

LENDING TO PRIORITY SECTOR

At a meeting of the National Credit Council held in July 1968, it was emphasised that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries. The description of the priority sectors was later formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. On the basis of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector. Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 per cent by March 1979.

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. Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks (Chairman: Dr. K. S. Krishnaswamy), all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups.

On the basis of the recommendations made in September 2005 by the Internal Working Group (Chairman: Shri C. S. Murthy), set up in Reserve Bank to examine, review and recommend changes, if any, in the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc. and the comments/suggestions received thereon from banks, financial institutions, public and the Indian Banks' Association (IBA), it was decided to include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises.

Further, the Sub-Committee of the Central Board of the Reserve Bank (Chairman: Shri Y. H. Malegam) constituted to study issues and concerns in the MFI sector, inter alia, had recommended to continue with the categorisation of bank loans to MFIs under the priority sector provided they comply with the certain stipulated criteria in this regard.

Presently, the broad categories of priority sector for all scheduled commercial banks are as under:

I. CATEGORIES OF PRIORITY SECTOR

(i) Agriculture (Direct and Indirect finance): Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporates, partnership firms and institutions) up to the limits indicated in Section I, for taking up agriculture/allied activities.

Indirect finance to agriculture shall include loans given for agriculture and allied activities as specified in Section I.

(ii) Micro and Small Enterprises (Direct and Indirect Finance): Direct finance to micro and small enterprises shall include all loans given to micro and small (manufacturing) enterprises engaged in manufacture/ production, processing or preservation of goods, and micro and small (service) enterprises engaged in providing or rendering of services, and whose investment in plant and machinery and equipment (original cost excluding land and building and such items as mentioned therein) respectively, does not exceed the amounts specified in Section I. The micro and small (service) enterprises shall include small road & water transport operators, small business, professional & self-employed persons, retail trade i.e. advances granted to retail traders dealing in essential commodities (fair price shops), consumer co-operative stores and advances granted to private retail traders with credit limits not exceeding Rs. 20 lakh and all other service enterprises, as per the definition given in Section I.

Indirect finance to small enterprises shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

(iii) Micro Credit: As per the details given in para 3.1 of Section I.

(iv) Educational loans: Educational loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions. Loans granted to educational institutions will be eligible to be classified as priority sector advances under micro and small (service) enterprises, provided they satisfy the provisions of MSMED Act, 2006

(v) Housing loans: Loans up to Rs. 25 lakh to individuals for purchase/construction of dwelling unit per family (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged dwelling units of families up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban and metropolitan areas.

II. OTHER IMPORTANT FEATURES OF THE GUIDELINES

(i) Investments by banks in securitised assets, representing loans to various categories of priority sector, shall be eligible for classification under respective categories of priority sector (direct or indirect) depending on the underlying assets, provided the securitised assets are originated by banks and financial institutions and fulfil the Reserve Bank of India guidelines on securitisation. This would mean that the banks' investments in the above categories of securitised assets shall be eligible for classification under the respective categories of priority sector only if the securitised advances were eligible to be classified as priority sector advances prior to securitisation.

(ii) Outright purchases of any loan asset eligible to be categorised under priority sector, shall be eligible for classification under the respective categories of priority sector (direct or indirect), provided the loans purchased are eligible to be categorized under priority sector; the loan assets are purchased (after due diligence and at fair value) from banks and financial institutions, without any recourse to the seller; and the eligible loan assets are not disposed of, other than by way of repayment, within a period of six months from the date of purchase.

(iii) When banks undertake outright purchase of loan assets from banks/ financial institutions to be classified under priority sector, they must report the nominal amount actually disbursed to end priority sector borrowers and not the premium embedded amount paid to the sellers.

(iv) Investments by banks in Inter Bank Participation Certificates (IBPCs), on a risk sharing basis, shall be eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorised under the respective categories of priority sector and are held for at least 180 days from the date of investment.

(v) The targets and sub-targets under priority sector lending would be linked to Adjusted Net Bank Credit (ANBC) (Net Bank Credit plus investments made by banks in non-SLR bonds held in HTM category) or Credit Equivalent amount of Off-Balance Sheet Exposures (OBE), whichever is higher, as on March 31 of the previous year. The outstanding FCNR (B) and NRNR deposits balances will no longer be deducted for computation of ANBC for priority sector lending purposes. Investments made by banks in the Recapitalization Bonds floated by Government of India will not be taken into account for the purpose. Existing and fresh investments made by banks in non-SLR bonds held in HTM category will be taken into account for calculation of ANBC. Deposits placed by banks with NABARD/SIDBI, as the case may be, in lieu of non-achievement of priority sector lending targets/sub-targets, though shown under Schedule 8 – 'Investments' in the Balance Sheet at item I (vi) – 'Others', will not be treated as investment in non-SLR bonds held under HTM category. For the purpose of calculation of credit equivalent of off-balance sheet exposures, banks may use current exposure method. Inter-bank exposures will not be taken into account for the purpose of priority sector lending targets/sub-targets.

