REPORT OF THE COMMITTEE TO RE-EXAMINE THE EXISTING CLASSIFICATION AND SUGGEST REVISED GUIDELINES WITH REGARD TO PRIORITY SECTOR LENDING CLASSIFICATION AND RELATED ISSUES

Letter of Transmittal

21st February 2012

Dr. D. Subbarao
Governor
Reserve Bank of India
Central Office
Mumbai 400 001

Dear Dr. Subbarao,

REPORT OF THE COMMITTEE TO RE-EXAMINE THE EXISTING CLASSIFICATION AND SUGGEST REVISED GUIDELINES WITH REGARD TO PRIORITY SECTOR LENDING CLASSIFICATION AND RELATED ISSUES

I have great pleasure in submitting the Report of the Committee constituted 'to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification and related issues'. This report has been prepared in accordance with the Terms of Reference entrusted to the Committee.

The report suggests that sharper focus needs to be given in directing flow of credit to economically weaker and vulnerable sections of the society in order to achieve the policy objective of inclusive and equitable growth.

On behalf of members of the Committee and on my personal behalf, I sincerely thank you for entrusting to the Committee this important responsibility and supporting us at all stages.

With kind regards,

Yours sincerely,

(M V Nair)
Chairman

(P K Mishra) **Member**	(Nupur Mitra) **Member**	(Sreya Guha) **Member**
(Rajiv Sabharwal) **Member**	(V Ramakrishna Rao) **Member**	(N K Maini) **Member**
(J K Sinha) **Member**	(N C Khulbe) **Member**	(Ranjan Kumar Mohanty) **Member**
(S C Kalia) **Member**	(Deepali Pant Joshi) **Member Secretary**	

Acknowledgements

As Chairman of the Committee, I take the opportunity of expressing my personal appreciation to every member of the Committee for his or her valuable contribution. I also place on record my sincere appreciation for Member Secretary, Dr. Deepali Pant Joshi, CGM-in-Charge, RPCD, RBI, for effectively coordinating the proceedings of the Committee and adding to the deliberations with her deep understanding of rural and agricultural banking and insights as a Central Banker.

The Committee expresses its gratitude to Dr. D Subbarao, Governor, Reserve Bank of India for his valuable guidance. The Committee is also grateful to Dr. C Rangarajan, Chairman, Prime Minister's Economic Advisory Council (PMEAC) and Shri M S Ahluwalia, Dy. Chairman, Planning Commission, for sharing their rich perspectives on the diverse issues related to priority sector lending. The Committee is also thankful to Dr. K C Chakrabarty, Deputy Governor, RBI for setting out the objectives in its first meeting and places on record its gratitude to Dr. Subir Gokarn, Shri Anand Sinha and Shri H R Khan, all Deputy Governors, RBI, for their valuable suggestions.

The Committee is greatly benefitted from discussions it held with Dr. V S Vyas, Dr. M Govinda Rao, both members of PMEAC; Dr. Abhijit Sen, Member, Planning Commission; Shri Ajit Kumar Seth, IAS, Cabinet Secretary, Government of India; Shri Dinesh Rai, IAS (Retd), Chairman, Warehousing Development and Regulatory Authority.

In shaping the overall framework and approach of the Committee, guidance received from Shri D K Mittal, IAS, Secretary, Department of Financial Services (DFS), Ministry of Finance, was of immense value and the Committee conveys its sincere appreciation to him for having shared future inclusive growth agenda of the country and how directed lending could enhance its effectiveness. The Committee also expresses sincere thanks to Shri Rakesh Singh, IAS, Additional Secretary, DFS, Shri Umesh Kumar, IAS, Joint Secretary (BA), DFS, Shri R V Verma, Chairman and Managing Director, National Housing Bank and Dr. Prakash Bakshi, Chairman, NABARD for their valuable inputs.

The Committee also expresses its gratitude to the representatives of concerned Ministries for sharing their views. The Committee acknowledges the suggestions and contributions of IBA and its member banks.

The Committee thanks Industry Associations for their interactions. The Committee also acknowledges the contribution of all those who submitted their suggestions in response to the press release issued by the Committee.

The Committee also benefited from interactions with Smt. Usha Thorat, Former Deputy Governor, RBI; Dr. Janmejaya Sinha, Chairman, Asia Pacific, Boston Consulting Group; Prof. M S Sriram, Adjunct Professor, IIM-Ahmedabad & IIM-Indore; Shri Renny Thomas, Partner, McKinsey & Co; Prof. Anil K Gupta, IIM-Ahmedabad and Smt. Kamala Rajan, Principal, College of Agriculture Banking (CAB). The Committee also acknowledges the views and inputs of the participants who attended the workshop organized at CAB, Pune.

The Committee acknowledges the contributions of Shri Ajay Kumar Misra, General Manager, RBI. The Committee also appreciates the contributions made by Shri Nitesh Ranjan, Chief Economist & AGM and Shri R Viswesvaran, Senior Manager, both from Union Bank of India; Shri Anil Kaul, General Manager, ICICI Bank; Shri R Mohanavenkatachalam, AGM, SBI; Shri T Ramesh, AGM, NABARD; Shri T V Rao, DGM, Shri P Manoj, AGM and Shri R K Verma, Manager, all from RBI. The Committee acknowledges the support of all other individuals for their sincere contribution.

(M V Nair)

Chairman

EXECUTIVE SUMMARY

Directed lending is an institutional mechanism for allocating credit to sectors that have high potential for generating employment and improving livelihood. Commercial banks have been prescribed targets since late 1960s for priority sector lending. The outcome has been quite encouraging so far; however, there is need for a relook in current context.

This Committee was constituted by the Reserve Bank of India, pursuant to the announcement by the Governor in Monetary Policy Statement 2011-12, to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending and related issues. The need for directed lending in India would continue considering that there is lack of access to credit for a vast segment of the society. Commercial banks need to play significantly enlarged role for developing and deepening financial services in the rural areas and urban markets. Credit remains a scarce commodity for certain sections/sectors and they continue to remain outside purview of the formal financial system. Therefore, those sectors where sufficient credit does not flow, those people who do not get adequate credit may get the benefit of directed lending.

By adopting a wide and exhaustive consultation process, Committee identified key issues facing diverse segments and sections of the society; examined them thoroughly in order to make recommendations which, on implementations, may lead to achieving the objective of directed lending.

In view of the above, target of domestic Scheduled Commercial Banks (SCBs) for lending to priority sector is retained at 40 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher. Agriculture is an important sector considering the livelihood it generates for almost two-third of India's population. It is also critical for ensuring food security and poverty alleviation. This sector needs to be seen as a single set of activities encompassing production, storage and distribution. As there is a seamless inter-connectedness of the entire agriculture value chain its impact on output, income and employment in rural economy is highly positive. Therefore, ‘agriculture and allied activities’ may be a composite sector within priority sector, by doing away with distinction between direct and indirect agriculture lending. The targets for agriculture and allied activities is recommended at 18 per cent of ANBC or CEOBE, whichever is higher.

Findings of the Committee indicate that small and marginal farmers who constitute more than 80 per cent of total farmer households in the country face exclusion from the formal financial channels. Therefore, a sub-target for small and marginal farmers within agriculture and allied activities is recommended, equivalent to 9 per cent of ANBC or CEOBE, whichever is higher to be achieved in stages by 2015-16. Banks are also encouraged to ensure that the number of outstanding beneficiary accounts register a minimum annual growth rate of 15 per cent. With this dispensation significantly large number of eligible and willing small and marginal farmer households would have access to credit from formal channels.

Micro and Small Enterprises (MSE) covering almost 26 million units across the country have high employment potential and contribute significantly to total output and exports. But only 5 per cent of MSEs are covered by institutional finance. Hence, MSE sector may continue to be under priority sector. Within MSE sector, a sub-target for micro enterprises is recommended equivalent to 7 per cent of ANBC or CEOBE, whichever is higher to be achieved in stages by 2013-14. Banks are also encouraged to ensure that the number of outstanding beneficiary accounts register a minimum annual growth rate of 15 per cent.

There is need for over 25 million dwelling units in the country, majority of which are from Economically Weaker Sections (EWS) and Low Income Groups (LIG). The future also hinges on creating large supply of educated workforce and people with vocational skills. Therefore, loans to housing and education may continue under priority sector. Loans for construction/purchase of one dwelling unit per individual up to ₹ 25 lakh; loans up to ₹ 2 lakh in rural and semi urban areas and up to ₹ 5 lakh in other centres for repair of damaged dwelling units, may be granted under priority sector. In order to encourage construction of dwelling units for EWS and LIG, housing loans granted to these individuals will also qualify under weaker sections. Limit under priority sector for loans for studies in India is increased to ₹ 15 lakh and ₹ 25 lakh in case of studies abroad, from existing limit of Rs 10 lakh and Rs 20 lakh respectively. Considering that access to clean energy is a critical need, it is also recommended that loans may be granted under priority sector for off-grid energy solution for households.

For diverse activities under priority sector and its sub-sectors, definite limits are prescribed. It is recommended that such limits may be revised every 3 years considering the price index, cost of inputs, relevance in value chain, etc. For example, maximum loan limit is increased to ₹ 20 lakh against pledge/hypothecation of agricultural produce up to 12 months. Activities pertaining to food and agro-based processing with initial investment in plant & machinery up to ₹ 20 crore will qualify for loans under priority sector; nonetheless, for primary processing of perishable agriculture produce, ceiling of investment limit will not be applicable. This will give boost to level of processing in India which is extremely low at around 6 per cent compared to 60-80 per cent in developed countries and over 30 per cent even in most other Asian and Latin American developing countries.

Differential Rate of Interest (DRI) scheme, operational since 1972 and intended to benefit specified segments of beneficiaries has become obsolete. The major reasons are relatively lower quantum of loan available under the scheme and absence of subsidy component compared to other government sponsored schemes. Availment of DRI loan also bars the borrowers from taking loans under other schemes. Considering these, the Committee recommends that DRI scheme may be dispensed with.

Foreign banks operating in India have been given differential treatment in allocating targets since inception of priority sector guidelines. Considering the principle of reciprocity, foreign banks are expected to comply with priority sector target/sub-targets as applicable to domestic banks. Therefore, priority sector target for foreign banks will be 40 per cent of ANBC or CEOBE, whichever is higher with sub-targets of 15 per cent for exports, 15 per cent for MSE sector within which 7 per cent to micro enterprises. However, foreign banks operating in India as locally incorporated Wholly-Owned Subsidiary (WOS) of parent bank would be required to meet the priority sector lending requirements on par with domestic SCBs.

The Committee recommends allowing non-tradable Priority Sector Lending Certificates (PSLCs) on pilot basis that can be only transacted between domestic scheduled commercial banks, foreign banks and RRBs. This may lead to development of market for PSLCs. If this market functions in an orderly manner, it may be scaled up.

The objective of reaching out to large number of small and marginal farmer households and micro-enterprises in defined time-frame may be supplemented by allowing bank loans to non-bank financial intermediaries for on-lending to specified segments to be reckoned for classification under priority sector, up to a maximum of 5 per cent of ANBC or CEOBE, whichever is higher.

Rural cooperative credit institutions have played a significant role in providing institutional credit to the agricultural and rural sectors in the past. However, the situation has worsened in recent decades. There is a need to revitalize the cooperative sector as primary financial intermediaries in rural markets by ensuring speedy implementation of recommendations given by the Vaidyanathan Committee.

While recommending special target for small and marginal farmers, the Committee also considered that the Government of India may create appropriate credit guarantee fund schemes on the lines of CGTMSE (Credit Guarantee Fund Trust for MSE) in order to encourage banks to extend loans to these segments. Also, interest subvention scheme that helps in building a good credit culture may be extended only for prompt repayment of loans.

As new targets/sub-targets are prescribed, the methodology for calculation of shortfall and consequent penalty in case of banks not achieving the targets have been modified to make it more effective and transparent. Interest rate to be paid on penalty amount deposited by defaulting banks in specified funds with NABARD/SIDBI/NHB may be benchmarked to Reverse Repo Rate.

The existing Management Information System (MIS) prevailing in banks, system of reporting to RBI and other authorities was reviewed. It is argued that present system of report-based reporting has certain limitations and it may be improved through data-based reporting. There is a need to address the issues in data reporting like pre-defined parameters, reference date, periodicity, unit of reporting, etc. Automation of dataflow from banks to RBI has been accorded high priority and forms part of the vision of RBI in the context of Information Technology. This framework may be used in medium term for developing PSMIS (Priority Sector Monitoring and Information System) through which bank-wise, sub-sector-wise, state-wise, district-wise, block-wise and branch-wise information pertaining to priority sector may be made available. This would require creation of a Centralized Data Repository Agency (CDRA), standardization of base level definitions and developing Uniform Code Number for the branches and customers. During the interim period, to maintain consistency of data and to eliminate duplicity of efforts in compilation, data in respect of a particular item may be collected from the banks by a single agency based on its functional area, who may share the same with other agencies.

Impact evaluation study is important for understanding the results of priority sector norms implemented by commercial banks. This may help in formulating right policy responses and tweaking the existing norms to suit the changing needs. However, such studies require collection and analysis of huge volume of primary data. Secondary data-based analysis may also help in monitoring and course correction. There are two effective methods available for evaluation. The first is comparison of ‘pre-project’ situation with ‘post-project’ situation and the second method is comparison of ‘with project’ and ‘without project’ situation. Both modes have their relative merits and demerits. Between the two, the choice will depend on the investment/intervention that needs to be evaluated. The Committee considered that the impact evaluation studies may be done at periodic intervals for diverse sectors/segments under priority sector by specialized institutions in this field. The results may be reviewed by the RBI for effecting suitable changes in the guidelines and policy framework.

The recommendations of the Committee are expected to have significant impact in channelizing directing lending to those who have lack of access to credit and to those sectors which generate large employment. It is hoped that these recommendations would promote country's developmental and inclusive goals.

List of Abbreviations

ANBC	Adjusted Net Bank Credit
BC	Business Correspondent
BF	Business Facilitator
BSR	Basic Statistical Returns
CAB	College of Agriculture Banking (Pune)
CDRA	Centralized Data Repository Agency
CDRS	Centralized Data Repository System
CEOBE	Credit Equivalent of Off-Balance Sheet Exposures
CGTMSE	Credit Guarantee fund Trust for Micro and Small Enterprises
DFS	Department of Financial Services (Ministry of Finance)
DLCC	District Level Coordination Committee
DRI	Differential Rate of Interest
DSIM	Department of Statistics & Information Management, RBI
EWS	Economically Weaker Section
GCC	General Credit Card
GDP	Gross Domestic Product
GOI	Government of India
HFC	Housing Finance Company
JLG	Joint Liability Group
IBA	Indian Banks' Association
KCC	Kisan Credit Card
LDM	Lead Bank Manager
LIG	Low Income Group
MFIs	Micro Finance Institutions
MIS	Management Information System
MOF	Ministry of Finance
MSE	Micro & Small Enterprises
MSME	Micro, Small & Medium Enterprises

MSMED Act	Micro, Small & Medium Enterprises Development Act, 2006
NABARD	National Bank for Agriculture and Rural Development
NBC	Net Bank Credit
NBFC	Non-Banking Financial Company
NHB	National Housing Bank
NPA	Non-Performing Asset
NRLM	National Rural Livelihood Mission
PACS	Primary Agricultural Cooperative Societies
PMEAC	Prime Minister's Economic Advisory Council
PMEGP	Prime Minister's Employment Generation Programme
PSB	Public Sector Bank
PSL	Priority Sector Lending
PSLC	Priority Sector Lending Certificate
PSMIS	Priority Sector Monitoring and Information System
RBI	Reserve Bank of India
RIDF	Rural Infrastructure Development Fund
RPCD	Rural Planning and Credit Department, RBI
RRBs	Regional Rural Banks
SAMIS	Service Area Monitoring and Information System
SCB	Scheduled Commercial Banks
SFMF	Small Farmer & Marginal Farmer
SGSY	Swarnjayanti Gram Swarozgar Yojana
SHG	Self Help Group
SHPI	Self Help Group Promoting Institutions
SIDBI	Small Industries Development Bank of India
SJSRY	Swarna Jayanti Shahari Rozgar Yojana
SLBC	State Level Bankers' Committee
WOS	Wholly Owned Subsidiary

Contents

Annexure

1. INTRODUCTION

1.1. Priority Sector Lending

Directed credit through the priority sector dispensation is a major public policy intervention for ensuring that (a) vulnerable sections of society get access to credit at an affordable rate, and (b) there is adequate flow of resources to those segments of the economy, which have a higher employment potential and help in making a large impact in poverty alleviation. Priority sector lending also supports pursuit of many objectives envisaged in the Five-Year Plans. Accordingly, there have been changes in scope and extent of coverage of beneficiaries under priority sector. Over the years, success of priority sector lending in the country is noteworthy. This is reflected in improved reach of the banking system, higher credit flow to identified segments and more importantly, increased coverage of vulnerable sections. Following mandated lending prescriptions, commercial banks have achieved success in making credit available at an affordable cost to diverse segments of beneficiaries.

