

STUDENTS' ECONOMIC FORUM

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To empower the student community...*



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Theme 249

Priority Sector Lending: Targets and Classification

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CATEGORIES OF PRIORITY SECTOR:

| | | |
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| | 1. AGRICULTURE A.DIRECT AGRICULTURE: Loans to Individual farmers including SHGs/JLGs i.e groups of individual farmers engaged in Agriculture & Allied activities {dairy, fishery, animal husbandry, poultry, bee- keeping and sericulture (up to cocoon stage)} | LOAN UP TO |
| 1. | ST loans to farmers for raising crops (including traditional /non-traditional plantations and horticulture) | Need based |
| 2. | Medium & long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and development loans for allied activities). | Need based |
| 3. | Loans to farmers for pre-harvest and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce. | Need based |
| 4. | Loan against Pledge/hypothecation of Agriculture produce (including warehouse receipts)for a period not exceeding 12 months even if crop loans for raising the produce or not. | ₹ 25.00lakhs |
| 5. | Loans to Small & Marginal farmers for purchase of land for Agrl. purposes | Need based |
| 6. | Loans to distressed farmers indebted to non institutional lenders. | Need based |
| 7. | Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS) ceded to or managed/ controlled by such banks for on lending to farmers for agricultural and allied activities. | Need based Need based |
| 8. | Loans to farmers under Kisan Credit Card Scheme. | Need based |
| 9. | Export credit to farmers for exporting their own farm produce. | Need based |
| | B. INDIRECT AGRICULTURE: a)to corporate, partnerships and institutions engaged in Agriculture & allied activities {dairy, fishery, animal husbandry, poultry, bee- keeping and sericulture (up to cocoon stage) } | Need based |
| 10. | ST loans for raising crop loans(incl: traditional /non-traditional plantations and horticulture) | Need based |
| 11. | Medium & long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and development loans for allied activities). | Need based |
| 12. | Loans for pre-harvest and post-harvest activities, viz., spraying, weeding, harvesting, sorting. | Need based |
| 13. | Loan against Pledge/hypothecation of Agriculture produce (including warehouse receipts) for a period not exceeding 12 months even if crop loans for raising the produce or not. | ₹ 25 lakhs |
| 14. | Export credit to corporates, partnership firms and institutions for export of own farm produce | Need based |
| 15. | Loans up to ₹ 5 crore to Producer Companies set up exclusively by only small and marginal farmers under Part IXA of Companies Act, 1956 for agricultural and allied activities. | ₹ 500 lakh |

Theme No. 249 :Priority Sector Lending: Targets and Classification

A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The “SIB Students’ Economic Forum” is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the “Forum”. This month we discuss the classification, targets and revised guidelines on priority sector.

What are the major recommendations and guidelines on priority sector?

The concept was first discussed at a meeting of National Credit Council, in 1968, emphasising the active involvement of the commercial banks in financing the priority sector followed by a report submitted by an RBI study group in 1972. Again in 1974, another study group of RBI recommended to raise the share of priority sector to the level of 33.33 % of the aggregate advances of banks by March 1979. Dr.K.S.Krishnaswamy committee, in 1985, recommended raising the priority sector targets to 40% of aggregate bank advances. The committee also specified sub – targets for lending to Agriculture and the weaker sections within the priority sector. An internal working group was set up with Sri. C S Murthy as Chairman, and on their recommendations, RBI issued guidelines on 30/04/07. The Sub-Committee of the Central Board of RBI (Chairman: Shri Y. H. Malegam), constituted to study issues and concerns in the Micro Finance Institutions (MFI) sector, inter alia, had recommended review of the guidelines on priority sector lending. Accordingly, RBI during August 2011 set up a Committee to re-examine the existing classification and suggest revised guidelines with regard to Priority Sector lending classification and related issues (Chairman: M V Nair). The recommendations of the committee were placed in the public domain inviting public comments. The guidelines are laid down based on the suggestions vis-a-vis the comments received from various stake holders.

Which are the different categories under priority sector & weaker sections in priority sector?

Priority sector includes Agriculture, Micro & Small Enterprises, Education, Housing, Export credit & others. Weaker sections include Small and Marginal farmers; Artisans, Village and cottage industries, with individual credit limits not exceeding Rs.50,000/-;

Beneficiaries of Swarnajayanti Gram Swarozgar Yojana(SGSY),(now National Rural Lively Hood Mission NRLM); Scheduled Castes / Tribes (SC/ST)&Beneficiaries of DRI(differential rate of interest) scheme; Beneficiaries of Swarna Jayanti Shahari Rozgar Yojana (SJSRY)& Self Help Groups (SHG);Beneficiaries under the Scheme for Rehabilitation of Manual Scavengers(SRMS);Loans to distressed farmers & distressed persons other than farmers not exceeding Rs 50,000 per borrower indebted to non – institutional lenders to prepay their debt; Loans to individual women beneficiaries up to Rs 50,000 per borrower & Loans under above categories to Minority Communities(as notified by Government of India)

What are the targets and sub–targets in priority sector credit for domestic commercial banks/Foreign banks with 20 and above branches?