(vi) Existing and fresh deposits placed by banks on account of non-achievement of priority sector lending targets/ sub-targets would not be eligible for classification as indirect finance to agriculture/ small enterprises sector, as the case may be.

III. TARGETS/SUB-TARGETS

The targets and sub-targets set under priority sector lending for domestic and foreign banks operating in India are furnished below:

	Domestic commercial banks	Foreign banks
Total Priority Sector advances	40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	32 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Total agricultural advances	<p>18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.</p> <p>Of this, indirect lending in excess of 4.5% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, will not be reckoned for computing performance under 18 per cent target. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.</p>	No target.
Micro & Small Enterprise advances (MSE)	Advances to micro and small enterprises sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Micro enterprises within Micro and Small Enterprises sector	<p>(i) 40 per cent of total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh;</p> <p>(ii) 20 per cent of total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. (Thus, 60 per cent of micro and small enterprises advances should go to the micro enterprises).</p> <p>(iii) The increase in share of micro enterprises in MSE lending to 60 per cent should be achieved in stages, viz. 50 per cent in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13.</p>	Same as for domestic banks.

Export credit	No target	12 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Advances to weaker sections	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No target.
Differential Rate of Interest Scheme	1 per cent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 per cent of the total advances granted under DRI scheme go to scheduled caste/scheduled tribes. At least two third of DRI advances should be granted through rural and semi-urban branches.	No target.

[ANBC or credit equivalent of Off-Balance Sheet Exposures (as defined by Department of Banking Operations and Development of Reserve Bank of India from time to time) will be computed with reference to the outstanding as on March 31 of the previous year. For this purpose, outstanding FCNR (B) and NRNR deposits balances will no longer be deducted for computation of ANBC for priority sector lending purposes. For the purpose of priority sector lending, ANBC denotes NBC plus investments made by banks in non-SLR bonds held in HTM category. Investments made by banks in the Recapitalization Bonds floated by Government of India will not be taken into account for the purpose of calculation of ANBC. Existing and fresh investments, by banks in non-SLR bonds held in HTM category will be taken into account for the purpose. Deposits placed by banks with NABARD/SIDBI, as the case may be, in lieu of non-achievement of priority sector lending targets/sub-targets, though shown under Schedule 8 – 'Investments' in the Balance Sheet at item I (vi) – 'Others', will not be treated as investment in non-SLR bonds held under HTM category. For the purpose of calculation of credit equivalent of off-balance sheet exposures, banks may use current exposure method. Inter-bank exposures will not be taken into account for the purpose of priority sector lending targets/sub-targets.]

[The net bank credit (NBC) should tally with the figures reported in the fortnightly return submitted under section 42(2) of the Reserve Bank of India Act, 1934.]

The detailed guidelines in this regard are given hereunder.

SECTION I

1. AGRICULTURE

DIRECT FINANCE

1.1 Finance to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such finance] for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, etc.)

1.1.1 Short-term loans for raising crops, i.e. for crop loans. This will include traditional/non-traditional plantations and horticulture.

1.1.2 Advances up to Rs. 10 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not.

1.1.3 Working capital and term loans for financing production and investment requirements for agriculture and allied activities.

1.1.4 Loans to small and marginal farmers for purchase of land for agricultural purposes.

1.1.5 Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral or group security.

1.1.6 Loans granted for pre-harvest and post-harvest activities such as spraying, weeding, thinning, grading, sorting, processing and transporting undertaken by individuals, SHGs and co-operatives in rural areas.

1.1.7 Loans granted for agricultural and allied activities, irrespective of whether the borrowing entity is engaged in export or otherwise. The export credit granted by banks for agricultural and allied activities may, however, be reported separately under heading "Export credit to agricultural sector".

1.2 Finance to others [such as corporates, partnership firms and institutions] for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, etc.)

1.2.1 Loans granted for pre-harvest and post harvest activities such as spraying, weeding, harvesting, grading, sorting and transporting.

1.2.2 Finance up to an aggregate amount of Rs. one crore per borrower for the purposes listed at 1.1.1, 1.1.2, 1.1.3 and 1.2.1 above.