Going forward, country's vision is of universal financial access through affirmative financial inclusion, which will mainstream the marginalized by ensuring 'Access'. Until we achieve the desired level of financial deepening at all levels of society, in rural as well as urban area, the need for directed lending will continue as a necessary lynchpin of the macro policy framework.

1.2. Changing contours and need for a relook

The origin of directed lending is rooted in the Credit Policy for 1967-68, wherein it was emphasized that commercial banks should increase their involvement in financing of priority sectors, viz., agriculture, exports and small-scale industries, as a matter of urgency. Description of priority sector was formalized in 1972 based on the report submitted by the 'Informal Study Group on Statistics' relating to advances to priority sector constituted by the Reserve Bank of India (RBI). For the first time in 1980, the RBI Working Group suggested that scope of mandated priority sector lending be extended to private sector banks and at least 40 per cent of priority sector advances be towards agriculture. The subsequent Committees and working groups continued with recommendation of specific priority sector mandate for banks, though there have been changes in scope of priority sector definition from time to time.

In 1991, the Committee on Financial Sector Reforms (Chairman: Shri M Narasimham) recommended for phasing out directed lending and suggested focus on small and marginal farmer, tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections by directing 10 per cent of bank credit towards these segments.

One of the recommendations of the Malegam Committee constituted to study issues and concerns in the MFI (Micro Finance Institutions) sector was that the priority sector guidelines might also be revisited. Requests were received by Reserve Bank from various quarters in recent past to relook at the definition of the priority sector, especially when bank finance is routed through other agencies. Consequently, in paragraph 94 of the Monetary Policy Statement of Reserve Bank of India for 2011-12, the Governor proposed 'to appoint a Committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification and related issues'. In this frame, it is the endeavor of this Committee to examine the issues, understand the viewpoints of diverse stakeholders and recommend appropriate changes in the current policy framework.

1.3. Composition of the Committee

The Reserve Bank, on August 25, 2011 vide press release no. 2011-2012/299 (enclosed as Annex **I),** notified constituting a Committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification and related issues. The Committee was assigned broad-based terms of reference and advised to submit the report in four months from the date of its first meeting. The composition of the Committee was advised as under:

Chairman:

Shri M V Nair, Chairman & Managing Director, Union Bank of India

Members:

1. Dr. P K Mishra, IAS (Retd.), Former Secretary, Union Ministry of Agriculture & Co-operation; Presently Chairman, Gujarat Electricity Regulatory Commission

2. Smt. Nupur Mitra, Chairperson & Managing Director, Dena Bank

3. Smt. Sreya Guha, Director, Department of Financial Services, Ministry of Finance

4. Shri Rajiv Sabharwal, Executive Director, ICICI Bank Ltd.

5. Shri V Ramakrishna Rao, Executive Director, NABARD

6. Shri N K Maini, Deputy Managing Director, SIDBI

7. Shri J K Sinha, Chief General Manager, State Bank of India

8. Shri N C Khulbe, General Manager, Bank of India

9. Shri Ranjan Kumar Mohanty, General Manager, United Bank of India

10. Shri S C Kalia, Former Executive Director, Union Bank of India

Member Secretary:

Dr. Deepali Pant Joshi, CGM-in-Charge, Rural Planning and Credit Department, RBI

(In first meeting, the Committee co-opted Shri S C Kalia as a Special Invitee Member and approved substitution of Shri Ranjan K. Mohanty, General Manager, United Bank of India as a Member in place of Shri Pranab K Roy, GM, United Bank of India)

1.4. Terms of Reference

1. To revisit the current eligibility criteria for classification of bank loans as priority sector with reference to
   - (a) Nature of activities and types of borrowers (individuals versus institutions, corporate and partnership firms) of loans.
   - (b) Limits on loan amounts.
   - (c) Appropriate documentation and due-diligence thresholds, with a view to ensuring that loans extended by banks are indeed for the eligible categories of purposes and borrowers, which need special attention and treatment.
2. To comprehensively review and fine-tune the definition of direct and indirect priority sector finance/ lending, especially loans advanced to/ routed through corporate entities, cooperative societies.
3. To consider if bank lending via financial intermediaries like Non-Banking Finance Companies, Housing Finance Companies, etc., for eligible categories of borrowers and activities could be classified under the priority sector and if so, to lay down the conditions subject to which this classification would be admissible .
4. To consider the desirability, or otherwise of capping interest rate on loans under the eligible categories of the priority sector.
5. To review
   - (a) The current allocation mechanism for RIDF and other Funds.
   - (b) The interest rates payable on RIDF and other Funds to non-compliant (defaulting) banks.
   - (c) The interest rates to be charged on loans from these funds.
6. To review the existing Management Information System (MIS) prevalent in banks, and suggest ways to streamline the same in terms of frequency of compliance, data consistency and data integrity.

7. To consider and suggest the manner and periodicity of conducting impact evaluation studies of credit flows to different segments of priority sector and arrive at various policy options.
8. Any other issues and concerns germane to the subject matter.

1.5. Structure of the Report

Chapter 2 discusses current perspective, emerging issues and suggestions received by the Committee. *Chapter 3* presents the recommended approach for priority sector lending. In *Chapter 4*, guidelines applicable for priority sector loans are laid out, detailing norms to process the loan applications, documentation and due diligence etc. *Chapter 5* discusses developing a robust framework for Management Information System to deal with issues of data consistency, data integrity and data automation. In *Chapter 6*, need, methodology and periodicity for conducting impact evaluation studies for credit flow to different segments of the priority sector is deliberated. *Chapter 7* summarizes the recommendations of the Committee.

1.6. Approach of the Committee

The Committee in its first meeting formulated the overall approach and decided to obtain views of a large cross section of stakeholders. It decided to form sub-groups to discuss and make recommendations on specific issues emerging from the terms of reference.

Pursuant to this, Chairman of the Committee invited views from respective ministries of the Government of India, Chief Secretaries of all States, research institutions, Indian Banks' Association as well as eminent experts, practitioners and policymakers. A questionnaire was prepared on the terms of reference of the Committee and placed on the RBI website to invite suggestions from the public. Large number of representations were received directly and in response to questionnaire.

Important inputs were received through discussion with Dr. C Rangarajan, Chairman, Prime Minister's Economic Advisory Council (PMEAC); Dr. M S Ahluwalia, Dy. Chairman, Planning Commission; Dr. M Govinda Rao, Member, PMEAC; Dr. Abhijit Sen, Member, Planning Commission; Shri Ajit Kumar Seth, IAS, Cabinet Secretary, Government of India and Shri Dinesh Rai, Chairman, Warehousing Development & Regulatory Authority.

Interactions with Dr. K C Chakrabarty, Dr. Subir Gokarn, Shri Anand Sinha and Shri H R Khan, all Deputy Governors, RBI, and Shri D K Mittal, IAS, Secretary, DFS, Ministry of Finance were valuable.

In meeting at New Delhi, the representatives of the Ministry of Agriculture & Co-operation, Ministry of Housing & Urban Poverty Alleviation, Ministry of Rural Development, Ministry of Social Justice & Empowerment, Ministry of Women & Child Development, Ministry of Minority Affairs, Ministry of Tribal Affairs and Planning Commission discussed their viewpoints with members of the Committee.

Representatives of Federation of Indian Chambers of Commerce and Industry, Associated Chambers of Commerce and Industry of India, Confederation of Indian Industry, PHD Chamber of Commerce and Industry, Association of Gold Loan Companies (India), Chamber of Indian MSME, Micro Finance Institutions Network, All India Democratic Women's Association, Sa-Dhan, Federation of Indian Export Organisations and Finance Industry Development Council also presented their respective issues for consideration.

Inputs, suggestions and representations from stakeholders, subject experts and practitioners were received. A detailed list of individuals, associations, organizations and ministries from which the Committee received representations is at Annex II.

Five sub-groups of the Committee were constituted to discuss and deliberate on the terms of reference (details in Annex III). The sub-groups held several round of meetings and took cognizance of suggestions and representations received from the subject experts, policymakers and practitioners. Thereafter, sub-groups submitted their detailed and analytical reports for consideration of the Committee.

A workshop of field functionaries of various banks (list at Annex II), engaged in priority sector lending, was organized at College of Agriculture Banking (Pune). The members of the Committee elicited feedback from bank representatives on ground realities of delivery of credit to different segments of the priority sector and also sought their views on the likely issues in the implementation of the framework under its consideration.

The general approach of the Committee was also presented to members of the Managing Committee of IBA (list at Annex II) for their suggestions after a clear formulation of Committee's views.

2. PRIORITY SECTOR LENDING – CURRENT PERSPECTIVE

2.1. Agriculture Sector

Agriculture sector is critical for economic growth as also from the perspective of food security. India ranks second worldwide in farm output. About two-third of population is dependent on agriculture and this ratio has declined only marginally over the years. Further, it is vital for creating demand in other sectors of the economy. The broad based development of India's economy depends on sustainable growth in rural economy, especially agriculture sector. Inflationary pressure on the economy has brought to fore significance of agriculture sector and need for a suitable policy impetus to sustain growth.

Based on recommendations of the 'The Working Group on the Role of Banks in Implementation of New 20-Point Programme (Chairman: Shri A. Ghosh), 1982' banks were advised to achieve direct agriculture lending of 15 per cent of total bank credit by March 1985, 16 per cent by March 1987, 17 per cent by March 1989 and 18 per cent by March 1990. Extant guidelines stipulate that banks achieve total agriculture lending of 18 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE)[1], whichever is higher, within which indirect lending should not exceed 4.5 per cent.

The performance of Public Sector Banks (PSBs) and Private Sector Banks over the years in extending agriculture credit, including direct agriculture, has improved.

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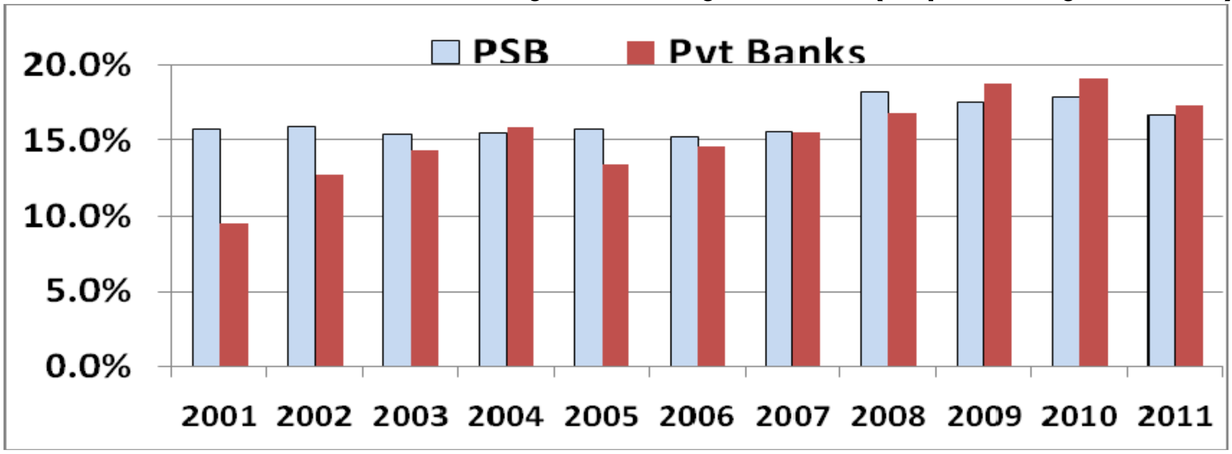
[1] Any reference to ANBC in this report would mean ANBC or CEOBE, whichever is higher.

Chart 1: Performance under lending to Total Agriculture* (As percentage of ANBC)



Source: RBI (***** Note: Total Agriculture without 4.5% cap on Indirect Agriculture lending)

Table 1: Year-wise Performance under Direct Agriculture Lending by Banks

Rs crore	**PSBs**			**Pvt Banks**		
March	Amount	Year-on-Year Growth (%)	Loans under Direct Agri as % to ANBC	Amount	Year-on-Year Growth (%)	Loans under Direct Agri as % to ANBC
2001	38003	-	11.15	2269	-	4.02
2002	44909	18.2	11.31	2533	11.6	4.02
2003	51799	15.3	10.84	5201	105.3	6.26
2004	61957	19.6	11.09	8717	67.6	7.81
2005	82613	33.3	11.52	12157	39.5	7.59
2006	111636	35.1	10.97	22317	83.6	8.96
2007	146941	31.6	11.15	28013	25.5	8.32
2008	176135	19.9	12.91	37349	33.3	10.88
2009	215635	22.4	12.73	46511	24.5	11.44
2010	265071	22.9	12.78	52112	12.0	11.12
2011	300084	13.2	12.03	60043	15.2	11.25

Source: RBI

Transformation of the Indian economy has been substantial in the last two decades. Size of economy, measured by Gross Domestic Product (GDP), has increased more than three times since 1991 (at constant prices). However, share of agriculture in GDP has moderated from 31.4 per cent in 1990-91 to 14.5 per cent in 2010-11[2]. This moderation has been an outcome of accelerated growth in services and industry sectors. Agriculture sector remains important and, therefore, Approach Paper to the 12th Five-Year Plan targets a GDP growth rate of 9 per cent with agriculture sector growing at 4 per cent per annum.

Agricultural sector suffers from several challenges, namely,

i. Fragmented and uneconomical size of landholding; 83 per cent of the landholdings are held by small & marginal farmers and average landholding size is 0.6 ha[3] per farm household;

ii. High wastage due to inadequate storage and supply chain infrastructure. Estimates indicate that 7 per cent of grain output, 10 per cent of seeds and 25 per cent to 40 per cent of fruits and vegetables are wasted every year ;

iii. Significant dependence on monsoon and inadequacy of irrigation facilities;

iv. Low level of farm mechanization;

v. Inadequacy of extension services in agriculture.

Hence, priority sector classification of agriculture needs to be re-examined in light of challenges faced, emerging trends, and requirements of the changing economy. Suggestions/inputs received from various stakeholders were carefully considered in the above perspective.

