guidelines.
- Awareness and training programs were conducted to simplify the process for farmers to access loans.



Micro, Small and Medium Enterprises (MSME):

- MSMEs are vital for India's economy and play a big role in creating jobs, both directly and indirectly.
- Bank of Maharashtra supported MSMEs during the COVID-19 pandemic by implementing relief measures introduced by the Government of India and the Reserve Bank of India.
- They provided additional funding through schemes like the Emergency Credit Line Guarantee Scheme (ECLGS) and the Adhoc Line of Credit COVID-19 Scheme.
- To help street vendors revive their businesses, the bank extended loans through the PMSVANIDHI scheme.
- They also supported projects in the healthcare sector and the tourism service sector that were affected by COVID-19, under the Loan Guarantee Scheme for Covid Affected Sectors (LGSCAS) and the Loan Guarantee Scheme under Covid Affected Tourism Service Sector (LGSCATSS) respectively.
- Bank of Maharashtra's lending to Micro, Small, and Medium Enterprises (MSMEs) increased by 26.50% compared to March 2022, showing a growth of Rs. 6,965 crores. The total MSME advanc**es** of the bank amounted to Rs. 33,244 crores as of March 31, 2023.

Bank's performance in MSME portfolio in FY 2022-23

S. No	Particulars	Actual	Target
1	% of Micro to Adj. Net Bank Credit	18%	7.50%
2	YOY growth under Micro Enterprises	8%	10%
3	YOY Growth under Micro & Small enterprises O/s	20%	20%
4	Share of Micro against to MSE O/s	69%	60%

(This table is taken from Bank of Maharashtra annual report data)

- Bank of Maharashtra is supporting small businesses and non-farm enterprises involved in manufacturing, trade, and services with loans up to Rs. 10 lakhs through the Pradhan Mantri Mudra Yojana (PMMY).
- In the fiscal year ending on March 31, 2023, the bank sanctioned Rs. 3,995 crores under PMMY, surpassing the target of Rs. 3,240 crores by achieving 123% of the target.
- The bank organized MSME outreach programs across various locations to attract new business, resulting in positive responses from customers.
- A Digital Lending Department was established to introduce new digital products aimed at serving MSME units more efficiently and quickly.
- The bank is developing a Straight Through Process (STP) for Mudra Loan disbursement to ensure hassle-free processing.
- Successful achievement of Stand-Up India targets was reported, with 4,123 applications sanctioned as of March 31, 2023, surpassing the target of 4,064. Additionally, all targets for the MUDRA and PM SVANIDHI schemes were met.
- Partnerships were established with organizations such as Maratha Chamber of Commerce, Industries and Agriculture (MCCIA), NSIC, and BYST to source new and high-quality MSME proposals.
- The bank enlisted Due Diligence Agency for the digital flow of Due Diligence Reports, enhancing diligence at the pre-sanction stage of credit proposals to promote the creation of good quality assets.

(Amt. RS in crores)

Sr. No	Sector	As on 31.03.2023	As on 31.03.2022	% increase
1	Micro / SHG Finance	2,086	577	261.53
2	Weaker Section	19,187	12,735	50.66
3	SC/ ST Beneficiaries	5,442	4,234	28.53
4	OBC Beneficiaries	11,714	9,108	28.61
5	Minority Communities	5,723	4,481	27.72

Disclosures regarding Priority Sector Lending Certificates (PSLCs)

The amount of PSLCs (category-wise) sold and purchased during the year are as under:

(Amount in ₹ crore)

S. N.	Category of PSLCs	Sold/ Purchased	Type	Amount	Commission/ Premium
1	PSLC-Micro Enterprises	Sold	PSLC-Micro Enterprises	500.00	2.15
2	PSLC- General	Sold	PSLC- General	-	-
3	PSLC-Agriculture	Sold	PSLC-Agriculture	200.00	2.00
	Total			**700.00**	**4.15**

Master directions given by RBI for Priority sector Lending

Reserve Bank of India - Master Directions (rbi.org.in)

MDPSL803EE903174E4C85AFA14C335A5B0909.PDF (rbi.org.in)

Priority Sector Lending | [UPSC Notes] (byjus.com)

IX. AU SMALL FINANCE BANK

INTRODUCTION

AU Small Finance Bank Ltd. emerged onto India's financial scene in 1996 under the name AU Financiers (India) Limited, operating initially as a non-banking finance company (NBFC).
However, recognizing the opportunity to broaden its reach and deepen its impact, the institution transitioned into a Small Finance Bank in April 2017 following approval from the Reserve Bank of India (RBI).