The target for total priority sector advances is 40% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off – Balance Sheet Exposure (CEOBE), whichever is higher. The target for Agriculture is 18% of ANBC /CEOBE whichever is higher, of which maximum for indirect lending will be reckoned at 4.5% of ANBC /CEOBE. Advances to Micro and Small Enterprises sector will be reckoned in computing performance under the overall priority sector target of 40%. As regards Micro Enterprises, 40% of total advances to Micro and Small Enterprises (MSE) should go to the manufacturing enterprises with an investment in Plant & Machinery (P & M) up to Rs.5lakhs and to the services enterprises with investment in equipment up to Rs.2lakhs. Again 20% of total advances to Micro and Small enterprises should go to the manufacturing enterprises with investment in P&M above Rs.5lakhs up to Rs.25lakhs and to the services enterprises with investment in equipment above Rs2lakhs up to Rs.10lakhs -thereby making 60% of Micro and Small enterprises advances to the Micro enterprises. The targets for Micro Enterprises within the Micro and Small Enterprises segment (MSE) will be computed with reference to the outstanding credit to MSE as on preceding March 31st. Export Credit is not a separate category. Export credit to eligible activities under agriculture and MSE will be reckoned for priority sector lending under respective categories. The target for weaker sections is 10% of ANBC/CEOBE, whichever is higher. For foreign banks with 20 and above branches, priority sector targets and sub-targets have to be achieved within a maximum period of five years starting from April 1, 2013 & ending on March 31, 2018 and will have to submit an action plan, latest by December 31, 2012 for achieving the targets within specific time frame, for approval by RBI.

What are the priority sector targets for foreign banks with less than 20 branches, RRBs & UCBS?

For Foreign Banks with less than 20 branches the priority sector target is 32% of ANBC/ CEOBE whichever is higher with no specific target allotted for Agriculture, MSE and Export Credit but forms part of priority sector target and there is no specific target in total priority sector for advances to weaker Sections. For Regional Rural Banks the target is 60% for priority and 15% for weaker sections on total advances. For Urban Co-operative Banks the priority target is 40% of ANBC.

What are the concepts of ANBC and CEOBE?

For the purpose of priority sector lending, Adjusted Net Bank Credit (ANBC) denotes the outstanding Bank Credit in India (As prescribed in item No.VI of Form 'A' (Special Return as on March 31st) under Section 42 (2) of the RBI Act, 1934] minus bills rediscounted with RBI and other approved Financial Institutions plus permitted non SLR investments in Held to Maturity (HTM) category plus investments in other categories, which are eligible to be treated as part of priority sector lending (eg. investments in securitised assets). Credit Equivalent amount of Off Balance Sheet Exposure (CEOBE) is arrived at as per the guidelines issued by DBOD of RBI from time to time. ANBC and CEOBE are computed with reference to the outstanding as on 31 March of the previous year. Banks use the Current Exposure method for arriving at CEOBE.

What are the collateral security norms under priority sector?

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| AGRICULTURE | NO MARGIN & COLLATERAL UP TO Rs.1L |
| AGRI-CLINIC & AGRI-BUSINESS | NO MARGIN & COLLATERAL UP TO Rs.5L |
| SMALL ENTERPRISES - NORMAL ACCOUNTS | NO COLLATERAL UP TO Rs.10.00 LAKH |
| SMALL ENTERPRISES- GOOD TRACK RECORD UNITS | NO COLLATERAL UP TO Rs.25.00 LAKH |
| SMALL ENTERPRISES(UNDER CGTMSE) | NO COLLATERAL UP TO Rs.100 LAKH |
| EDUCATION LOAN | NO COLLATERAL UP TO Rs.7.50 LAKH |

What are the penalties for non-achievement of priority sector lending target/sub-targets?

Domestic scheduled commercial banks and foreign banks with branches 20 and above having shortfall in lending to overall priority sector target/agriculture target and weaker sections target shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD or Funds with NHB/SIDBI/other Financial Institutions, as specified by RBI. For the purpose of allocation of RIDF tranche or any other funds as decided by RBI from time to time, the achievement levels of priority sector lending as on the March 31st will be taken into account. The deposits under the various Funds will be called upon by NABARD or such other Financial Institutions as and when required by them, after giving one month's notice to the banks concerned. The interest rates on banks' contribution to RIDF or any other Funds, periods of deposits, etc. shall be fixed by RBI from time to time and will be communicated to the concerned banks every year by RBI at the time of operationalisation of funds. The foreign banks with less than 20 branches, which fail to achieve the said target is required to contribute to funds with SIDBI or with other Financial Institutions, for such other purpose as may be stipulated by RBI from time to time.