1.2.3 One-third of loans in excess of Rs. one crore in aggregate per borrower for agriculture and allied activities.

INDIRECT FINANCE

1.3 Finance for Agriculture and Allied Activities

1.3.1 Two-third of loans to entities covered under 1.2 above in excess of Rs. one crore in aggregate per borrower for agriculture and allied activities.

1.3.2 Loans to food and agro-based processing units with investments in plant and machinery up to Rs. 10 crore, undertaken by those other than 1.1.6 above.

1.3.3 (i) Credit for purchase and distribution of fertilisers, pesticides, seeds, etc.
(ii) Loans up to Rs. 40 lakh granted for purchase and distribution of inputs for the allied activities such as cattle feed, poultry feed, etc.

1.3.4 Finance for setting up of Agriclincs and Agribusiness Centres.

1.3.5 Finance for hire-purchase schemes for distribution of agricultural machinery and implements.

1.3.6 Loans to farmers through Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS).

1.3.7 Loans to cooperative societies of farmers for disposing of the produce of members.

1.3.8 Financing the farmers indirectly through the co-operative system (otherwise than by subscription to bonds and debenture issues).

1.3.9 Loans for construction and running of storage facilities (warehouse, market yards, godowns, and silos), including cold storage units designed to store agriculture produce/products, irrespective of their location.

If the storage unit is registered as SSI unit/micro or small enterprise, the loans granted to such units may be classified under advances to Micro and Small Enterprises sector.

1.3.10 Advances to Custom Service Units managed by individuals, institutions or organisations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake work for farmers on contract basis.

1.3.11 Finance extended to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, irrespective of their location, subject to the following conditions:

- (a) The dealer should be dealing exclusively in such items or if dealing in other products, should be maintaining separate and distinct records in respect of such items.
- (b) A ceiling of up to Rs. 30 lakh per dealer should be observed.

1.3.12 Loans to *Arthias* (commission agents in rural/semi-urban areas functioning in markets/*mandies*) for extending credit to farmers, for supply of inputs as also for buying the output from the individual farmers/ SHGs/ JLGs.

1.3.13 Credit outstanding under loans for general purposes under General Credit Cards (GCC).

1.3.14 Loans to MFIs for on-lending to agriculture as per the conditions specified in paragraph 3.2.

1.3.15 Loans sanctioned to NGOs which are SHG Promoting Institutions, for on-lending to members of SHGs under SHG-Bank Linkage Programme for agricultural purposes.

1.3.16 Loans granted to RRBs for on-lending to agriculture and allied activities sector.

1.3.17 Overdrafts, up to Rs. 25,000 (per account), granted against 'no-frills' accounts in rural and semi-urban areas.

1.4 Loans not eligible for classification as direct/indirect finance to agriculture

1.4.1 Loans sanctioned w.e.f. April 1, 2011 to NBFCs (other than MFIs which adhere to the criteria specified in paragraph 3.2) for on-lending. The bank loans extended prior to April 1, 2011 to NBFCs, and classified under Priority Sector will continue to be reckoned under Priority Sector till maturity of such loans.

1.4.2 Loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery, investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase/ assignment of gold loan portfolio from NBFCs.

1.4.3 Loans sanctioned to Central/ State Co-operative Marketing Federations and State Civil Supplies Corporations.

1.4.4 Loans sanctioned to corporate/ private companies/ sugar companies for financing of receivables of farmers/vendors/traders against their supplies of agricultural produce to such corporate/ private companies/sugar companies.

2. MICRO AND SMALL ENTERPRISES

DIRECT FINANCE

2.1 Direct Finance in the micro and small enterprises sector will include credit to:

2.1.1 Manufacturing Enterprises

(a) Micro (manufacturing) Enterprises

Enterprises engaged in the manufacture/production, processing or preservation of goods and whose investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated October 5, 2006] does not exceed Rs. 25 lakh, irrespective of the location of the unit.

(b) Small (manufacturing) Enterprises

Enterprises engaged in the manufacture/production, processing or preservation of goods and whose investment in plant and machinery [original cost excluding land and building and such items as in 2.1.1 (a)] is more than Rs. 25 lakh but does not exceed Rs. 5 crore, irrespective of the location of the unit.

2.1.2 Service Enterprises

(a) Micro (service) Enterprises

Enterprises engaged in providing/rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) does not exceed Rs. 10 lakh, irrespective of the location of the unit.

(b) Small (service) Enterprises

Enterprises engaged in providing/rendering of services and whose investment in equipment [original cost excluding land and building and furniture, fittings and such items as in 2.1.2 (a)] is more than Rs. 10 lakh but does not exceed Rs. 2 crore, irrespective of the location of the unit.