Suggestions pertaining to agriculture sector received by the Committee broadly related to:

i. Review of activities in agriculture & allied sectors from the perspective of value chain and supply chain, by integrating direct and indirect agriculture;

ii. Revitalizing co-operative institutional framework in order to accelerate credit to small and marginal farmers, as recommended by the Vaidyanathan Committee on 'Revival of Long Term Cooperative Credit Structure';

[2] Central Statistical Organization, various releases; quick estimate for 2010-11
[3] Agriculture Census 2005-06, Dept. of Agriculture & Cooperation, GOI

iii. Establishing an institutional framework for Agriculture Credit Risk Guarantee Fund;

iv. De-clogging of agriculture sector during distress periods by having liberal compromise settlement schemes on an ongoing basis;

v. Reclassification of certain indirect agriculture advances into direct category;

vi. Exclusion of certain categories of borrowers from classifying as agriculture loans;

vii. Upward revision in loan limits;

viii. Prescribing targets for focused group within agriculture sector;

ix. Encouraging aggregation of small and marginal farmers by including producer companies/cooperatives, Joint Liability Groups (JLGs), Self-Help Group (SHGs), SHG federations;

x. Extension of interest subvention scheme to private sector banks and restricting the scheme only for prompt repayment of loans;

xi. Fixation of dedicated target for investment credit under agriculture;

xii. Promoting channel neutrality by allowing on-lending through intermediaries like Non-Banking Financial Companies (NBFCs) as part of agriculture lending under priority sector;

xiii. Encouraging lending institutions and entities having niche strength in agriculture lending by opening the window of Priority Sector Lending Certificate(PSLC), as recommended by the Raghuram Rajan Committee on the financial sector reforms.

In view of the above, there is considerable merit in having a relook at agriculture sub-sector within overall priority sector to create an ecosystem where small and marginal farmers have better access to formal credit, increased market access and improved opportunity for price discovery. Such farmer groups may also benefit through aggregator model. It is also important that loan limits prescribed for diverse activities are revised at periodic rests based on changes in price index. Establishment of an effective agriculture infrastructure is essential for providing seamless and efficient market linkages. For sustained development of agriculture sector and ensuring food security, facilitating supply chain integration and creation of forward and backward linkages are important steps. Thus, the entire agriculture value chain, right from production to the end-beneficiary that is interlinked, needs to be viewed in a holistic manner and bank finance to agriculture sector should cover the entire value chain for enabling improvements in productivity, storage and distribution. By doing so, requirement for production credit as well as investment credit would be adequately addressed by banks.

2.2. Micro & Small Enterprises

Role of Micro & Small Enterprises (MSE) sector is vital for employment generation, promoting entrepreneurship and overall economic growth. As per 4th All India Census of Micro, Small and Medium Enterprises (MSME) sector, of the total working enterprises 95.05 per cent belong to micro enterprises, 4.74 per cent to small enterprises and only 0.21 per cent to medium enterprises. The proportion of these enterprises operating in rural areas is 45.38 per cent.

Though the MSE sector is of great significance, it has unresolved problems and is deeply credit constrained. It is indeed ironical that while the lenders feel that credit to the sector is expanding, the MSE borrowers believe that the lenders are not doing enough as only about 5 per cent of MSEs are covered by institutional finance. There is, therefore, a need to bridge this perceived disconnect through enabling policies and operating practices.

Suggestions pertaining to MSE sector received by the Committee broadly related to:

i. Upward revision in limits under MSE (both manufacturing and services) as prescribed under MSMED Act;
ii. Inclusion of medium enterprises, especially manufacturing enterprises within priority sector;
iii. Encouraging rural entrepreneurship for large scale employment generation and overall rural prosperity, by promoting micro enterprises within such centres;
iv. Creation of an institutional framework like angel finance, venture capital fund, risk capital to promote rural innovation and rural entrepreneurship;

v. Removal/enhancement of cap on lending to private retail traders so long such enterprises conform to the definition of MSE under services sector as per MSMED Act;

vi. Promoting lending to institutions engaged in skill building/capacity building;

vii. Addressing concerns of urban poverty through the development of enterprises in urban townships and treating bank loans for the purpose under priority sector.

Considering the significance of MSEs, particularly from perspective of providing large-scale employment, a special focus on this segment is desirable. The case for revising limits is also valid in view of the change in price index as well as higher cost of inputs.

2.3. Micro Credit

Loans of very small amounts help the poor access credit from formal financial institutions. Such loans are generally extended for creation of income generating assets and sometimes include loans for emergency and consumption purposes. Loans not exceeding ₹ 50,000 per borrower, extended directly by banks to poor sections of the society and through the mechanism of SHG/JLG, are classified as micro credit under priority sector. Micro credit constituted 0.71 per cent of priority sector portfolio of public sector banks and 3.65 per cent in case of private sector banks as on March 31, 2011.

The Sub Committee of the Central Board of Directors of RBI constituted to study issues and concerns of MFI Sector (Chairman: Shri. Y H Malegam) recommended a maximum loan limit of ₹ 50,000 per borrower for the poorer sections of society with certain conditions. Suggestions were received for relaxation of certain conditions.

In view of vulnerability of the poor, the need for extending small amounts of loan still exists, with some safeguards for those loans being extended directly by banks too.

2.4. Education

Education is one of the factors which will enable us optimize and leverage our demographic dividend. Approach to the 12th Five-year Plan has also deemed education the single most important instrument for social and economic transformation.

Education is an investment that augments the stock of human capital over a period. There is strong economic evidence to support that the return on investment (both public and private) is positive and highly correlated with the economic well-being. Along with emphasis on achieving universal primary education, there needs to be strong focus on expansion of the scope and reach of higher education. The need for skill development & capacity building is increasing. Improved training and skilling are critical for providing employment opportunities to the growing mass of younger people and necessary to sustain the high growth momentum. The needs of education, skill and capacity building necessitate adequate flow of credit to this sector. Education loans extended by banks have brought higher education within the reach of the deserving poor and brought it to the masses.

Suggestions pertaining to education loan received by the Committee broadly related to:

i. Redefining education loans as priority sector by considering upward revision in limits, through removal of limits, fixing limits based on income criteria of parents;

ii. Enhancing the scope of education loans under priority sector to cover basic vocational courses and skill development courses;

iii. Girl students to be given preferred attention in extension of education loans;

iv. Responding to perceived risk aversion for lending for education through establishing an institutional framework of a credit risk fund to cover the risk of default in such loans.

Importance of education, including skill development and vocational courses will grow as economy progresses, and, therefore, education loans would continue to be a thrust area of bank finance.

2.5. Housing

There is demand for about 25 million dwelling units in the country, of which 95 per cent is required in urban centres. The majority of the housing requirements are of low-income households. Factors that are driving housing demand are increasing urbanization and large increase in younger & better-paid workforce.

Provision of affordable housing is one of the most formidable challenges that we currently face. 'The High Level Task Force on Affordable Housing' (Chairman: Shri Deepak Parekh, Chairman, HDFC Ltd) also recommended the need for 'Affordable Housing' and stated that delay in addressing the affordable housing problem would seriously affect India's economic growth and poverty reduction strategies. The Task Force noted that housing is central to economic growth and has multiplier effects on employment, poverty reduction, etc. It estimated that alleviating the urban housing shortage could potentially raise the rate of growth of GDP by at least 1-1.5 per cent and have a decisive impact on improving the basic quality of life.

Housing sector is serviced by banks and specialized Housing Finance Companies (HFCs). HFCs account for a significant share of the housing finance market, both in terms of volume and coverage. More importantly, they have developed specialized skills and effective customer-oriented approach to cater to the needs of the borrowers in both formal and non-formal segments (including self-employed) spanning all income groups.

Total number of housing loan accounts with the commercial banks are less than 5 million, of which public sector banks' share is 75 per cent.

Table 2: Bank Group-Wise Performance under Housing Loans (Number & Amount)

Bank Group	No. of Accounts (in lakh)	Amount outstanding (In ₹ crore)
Public Sector Banks	39.62	188268
Private Sector Banks	7.33	58083
Foreign Banks	0.49	3918
Total	**47.44**	**250269**

Source: RBI

Suggestions pertaining to housing loan received by the Committee broadly related to:

i. Revision in limits for housing loans for construction, purchase & repair of house based on area classification;
ii. Focused approach for housing loans to individuals falling under Economically Weaker Section (EWS) and Low Income Groups (LIGs);
iii. Denial of priority sector classification for housing loans for purchase of more than one property;
iv. Upward revision of on-lending limits by approved HFCs to their beneficiaries for the purpose of classification of loans availed by these HFCs from banks to be reckoned as Priority sector loans;
v. Housing Loans granted to bank's own employees may be considered as priority sector.

In view of the huge unmet demand for dwelling units in the country, both in rural and urban centres as well as demand from Economically Weaker Sections/Low Income Groups, there is need for continued focus by banks in providing credit to housing sector.

2.6. Off-grid Energy Solutions for Households

Access to energy is a critical need for a dwelling unit both in rural or urban centres. One such potential avenue is solar energy. Solar lighting system for homes is powered by solar energy using solar cells that convert solar energy (sunlight) directly to electricity. The electricity is stored in batteries and used for lighting whenever required. These systems are helpful in non-electrified areas and are reliable emergency lighting system with important domestic, commercial and industrial applications. Similar solutions are available with other renewable energy sources.

The Committee received suggestions for including loans given for setting up of off-grid energy solutions for individual households as priority sector.

This can potentially spur economic development within the local community, and in turn lead to an improvement in income levels and the overall quality of life. Thus, solar and other renewable energy-based solutions for individual households as a clean energy source need to be encouraged.

2.7. Lending to Women

Women bear the double burden of being poor and supporting the family. To help overcome the hurdles faced by women in accessing bank credit and other services, Government of India had drawn up a 14-point action plan in the year 2000 for implementation by PSBs. These banks were advised to earmark 5 per cent of their Net Bank Credit (NBC) for lending to women. As at March 2011, amount of credit outstanding to women with PSBs was ₹ 182 667 crore, which constitutes 7.46 per cent of NBC. Another important development in this regard is the SHG bank linkage programme. Of the total number of SHGs credit linked, 84.94 per cent are exclusive women SHGs. Further, the percentage of loan outstanding in respect of exclusive women SHGs to loans outstanding in respect of total SHGs was 83.98 per cent as on March 31, 2011.

Suggestions were received by the Committee for according differentiated treatment for lending to women, including for pricing and collateral required for availing the loan.

There is merit in these suggestions as adequate flow of credit to women is essential for strengthening their role as producers and consumers of goods, entrepreneurs and expanding the set of economic activities they can undertake, the scale at which they can operate and their ability to benefit from economic opportunities.

2.8. Lending to Weaker Sections

The essential rationale for priority sector loans is to make credit accessible to that segment of the population, which in normal course would find it difficult to access credit.

Following categories of borrowers are categorized as weaker sections:

(a) Small and marginal farmers with landholding 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 ₹ 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);

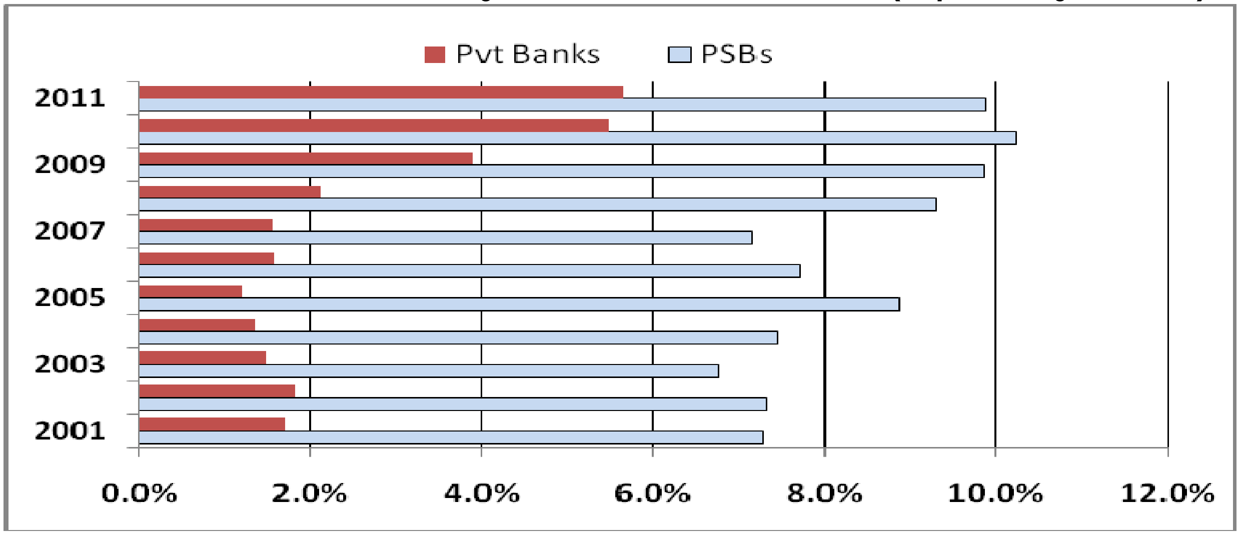
(h) Advances to Self Help Groups;

(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) mentioned above, to persons from minority communities.

The performance under lending to weaker sections has been steadily increasing for both bank groups. While PSBs are near the target level of 10 per cent of ANBC, private banks are fast approaching.

Chart 2: Performance under lending to Weaker Sections advances (as percentage of ANBC)



Source: RBI

Suggestions received by the Committee related to enhancing definition of weaker sections in terms of coverage of beneficiaries by including newer categories like women, housing loans to EWS & LIG, loans to differently-abled beneficiaries under priority sector, etc.

2.9. Revision of Limits

Several representations were received for inflation indexing, i.e., revisiting current loan limits prescribed for various activities in order to account for change in price index and increased cost of inputs over a period. A borrower with the same investment, similar activity and similar input requirements may require higher credit limits for procuring similar inputs than availed earlier. Hence, it is important to ensure that there is an in-built provision to reset eligibility credit limits for various requirements at periodic intervals of three years.

There is a felt need to revise upwards limits, e.g. investment in plant & machinery for food & agro-based processing units to capture the value chain in the agriculture sector.

Appropriate multipliers were determined taking into account the year in which a particular limit was introduced. The adjusted limits for the following activities are furnished below:

Table 3: Revision of limits for activities under Priority Sector

No.	Activity Description	Existing Limits	Revised Limits
1	Maximum loan against pledge/hypothecation of agricultural produce upto 12 months	₹ 10 lakh	₹ 20 lakh
2.	Investment in plant & machinery for food & agro-based processing units	₹ 10 crore	₹ 20 crore[4]
3.	Credit for purchase and distribution of inputs for the allied activities, dealers in drip /sprinkler irrigation system /agricultural machinery	₹ 40 lakh/ ₹ 30 lakh	₹ 70 lakh
4.	Loans given for repairs to the damaged dwelling units	Rural/Semi Urban – ₹ 1 lakh Urban/Metro – ₹ 2 lakh	Rural/Semi Urban– ₹ 2 lakh Urban/Metro – ₹ 5 lakh
5.	Assistance given to any governmental/non- governmental agency for construction of dwelling units	₹ 5 lakh	₹ 10 lakh
6.	Eligibility for loans extended to artisans, village and cottage industries under weaker sections	₹ 50,000	₹ 1 lakh

The above summarized list gives the changes made to the extant limits. However, it may be noted that individual limits, as the case may be, are proposed alongside the activities in appropriate places.

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[4] However, for primary processing of perishable Agriculture produce, the ceiling would not be applicable.

2.9.1. Revision in limits set for definition of MSME Sector

The existing limit, under the MSMED Act, fixed in 2006, for investment in plant & machinery that qualify a unit as micro/small enterprise needs to be increased considering changes in price index and cost of inputs.

