RBI/2007-2008/121
RPCD. No. RRB.BC. 20 /03.05.33/2007-08

August 22, 2007

The Chairman
All Regional Rural Banks

Dear Sir,

Guidelines on Lending to Priority Sector – Revised

As announced in the Reserve Bank's Annual Policy Statement for the year 2005-06, the prescriptions relating to priority sector lending have been modified and several new areas included from time to time. There is a view that enlargement of areas has resulted in loss of focus. There have also been suggestions for further review of the eligibility criteria and other related aspects. Further, it is argued that only those sectors 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, should be eligible for inclusion under the priority sector.

2. In this context, an Internal Working Group was set up in Reserve Bank (Chairman: Shri C. S. Murthy) to examine the need for continuance of priority sector lending prescriptions; review the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc.; and to recommend changes, if any, required in this regard. The recommendations of the Group have been examined in the light of the comments/suggestions received from the banks, financial institutions, Non-Banking Financial Companies, Associations of industries, media, public and Indian Banks' Association, and accordingly the guidelines on priority sector lending have been revised. The detailed revised guidelines are enclosed.

3. These guidelines take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.

4. The revised guidelines will be operational **with immediate effect**. In case, any RRB finds any difficulty in complying with the revised priority sector guidelines, it may approach the concerned Regional Office of the Reserve Bank (Rural Planning and Credit Department) with appropriate reasons and time frame for its compliance.

5. We are separately forwarding the revised formats of half-yearly and yearly returns for reporting the data on priority sector advances.

6. Please acknowledge receipt to our respective Regional Offices.

Yours faithfully,

(C. S. Murthy)
Chief General Manager-in-Charge

Lending To Priority Sector - Background

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 for commercial banks 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 commercial 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.

Regional Rural Banks (RRBs)

RRBs were originally allowed to lend only to the Target Group comprising small and marginal farmers, landless labourers, rural artisans and other weaker sections of society. Subsequently, they were allowed to lend up to 60 per cent of their incremental lending during a year to Non-Target Group borrowers.

After a review, it was decided that from the financial year beginning April 1, 1997, the advances of RRBs to Priority Sector borrowers were to constitute 40 per cent of their outstanding advances, as in the case of commercial banks. Within the overall target of 40 per cent, the advances granted to weaker sections of society were to constitute 25 per cent of the Priority Sector advances (i.e. 10 per cent of total outstanding advances).

The levels of achievements vis-à-vis the prescribed targets as above for lending to priority sector by RRBs were reviewed in the meeting with the Estimate Committee of Parliament held on August 6, 2002. With a view to providing more credit to the segments under priority sector, it was decided that RRBs should achieve a target of 60 per cent of their outstanding advances for priority sector lending as against 40 per cent. Further, of the total priority sector advances, at least 25 percent (i.e. 15 percent of the total advances) were required to be advanced to weaker sections of the society. The revised targets were made effective from the year 2003-04.

Internal Working Group on Priority Sector Lending

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 has been 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.

Accordingly, the broad categories of priority sector for RRBs will be 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, beekeeping, 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, appended.

(ii) Small Enterprises (Direct and Indirect Finance): Direct finance to 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, appended. The micro and small (service) enterprises shall include small road & water transport operators, small business, professional & self-employed persons, and all other service enterprises, as per the definition given in Section I appended.

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) Retail Trade shall include retail traders/private retail traders dealing in essential commodities (fair price shops), and consumer co-operative stores, as per the definition given in Section I appended.

(iv) Micro Credit: Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower, either directly or indirectly through a SHG/JLG mechanism or to NBFC/MFI for on-lending up to Rs. 50,000 per borrower, will constitute micro credit.

(v) Education loans: Education 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;

(vi) Housing loans: Loans up to Rs. 20 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 before their 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. TARGETS/SUB-TARGETS

As at present, RRBs will have a target of 60 per cent of their outstanding advances for priority sector lending. Further, of the total priority sector advances, at least 25 percent (i.e. 15 percent of the total advances) should be advanced to weaker sections of the society.

Section I

The detailed guidelines for RRBs in this regard are given hereunder:

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, harvesting, grading, sorting, processing and transporting undertaken by individuals, SHGs and cooperatives in rural areas.

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 Agriclinics 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 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 Fifty per cent of the credit outstanding under loans for general purposes under General Credit Cards (GCC).

1.3.14 Loans to National Co-operative Development Corporation (NCDC) for on-lending to the co-operative sector for purposes coming under the priority sector will be treated as indirect finance to agriculture till March 31, 2010.

1.3.15 Loans to Non-Banking Financial Companies (NBFCs) for on lending to individual farmers or their SHGs/JLGs.

1.3.16 Loans granted to NGOs/MFIs for on-lending to individual farmers or their SHGs/JLGs.

2 SMALL ENTERPRISES

DIRECT FINANCE

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

2.1.1 Manufacturing Enterprises

(a) 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 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. 5 crore.

(b) 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 such items as in 2.1.1 (a)] does not exceed Rs. 25 lakh, irrespective of the location of the unit.

2.1.2 Service Enterprises

(a) 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 other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) does not exceed Rs. 2 crore.

(b) 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 such items as in 2.1.2 (a)] does not exceed Rs. 10 lakh.

(c) The small and micro (service) enterprises shall include small road & water transport operators, small business, professional & self-employed persons, and all other service enterprises.

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 small enterprises segment within the priority sector.

INDIRECT FINANCE

2.2 Indirect finance to the 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 NBFCs for on-lending to small and micro enterprises (manufacturing as well as service).

3. RETAIL TRADE

3.1 Advances granted to retail traders dealing in essential commodities (fair price shops), consumer co-operative stores, and;

3.2 Advances granted to private retail traders with credit limits not exceeding Rs. 20 lakh.

4. MICRO CREDIT

4.1 Loans of very small amount not exceeding Rs. 50,000 per borrower provided by banks either directly or indirectly through a SHG/JLG mechanism or to NBFC/ MFI for on-lending up to Rs. 50,000 per borrower.

4.2 Loans to poor indebted to informal sector

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

5. 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.

6. EDUCATION

6.1 Educational 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 institutions will not be eligible to be classified as priority sector advances.

6.2 Loans granted by banks to NBFCs for on-lending to individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad.

7. HOUSING

7.1 Loans up to Rs. 20 lakh to individuals for purchase/ construction of a dwelling unit per family, excluding loans granted by banks to their own employees.

7.2 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.

7.3 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.

7.4 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.

8. 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);

(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 Liberation and Rehabilitation of Scavengers (SLRS);

(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) 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 other notified minorities. These States/Union Territories are Jammu & Kashmir, Punjab, Sikkim, Mizoram, Nagaland and Lakshadweep.