- (c) The small and micro (service) enterprises shall include small road & water transport operators, small business, professional & self-employed persons, and other service enterprises engaged in activities, viz., consultancy services including management services, composite broker services in risk and insurance management, Third Party Administration (TPA) services for medical insurance claims of policy holders, seed grading services, training-cum-incubator centre, educational institutions, training institutes, retail trade, practice of law i.e. legal services, trading in medical instruments (brand new), placement and management consultancy services, advertising agency and training centres, etc. and which satisfy the definition of micro and small (service) enterprises in respect of investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the services rendered or as may be notified under the MSMED Act, 2006) (i.e. not exceeding Rs. 10 lakh and Rs. 2 crore respectively).
- (d) Loans granted by commercial banks to micro and small enterprises (MSE) (manufacturing and services) are eligible for classification under priority sector, provided such enterprises satisfy the definition of MSE sector as contained in MSMED Act, 2006, irrespective of whether the borrowing entity is engaged in export or otherwise. The export credit granted by banks to MSEs may, however, be reported separately under heading "Export credit to micro and small enterprises sector".

2.1.3 Khadi and Village Industries Sector (KVI)

All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery. Such advances will be eligible for consideration under the sub-target (60 per cent) of the micro and small enterprises segment within the priority sector.

INDIRECT FINANCE

2.2 Indirect finance to the micro and small (manufacturing as well as service) enterprises sector will include credit to:

- 2.2.1** Persons involved in assisting the decentralised sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
- 2.2.2** Advances to cooperatives of producers in the decentralised sector viz. artisans village and cottage industries.
- 2.2.3** Loans granted by banks to Micro Finance Institutions on, or after, April 1, 2011 for on-lending to micro and small enterprises (manufacturing as well as services) are eligible for priority sector status subject to the compliance of guidelines specified in para 3.2.

2.3 Loans not eligible for classification as direct or indirect finance to MSE sector

- 2.3.1** Loans sanctioned by banks to State Financial Corporations for on-lending to micro and small enterprises.
- 2.3.2** Loans sanctioned w.e.f. April 1, 2011 to NBFCs (other than MFIs which adhere to the criteria specified in paragraph 3.2) for on-lending.

3. MICRO CREDIT

- 3.1** Loans of very small amounts, not exceeding Rs.50,000 per borrower provided by banks either directly or indirectly through a SHG/JLG mechanism for on-lending up to Rs. 50,000 per borrower.
- 3.2** Bank credit to Micro Finance Institutions extended on, or after, April 1, 2011 for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., agriculture, micro and small enterprise, and micro credit (for other purposes), as indirect finance, provided not less than 85% of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of “qualifying assets”. In addition, aggregate amount of loan, extended for income generating activity, is not less than 75% of the total loans given by MFIs.
 - 3.2.1** A “qualifying asset” shall mean a loan disbursed by MFI, which satisfies the following criteria:
 - (i) The loan is to be extended to a borrower whose household annual income in rural areas does not exceed Rs.60,000/- while for non-rural areas it should not exceed Rs.1,20,000/-.
 - (ii) Loan does not exceed Rs.35,000/- in the first cycle and Rs.50,000/- in the subsequent cycles
 - (iii) Total indebtedness of the borrower does not exceed Rs.50,000/-.
 - (iv) Tenure of loan is not less than 24 months when loan amount exceeds Rs.15,000/- with right to borrower of prepayment without penalty.
 - (v) The loan is without collateral.
 - (vi) Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.
 - 3.2.2** Further, the banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other ‘pricing guidelines’, to be eligible to classify these loans as priority sector loans:

- (i) Margin cap at 12% for all MFIs. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.
- (ii) Interest cap on individual loans at 26% per annum for all MFIs to be calculated on a reducing balance basis.
- (iii) Only three components are to be included in pricing of loans viz., (a) a processing fee not exceeding 1% of the gross loan amount, (b) the interest charge and (c) the insurance premium.
- (iv) The processing fee is not to be included in the margin cap or the interest cap of 26%.
- (v) Only the actual cost of insurance i.e. actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges may be recovered as per IRDA guidelines.
- (vi) There should not be any penalty for delayed payment.
- (vii) No Security Deposit/ Margin are to be taken.

3.2.3 The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that (i) 85% of total assets of the MFI are in the nature of "qualifying assets", (ii) the aggregate amount of loan, extended for income generation activity, is not less than 75% of the total loans given by the MFIs, and (iii) pricing guidelines are followed.

3.2.4 The guidelines relating to categorization of (i) investment by banks in securitised assets originated by MFIs and (ii) outright purchase of loan portfolios of MFIs as priority sector advances in the books of the banks would be issued in due course. In the meantime, fresh assets would qualify for priority sector treatment only if they satisfy the criteria of qualifying assets and adhere to the pricing guidelines as specified above.