At its core, AU Small Finance Bank was founded with a clear mission: to bridge the gap in financial services for the underserved segments of society, particularly in semi-urban and rural areas. The institution aimed to democratize access to banking, empowering individuals and businesses with comprehensive financial solutions tailored to their unique needs.

This transition from NBFC to Small Finance Bank marked a significant milestone in AU's evolution. Beyond the expansion of its service offerings to include savings accounts, current accounts, fixed deposits, and various types of loans, the move provided AU Small Finance Bank with enhanced regulatory oversight, increased access to funding sources, and heightened credibility in the financial market.

Since becoming a Small Finance Bank, AU has experienced remarkable growth across multiple fronts. Its customer base has expanded exponentially, facilitated by an extensive branch network strategically positioned to reach previously underserved communities. Leveraging technology and innovation, the bank has streamlined its operations and introduced digital banking solutions, ensuring a seamless and convenient experience for its clientele.

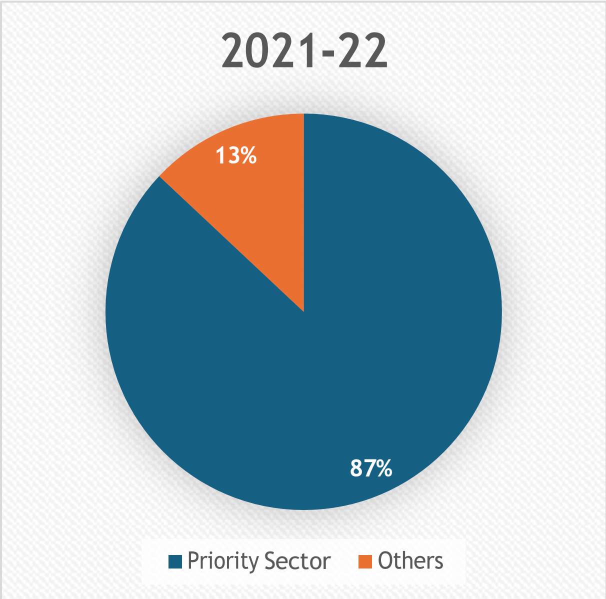
Throughout its journey, AU Small Finance Bank has remained steadfast in its commitment to integrity, customer-centricity, and inclusive growth. By cultivating strong partnerships, embracing industry best practices, and upholding regulatory standards, the bank has earned a reputation as a trusted financial institution dedicated to driving positive change in India's banking landscape. With a solid foundation and a clear vision for the future, AU Small Finance Bank is poised to continue its trajectory of success and impact in the years ahead.

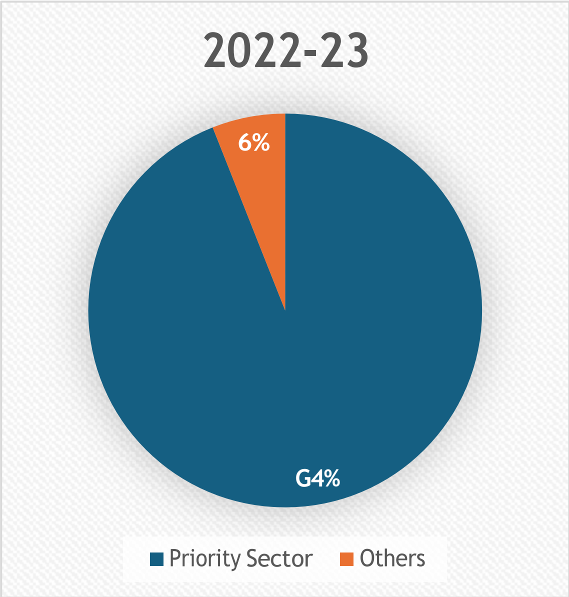
AU SMALL FINANCE BANK’S CONTRIBUTION INTO PRIORITY SECTOR AS A PERCENTAGE OF TOTAL LENDING

- Cooperative banks, small financing banks, and regional rural banks are required to devote 75% of their ANBC to PSL. AU Small Finance Bank, being a small finance bank thus requires 75% of its total credits to be lent into the Priority Sector.
- AU Small Finance Bank, however, went over and above the criteria and

lent 87% in priority sector in FY 2021-22.