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| 16. | Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS) other than those covered under item 1.A.7 | Need based |
| | b) OTHER INDIRECT AGRICULTURE LOANS | |
| 17. | Loans to dealers /sellers of fertilizers, pesticides, seeds, cattle feed, poultry feed, agricultural implements and other inputs. | ₹ 100 lakhs |
| 18. | Loans for setting up of Agriclincics and Agribusiness Centres. | Need based |
| 19. | Loans to cooperative societies of farmers for disposing of the produce of members. | ₹ 500 lakhs |
| 20. | Loans 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 farm work for farmers on contract basis | Need based |
| 21. | 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. | Need based |
| 22. | Loans to MFIs for on-lending to farmers for agricultural and allied activities as per the conditions specified in RBI master circular on priority sector lending. | Need based |
| 23. | Loans sanctioned to NGOs, which are SHG Promoting Institutions, for on-lending to members of SHGs under SHG-Bank Linkage Programme for agricultural and allied activities. The all inclusive interest charged by the NGO/SHG promoting entity should not exceed the Base Rate of the lending bank plus eight percent per annum. | Need based |
| 24. | Loans sanctioned to RRB's for on lending to agriculture and allied activities. | Need based |
| | 2. MICRO AND SMALL ENTERPRISES | |
| 25. | Small(Manufacturing)Enterprises(Investment in P&M not exceeding ₹ 5Cr.) | Need based |
| 26. | Micro(Manufacturing)Enterprises(investment in P&M not exceeding ₹ 25L | Need based |
| 27. | Small (Service)Enterprises (investment in equipment not exceeding ₹ 2Cr.) | ₹100 lakhs |
| 28. | Micro(Service)Enterprises(investment in equipment not exceeding ₹10L) | ₹100 lakhs |
| | C. DIRECT FINANCE | |
| 29. | Manufacturing Enterprises.(as defined in terms of investment in P&M) The Micro and Small enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and regulation) Act, 1951. | Need based |
| 30. | Loans for food and agro processing: Loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units satisfy investments criteria prescribed for Micro and Small Enterprises, as provided in MSMED Act, 2006. | Need based |
| 31. | Service Enterprises: Bank loans to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006 | ₹ 100 lakhs (per unit) |
| 32. | Export credit to MSE units (both manufacturing and services) for exporting own goods/services. | Need based |
| 33. | Khadi & Village Industries Sector(KVI) - eligible for classification under the sub-target of 60% prescribed for micro enterprises within the MSE segment under priority sector. | Need based |
| | D. INDIRECT FINANCE(SMALL ENTERPRISES) | |
| 34. | Loans to Persons involved in assisting the decentralised sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries | Need based |

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| 35. | Loans to co-operatives of producers in the decentralised sector(Artisans, village and cottage) | Need based |
| 36. | Loans to MFIs for on-lending to MSE sector as specified in RBI circular on priority sector lending. | Need based |
| 3. EDUCATION LOANS | | |
| 37. | Loans to individuals for educational purposes including vocational courses upto Rs 10 lakh for studies in India and ₹ 20 lakh for studies abroad. | 10 Lakhs(D)/ 20 Lakhs(O) |
| 4. HOUSING LOANS | | |
| 38. | Loans to individuals up to ₹25 lakh in metropolitan centres with population above ten lakh and ₹15 lakh in other centres for purchase/construction of a dwelling unit per family excluding loans sanctioned to bank's own employees. | ₹25 L (Metro) ₹15 L(Others) |
| 39. | Loans for repairs to the damaged dwelling units of families up to ₹2 lakh in rural and semi- urban areas and up to ₹5 lakh in urban and metropolitan areas | ₹2L(R/SU) ₹5L(U/M) |
| 40. | 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 ₹ 5 lakh per dwelling unit. | ₹5 Lakh/unit |
| 41. | The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which do not exceed ₹ 5 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of ₹1,20,000 per annum irrespective of the location, is prescribed. | |
| 5. EXPORT CREDIT:.. forms part of Priority sector for foreign banks with less than 20 branches. As regards the domestic banks and foreign banks with 20 and above branches, export credit is not a separate category under priority sector. Export credit mentioned under items 1.A.9,1.B.14 and 2.C.32 will be in the respective categories of priority sector, i.e. Agri&MSE | | ₹50,000/- |
| 6. Others | | |
| 42. | Loans, not exceeding ₹ 50,000 per borrower provided directly by banks to individuals and their SHG/JLG, provided the borrower's household annual income in rural areas does not exceed ₹ 60,000/-in rural and ₹ 1,20,000/- in non rural areas. | |
| 43. | Loans to distressed persons [other than farmers-already included under item 1.A.6 of this article] not exceeding ₹ 50,000 per borrower to prepay their debt to non-institutional lenders | ₹50,000/- |
| 44. | Loans outstanding under loans for general purposes under General Credit Cards (GCC). If the loans under GCC are sanctioned to Micro and Small Enterprises, such loans should be classified under respective categories of Micro and Small Enterprises. | |
| 45. | Overdrafts, up to ₹ 50,000 (per account), granted against 'no-frills' / basic banking /SB account | ₹50,000/- |
| 46. | Loans 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. | |
| 47. | Loans sanctioned by banks directly to individuals for setting up off-grid solar and other off-grid renewable energy solutions for households. | |

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