3.2.5 Bank loans to MFIs, which do not comply with above conditions will not be reckoned as priority sector loans w.e.f. April 1, 2011. The bank loans extended prior to April 1, 2011 classified under Priority Sector will continue to be reckoned under Priority Sector till maturity of such loans.

3.2.6 Micro Finance Institutions to be included in the above regulatory framework have to initiate requisite organisational capacity building exercise so as to enable them to conform to the above guidelines. Banks which are lending to MFIs will be one of the important pillars of the new regulatory framework and, hence, they need to build up necessary criterion of due diligence while processing loan applications from MFIs. This process should be initiated immediately to ensure that MFIs availing finance from them are capable enough to put up the systems in terms of Corporate Governance, Human Resource Management, Customer Protection and other aspects of the proposed regulatory framework, so as to ensure that once the new regulatory framework is in place, Micro Finance Institutions can carry out their operations without any major disruption.

3.3 Loans to poor indebted to informal sector

Loans to distressed persons (other than farmers) to prepay their debt to non-institutional lenders, against appropriate collateral or group security, would be eligible for classification under priority sector.

4. STATE SPONSORED ORGANIZATIONS FOR SCHEDULED CASTES/SCHEDULED TRIBES

Advances sanctioned to State Sponsored Organisations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries of these organisations.

5. EDUCATION

5.1 Loans granted to individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad. Loans granted to educational institutions will be eligible to be classified as priority sector advances under micro and small (service) enterprises, provided they satisfy the provisions of MSMED Act 2006.

6. HOUSING

6.1 Loans up to Rs. 25 lakh, irrespective of location, to individuals for purchase/construction of a dwelling unit per family, excluding loans granted by banks to their own employees.

6.2 Loans given for repairs to the damaged dwelling units of families up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban and metropolitan areas.

6.3 Assistance given to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of Rs. 5 lakh of loan amount per dwelling unit.

6.4 Assistance given to a non-governmental agency approved by the NHB for the purpose of refinance for construction/reconstruction of dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of loan component of Rs. 5 lakh per dwelling unit.

6.5 Loans granted up to March 31, 2010 to Housing Finance Companies (HFCs), approved by National Housing Bank for the purpose of refinance, for on-lending to individuals for purchase/construction of dwelling units, provided the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family.

7. Weaker Sections

The weaker sections under priority sector shall include the following:

- (a) Small and marginal farmers with land holding of 5 acres and less, and landless labourers, tenant farmers and share croppers;

- (b) Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50,000;
- (c) Beneficiaries of Swarnjayanti Gram Swarozgar Yojana (SGSY) now National Rural Livelihood Mission (NRLM)
- (d) Scheduled Castes and Scheduled Tribes;
- (e) Beneficiaries of Differential Rate of Interest (DRI) scheme;
- (f) Beneficiaries under Swarna Jayanti Shahari Rozgar Yojana (SJSRY);
- (g) Beneficiaries under the Scheme for Rehabilitation of Manual Scavengers (SRMS);
- (h) Advances to Self Help Groups;
- (i) Loans to distressed poor to prepay their debt to informal sector, against appropriate collateral or group security.
- (j) Loans granted under (a) to (i) above to persons from minority communities as may be notified by Government of India from time to time.

In States, where one of the minority communities notified is, in fact, in majority, item (j) will cover only the other notified minorities. These States/Union Territories are Jammu & Kashmir, Punjab, Meghalaya, Mizoram, Nagaland and Lakshadweep.

8. Export Credit

This category will form part of priority sector for foreign banks only.

SECTION II

PENALTIES FOR NON-ACHIEVEMENT OF PRIORITY SECTOR LENDING TARGET / SUB-TARGETS

- 1. Domestic scheduled commercial banks – Contribution by banks to Rural Infrastructure Development Fund (RIDF) or Funds with other Financial Institutions, as specified by the Reserve Bank:**

1.1 Domestic scheduled commercial banks having shortfall in lending to priority sector lending target (40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher) and / or agriculture lending target (18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher) and / or weaker sections lending target (10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposures, whichever is higher) shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD or Funds with other Financial Institutions, as specified by the Reserve Bank. For the purpose of allocation of RIDF tranche or any other Fund, as decided by Reserve Bank from time to time, the achievement level of priority sector lending as on the last reporting Friday of March of the immediately preceding financial year will be taken into account (i.e. For allocation in RIDF or any other Fund in the year 2011-2012, the achievement level of priority sector lending as on the last reporting Friday of March 2011 will be taken into account). The concerned banks will be called upon by NABARD or such other Financial Institution as may be decided by Reserve Bank, as and when funds are required by them, after giving **one month's notice**.

