Priority Sector Lending norms

PRIORITY SECTOR LENDING – TARGETS AND CLASSIFICATION

On the basis of recommendations of Internal Working Group (IWG) headed by Ms. Lily Vadera, the guidelines on Priority Sector Lending were revised by the Reserve Bank of India w.e.f. 23.04.2015. The revised guidelines were circularized vide HOIC No.13665 dated 28.04.2015 and HOIC No.13803 dated 13.07.2015.

The salient features of revised guidelines are as under:-

a) The new sectors 'Social Infrastructure' and 'Renewable Energy' will form part of the Priority Sector. The Medium Enterprises will also be under Priority Sector Credit. The Export Credit which was part of Priority Sector for foreign banks only will now also be a part of Priority Sector for Domestic Banks.
b) Under Agriculture sector the distinction between Direct Agriculture and Indirect Agriculture done away with. Now under Agriculture there will be three sub sectors:
   i) Farm Credit ii) Agriculture Infrastructure and iii) Ancillary Activities.
c) The Food and Agro Processing Industries will form part of Agriculture Credit – Ancillary Activities.
d) The limits for classification of Housing Loan and Education Loans under priority sector have been revised.
e) The non-achievement under priority sector will be assessed on quarterly average basis at the end of respective year from 2016-17 onwards, instead of annual basis at present.

Categories under Priority Sector Credit

I) Agriculture
II) Micro, Small and **Medium** Enterprises
III) **Export Credit**
IV) Education
V) Housing Loan
VI) **Social Infrastructure**
VII) **Renewable Energy**
VIII) Others

The categories marked in bold letters above are included under Priority Sector as per revised guidelines

I) Agriculture: The lending to Agriculture sector will include A) Farm Credit B) Agriculture Infrastructure & C) Ancillary Activities.

A) Farm Credit :

i) *Loan to Individual Farmers*: Loans to Individual farmers directly engaged in Agriculture & Allied activities (including loans to Self Help Groups (SHGs)/Joint Liability Groups (JLGs) i.e. group of individual farmers, provided bank maintains disaggregated data of such loans.)

a) Crop Loan to farmers (incl. plantation & horticulture)

b) Medium & Long term loan to farmers for Agriculture and Allied Sector e.g. for purchase of agricultural implements and machinery.
c) Loan to farmers for pre & post harvest activities -spraying, weeding, harvesting, grading, sorting, processing and transportation of own produce
d) Loan to farmers up to Rs.50.00 Lakh against pledge/hypothecation of agricultural produce (for 12 months) - Loan against warehouse receipt
e) Loans to Distressed farmers indebted to non-institutional lenders for repaying their dues
f) Loan to farmers under KCC Scheme
g) Loans to SF/MF for purchase of land for agriculture purpose

ii) *Loan to Corporate Farmers*, Farmers' Producers Organisations/Companies of Individual farmers, partnership firms and cooperatives of farmers directly engaged in in Agriculture & Allied activities up to an aggregate limit of Rs.200.00 Lakh per borrower.

B) Agriculture Infrastructure: An aggregate sanctioned limit upto Rs.100 Crore per borrower from the Banking system for following purposes will be classified under Agriculture Infrastructure.

i. Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage units/cold storage chain to store agriculture produce, irrespective of location.
ii. Soil Conservation and watershed development
iii. Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer and vermin composing

C) Ancillary Activities : Following loans will be covered under this sub-sector

i. Loans upto Rs.5 Cr. To Cooperative Societies of Farmers for disposing of farm produce of members.
ii. Loan for setting up of Agriclinics and Agribusiness Centres.
iii. Loans to Food and Agro-processing upto an aggregate limit of Rs.100 Crore per borrower from the banking system.
iv. Loans to Custom Service Units which undertake farm work for farmers on contract basis.
v. Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture
vi. Loans sanctioned by banks to MFIs for on-lending to agriculture

Small and Marginal Farmers : Within Agriculture, a sub-target of 8 percent of ANBC or Credit Equivalent amount of Off Balance Sheet Exposure, whichever is higher, has been prescribed for Small and Marginal Farmers. This is to be achieved in a phased manner i.e. 7 percent by March 2016 and 8 percent by March 2017. For the purpose of computation of 7 percent/ 8 percent target, Small and Marginal Farmers will include the following:-

- Farmers with landholding of up to 1 hectare are considered as *Marginal Farmers*. Farmers with a landholding of more than 1 hectare and upto 2 hectares are considered as *Small Farmers*.
- Landless agricultural labourers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within the limits prescribed for small and marginal farmers.
- Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), directly engaged in Agriculture and Allied Activities, provided banks maintain disaggregated data of such loans.
- Loans to farmers' producer companies of individual farmers, and co-operatives of farmers directly engaged in Agriculture and Allied Activities, where the membership of Small and Marginal Farmers is not less than 75 per cent by number and whose land-holding share is also not less than 75 per cent of the total land-holding.