Several suggestions were received for changing the existing limits. As explained in the previous section, threshold defined in terms of investment in plant and machinery requires adjustment to a higher level. As modification, as mentioned, requires amendment in the statute, the Committee recommends that the Government may effect necessary amendment.

Table 4: Recommendation for revision of limits under MSMED Act

No.	Activity Description	Investment in Plant & Machinery/Equipment	
		Existing	**Revised**
1	Micro (Manufacturing) Enterprises	₹ 25 lakh	₹ 50 lakh
2.	Small (Manufacturing) Enterprises	₹ 5 crore	₹ 8 crore
3.	Micro (Service) Enterprises	₹ 10 lakh	₹ 20 lakh
4.	Small (Service) Enterprises	₹ 2 crore	₹ 3 crore

2.10. Differential Rate of Interest (DRI) Scheme

In March 1972, Government of India formulated Differential Rate of Interest (DRI) scheme for PSBs, which was later made applicable to all SCBs. As per the scheme, domestic commercial banks are mandated to extend credit equivalent to 1 per cent of previous year's total advances at concessional rate of interest of 4 per cent per annum, to selected low-income groups for productive endeavors.

The scheme is meant for meeting the needs of economically weaker sections of the society. At present family income ceiling is ₹ 24000 in Urban and Semi-Urban areas and ₹ 18000 in Rural areas but loan cap is ₹ 15000. There is an interest rate subvention but no subsidy. The limit for housing loan under the scheme which is applicable only to SC/ST, is ₹ 20000 per beneficiary. The low loan limit (₹ 15000) make the interest rate subvention of the scheme unattractive as the same target group has access to larger amounts of loan under other Government Sponsored Programmes as under SGSY. Unlike government sponsored schemes where involvement of government agencies in sourcing and training of borrowers as well as recommending them to the branch of the bank is a positive factor, in DRI scheme the bank has to directly source the beneficiary.

Table 5: Bank group-wise performance under DRI scheme

(Rs crore)	PSBs			Pvt Bks		
At end-March	Loan Outstanding	year-on-year growth (%)	Loans under DRI as % to previous year's advances	Loan Outstanding	year-on-year growth (%)	Loans under DRI as % to previous year's advances
A	B	C	D	E	F	G
2007	641	-	0.05%	93	-	0.03%
2008	633	-1.24%	0.05%	88	-4.95%	0.02%
2009	790	24.92%	0.05%	63	-28.09%	0.01%
2010	809	2.43%	0.04%	209	230.49%	0.04%
2011	758	-6.36%	0.03%	54	-74.39%	0.01%
Source: Reserve Bank of India						

As per the available data, banks are not able to achieve the target set under the scheme, as they are not able to find borrowers. Loans outstanding under DRI scheme as at end-March 2011 was ₹ 758 crore in case of PSBs and ₹ 54 crore in case of private banks, showing decrease in loan outstanding on year-on-year basis in case of both the bank groups. As per cent to their previous year's advances, loan outstanding under DRI was 0.03 per cent for PSBs and 0.01 per cent in case of private banks.

There is a huge performance gap considering the fact that target of 1 per cent translates into almost ₹ 30,000 crore. For meeting this level of lending, banks would be required to extend credit to about 150 lakh beneficiary accounts, assuming existing average ticket size, while data reveals that number of borrowal accounts under the scheme decreased from 35.11 lakh in 1991 to less than 4 lakh in 2010. If quantum of loan is increased as the interest subvention is of 4 per cent banks may be disincentivised to lend.

The DRI scheme is not attractive for borrowers as:

i. The quantum of loan extended under the scheme is very low compared to government sponsored schemes. If the quantum of loans were to be increased, it would no longer target the vulnerable and hardcore and asset-less poor who cannot afford to service large loan quantum;
ii. The other government-sponsored schemes have an attractive subsidy component while there is no capital subsidy under DRI except for an interest subsidy component. Availment of DRI loan bars the borrowers from taking loans under other schemes.

Similarly, DRI scheme may not be also attractive for banks as with the inflation ruling in the range of 8 per cent, banks would be reluctant to lend at 4 per cent.
Increasing income eligibility criteria for borrowers as well as increasing quantum of loan amount per beneficiary were the options considered for enhancing coverage under DRI scheme. The apprehension is that increase in income criteria for eligibility will lead to exclusion of main intended beneficiaries, i.e., poorest of the poor. Similarly, if loan quantum is enhanced, benefits will not flow to intended beneficiaries as originally envisaged.

Exclusivity clause has the objective of ensuring flow of credit to those who otherwise do not have access to bank credit. Hence, this cannot be dispensed with, else original objective of reaching the selected low income groups will not be met. The Committee discussed this issue with representative of the Ministry of Social Justice & Empowerment. It was shared by the representative that the performance under the scheme has been sub-optimal. Under poverty-alleviation schemes, a sectoral segment is proposed to be earmarked for specific segmental extension of credit, i.e., NRLM will extend 5 per cent of loans to those whose income is less than ₹ 12,000.

Considering the above, the Committee recommends that DRI scheme may be dispensed with. However, the existing borrowers under the scheme would continue until currency of the loan.

2.11. Adjusted Net Bank Credit (ANBC)

As per extant guidelines, the targets and sub-targets under priority sector lending are linked to Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher.

Suggestions were received from banks for revisiting the calculation methodology of ANBC. The rationale for the requests to relook ANBC calculation was that bank credit to certain sectors is growing at a higher rate than agriculture and other Priority sectors.

Further, world over debt capital for infrastructure projects is provided by capital market instruments, given the humongous credit needs of the sector. Due to absence of a developed corporate debt market in India, Banks play a major role in providing loans to infrastructure projects, may create concentration and asset-liability mismatches given the long gestation period of such projects. To encourage banks to continue providing loans to such projects, it was considered whether lending to infrastructure projects may be a separate category outside the definition of ANBC. As share of infrastructure will continue to grow and crowd out priority sector lending, linking agriculture and Priority sector Lending to ANBC, which includes infrastructure, would be counter-productive as the credit absorption capacity of the 'low value – high volume' Agriculture and MSME is considerably low vis-à-vis Infrastructure.

These suggestions were discussed and it was felt that the basic rationale for the continuance of Priority sector classification is to channelize existing lendable funds to those sectors deprived of credit. On this premise, the existing calculation methodology is the correct reflection.

2.12. Lending to non-bank financial intermediaries for on-lending

Directed lending addresses the issue of lack of access to credit for poorer sections. We can push the frontiers of finance through treating bank loans to select non-bank intermediaries for on-lending to identified segments as priority sector lending by banks. This will promote competition leading to product innovation and process efficiency.

Presently diversified set of non-bank intermediaries - NBFCs, MFIs, HFCs and PACS - operate in niche segments and markets. With effect from April 1, 2011, lending through intermediaries is not considered as priority sector lending. Several representations were received by the Committee for allowing treatment of bank finance to non-bank financial intermediaries as priority sector lending and arguments advanced were as under:

i. Ability of such intermediaries ensures last mile connectivity;
ii. The niche players in individual product markets through innovative models enable efficiency in extension of finance;
iii. Better access to finance from banks to intermediaries;
iv. Cost-efficient availability of finance will act as a spur to such lending.

There is merit in allowing bank lending to non-bank financial intermediaries for promoting inclusive banking, subject to essential caveats through certain stipulated terms and conditions, e.g. proper due diligence of end beneficiaries, capping of margins, with further stipulation to cap the level up to which on-lending, buy-out and securitization can be resorted to by banks under Priority sector. This will also help sub serve financial inclusion goal of Government of India and RBI.

In the recent years, there has been renewed focus on encouraging banks to reach out to hitherto unbanked centres by higher thrust on financial inclusion, using Business Correspondents (BC)/Business Facilitators(BF) and leveraging technology for reaching out. Government and RBI have been facilitating this objective by relaxing norms and creating enabling environment. Ultimate objective for banks is to create last mile connectivity through either opening branch or BCs in a defined time manner. Therefore, it is desirable to phase out in a time-bound manner the intermediary channel that banks use for reaching out to diverse priority sector segments.

2.13. Cooperatives as an important financial player in rural economy

Cooperative system was created as an important institutional framework for ensuring necessary credit flow to agriculture. Rural cooperative credit institutions have played a large role in providing institutional credit to the agricultural and rural sectors in the past. However, contribution of cooperative sector in the upliftment of rural economy has drastically reduced over the years. Out of the total direct institution credit for agriculture and allied activities, loans issued by cooperatives was 23.9 per cent in 2008-09, down from 46.2 per cent a decade ago. This ratio, however, improved in case of SCBs from 44.8 per cent in 1998-99 to 65.3 per cent in 2008-09[5].

There is, therefore, a need to revitalize the cooperative sector by ensuring speedy implementation of the Vaidyanathan Committee recommendations. The key recommendations of the Committee were related to encouraging such institutions for product restructuring, institutional restructuring and allowing them to borrow from any financial institution. So far, 25 State Governments have signed the MoU with Government of India and NABARD, comprising more than 96 per cent of the rural cooperatives operating in the country[6].

2.14. Risk management in Agriculture Lending

Due to vulnerabilities of small & marginal farmers to vagaries of nature and several other external factors, there is relatively high degree of risk associated in lending to agriculture sector and more specifically to small & marginal farmers, oral lessees, tenant farmers, sharecroppers and landless labourers.

The Financial Stability Report (RBI, June 2011) states, 'The asset quality under priority sector lending, **especially agriculture,** deteriorated at a faster pace as compared to overall asset quality, which was a concern.' The report further states,

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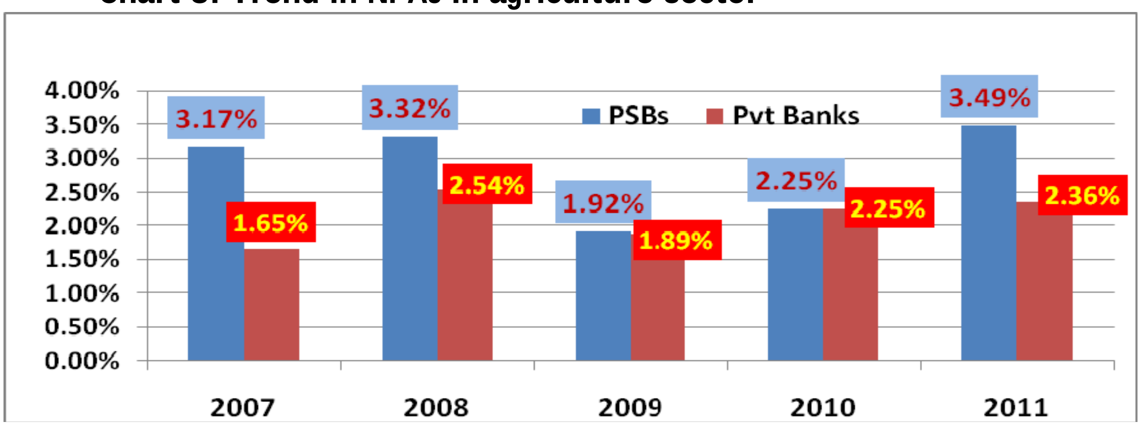
[5] RBI, Handbook of Statistics on Indian Economy (2010-11), Table 57
[6] RBI, Annual Report, 2010-11

‘The gross Non-Performing Asset (NPA) ratio in respect of credit to the agriculture segment rose to 3.3 per cent in March 2011 as against 2.4 per cent in March 2010. The deterioration in the ratio was attributable to a rise of 60 per cent in agriculture NPAs as against a growth of 19 per cent in agriculture credit.’

Further, Financial Stability Report (RBI, December 2011) highlights that the contribution of priority sector to aggregate NPAs of the banking system was 48 per cent as at September 2011, which was higher than contribution to total advances of the banking system of 31 per cent. The report states that the sensitivity analysis of credit risk for 4 major sectors revealed that the combined shock would increase the system level NPA ratio significantly, with agriculture being one of the major contributors.

NPAs of banks in agriculture sector have been increasing for the last three years.

Chart 3: Trend in NPAs in agriculture Sector



Source: RBI

Approaches to mitigate agrarian risk are Minimum Support Price, Insurance Schemes like Rashtriya Krishi Bima Yojana, Agriculture debt waiver/relief schemes, Credit Guarantee Scheme etc.

A better approach to manage delinquency in agriculture lending is through developing a robust credit culture. Past experiences of debt waiver schemes do not show any positive impact on credit culture. However, policy intervention such as interest subvention scheme for prompt repayment of loans extended to farmers helps promote healthy credit culture by not penalizing the honest borrower. Nonetheless, Interest

Subvention Scheme may also lead to credit distortion by diverting flow of credit to those sectors which are eligible under the scheme. Subvention provides credit to farmers at relatively lesser rate of interest and incentivizes the prompt repaying farmers. But experience shows that banks continue to face high level of delinquency, in spite of such schemes.

The risk of default is not unique to agriculture sector alone within priority sector. It is perceived to be higher in case of education loans extended without collaterals and housing loans of smaller ticket sizes.

Suggestions received by the Committee were for creation of a credit guarantee fund similar to CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) for loans to small and marginal farmers, education & housing.

The Centre is stated to be considering setting up Credit Guarantee Fund of ₹ 1000 crore, to start with, to encourage banks to lend to the EWS & LIG for housing. Similarly, a Credit Guarantee Fund for education loan is also under consideration. If these two funds are created, the perceived risks in lending for education without collateral and EWG & LIG, would be adequately addressed.

Considering the above, establishment of Credit Guarantee Fund to deal with the cases of distressed small & marginal farmers appears an efficient mechanism to address the risk in the agriculture sector. This will protect lending institutions against perceived risks in lending to small and marginal farmers. Hence, instead of Interest Subvention Scheme, Government may create Credit Risk Guarantee Fund for Agriculture.

The Government may consider contribution to such corpus through appropriate funding mechanism/budgetary allocations that would obviate the need for providing huge amounts entailed by debt waiver and relief schemes. Such a corpus would be a natural risk mitigant in the event of default, provide a natural hedge to the lending banks. The Committee discussed the framework for putting in place an Agriculture Credit Guarantee Fund Trust, a concept note on the same is placed in Annex IV.

This may be duly complemented by liberal compromise settlement schemes on an ongoing basis by banks, so that farmers in distress are able to avail fresh loans and the lines of credit are declogged. Further, establishment of Credit Information Bureaus (at present - CIBIL, Highmark, Experian and Equifax) is also a positive step forward in mitigating risks of lending to agriculture. The efficacy of these institutional mechanisms as risk mitigation tools is contingent on mandatory and hassle free access to information from these bureaus in taking credit decision.

Such mechanisms will encourage banks to extend loans liberally to small & marginal farmers, for whom a focused approach is being recommended.

2.15. Need for Complimentary Policy Measures

Access to institutional credit is important for growth of diverse sectors of economy. Adopting this approach, Committee recommends a framework, which would ensure superior flow of credit to marginalized, vulnerable and needy segments. However, success of financial deepening through priority sector lending depends on harmonious development of other institutional mechanisms like efficient backward & forward linkages, well functioning market, other infrastructure, etc.

There is a need for capacity creation through skill development initiatives, financial awareness, establishing market infrastructure, creating effective institutional mechanism for land records and entitlement, promoting conducive environment for starting a business. If complimentary policy measures are taken by the Government, effectiveness of directed lending would be more pronounced.