1.2 The corpus of a particular tranche of RIDF is decided by Government of India every year.

1.3 The interest rates on banks' contribution to RIDF or any other Fund, periods of deposits, etc. shall be fixed by Reserve Bank of India from time to time.

1.4 Details regarding operationalisation of the RIDF or any other Fund, such as the amounts to be deposited by banks, interest rates on deposits, period of deposits, etc., will be communicated to the concerned banks separately by August of each year to enable them to plan their deployment of funds.

2. Foreign Banks – Deposit by Foreign Banks with SIDBI or Funds with other Financial Institutions, as specified by the Reserve Bank

2.1 The foreign banks having shortfall in lending to stipulated priority sector lending target/sub-targets will be required to contribute to Funds to be set up with Small Industries Development Bank of India (SIDBI) or with other Financial Institutions, for such other purpose as may be stipulated by Reserve Bank of India from time to time.

2.2 For the purpose of such allocation, the achievement level of priority sector lending as on the last reporting Friday of March of the immediately preceding financial year will be taken into account (i.e. For allocation in Funds with SIDBI or any other Financial Institutions in the year 2011-12, the achievement level of priority sector lending target/sub-targets as on the last reporting Friday of March 2011 will be taken into account).

2.3 The corpus of Funds shall be decided by Government of India / Reserve Bank of India on a year-to-year basis. The tenor of the deposits shall be for a period of three years or as decided by Reserve Bank from time to time. The contribution required to be made by foreign banks would not be more than the amount of shortfall in priority sector lending target/sub-targets of the foreign banks.

- 2.4 The concerned foreign banks will be called upon by SIDBI/ or such other Financial Institution as may be decided by Reserve Bank, as and when funds are required by them, after giving one month's notice.
- 2.5 The interest rates on foreign banks' contribution, period of deposits, etc. shall be fixed by Reserve Bank of India from time to time.
3. Amount of loans wrongly classified under priority sector identified and reported by Principal Inspecting Officers (PIOs) during Annual Financial Inspection of banks will be taken into account for arriving at the shortfall under priority sector lending targets.
4. Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

SECTION III

COMMON GUIDELINES FOR PRIORITY SECTOR ADVANCES

- 1 Banks should follow the following common guidelines prescribed by the Reserve Bank for **all** categories of advances under the priority sector.
- 2 **PROCESSING OF APPLICATIONS**
- 2.1 **Completion of Application Forms**
In case of Government sponsored schemes such as SGSY, the concerned project authorities like DRDAs, DICs, etc. should arrange for completion of application forms received from borrowers. In other areas, the bank staff should help the borrowers for this purpose.

2.2 Issue of Acknowledgement of Loan Applications

Banks should give acknowledgement for loan applications received from weaker sections. Towards this purpose, it may be ensured that all loan application forms have perforated portion for acknowledgement to be completed and issued by the receiving branch. Each branch may affix on the main application form as well as the corresponding portion for acknowledgement, a running serial number. While using the existing stock of application forms which do not have a perforated portion for acknowledgement separately given, care should be taken to ensure that the serial number given on the acknowledgement is also recorded on the main application. The loan applications should have a check list of documents required for guidance of the prospective borrowers.

2.3 Disposal of Applications

(i) All loan applications up to a credit limit of Rs. 25,000 should be disposed of within a fortnight and those for over Rs. 25,000, within 8 to 9 weeks.

(ii) All loan applications for Micro and Small Enterprises up to a credit limit of Rs. 25,000 should be disposed of within 2 weeks and those up to Rs. 5 lakh within 4 weeks, provided the loan applications are complete in all respects and are accompanied by a 'check list'.

2.4 Rejection of Proposals

Branch Managers may reject applications (except in respect of SC/ST) provided the cases of rejection are verified subsequently by the Divisional/Regional Managers. In the case of proposals from SC/ST, rejection should be at a level higher than that of Branch Manager.

2.5 Register of Rejected Applications

A register should be maintained at the branch, wherein the date of receipt, sanction/rejection/disbursement with reasons therefor, etc., should be recorded. The register should be made available to all inspecting agencies.

3 MODE OF DISBURSEMENT OF LOAN

With a view to providing farmers wider choice as also eliminating undesirable practices, banks may disburse all loans for agricultural purposes in cash which will facilitate dealer choice to borrowers and foster an environment of trust. However, banks may continue the practice of obtaining receipts from borrowers.