II) Micro, Small and Medium Enterprises (MSMEs)

The limits for investment in plant and machinery/equipment for manufacturing / service enterprise, as notified by Ministry of Micro, Small and Medium Enterprises, vide S.O.1642(E) dated September 9, 2006 are as under:-

Manufacturing Sector	
Enterprises	**Investment in plant and machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	**Investment in equipment**
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Bank loans to Micro, Small and Medium Enterprises, for both manufacturing and service sectors are eligible to be classified under the priority sector as per the following norms:

Manufacturing Enterprises

All Micro, Small and Medium Enterprises engaged in manufacturing/production and defined in terms of investment in plant and machinery above will be classified under Priority Sector irrespective of limit sanctioned.

Service Enterprises

Bank loans up to Rs. 5 crore per unit to Micro and Small Enterprises and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006 will be classified under Priority Sector.

Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7 percent /7.5 percent prescribed for Micro Enterprises under priority sector.

Other Finance to MSMEs

(i) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
(ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
(iii) Loans sanctioned by banks to MFIs for on-lending to MSME sector as per the conditions specified in paragraph IX of this circular.
(iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).
(v) Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

Micro Enterprises: A target of 7.5 percent of ANBC or Credit Equivalent Amount of Off –Balance Sheet Exposure, whichever is higher, has been prescribed for Micro Enterprises to be achieved in a phased Manner i.e.7 percent by March 16 and 7.5 percent by March 2017.

III) Export Credit : The incremental Export Credit over corresponding date of the preceding year will be reckoned upto 2% of ANBC or credit equivalent amount of Off- Balance Sheet Exposure, whichever is higher, subject to a sanctioned limit of Rs.25 Cr. per borrower to units having turnover up to Rs100 crore. For Foreign Banks with 20 branches and above this will be effective from 01.04.17. For Foreign Banks with less than 20 branches Export Credit will be allowed upto 32% of ANBC or CEOBE whichever is higher.

IV) Education: Loans to individuals for educational purposes including vocational courses up to Rs 10 lakh irrespective of the sanctioned amount will be classified under priority sector.

V) Housing

(i) Loans to individuals up to Rs.28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to Rs.20 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed Rs.35 lakh and Rs.25 lakh respectively. The housing loans to banks' own employees will be excluded.
(ii) Loans for repairs to damaged dwelling units of families up to Rs.5 lakh in metropolitan centres and up to Rs.2 lakh in other centres.

(iii) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of Rs.10 lakh per dwelling unit.

(iv) The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for economically weaker sections and low income groups, the total cost of which does not exceed Rs.10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of Rs.2 lakh per annum, irrespective of the location, is prescribed.

(v) Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending, subject to an aggregate loan limit of Rs.10 lakh per borrower.

The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis.

(vi) Outstanding deposits with NHB on account of priority sector shortfall.

VI) Social infrastructure*:* Bank loans up to a limit of Rs.5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.

VII) Renewable Energy*:* Bank loans up to a limit of Rs.15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non- conventional energy based public utilities Viz. Street lighting systems, and remote village electrification. For individual households, the loan limit will be Rs.10 lakh per borrower.

VIII) Others

i) Loans not exceeding Rs.50,000/- per borrower provided directly by banks to individuals and their SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed Rs.100,000/- and for non-rural areas it does not exceed Rs.1,60,000/-.

ii) Loans to distressed persons [other than farmers covered under Agriculture-Farm Credit] not exceeding Rs.100, 000/- per borrower to prepay their debt to non-institutional lenders.

iii) Overdrafts extended by banks upto Rs.5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts provided the borrowers household annual income does not exceed Rs.100,000/- for rural areas and Rs.1,60,000/- for non-rural areas.