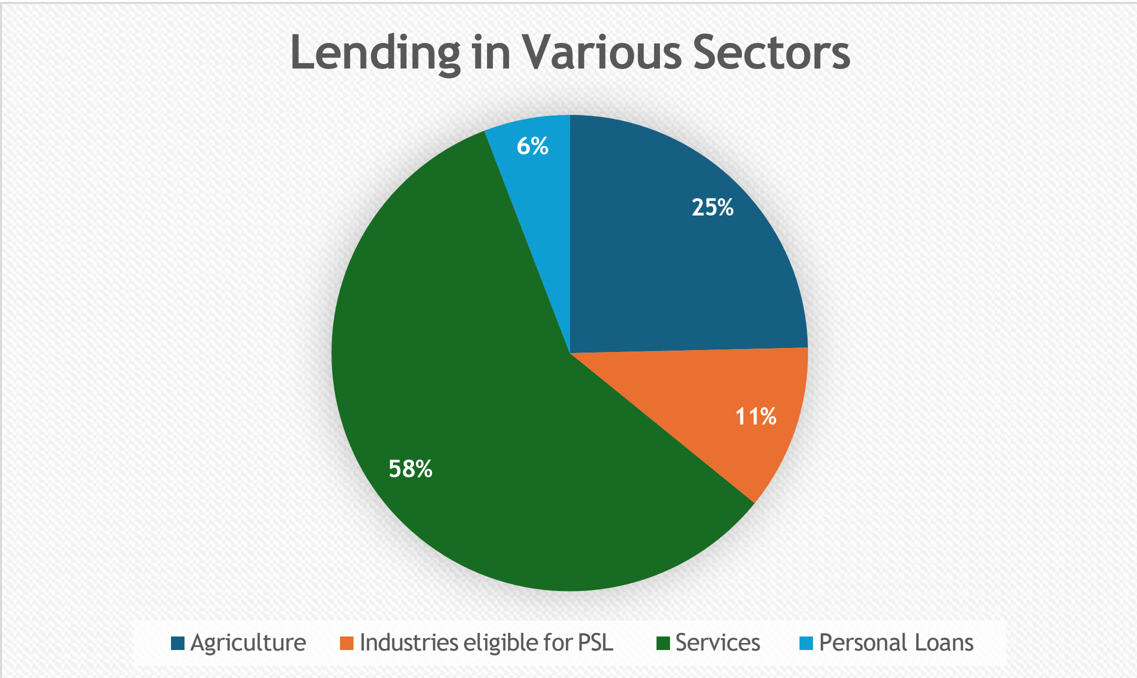
- Moreover, they increased this within an year to the mark of 94% by the year 2022-23.
- Also, 31% of the loans are touchpoints in unbanked rural areas both in the year 2021-22 and 2022-23.





Bifurcation Of Priority Sector Lending in Various Sectors

- Total PSL Lending – 35,057.86 crore rupees.
    - Agriculture and Allied Activities - 8,635.86 crore rupees
    - Advances to industries sector eligible as priority sector lending - 3,935.30 crore rupees
    - Services - 20,438.46 crore rupees
    - Personal loans - 2,048.24 crore rupees
- Moreover, the percentage of Gross NPAs from the PSL has also shot down from 2.33% in FY 2021-22 to 1.44% in FY 2022-23. This is a 38% fall from the previous year's figure of Gross NPAs.



Few Key Points and Questions Around PSL And How AU Small Finance Bank Addresses These Issues

- What is the marketing strategy of the bank for PSL?
  The bank is strengthening its focus on priority sector lending by creating a dedicated team to focus on financing small and marginal farmers through refined products. These dedicated products may attract customers with its policies and this has been working fairly well as the percentage of PSL has increased YoY.

- What products are offered under PSL norms?
  Various products are offered that divert the funds to Priority Sector. Some of these products are :
  - Agri Business Credit - Specifically designed to cover comprehensive requirements of all the stakeholders under Agri value chain starting from Pre–Production, Production C Processing
  - Agri Infrastructure Loan - Loans are provided for construction, acquisition, renovation and carrying out machinery or equipment upgradation
  - Tractor Loan for Farmers - We offer finance to farmers and agriculturists for the purchase of Tractors.
  - Home Purchase Loan - We help you come closer to your dream of buying a new house in an easy and hassle-free manner.
  - As part of the PM SVANidhi initiative, we supported 800+ street vendors, and under the IGUCCY initiative, we supported 580+ micro- entrepreneurs.

- How much does lending to the sectors specified as priority affect the profitability of the Banks?

  Informal lending at higher interest rates is still a prevalent practice due to the lack of formal banking services for a significant portion of the population. As a result, the profitability shoots up significantly. However, the risk also goes up. Yet, we have maintained a gross NPA rate of less than 1.5% which signifies the caution taken while providing loans and advances.

- What is the most lent sector within the priority sector lending?
    - The most lent sector is the Agriculture Sector, agriculture being the backbone of the Indian economy. Our focus on lending in the rural sector has also contributed to increase in agricultural lending.

- How much does the interest rate differ while lending to these specified sectors and normal lending?
    - Informal lending at higher interest rates is still a prevalent practice due to the lack of formal banking services for a significant portion of the population. So, it differs to a certain extent depending on the sector to which funds are lent.