3. RECOMMENDED APPROACH TO PRIORITY SECTOR LENDING

3.1. Focus on Vulnerable Section

The sectors and segments, which do not have easy access to finance from formal sector, generate large employment and have a social impact, should be accorded special focus within the overall priority sector classification. Therefore, specific sub-targets are recommended for small and marginal farmers (*including Landless Agricultural labourers, Tenant Farmers, Oral Lessees and Share-croppers*) within agriculture sector and micro enterprises within MSE sector.

3.2. Target for Priority Sector

The objective of faster, sustainable and more inclusive growth necessitates the continuance of directed lending. It remains valid in the macro policy framework of the country until desired level of financial deepening at all levels, in rural as well as urban markets, is achieved.

All targets/sub-targets recommended under Priority Sector are with reference to Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher, as defined in the subsequent Para no. 3.15. **Any reference to ANBC in this report would mean ANBC or CEOBE, whichever is higher**.

Target for lending to priority sector is recommended as 40 per cent of ANBC for domestic scheduled commercial banks.

3.3. Agriculture

As per extant guidelines, domestic SCBs are required to extend 18 per cent of their ANBC to 'agriculture and allied activities'. Of this, indirect lending in excess of 4.5 per cent of ANBC is not reckoned for computing performance under 18 per cent.

Considering that availability of credit rather than the channel or mode of delivery of credit is important and that credit to entire sector rather than the individual activities within the individual sector is important, concepts of 'Direct' & 'Indirect' lending to agriculture sector may be integrated in order to have all encompassing approach towards agriculture sector.

The Committee, therefore, recommends the inclusion of all agriculture and allied activities, encompassing entire value chain and supply chain, under 'Agriculture and Allied Activities'.

3.3.1. Target for Agriculture and Allied Activities

This segment covers agriculture and allied activities including production credit, investment credit, complete with forward and backward linkages for the entire value chain, from farm gate to food plate. Target for lending to agriculture and allied activities, may be retained at present level of 18 per cent of ANBC.

Agriculture finance will encompass entire gamut of agricultural and allied activities, pre-harvest, post-harvest activities and the entire value chain of farm produce including transport, storage creation, grading, packaging, processing up to the market-end without any distinction between direct and indirect categories.

3.3.2. Activities covered under agriculture and allied activities

The following activities are covered under the segment of agriculture and allied activities for the purpose of achievement of target of 18 per cent of ANBC:

Table 6: Details of activities covered under agriculture & allied activities

No	Type of Activity	Details of Activities
1.	Production	Crop loans including traditional/non-traditional plantations and horticulture, allied activities, animal husbandry
2	Investment	Medium & long-term credit that leads to capital formation through asset creation and those that induces technological upgradation resulting in increased production, productivity and incremental income to farmers
3	Purchase of Land	Loans extended to small and marginal farmers for purchase of land for agricultural purposes only.
4	Debt-Swap	Loans granted to distressed farmers indebted to non-institutional lenders
5	Pre-harvest	Loans granted for pre-harvest activities such as land development, spraying, weeding etc.
6	Post-harvest	Loans granted for post-harvest activities such as grading, sorting packaging, labeling and transporting
7	Processing	Activities pertaining to food and agro-based processing with Initial investment in plant &machinery upto ₹ 20 crore. However, for primary processing of perishable agriculture produce, the above ceiling will not be applicable.
8	Pledge/Hypothecation of Produce	Advances against pledge/hypothecation of agricultural produce (including warehouse receipts and cold storage) for a period not exceeding 12 months, extended to farmers irrespective of the category or availment of crop loan, upto ₹ 20 lakh.
9	Allied Activities	(A limit of ₹ 3 lakh may be fixed for SFMF) List of allied activities is provided as Annex V
10	Distributors/hirers of Agro Inputs/Implements	Credit for purchase and distribution of inputs for agriculture & allied activities such as fertilizers, pesticides, seeds, cattle/poultry feed, upto a credit limit of ₹ 70 lakh. AND Finance extended to dealers in agricultural machinery like drip/sprinkler irrigation system and to those who undertake work with tractors, bulldozers, well-boring equipment, threshers, etc., for farmers on contract basis, upto a credit limit of ₹ 70 lakh.
11	Creation of Warehouse & Supply Chain	Loans for construction and running of storage facilities, warehouse, market-yards, godowns, and silos, cold chains & cold storage units designed to store agriculture produce or agro-products.

Lending to Arthias/Commission agents is excluded from classifying under priority sector loans.

3.3.3. Target groups under Agriculture and allied activities

In order to have focused approach for meeting the credit needs of different groups under agriculture sector, target groups are classified as under:

a. 'Small & Marginal farmers[7]' including SHGs, JLGs and other aggregators exclusively of SFMF;
b. Other individuals, aggregators and proprietorship firms;
c. Others such as corporates, partnership firms & institutions.

3.3.4. Sub-target for small and marginal farmers

The definition of Small and Marginal farmer is given below:

Small Farmer: A farmer with a landholding of more than 1 hectare but less than 2 hectares

Marginal Farmer: A farmer with a landholding of up to 1 hectare.

As per 'Situation Assessment Survey of Farmers' conducted as part of 59th round of National Sample Survey (January-December 2003), there are 75 million small and marginal farmer households, i.e., more than 4/5th of total farmer households.

Table 7: Estimated number of total Farmer Households

	Type of farmer households	Estimated number of farmer households (in millions)	Per cent to total farmer households
1	Marginal Farmers	58.91	65.93
2	Small Farmers	16.06	17.97
	Subtotal: SFMF	74.97	83.91
3	Other Farmers	14.38	16.09
4	Total Farmer Households	89.35	100.00

Source: Situation Assessment Survey of Farmers, NSS Report No. 498 (59/33/1), May 2005; NSSO [8]

[7] The sub-classification of small & marginal farmers includes Small and Marginal Farmers, Landless Agricultural labourers, Tenant Farmers, Oral Lessees & Share-croppers (whose share is eligible under Small Farmer).

Out of the 74.97 million SFMF in the country, only about 46.3 per cent, i.e., 34.70 million farmer households have access to credit, either from formal or informal sources. The most important source of loan for all farmer households in terms of percentage of outstanding loan amount is banks, which is 36 per cent[9].

During the last 5 years, loans to small and marginal farmers as percent of ANBC have grown from 4.57 per cent to 6.32 per cent in respect of PSBs and from 0.64 per cent to 2.82 per cent in respect of private sector banks. In aggregate, the share has increased from 3.77 per cent to 5.71 per cent.

Table 8: Lending by banks to small & marginal Farmers

	Lending to SFMF (₹ crore)			ANBC (₹ crore)			**Lending to SFMF as % to ANBC**		
	PSB	**Private Banks**	**Domestic SCBs**	**PSB**	**Private Banks**	**Domestic SCBs**	**PSB**	**Private Banks**	**Domestic SCBs**
2007	60273	2140	62413	1317705	336589	1654294	4.57	0.64	3.77
2008	78381	5560	83940	1364267	343396	1707663	5.75	1.62	4.92
2009	103875	8556	112431	1693437	406543	2099980	6.13	2.10	5.35
2010	130830	13343	144174	2074472	468649	2543121	6.31	2.85	5.67
2011	157698	15029	172727	2493498	533560	3027058	6.32	2.82	5.71

Source: Data reported by individual banks

As of March 2011, the total number of loan accounts of SFMF with domestic scheduled commercial banks were approximately 23 million. Considering that a farmer, on an average, may have more than one account with bank(s), it may be deduced that only around 15 per cent to 20 per cent of small and marginal farmer households are availing loans from public sector and private sector banks.

With a view to making credit available to large number of eligible and willing small & marginal farmers, the Committee recommends a sub-target for lending to small and marginal farmers, equivalent to 9 per cent of ANBC to be achieved in stages latest by 2015-16. This sub-segment will be within the 18 per cent target set for agriculture and allied activities.

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[8] *For the purpose of this survey, a farmer is defined as 'a person who operates some land and is engaged in agricultural activities during the last 365 days*

[9] NSS Report 498 (59/33/1), May 2005

It is also observed that even though the credit to these sections has been increasing over the years, the number of farmers financed has not seen a commensurate rise. As the objective is to extend credit to all eligible and willing small and marginal farmers within a defined timeframe, the Committee also proposes that all banks must endeavor to achieve a minimum increase of 15 per cent in number of accounts every year.

Due to factors like high dependence of agriculture on monsoon, vagaries of nature, poor information availability in rural centres, loan waivers, banks may have higher perceived risks in lending to small and marginal farmers. As agriculture credit needs of small and marginal farmers will be high and to ensure that stressed assets in this sector do not arise, the Committee has strongly recommended the establishment of an Agriculture Credit Risk Guarantee Fund.

The Committee discussed the framework for putting in place an Agriculture Credit Guarantee Fund Trust, a concept note on which is placed in Annex IV.

3.3.5. Roadmap for achievement of the sub-target under SFMF

The credit extended by domestic SCBs to small and marginal farmers was 5.71 per cent of ANBC as at March 2011, with varied degree of achievement by different players within the industry. The performance metrics of domestic SCBs show that 84 per cent of public sector banks and 45 per cent of private sector banks are extending 4 per cent or more of their ANBC to SFMF, as of March 2011.

Table 9: Frequency distribution of lending to small & marginal farmers

Lending to SFMF as percentage to ANBC	**Number of PSBs**	**Number of Private Banks**
(As of March 2011)		
Below 4%	4	11
4% to less than 7%	11	2
7% to less than 9%	6	2
9% and above	5	5
Total	26	20
Source: Data reported by individual banks		

The above data reveals that 21 PSBs and 15 Private sector banks currently have achievements below 9 per cent ranging from 0 per cent to 8.7 per cent. Given the above scenario, it is proposed that every bank having shortfall in lending to small & marginal farmer below 9 per cent should endeavor to record a minimum incremental growth of 1 per cent of ANBC every year until it reaches the level of 9 per cent of ANBC.

However, as above sub target is being proposed for the first time and 4 PSBs and 11 private sector banks currently have achievements below 4 percent ranging from 0 to 3.7 per cent, it is proposed that short fall to be reckoned for penalty provisions may not be linked to incremental achievements of target of 1 per cent of ANBC by non-complaint banks and instead a uniform roadmap may be enforced for all the banks for reckoning shortfall in achievement of their targets for lending to small & marginal farmers.

Accordingly, irrespective of the actual/incremental achievement of target under this sub-segment, penalty would be uniformly calculated for all the banks for the shortfall in achievement of yearly targets as per the table give below:

Table 10: Roadmap for achievement of SFMF target

Year	Target for SFMF as percentage of ANBC
2012-13	6
2013-14	7
2014-15	8
2015-16	9

3.3.6. Lending to other individual farmers and institutions

Within target of 18 per cent of ANBC for agriculture and allied activities, remaining 9 per cent of ANBC may be extended to individual farmers, corporates, partnership firms and institutions.

3.3.7. Investment credit

Declining investment credit in agriculture in recent years has been a major cause of concern for agrarian economy. Hence, emphasis needs to be on traditional investments such as land development, irrigation and farm mechanization and focus of investment must be on the entire value chain of agriculture. The holistic approach to entire agriculture value chain is intended to ensure adequate flow of credit for capital formation in agriculture and as such due priority needs to be accorded by banks in accelerating flow of investment credit under agriculture.

3.4. Micro and Small Enterprises

Micro & small enterprises constitute a significant part of total manufacturing & service enterprises. Considering their contribution to employment generation, output & exports, lending to MSE will continue to be part of priority sector, within which a special focus on micro enterprise is considered.

Like agriculture sector, a comprehensive approach for MSE sector is envisaged by doing away with the distinction between 'direct' and 'indirect' finance to MSE sector.

National Manufacturing Policy (2011) of the Government of India (Press Note No. 2), vide Para no. 6.2 (viii) has proposed inclusion of lending to medium enterprises engaged in manufacturing as part of 'Priority Sector Lending', subject to the recommendations of this Committee. The proposal was examined in detail to assess pros and cons of including medium enterprises (manufacturing) as part of priority sector. It was assessed that such enterprises do not have any issue in accessing credit from formal financial system and their inclusion may crowd out flow of credit to micro and small enterprises. Keeping in view the fundamental premise of according priority sector status to such sectors, which do not get easy access to credit, the above proposal is not recommended for consideration.

3.4.1. Sub target for micro enterprises

As per extant guidelines banks are required to increase the share of micro enterprises in MSE lending to 60 per cent, in stages, by March 2012-13 as per recommendations of the Prime Minister's Task Force (Chairman: T K A Nair, Principal Secretary, GOI) on Micro, Small and Medium Enterprises. The Task Force laid down these stipulations for accelerating the flow of credit to micro enterprises as against the recommendations of Inter-Ministerial Group (IMG) to fix a separate sub-target of 6 per cent of ANBC for lending to micro enterprises. To accelerate flow of credit to micro enterprises, prescription of a separate sub-target for lending to micro enterprises will ensure achievement of intended objective and be more practical and feasible for banks to implement and monitor.

During the last 5 years, the share of micro enterprises as percentage of ANBC has increased from 3.34 per cent to 6.94 per cent in respect of PSBs and from 0.97 per cent to 4.67 per cent in respect of private sector banks. In aggregate, the share has increased from 2.86 per cent to 6.54 per cent.

Table 11: Lending by banks to Micro Enterprises

Year	Micro Enterprises (in ₹ Cr)			ANBC (in ₹ Cr)			Loans as % of ANBC		
	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs
2007	44063	3256	47320	1317705	336589	1654294	3.34	0.97	2.86
2008	68937	8830	77767	1364267	343396	1707663	5.05	2.57	4.55
2009	89505	11130	100635	1693437	406543	2099980	5.29	2.74	4.79
2010	133154	16113	149268	2074472	468649	2543121	6.42	3.44	5.87
2011	173156	24911	198068	2493498	533560	3027058	6.94	4.67	6.54

Source: As reported by banks.

In view of the above, the Committee recommends a sub-target, equivalent to 7 per cent of ANBC, for lending to micro enterprises to be achieved in stages latest by 2013-14.

It is also observed that even as the credit to these sections has been increasing over the years, the number of units financed have not seen a commensurate rise. As the objective is to extend credit to all eligible and willing micro enterprises within a defined timeframe, the Committee also mandates that all banks must endeavor to achieve a minimum increase of 15 per cent in number of accounts every year.

Loans given by banks to MSE sector is presently covered under CGTMSE scheme. Banks are encouraged to take benefit of this scheme to increase their exposure to Micro enterprises. However, lendings to Retail trade and SHG engaged in micro enterprises are presently not covered under the scheme. Committee proposes that these two segments may also be included under the purview of the scheme.

3.4.2. Roadmap for achievement of sub-target under micro enterprises

Loans extended by the banking industry as a whole to micro enterprises is 6.54 per cent of ANBC as at March 2011, with varied degree of achievement by different players.

Table 12: Frequency Distribution of Lending to Micro Enterprises

Lending to Micro Enterprises as percentage to ANBC	Number of PSBs	Number of Private Banks
(As of March 2011)		
Below 4%	5	8
4% to less than 7%	9	3
7% and above	12	9
Total	26	20
Source: Data reported by individual banks.		

The above data reveals that 14 PSBs and 11 Private sector banks currently have achievements below 7 per cent ranging from 0.3 per cent to 6.9 per cent. Given the above scenario, it is proposed that every bank having shortfall in lending to micro enterprises below 7 per cent should endeavor to record a minimum incremental growth of 1 per cent of ANBC every year until it reaches the level of 7 per cent of ANBC.

However, as above sub target is being proposed for the first time and 5 PSBs and 8 private sector banks currently have achievements below 4 percent ranging from 0 to 3.8 per cent, it is proposed that short fall to be reckoned for penalty provisions may not be linked to incremental achievements of target of 1 per cent of ANBC by non-complaint banks and instead a uniform roadmap may be enforced for all the banks for reckoning shortfall in achievement of their targets for lending to micro enterprises.