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

Weaker Sections

Priority Sector Lending norms

Priority sector loans to the following borrowers will be considered under Weaker Sections category:-

No.	Category
1.	Small and Marginal Farmers
2.	Artisans, village and cottage industries where individual credit limits do not exceed Rs 1 lakh
3.	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
4.	Scheduled Castes and Scheduled Tribes
5.	Beneficiaries of Differential Rate of Interest (DRI) scheme
6.	Self Help Groups
7.	Distressed farmers indebted to non-institutional lenders
8.	Distressed persons other than farmers, with loan amount not exceeding Rs 1 lakh per borrower to prepay their debt to non institutional lenders
9.	Individual women beneficiaries up to Rs 1 lakh per borrower
10.	Persons with disabilities
11.	Overdrafts upto Rs.5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed Rs 100,000/- for rural areas and Rs 1,60,000/- for non-rural areas
12.	Minority communities as may be notified by Government of India from time to time

Bank loans to MFIs for on-lending

(a) Bank credit to MFIs extended 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, Small and Medium Enterprises, and 'Others', as indirect finance, provided :-

i) not less than 85 percent 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"*.

ii) In addition, aggregate amount of loan, extended for income generating activity, should be not less than 50 percent of the total loans given by MFIs.

b) 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 1,00,000/- while for non-rural areas it should not exceed Rs 1,60,000/-.

(ii) Loan does not exceed Rs 60,000/- in the first cycle and Rs.1, 00,000/- in the subsequent cycles.

(iii) Total indebtedness of the borrower does not exceed Rs.1, 00,000/-.

(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.

(c) 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: The margin cap should not exceed 10 percent for MFIs having loan portfolio exceeding Rs 100 crore and 12 percent for others. 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: With effect from April 1, 2014, interest rate on individual loans will be the average Base Rate of five largest commercial banks by assets multiplied by 2.75 per annum or cost of funds plus margin cap, whichever is less. The average of the Base Rate shall be advised by Reserve Bank of India.

(iii) Only three components are to be included in pricing of loans viz., (a) a processing fee not exceeding 1 percent 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.

(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.

(d) The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that the criteria on (i) qualifying assets, (ii) the aggregate amount of loan, extended for income generation activity, and (iii) pricing guidelines are followed.

Targets and Sub-Targets: The following targets and sub-targets set under priority sector lending for all scheduled commercial banks operating in India are as % of Adjusted Net Bank Credit [ANBC] or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher:

Categories	**Domestic scheduled commercial banks**	**Foreign banks with 20 branches and above**	**Foreign banks with less than 20 branches**
Total Priority Sector	40 %	40 % to be achieved by 31 March, 2018	40 % to be achieved in a phased manner by 2020
Agriculture	18 %.	18 % to be achieved by 31 March, 2018	Not applicable

Marginal & Small Farmers	8 % to be achieved in a phased manner *i.e.,* 7 per cent by March 2016 and 8 per cent by March 2017.	The sub-target for Small and Marginal farmers would be made applicable post 2018 after a review in 2017.	Not applicable
Micro Enterprises	7.5 % to be achieved in a phased manner i.e. 7 per cent by March 2016 and 7.5 per cent by March 2017.	The sub-target for Micro Enterprises would be made applicable post 2018 after a review in 2017.	Not Applicable
Advances to Weaker Sections	10 %.	10 % to be achieved by 31 March, 2018	Not Applicable

Investments eligible for classification as Priority Sector Credit:

1. Investment in securitized assets
2. Transfer of Assets through Direct Assignment/Outright purchase
3. Inter Bank Participation Certificate (IBPC)
4. Priority Sector Lending Certificates

Computation of Adjusted Net Bank Credit (ANBC):

Bank Credit in India [As prescribed in item No.VI of Form 'A' under Section 42 (2) of the RBI Act, 1934].	I
Bills Rediscounted with RBI and other approved Financial Institutions	II
Net Bank Credit (NBC)	III (I-II)
Bonds/debentures in Non-SLR categories under HTM category+ other investments eligible to be treated as priority sector +Outstanding Deposits under RIDF and other eligible funds with NABARD, NHB, SIDBI and MUDRA Ltd. on account of priority sector shortfall + outstanding PSLCs	IV
Eligible amount for exemptions on issuance of long-term bonds for infrastructure and affordable housing as per circular DBOD.BP.BC.No. 25/08.12.014/2014-15 dated July 15, 2014.	V
Eligible advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements.	VI
Adjusted Net Bank Credit (ANBC)	III+IV-V-VI

(For details please refer HOIC No.13803 dated 13.07.2015)