4 REPAYMENT SCHEDULE

4.1

Repayment programme should be fixed taking into account the sustenance requirements, surplus generating capacity, the break-even point, the life of the asset, etc., and not in an "ad hoc" manner. In respect of composite loans, repayment schedule may be fixed for term loan component only.

- 4.2** As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, the benefits such as restructuring of existing loans, etc. as envisaged under our circular RPCD.CO.PLFS.NO. BC 16/05.04.02/2006-07 dated August 9, 2006 may be extended to the affected borrowers.

5 RATES OF INTEREST

- 5.1** The rates of interest on various categories of priority sector advances will be as per RBI directives issued from time to time.
- 5.2** (a) In respect of direct agricultural advances, banks should not compound the interest in the case of current dues, i.e. crop loans and instalments not fallen due in respect of term loans, as the agriculturists do not have any regular source of income other than sale proceeds of their crops.
- (b) When crop loans or instalments under term loans become overdue, banks can add interest to the principal.
- (c) Where the default is due to genuine reasons banks should extend the period of loan or reschedule the instalments under term loan. Once such a relief has been extended, the overdues become current dues and banks should not compound interest.
- (d) Banks should charge interest on agricultural advances in respect of long duration crops, at annual rests instead of quarterly or longer rests, and could compound the interest, if the loan/instalment becomes overdue.

6 PENAL INTEREST

- 6.1.1** The issue of charging penal interests that should be levied for reasons such as default in repayment, non-submission of financial statements, etc. has been left to the Board of each bank. Banks have been advised to formulate policy for charging such penal interest with the approval of their Boards, to be governed by well accepted principles of transparency, fairness, incentive to service the debt and due regard to difficulties of customers.
- 6.1.2** No penal interest should be charged by banks for loans under priority sector up to Rs 25,000 as hitherto. However, banks will be free to levy penal interest for loans exceeding Rs 25,000 in terms of the above guidelines.

7. SERVICE CHARGES / INSPECTION CHARGES

- 7.1.1** No service charges/inspection charges should be levied on priority sector loans up to Rs. 25,000.
- 7.1.2** For loans above Rs. 25,000/- banks will be free to prescribe service charges with the prior approval of their Boards, in terms of circular No. [DBOD.Dir.BC.86/03.01.00/99-2000](#) dated September 7, 1999.

8. INSURANCE AGAINST FIRE AND OTHER RISKS

8.1 Banks may waive insurance of assets financed by bank credit in the following cases:

No.	Category	Type of Risk	Type of Assets
(a)	All categories of priority sector advances up to and inclusive of Rs. 10,000	Fire & other risks	Equipment and current assets
(b)	Advances to Micro and Small Enterprises up to and inclusive of Rs. 25,000 by way of - <ul style="list-style-type: none">• Composite loans to artisans, village and cottage industries• All term loans• Working capital where these are against non-hazardous goods	Fire Fire Fire	Equipment and current assets Equipment Current Assets

8.2 Where, however, insurance of vehicle or machinery or other equipment/assets is compulsory under the provisions of any law or where such a requirement is stipulated in the refinance scheme of any refinancing agency or as part of a Government-sponsored programmes such as SGSY, insurance should not be waived even if the relative credit facility does not exceed Rs. 10,000/- or Rs. 25,000/- as the case may be.

9. PHOTOGRAPHS OF BORROWERS

While there is no objection to taking photographs of the borrowers for purposes of identification, banks themselves should make arrangements for the photographs and also bear the cost of photographs of borrowers falling in the category of Weaker Sections. It should also be ensured that the procedure does not involve any delay in loan disbursement.

10 DISCRETIONARY POWERS

All Branch Managers of banks should be vested with discretionary powers to sanction proposals from weaker sections without reference to any higher authority. If there are difficulties in extending such discretionary powers to all the Branch Managers, such powers should exist at least at the district level and arrangements be ensured that credit proposals on weaker sections are cleared promptly.

11 MACHINERY TO LOOK INTO COMPLAINTS

11.1.1 There should be machinery at the regional offices to entertain complaints from the borrowers if the branches do not follow these guidelines, and to verify periodically that these guidelines are scrupulously implemented by the branches.

11.1.2 The names and addresses of the officer with whom complaints can be lodged should be displayed on the notice board of every branch.

12 AMENDMENTS

These guidelines are subject to any instructions that may be issued by the RBI from time to time.