Accordingly, irrespective of the actual/incremental achievement of target under this sub-segment, penalty would be uniformly calculated for all the banks for the shortfall in achievement of yearly targets as per the table give below:

Table13: Roadmap for achievement of Micro enterprises target

Year	Target for Micro Enterprises as percentage of ANBC
2012-13	6
2013-14	7

3.5. Micro Credit

Loans provided by banks directly and through SHG/JLG mechanism will be eligible to be classified as priority sector advances subject to the conditions given below:

i. Income limit of the individual beneficiary is ₹ 60,000 p.a. in rural areas and ₹ 120,000 p.a. in non-rural areas.

ii. Loan does not exceed ₹ 50,000 per beneficiary.

iii. Loan is without collateral.

3.6. Education

The extant guidelines on limits for reckoning education loans under priority are ₹ 10 lakh for studies in India and ₹ 20 lakh for studies abroad. There is a need to increase this threshold considering higher cost of many professional courses in India and abroad.

In view of increase in cost of education, education loans upto ₹ 15 lakh for studies in India and ₹ 25 lakh for studies abroad may be classified under Priority sector. Further, it may be clarified that educational loans granted to individuals for vocational and skill development courses from government recognized Institutes, availed either singly or jointly with their parents, are also under the ambit of education loans.

Loans granted to educational institutions will be continued to be eligible for classification as priority sector advances under micro and small (service) enterprises, subject to fulfillment of the provisions of MSMED Act, 2006.

3.7. Housing

As per extant guidelines, loans to individuals for purchase/construction of a dwelling unit per family (*excluding loans granted by banks to their own employees*) are eligible to be classified as priority sector advances for limits up to ₹ 25 lakh. Based on the merits of the representations received to consider only one property per individual as priority sector, instead of per family criteria and to consider the employee loans taken on commercial terms as priority sector, the Committee recommends that housing loans to individuals for purchase/construction of one dwelling unit (*excluding subsidized loans granted by banks to their own employees*) will be eligible to be classified as priority sector advances for limits up to ₹ 25 lakh.

In respect of loans given for repairs of damaged dwelling units, loans up to ₹ 2 lakh in rural & semi-urban areas and up to ₹ 5 lakh in urban & metropolitan areas may be considered as priority sector against the current ceiling of ₹ 1 lakh and ₹ 2 lakh respectively.

For assistance/refinance/loans given to any governmental agency, NHB-approved non-governmental agency and HFCs, for the purpose of construction of dwelling units/slum clearance/rehabilitation of slum dwellers or for on-lending to individuals for purchase/construction/reconstruction of dwelling units, a higher ceiling of ₹ 10 lakh per dwelling unit is recommended. This will enhance the coverage of EWS and LIG segment.

3.8. Off-grid Energy Solutions for Households

To encourage usage of clean energy for households, loans given to individuals for setting up off-grid solar and other renewable energy solutions for households may be allowed as part of priority sector.

3.9. Women

The critical role of women as producers in agriculture & allied sectors and as the backbone of household economy is significant. In order to enhance women's access to credit for production and consumption, especially in the absence of any collateral security, loans taken by women in their individual capacity is recommended to be included under weaker section.

3.10. Weaker Sections

Several suggestions were received for enhancing the coverage under weaker sections by including categories like priority sector loans to women, housing loans to EWS and LIG beneficiaries.

As part of endeavor to focus on the vulnerable sections of the society, all priority sector advances to individual women beneficiaries and the housing loans advanced to EWS and LIG may be classified as weaker sections. Economically Weaker Sections and Low Income Group is defined as such class of persons whose family income level is ₹ 60,000 p.a. and ₹ 120,000 p.a. respectively. This is specified for the purpose of uniformity across the country for loans to weaker sections as the definition varies across states in India. Considering the need for higher scale of finance, loans upto ₹ 1 lakh, instead of the existing ₹ 50,000, to village & cottage industries and artisans may be part of weaker sections.

Thus, the loans, which primarily qualify as priority sector, extended to the following categories of beneficiaries, may be classified as weaker sections:

(a) Small and marginal farmers with landholding of 5 acres and less, and landless labourers, tenant farmers and share croppers;
(b) Village & cottage industries and artisans, irrespective of the location, where individual credit limits do not exceed ₹ 100,000;
(c) Beneficiaries of Swarnjayanti Gram Swarozgar Yojana (SGSY) - now National Rural Livelihood Mission (NRLM), Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and Scheme for Rehabilitation of Manual Scavengers (SRMS);
(d) Scheduled Castes;
(e) Scheduled Tribes;
(f) Self Help Groups;
(g) Distressed poor to prepay their debt to informal sector;
(h) Individual women beneficiaries;
(i) Economically Weaker Sections (EWS) and Low Income Groups (LIG) for purchase/construction/repair of dwelling unit;
(j) Loans granted under (a) to (i) mentioned above to persons from minority communities.

Besides above categories, existing beneficiaries of loans under DRI scheme (now recommended for discontinuation) would continue to form part of weaker sections until the closure of their loans.

The Committee has also examined extract of the 44th Report on Action Taken on recommendations of the 'Parliamentary Standing Committee on Finance on Demands for Grants (2011-12)', inter-alia proposing fixing of sub-targets for each category of weaker sections under overall target of 10 per cent of ANBC in light of the concerns expressed that in absence of specific sub-targets for individual categories of weaker sections it shall be difficult to monitor and plan economic progress for each category. The Committee is, however, not favourably disposed to proposing fixation of specific sub-targets for individual categories of weaker sections, as multiplicity of targets would be extremely difficult to monitor and implement given the large number of categories forming part of weaker sections.

The Committee recommends retaining the existing target level of 10 per cent of ANBC under weaker sections for all domestic SCBs without any sub-target for individual categories of weaker section. However, for the purpose of achievement of targets under weaker sections, achievement of not more than 6 per cent of ANBC will be reckoned for categories mentioned under sections (a) and (b) above.

Certain categories under weaker sections are not mutually exclusive in terms of end beneficiaries. It is, therefore, proposed that achievement of targets under weaker sections would be without any overlapping/double-counting.

3.11. Foreign Banks

Foreign banks operating in India have been mandated to achieve lower priority sector target of 32 per cent with different set of sub-targets i.e. 10 per cent for MSE sector and 12 per cent for export advances. The Reserve Bank of India in its discussion paper on 'Presence of Foreign Banks in India' (January 2011) has indicated that foreign banks operating in India as locally incorporated Wholly-Owned Subsidiary (WOS) of parent bank will be required to meet the priority sector lending requirements on par with domestic SCBs save and except differential treatment for achievement of targets for sub-sectors like agriculture.

Considering the principle of reciprocity of obligations, foreign banks operating in India are expected to comply with priority sector/sub-sector targets as applicable to domestic banks. It is accordingly proposed and recommended that foreign banks may also be mandated to achieve overall priority sector target of 40 per cent of ANBC and focused priority sector target of 7 per cent of ANBC for lending to micro enterprises at par with domestic banks. Given the limitation of reach and distribution, these banks may continue to be given relaxation for achievement of overall agriculture targets (both SFMF and overall agriculture target) and 10 per cent of ANBC target for lending to weaker sections. However, it is proposed that foreign banks may achieve target of 15 per cent of ANBC for Micro & Small Enterprises sector (inclusive of focused target for micro enterprises) and 15 per cent of ANBC for lending to exports. Export credit upto a limit of ₹ 10 crore will only qualify for the purpose of reckoning under priority sector.

Though specific targets for lending to agriculture and its focused segment of small & marginal farmers are not being prescribed for foreign banks, these banks are encouraged to extend credit to this segment. This will help them in migrating to the proposed priority sector norms under WOS route.

The Committee is also recommending introduction of Priority Sector Lending Certificates (PSLC), as stipulated in Para 3.13, which will also help foreign banks in smooth transition to the new framework.

3.12. Lending to non-bank financial intermediaries for on-lending

Keeping in view the role of non-bank financial intermediaries like Primary Agricultural Cooperative Societies (PACS), Cooperative Banks, NBFCs, HFCs and MFIs in extending the financial services to the last mile, bank loan sanctioned to non-bank financial intermediaries for on-lending to specified segments may be reckoned for classification under priority sector, up to a maximum of 5 per cent of *ANBC*, subject to adherence to the terms and conditions stipulated in Para 4.2.

In respect of banks currently having portfolio of on-lending, buy-outs and securitization in excess of the proposed 5 per cent of *ANBC*, the Committee proposes stipulation of reducing such portfolio by at least 1 per cent of *ANBC* every year for reckoning under priority sector such that at the end of 5 years not more than 5 per cent of ANBC will be reckoned for priority sector classification. It is also stipulated that any new on-lending, buy-outs and securitisation by such banks would not be reckoned for priority sector purpose, until such time their portfolio of on-lending, buy-outs and Securitisation is reduced to 5 per cent of ANBC.

Portfolio buy-out, securitization and loans to intermediaries for on-lending would be classified as priority sector provided the underlying asset (asset to be financed, in case of on-lending) is eligible for classification under priority sector advances. However, loans extended against gold jewelleries by NBFCs and other intermediaries may continue to be excluded as a part of priority sector classification.

3.13. Priority Sector Lending Certificates (PSLC)

Suggestions were received from several policy practitioners and other stakeholders (primarily foreign banks) that recommendations of the Prof. Raghuram Rajan Committee on financial sector reforms, especially with regard to development of market for Priority Sector Lending Certificates (PSLC) be looked into by the Committee, in order to address concerns expressed in achieving the targets proposed for lending to small & marginal farmers and micro enterprises.

Introduction of PSLCs and development of a market for trading of the same have compelling logic from both those favoring and opposing such introduction. Based on analytical study of the data, there does not appear to be any compelling case for proposing building of an altogether new architecture for introducing PSLCs. However, keeping in view the guidelines issued by RBI not to recognize as priority sector, the bank lending to intermediaries for on-lending to the end beneficiaries under priority sector with effect from 1st April, 2011 and conditions put in place by the Malegam Committee while according priority sector status to on-lending by MFIs, market for PSLCs would surface going forward as certain players may be having priority sector assets without corresponding liabilities being reckoned by banks as priority sector assets in their books.

Introduction of PSLCs may incentivize lending to different segments of priority sector thereby also achieving the policy objective of providing access to credit to vulnerable sections of society, e.g., Small & Marginal farmers, Micro enterprises at affordable cost.

On due examination of pros and cons of introduction of PSLCs, it is felt that introducing tradable PSLCs to all market participants engaged in priority sector lending may not be desirable and feasible at this stage. However, in order to test the efficacy and usefulness of this instrument to achieve the over-riding policy objective, it is proposed that on a pilot basis RBI may permit introduction of non-tradable PSLCs with SCBs and RRBs as market participants in priority sector lending, subject to compliance of the following broad parameters:

i. Eligible entities would only be entitled for certificates that could be issued for enforceable sub categories of micro enterprises & SFMF .
ii. Underlying assets would remain in the books of the entities originating PSLCs and these certificates would be issued with the risk remaining with the originator.
iii. PSLCs would be subject to certification by an external agency approved by RBI certifying these certificates covering loans given to borrowers covered under respective sub-sector of SFMF or micro enterprises and fully complying with other guidelines/conditions for treatment of these loans under priority sector.
iv. The tenor of the certificates would be regulated by weighted average of residual maturity of the underlying assets on the date of certification. Minimum tenor for PSLC shall not be less than one year excepting for agriculture production credit, where it can be 6 months, with no option for early redemption.
v. PSLCs shall be non-tradable and bilateral in nature.

Based on the experience gained from the above-restricted pilot project, RBI may consider allowing use of the above instrument to all other market participants and putting in place an architecture of tradability of these certificates. It is believed that going forward, development of PSLCs market may also pave way for completely doing away with the on-lending, buy-out and securitisation, currently being resorted to for achievement of priority sector target, as the players may find PSLC as a more efficient mode for achievement of priority sector target.

3.14. Date of Reckoning of Achievement of Targets

As per extant guidelines, for any financial year, ANBC is calculated as on March 31st of the preceding financial year whereas achievement is reckoned with reference to the last reporting Friday of March of that financial year.

Considering the merit of the representations received to remove this dichotomy, it is recommended that the date of reckoning of achievement of priority sector lending targets may be changed as 31st March of the financial year under review. However, March 31st of the preceding year may continue to be the reference date, for calculation of ANBC.

3.15. ANBC/CEOBE Calculation

The Committee recommends that extant guidelines for calculation of ANBC/CEOBE may be continued.

Adjusted Net Bank Credit or Credit Equivalent of Off-Balance Sheet Exposures (ANBC/CEOBE) will be computed with reference to the outstanding as on 31st March of the preceding year. For the purpose of priority sector lending, *ANBC* denotes NBC (Net Bank Credit) plus investments made by banks in non-SLR bonds held in HTM (Held To Maturity) 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.

3.16. Penalty for Non-Achievement of PSL Targets/Sub-Targets

Domestic scheduled commercial banks having shortfall in lending to Overall Priority Sector lending target (40 per cent of ANBC/CEOBE, *whichever is higher*) and/or Agriculture Sector target (18 per cent of ANBC/CEOBE, *whichever is higher*)and/or Focused Priority Sector lending target (9 per cent of *ANBC/CEOBE, whichever is higher,* for SFMF and 7 per cent of *ANBC/CEOBE*, whichever is higher, for Micro Enterprises as applicable) and/or Weaker Sections lending target (10 per cent of ANBC/CEOBE, *whichever is higher*) shall be allocated amounts for contribution to RIDF established by NABARD or funds with other financial institutions as specified by RBI.

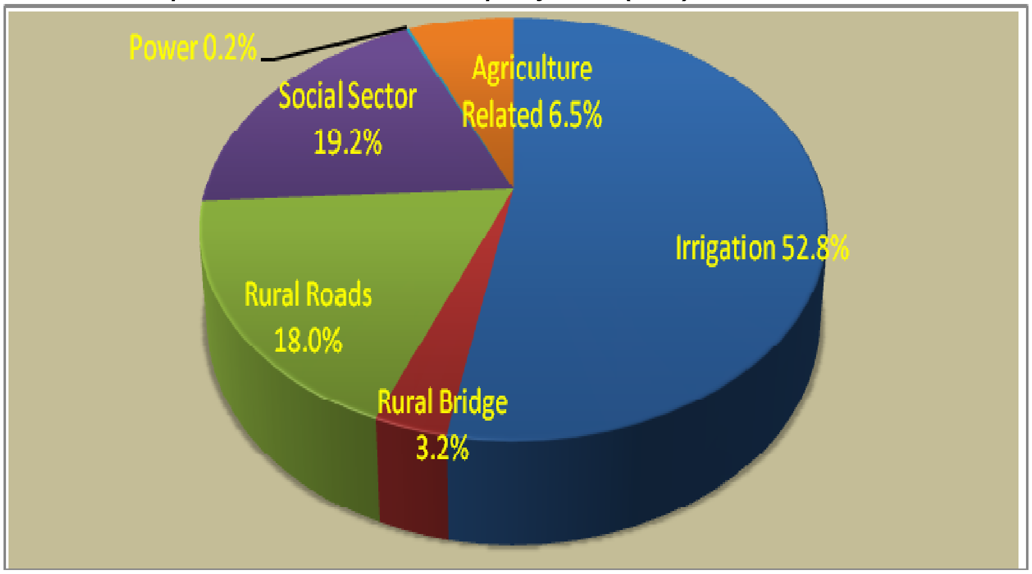
It may be mentioned here that RIDF was set up as a joint initiative by the Central Government and NABARD in order to develop infrastructure in rural areas, particularly in the backdrop of declining public investments in agriculture and rural sectors. So far, 444,162 projects were financed for which ₹ 99, 000 crore was disbursed under various tranches of RIDF.

Table 14: Tranche-wise details of RIDF - Sanctions and Disbursements

Tranche	Year	No. of projects	Amount (₹ crore)			Percentage of loans disbursed to sanctioned
			Corpus	Sanctioned	Disbursed	
I	1995-96	4,168	2,000	1,906	1,761	92.4
II	1996-97	8,193	2,500	2,636	2,398	91.0
III	1997-98	14,345	2,500	2,733	2,454	89.8
IV	1998-99	6,171	3,000	2,903	2,482	85.5
V	1999-00	12,106	3,500	3,435	3,055	88.9
VI	2000-01	43,168	4,500	4,489	4,071	90.7
VII	2001-02	24,598	5,000	4,582	4,053	88.5
VIII	2002-03	20,887	5,500	5,950	5,148	86.5
IX	2003-04	19,554	5,500	5,638	4,916	87.2
X	2004-05	16,482	8,000	7,651	6,569	85.9
XI	2005-06	29,763	8,000	8,311	7,010	84.3
XII	2006-07	41,774	10,000	10,377	8,001	77.1
XIII	2007-08	36,810	12,000	12,614	8,969	71.1
XIV	2008-09	85,428	14,000	14,726	9,253	62.8
XV	2009-10	38,946	14,000	15,623	6,629	42.4
XVI	2010-11	41,779	16,000	18,315	3,731	20.4
RIDF: Total		444,162	116,000	121,888	80,500	66.0
NRRDA (XII to XV)		Nil/Not Available	18,500	18,500	18,500	100.0
Grand Total		**444,162**	**134,500**	**140,388**	**99,000**	**70.5**
Source: RBI, Report on Trend & Progress of Banking in India (Table V.26), 2010-11						

Major project category having received assistance from RIDF related to irrigation and roads & bridges.

Chart 4 : *Purpose-wise details of projects (No.) sanctioned under RIDF*



Source: NABARD, Annual Report 2010-11 (Table 3.10)

3.16.1. Reckoning of RIDF deposits for achievement of PSL targets

The extant guideline that came into force effective April 30, 2007 stipulates that funds deployed as penalty, for non-achievement of priority sector/sub-sector lending targets, shall not be reckoned for achievement of any priority sector lending targets/sub-targets in the subsequent years. Many representations from banks were received to consider the contributions made in RIDF and similar funds for achievement of priority sector/sub-sector lending targets in subsequent years as non-reckoning of these deposits (placed for a tenor up to 7 years), for achievement of priority sector/sub-sector targets of the subsequent years, have the effect of penalizing banks for upto 7 times for shortfall in achieving targets of one year.

The 44th Report on Action Taken on recommendations of the 'Parliamentary Standing Committee on Finance on Demands for Grants (2011-12)', observed that practice of allocating funds to NABARD/SIDBI/NHB on account of lending shortfalls may be one of the reasons for depriving the farmer in accessing loans for agriculture and recommended that the amounts deposited by banks for lending shortfall need to be kept in a corpus by the Government and be exclusively deployed for the benefit of agriculture sector as 60-65 per cent of the population depends upon agriculture in rural areas while contribution of agriculture to GDP is less than 15 per cent.

It is proposed that the deposits deployed, as a penalty for non-achievement of priority sector lending targets for the previous years, may not be considered as priority sector advances for the subsequent years, as the deposits in such funds are considered as Investments *(Schedule 8 – 'Investments' in the Balance Sheet at item I (vi) – 'Others')* and not advances. However, the amount of such Investments made by the banks may be netted from the actual penalty for the subsequent year for non-achievement of targets other than that for SFMF & micro enterprises.

Any shortfall in achievement in SFMF & micro enterprises categories by banks, which are below the mandated target and are given special dispensation, shall not get the benefit of the amounts placed as deposits netted off against the penalties payable for non-achievements of sub targets under SFMF/micro enterprises.

As regards the recommendations of the 'Parliamentary Standing Committee on Finance on Demands for Grants (2011-12)' on deployment of funds placed by the banks in a corpus exclusively for benefit of farmers, it is for Government of India/Reserve Bank of India to consider as allocation pattern is even currently being decided by RBI in consultation with the Government of India.

3.16.2. Methodology for calculation of shortfall

Existing methodology for calculation of total shortfall for fund allocation is determined on the following basis:

<u>Domestic Scheduled Commercial Banks</u>

A = Shortfall in Overall Priority Sector Lending target

B = Shortfall in Agriculture target

C = Shortfall in Weaker Section target

Total shortfall = [C] + { [B] OR [A], whichever is higher}

Foreign Banks

A = Shortfall in Overall Priority Sector Lending target

B = Shortfall in MSE target

C = Shortfall in Exports target

Total shortfall ={ [C] + [B]} OR [A], whichever is higher

In view of the new framework proposed by the Committee for achievement of target under priority sector/sub-sector/focused sector, the methodology for computation of total shortfall for fund allocation shall now be determined as under:

Domestic Scheduled Commercial Banks

'Higher of 'shortfall in targets of Overall Priority Sector' and 'Aggregate of shortfall in targets of Weaker Section & Agriculture' netted with the current total fund deposited as Penalty' PLUS 'Aggregate shortfall in target for lending to SFMF and micro enterprises', may be considered as the total shortfall in achievement of priority sector targets, subject to the former being positive. In case the former is negative, the latter would alone be considered as total shortfall.

To explain,

If

A = Shortfall in Overall Priority Sector Lending target

B = Shortfall in Agriculture target

C = Shortfall in Weaker Section target

D= Shortfall in target for SFMF

E= Shortfall in target for Micro Enterprises

F = Outstanding amount of the funds deposited, as penalty, as on 31st March of the preceding financial year (Date of Reckoning for Achievement)

Then, the total shortfall in achievement of priority sector targets is

1. {([B] + [C]) OR [A], whichever is higher} Less [F]

2. Aggregate [D] + [E]

Hence, Total shortfall for penalty = (1 + 2) OR (2) , if (1) is negative.

It is to be noted that the netting off of existing investments in penalty deposits would be in respect of shortfalls in Agriculture, Weaker section and Overall Priority Sector targets only and not with respect to shortfall in achievement in lending to SFMF & Micro Enterprises.

Foreign Banks

'Higher of 'shortfall in targets of Overall Priority Sector' and 'Aggregate of shortfall in targets of Exports & MSE', netted with the current total fund deposited as Penalty' PLUS 'Shortfall in target for lending to Micro Enterprises', may be considered as the total shortfall in achievement of priority Sector targets, subject to the former being positive. In case the former is negative, the latter would alone be considered as total shortfall.

To explain,

If

A = Shortfall in Overall Priority Sector Lending target

B = Shortfall in MSE target

C = Shortfall in Exports target

E = Shortfall in target for Micro Enterprises

F = Outstanding amount of the funds deposited, as penalty, as on 31st March of the preceding financial year (Date of Reckoning for Achievement)

Then, the total shortfall in achievement of priority sector targets is

1. {([B] + [C]) OR [A], whichever is higher} Less [F]

2. [E]

Hence, Total shortfall for Penalty = (1 + 2) OR (2) , if (1) is negative.

3.16.3. Rate of interest payable on RIDF and other funds

Interest rate payable on the RIDF and other funds contributed by non-compliant (defaulting) banks is presently linked to Bank Rate.

Interest rates payable on banks' contribution to the Funds may be benchmarked with reference rate to Reverse Repo rate, the rate at which banks may keep their surplus funds with Reserve Bank. Reverse repo rate as on 31st March of the financial year for which the shortfall is calculated may be taken as benchmark.

In order to have a graded penalty structure in line with the current dispensation, the following penalty rates are prescribed:

Table 15: Rate of interest payable on RIDF & similar deposits

Sl. No.	Aggregate shortfall in targets of Micro Enterprises & SFMF OR shortfall in Overall Priority Sector lending target, whichever is higher	Rate of Interest on the entire Deposit (per annum)
1	Less than 2 percentage points	Reverse Repo rate
2	2 & above, but up to 5 percentage points	Reverse Repo rate minus 50 basis point
3	5 & above, but up to 9 percentage points	Reverse Repo rate minus 100 basis point
4	9 percentage points & above	Reverse Repo rate minus 200 basis point

3.16.4. Rate of interest to be charged on loans from these funds

At per extant guidelines, the funds placed by the non-compliant (defaulting) banks are allocated to NABARD/SIDBI/NHB as decided by RBI in consultation with the Government of India.

NABARD is deploying these funds as loans to the state governments for completion of various rural infrastructure projects that are not revenue generating but have huge social impact and repayments of these loans by state governments are mainly from budgetary resources. These loans are currently being made available by NABARD to state governments at a fixed rate of 6.5 per cent per annum.

In view of the proposed change in rate of interest payable on the funds placed by the non-compliant (defaulting) banks, it is proposed that loans to be made available by NABARD to state governments out of RIDF funds should now be priced at 'Reverse Repo rate PLUS 50 basis points'.

Funds placed by the Banks with SIDBI/NHB are being deployed for extending refinance to banks/HFCs at market determined rates. It is proposed that these institutions (NABARD/SIDBI/NHB) may not keep a margin of more than 2 per cent over the average cost of the funds while making available refinance from these funds. At the same time, SIDBI/NHB may develop appropriate monitoring mechanism and ensure that ultimate beneficiaries get the benefit of such low-cost funds that are made available by SIDBI/NHB to the lending institutions, other than SCBs.

3.17. Review of the proposed framework

The recommendations in this report are based on present-day context and with the objective of providing access to credit to vulnerable segments and needy sectors having profound social impact and potential for generating large employment.

Recognizing the changing requirements of our developing economy, the Committee recommends that the framework for priority sector guidelines may be revisited on a periodic basis.

4. GUIDELINES FOR PRIORITY SECTOR LENDING

Banks should follow the following uniform guidelines for advances under the priority sector.

4.1. Preconditions for Loans qualifying as Priority Sector

It is important to establish eligibility of borrower, activity of borrower engaged in, the purpose or end use of funds in order to classify a loan under priority sector. Accordingly, it is important to seek necessary documentary evidence, which may ensure that benefit of priority sector lending is directed to the targeted beneficiary. At the same time, it should be hassle-free for borrower to produce the same. Banks may prescribe their own procedure for sanctioning and disbursement of priority sector loans. However, checklist especially for loans up to ₹ 1 lakh is suggested hereunder:

i. Application form to capture KYC details and crop cultivation/'allied activity' details
ii. Evidence of landholding/revenue records as proof of cultivation
iii. Simplified Agreement for Hypothecation - composite with DPN(Demand Promissory Note)
iv. Letter of Arrangement

Banks may sanction a permanent cash credit limit at least for 3 years, to be renewed/reviewed each year, on the verification of land holding/allied activity being undertaken by the borrower. No margin/collateral security should be taken for agricultural loans up to ₹ 1 lakh as per the extant guidelines of RBI.

There should be no requirement of getting 'no dues certificate' from other banks. A simple declaration from the borrower may be obtained about the various loans availed, including from informal sources, as a part of loan application form.

Repayment schedule should be fixed taking into account sustenance requirements, surplus generating capacity, break-even point, 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.

As the repaying capacity of the borrowers 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 as envisaged under RBI circular[10] may be extended to the affected borrowers. Such benefits may also be given to those borrowers, who have been lent by the banks through non-bank financial intermediaries like NBFCs including MFIs.

4.2. Due diligence for lending through Non-Bank Financial Intermediaries

The RBI issued draft guidelines on 'Transfer of Assets through Securitization and Direct Assignment of Cash Flows' on September 27, 2011. Once the guidelines are finalised, they shall be fully applicable for all loans including those that are classified under priority sector.

Considering the risks in lending through intermediaries, the Committee recommends the following uniform standard for due diligence for the portfolio originated through finance provided for on-lending and a qualifying criterion for NBFCs that are eligible for classification under priority sector.

- NBFC should satisfy the minimum capital and asset size requirement as currently stipulated by RBI and as may be proposed on implementation of recommendations of the 'Working Group on the Issues and Concerns in the NBFC Sector (Chairperson: Smt. Usha Thorat)'.
- NBFC should necessarily be a registered NBFC satisfying all the regulatory requirements for registration with the RBI.

[10]Circular No.RPCD.CO.PLFS.NO. BC 16/05.04.02/2006-07 dated August 9, 2006

- NBFC should maintain a minimum threshold requirement of 65 per cent of its total Assets under Management on its Balance Sheet (of the last financial year) as also on an average throughout the financial year. This minimum threshold criterion is specified to prevent originations by NBFCs with the primary intent to sell.
- The underlying pool of assets should meet the criteria specified for priority sector loans directly given by banks. For details of the documents to be obtained refer to Para **4.3**.
- The pre-existing assets in the books of NBFC should be excluded from eligibility under on-lending for the purpose of priority sector classification.
- The maximum period of 6 months may be provided to the NBFC for generation of the underlying assets from the funds made available for on-lending.
- The average maturity of the underlying assets should be co-terminus with that of the loans extended for on-lending. In the case of buy-outs, the loan assets should not be disposed of other than by way of repayment.
- Banks undertaking buyouts, investment in securitized assets and extending loans for on-lending should conduct a due diligence on the underlying portfolio on a minimum sample of 15 per cent of the underlying assets for validation of the end-use including the eligibility under priority sector through officials of the bank. This should be supplemented with a certificate from the management of the NBFC with authorization from the Board of NBFC and a Chartered Accountant certificate confirming the priority sector nature of the underlying portfolio.
- The interest rate spread cap on the underlying loans provided by the NBFCs for eligibility under priority sector is given under:

Table 16: Interest spread cap on the underlying loans extended by the NBFCs

Sr. No.	Particulars	Spread cap for Underlying loans
1	NBFC-HFCs under On-lending, Securitisation and Portfolio buy-out under Direct Assignment	**less than 3.5%**
2	NBFC-AFCs under On-lending, Securitisation and Portfolio buy-out under Direct Assignment	**less than6%**

The interest rate spread for NBFC category is recommended at a higher level than that specified for HFCs considering that average ticket size and the tenure of the underlying loans, which normally are lower than the loans extended by HFCs, resulting in higher operating costs for the NBFCs.

4.2.1. Micro Finance Institutions

Bank credit to Micro Finance Institutions extended for on-lending to individuals and also to members of SHGs/JLGs are eligible for categorization as priority sector advance under respective categories, viz., agriculture, micro and small enterprise, and micro credit (for other purposes) provided not less than 85 per cent of total assets of MFI are in the nature of 'qualifying assets'. Further, at least 75 per cent of the total loans given by MFIs should be extended for income generating activity.

The banks should obtain a Chartered Accountant's Certificate from MFI, stating that

(i) 85 per cent of total assets of the MFI are in the nature of 'qualifying assets'',

(ii) Not less than 75 per cent of the total loans extended by the MFIs are for income generation activity, and

(iii) Pricing guidelines are followed.

A 'qualifying asset' shall mean a loan disbursed by MFI, which satisfies the following criteria:

i. Loan is to be extended to a borrower whose household annual income in rural areas does not exceed ₹ 60,000 while for non-rural areas it should not exceed ₹ 120,000.
ii. Loan does not exceed ₹ 35,000 in the first cycle and ₹ 50,000 in the subsequent cycles and total indebtedness of the borrower does not exceed ₹ 50,000.
iii. Tenure of loan is not less than 24 months when loan amount exceeds ₹ 15,000 and not less than 12 months when loan amount is not exceeding ₹ 15,000.

iv. Right to borrower for prepayment without penalty.
v. Loan is extended without collateral.
vi. Loan is repayable by weekly, fortnightly or monthly instalments at the choice of the borrower.