Appendix

Master Circular
LENDING TO PRIORITY SECTOR
List of Circulars consolidated by the Master Circular

No.	Circular No.	Date	Subject	Paragraph No.
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No.	Circular No.	Date	Subject	Paragraph No.
1.	RPCD.CO.Plan.BC. 69/04.09.01/2010-11	09.05.2011	Housing Loan Limit under Priority Sector	I.(v), 6.1
2.	RPCD.CO.Plan.BC. 66/04.09.01/2010-11	03.05.2011	Bank Loans to Micro Finance Institutions (MFIs)- Priority Sector Status	I. (iii), 1.3.14, 2.2.3, 3.1
3.	RPCD.CO.Plan.BC. 51/04.09.01/2010-11	02.02.2011	Classification of Loans against Gold Jewellery	I. 1.3.18
4.	RPCD.CO.Plan.BC. 49/04.09.01/2010-11	28.01.2011	Annual Financial Inspection- Priority Sector Loans- Misclassification by Banks	III. 12.1.1 & 12.1.2
5.	DBOD Mail Box Clarification	22.02.2011	Priority Sector Lending- Classification of loans sanctioned to Central/ State Co-operative marketing Federation and State Civil Supplies Corporations	I. 1.4.2
6.	DBOD Mail Box Clarification	10.12.2010	Priority Sector Lending- Classification of Loans sanctioned to State Financial Corporations	I. 2.3.1
7.	DBOD Mail Box Clarification	04.08.2009	Priority Sector Lending- Classification of Advances to Corporates/ Private Companies/ Sugar Co-operative Mills	I. 1.4.3
8.	RPCD.SME&NFS.No. BC.90/06.02.31/2009-10	29.06.2010	Recommendations of the Prime Minister's High Level Task Force on MSMEs	III.
9..	RPCD.CO.Plan.BC. 78/04.09.01/2009-10	30.04.2010	Priority Sector Lending- Export Credit for Agriculture and Allied Activities	I. 1.1.7
10.	RPCD.CO.Plan.BC. 64/04.09.01/2009-10	09.04.2010	Priority Sector Lending- Advances to Micro and Small Enterprises engaged in Exports	I.2.1.2 (d)
11.	RPCD.CO.Plan.BC. 46/04.09.01/2009-10	18.12.2009	Priority Sector Lending- Loans to Housing Finance Companies (HFCs)	6.5 (iv), (v)
12.	RPCD.CO.Plan.BC. 24/04.09.01/2009-10	18.09.2009	Priority Sector Lending- Categorisation of Activities under Service under the MSMED Act, 2006	I. (ii), I. 2.1.2 (c)
13.	RPCD.CO.Plan.BC. 74/04.09.01/2008-09	08.12.2008	Priority Sector Lending – Loans to Housing Finance Companies (HFCs)	I. 6.5 (i), (ii), (iii)
14.	RPCD.CO.Plan.BC. 65/04.09.01/2007-08	06.05.2008	Weaker Section Lending targets – Ensuring adherence	II. 1.1

No.	Circular No.	Date	Subject	Paragraph No.
15.	RPCD.CO.Plan.BC. 66/04.09.01/2007-08	06.05.2008	General Purpose Credit Cards and Overdrafts against 'No-frills' Account as indirect finance to agriculture under priority sector	I. 1.3.13, 1.3.17
16.	RPCD.CO.Plan.BC. 42/04.09.01/2007-08	12.12.2007	Priority Sector Lending – Funds provided by sponsor banks/commercial banks to RRBs	I. 1.3.16
17.	RPCD.CO.Plan.BC. 30/04.09.01/2007-08	11.10.2007	Revised Guidelines on Lending to Priority Sector – Weaker Sections	I. 7 (j)
18.	RPCD.Plan.BC.No. 10856/04.09.01/2006-07	18.05.2007	Revised Guidelines on Lending to Priority Sector – Weaker Sections	I. 7 (j)
19.	RPCD.Plan.BC.No.84/04.0 9.01/2006-07	30.04.2007	Guidelines on lending to priority sector -- Revised	Section I & II
20.	RPCD. Plan. BC. 53/04.09.01/ 2002-03	20.10.2002	Levying of service charges and inspection charges by banks in respect of priority sector loans	III. 7.1.1, 7.1.2
21.	RPCD. PLNFS. BC. 24/06.02.77/ 2002-03	04.10.2002	Flow of credit to SSIs – Time schedule for disposal of loan applications	III. 2.3 (ii)
22.	RPCD. Plan. BC. 15/ 04.09.01/ 2001-02	17.08.2001	Charging of penal interest by banks on priority sector loans	III.6.1.1, 6.1.2
23.	RPCD.No.Plan.BC.77/PL- 09.01/ 89-90	18.01.1990	Lending to Priority Sector – Loan Application Forms	III. 2.2
24.	RPCD.No.Plan.BC.67/PS. 22/87-88	12.12.1987	Advances to Priority Sector - Issue of Acknowledgement to Applicants from Weaker Sections	III. 2.2