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 per cent for MFIs.
ii. Only three components are to be included in pricing of loans viz.,
    (a) A processing fee up to 1 per cent of the gross loan amount,
    (b) Interest charge capped at 26 per cent to be calculated on a reducing balance basis,
    (c) Insurance premium (administrative charges may be recovered as per IRDA guidelines).
iii. There should not be any penalty for delayed payment.
iv. No Security Deposit/ Margin amount are to be taken.

4.3. Documents required for confirming borrower's PSL status and end-use

The following documents may be obtained by an intermediary for establishing the end use of the loans being advanced by the intermediaries and provided to banks either as security for on-lending or assigned/securitized to banks for priority sector purposes.

Table 17: Documents to be obtained by Intermediaries for Priority Sector Classification

Section 1: Agricultural Advances

No.	Asset Class	Borrower Segment Validation	End use of the Loan
1	Vehicle for agricultural purposes	**Any one** of the following documents may be obtained to establish that the borrower is an individual farmer:	**Any one** of the following documents may be obtained to establish the end use of the asset:

		1. Application form capturing the occupation of the borrower as ‘farmer’. 2. Self-attested document from the borrower, stating the occupation as agriculturalist/ farmer. 3. The NBFCs may also take any one of the following document from the borrower to ascertain the borrower as a farmer: a. Agricultural landholding document in the name of either the borrower or the immediate family of the borrower (father, mother, wife, son, etc.). b. Copy of Kisan Credit card, Kisan Passbook, Kisan ID. c. Document issued by the Tehsildar, Gram Panchayat confirming that the borrower is a farmer. d. For tenant farmers, any document establishing tenancy.	1. Copy of the invoice of goods transported which are inputs to farming like fertilizers, pesticides, seeds, manure, soil, feed (dairy/poultry), water for aqua farming, etc. 2. Copy of the Mandi receipt in the name of the borrower or the co-borrower indicating the transportation of produce like crops, vegetables, fruits, sugar cane, rubber, tea, coffee, seafood (output of aqua farming), etc.
2	Loans for Tractor & Farm Equipment	Same as indicated above.	Copy of the invoice indicating purchase of tractor and farm equipment.

Section 2: Micro & Small Enterprises

No.	Asset Class	Borrower Segment Validation	End use of the Loan
1	Commercial Vehicle Loans	The following documents may be obtained to establish that the borrower is a transporter: 1. Application form stating that the borrower is a transporter; 2. A Self-attested document by the borrower confirming that total number of vehicles owned is not greater than 10 vehicles or the value of assets owned is less than ₹ 2 crore.	The following documents may be obtained to establish the end use of the asset. Fleet list of vehicles given by the borrower, where the total number of vehicles owned/financed by the borrower is not more than 10.
2	Business Loans to Micro & Small Enterprises (Manufacturing/ Services/Retail Traders)	Any one of the following documents may be obtained to establish that the borrower can be classified under micro and small enterprises: 1. Application form stating that the borrower is self-employed & providing details of the borrower business. 2. Self-attestation of the borrower that the borrower is self-employed and the providing details of the business	Balance sheet of the borrower that shows the total value of investment is as per the extant guidelines for eligibility under the appropriate category of the priority sector.

Section 3: Micro Credit

No.	Asset Class	Borrower Segment Validation and End use of the Loan
1	Loans to Individual/SHGs	The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that (i) 85 per cent 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 per cent of the total loans given by the MFIs, and (iii) pricing guidelines are followed.

Section 4: Weaker Section

No.	Asset Class	Borrower Segment validation	End use of the Loan
1	Business Loans to Individual	Where the underlying loan size is less than or equal to ₹ 50000, **any one** of the following may be obtained: **a.** Self-attestation by the borrower indicating his status as an agriculturalist/farmer; **b.** Attestation by the Gram Panchayat indicating the status of the borrower as an agriculturalist/farmer; **c.** Self-certification/attestation by the borrower confirming his status under SC/ST.	A certificate certifying that the overall borrower exposure is below ₹ 50,000 by the lender.

Section 5: Housing loans

No.	Asset Class	Borrower Segment Validation	End use of the Loan
1	Housing Loans	Any individual who buys a house based on the criteria of eligibility stipulated in the guidelines.	Self-certification from the borrower along with Income Tax Return establishing the lack of rental income to prove that he owns only one dwelling unit.

The following document may be obtained to establish if the type of borrower is a farmer, especially in cases where the loans are advanced directly by the bank:

Table 18: Documents to be obtained to establish type of borrower

No.	Type of Borrower	Documentary Evidence
1.	Farmer (including Small/ Marginal farmer)	Any one of the following documents may be obtained: • Copy of Agricultural landholding document in the name of either the borrower or the immediate family member of the borrower (father, mother, wife, son etc.). • Copy of any documents establishing ownership of agricultural land. • Copy of Kisan Credit Card or Kisan Passbook, Kisan ID (only for Small/Marginal farmer).
2.	Tenant farmer	Any one of the following documents may be obtained: • For tenant farmers, any document establishing tenancy. **OR** • Copy of the Mandi receipt in the name of the borrower or the co-borrower indicating the sales proceeds of the produce or the transportation of produce like crops, vegetables, fruits etc. **OR** • Copy of the Invoice of goods purchased/transported in the name of the borrower which are inputs to farming like fertilizers, pesticides, seeds, manure etc.
3.	Landless Laborer/Oral lessees/share-croppers	Any one of the following documents may be obtained: • Copy of the Mandi receipt in the name of the borrower or the co-borrower indicating the sales proceeds of the produce or the transportation of produce like crops, vegetables, fruits etc. **OR** • Copy of the invoice of goods purchased/transported in the name of the borrower which are inputs to farming like fertilizers, pesticides, seeds, manure, etc.
4.	Allied activities	Any one of the following documents may be obtained. • Copy of the receipt in the name of the borrower or the co-borrower indicating the sales proceeds of the produce or transportation of produce. **OR** • Copy of the Invoice of goods transported in the name of the borrower which are inputs to the activity like feed. **OR** • Copy of documents from VRO/bank manager/school teacher detailing the occupation in a diligent manner.

4.4. Rate of Interest and Penal Interest

The rates of interest on various categories of priority sector advances may be linked to the 'Base Rate'.

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 agriculturalists do not have any regular source of income other than sale proceeds of their crops.

When crop loans or instalments under term loans become NPA, banks can add interest to the principal. However, if the default is due to genuine reasons and should the bank extend the period of loan or reschedule the instalments under term loan, the borrowers may be charged with simple interest until the date when the loan becomes NPA. This advantage can also be given to those NPA loans, when these loans are restructured after being classified as NPAs.

Banks should charge interest at annual or longer frequency on agricultural advances (depending upon the cropping season) in respect of long duration crops, instead of charging at quarterly or monthly compounding.

4.4.1. Interest Subvention Scheme

Presently, as per the Scheme, Government of India provides interest subvention of 2 per cent p.a. to PSBs in respect of short-term production credit up to ₹ 3 lakh during the year 2011-12. This amount of subvention is calculated on the crop loan amount from the date of its disbursement/drawal up to the date of actual repayment of the crop loan by the farmer or up to the due date of the loan fixed by the banks for the repayment of the loan, whichever is earlier, subject to a maximum period of one year. This subvention is available to PSBs on the condition that they make available short-term production credit up to ₹ 3 lakh at ground level at 7 per cent p.a. Further, in order to discourage distress sale by farmers and to encourage them to store their produce in warehousing against warehouse receipts, the benefits of interest subvention is available to Small and Marginal farmers having Kisan Credit Card for a further period of up to six months post-harvest on the same rate as available to crop loan against negotiable warehouse receipt for keeping their produce in warehouses.

In addition to this, Government of India also provides additional interest subvention of 3 per cent p.a. to PSBs in respect of those prompt paying farmers, who repay their short-term production credit within one year of disbursement/drawal of such loans. This subvention is available to such farmers on the short-term production credit up to a maximum amount of ₹ 3 lakh availed of by them during the year, from the date of disbursement/drawal of the crop loan up to the actual date of repayment by farmers or up to the due date fixed by the bank for repayment of crop loan, whichever is earlier, subject to a maximum period of one year from the date of disbursement. This additional subvention enables the farmer to avail short-term production credit up to ₹ 3 lakh at an effective rate of interest of 4 per cent p.a.

In view of the above guidelines and the suggestions received, it is recommended that:

i. Any subvention that the Government extends to any category of Borrower should be in the form of incentive for prompt repayment only.
ii. As the benefits of the interest subvention scheme is percolating to the ultimate beneficiary, eligible borrowers of private sector banks may also be included under the scheme.
iii. Notwithstanding recommendation as in point (i), if the Government intends to extend front-end interest subvention, banks should be compensated fully to the extent of interest differential between base rate and interest rate to be charged to the farmer at ground-level. This will be in line with the prevailing deregulated interest rate system as at present effective rate is 9 per cent while the base rates of the PSBs range between 10 per cent and 10.75 per cent.

4.4.2. Penal interest

No penal interest should be charged by banks for loans under priority sector up to ₹ 1 lakh. However, banks may exercise their commercial judgement to determine the penal interest for loans exceeding ₹ 1 lakh for reasons such as default in repayment, non-submission of financial statements, etc.

4.5. Timelines & Adequacy of Power for Loan Application Disposal

i. With the intervention of technology, it is now possible to reduce the turn-around time in disposal of loan applications. The systems and procedures of the banks may be appropriately revamped as such that all loan applications up to a credit limit of ₹ 50,000 should be disposed of within a fortnight and those for over ₹ 50,000, within 4 weeks, provided the loan applications are complete in all respects and are accompanied by a 'check list'.

ii. All loan applications for micro and small enterprises up to a credit limit of ₹ 25,000 should be disposed of within 2 weeks and those up to ₹ 5 lakh within 3 weeks, provided the loan applications are complete in all respects and are accompanied by a 'check list'.

iii. All Branch Managers of banks may be vested with discretionary powers to sanction proposals from SFMF, micro enterprises and weaker sections, without reference to any higher authority and without exception, to ensure prompt disposal of credit proposals.

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

v. A register/ electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies.

4.6. Redressal Mechanism

The complaint redressal mechanism of banks should be effective machinery for redressal of grievances in banks that covers the borrowers of small loans also. Banks may ensure that a suitable mechanism exists for receiving and addressing complaints from its customers/constituents with specific emphasis on resolving such complaints fairly and expeditiously regardless of the source of the complaints. The records may be captured systematically for regular follow-up, effective monitoring, proper analysis and disclosure of complaints.

Further, banks may:

(i) Ensure that the complaint registers are kept at prominent place in their branches, which would make it possible for the customers to enter their complaints.

(ii) Have a system of acknowledging the complaints, where the complaints are received through letters/forms.

(iii) Fix a timeframe for resolving the complaints received at different levels.

(iv) Ensure that redressal of complaints emanating from rural areas and those relating to financial assistance to priority sector and Government's Poverty Alleviation Programmes are accorded higher priority.

(v) Prominently display at the branches, the names of the officials who can be contacted for redressal of complaints, together with their direct telephone number, fax number, complete address and e-mail address for proper and timely contact by the customers and for enhancing the effectiveness of the redressal machinery.

5. MANAGEMENT INFORMATION SYSTEM

5.1. Significance of MIS

Robust Management Information System (MIS) is a sine qua non for effective monitoring of performance, understanding the gaps and formulating right policy responses. With adoption of technology by banks, the scope for better MIS exists. Technology has changed the face of banking in India and it can as well enhance quality and timeliness of data. Processing of data into useful information for MIS and decision support systems in individual banks as well as at aggregate level is important. For this, a uniform data reporting standards need to be put in place which will reduce reporting requirements and improve overall efficiency. Keeping this in view, there is a need to review the existing MIS prevalent in banks, and suggest ways to streamline the same in terms of frequency of compliance, data consistency and data integrity.

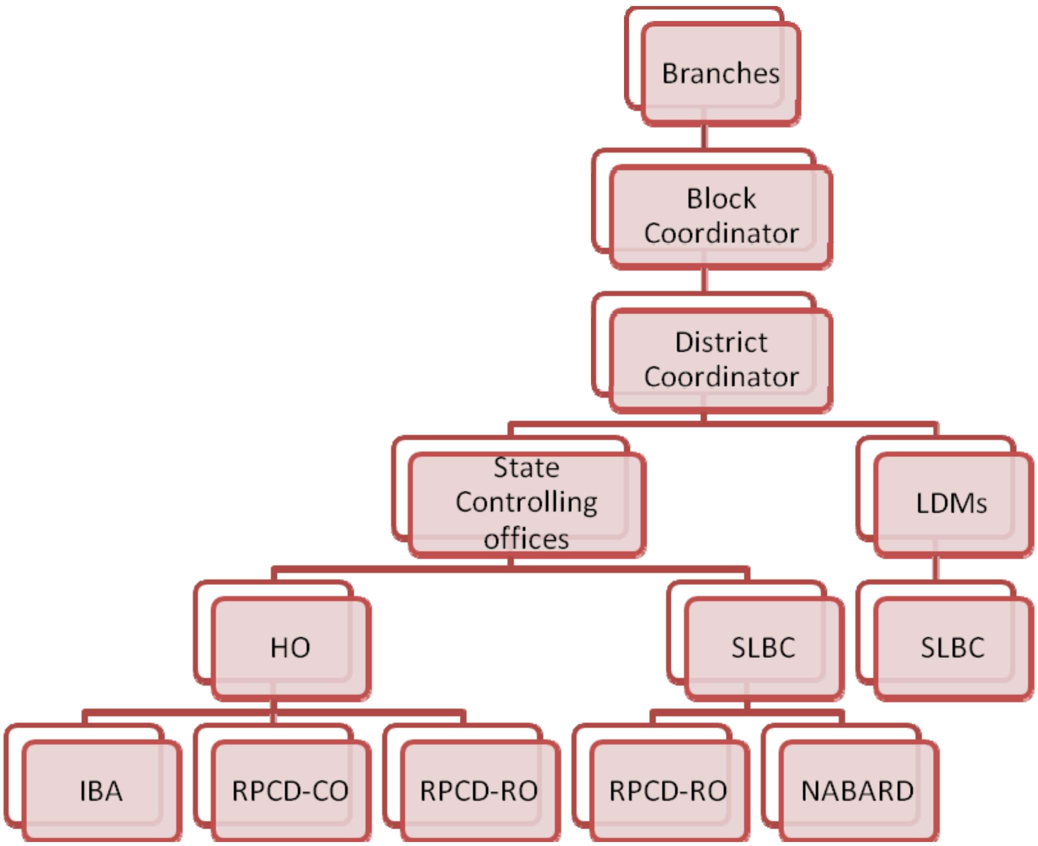
5.2. Present Returns submitted by Banks

At present banks are required to submit to RBI diverse set of fixed format data (called returns). Some of these returns are statutory under Reserve Bank of India Act, 1934, Banking Regulation Act 1949, Foreign Exchange Management Act, 1999, etc. Many returns submitted by banks are non-statutory. Submission of frequency of these returns varies from daily, weekly, fortnightly, monthly, quarterly, half-yearly and yearly. However, frequency for returns related to priority sector is generally quarterly or higher period. Banks also submit reports/returns to the Government, State Level Bankers' Committee and its sub-units, NABARD, etc. Besides banks, RRBs and co-operative banks also submit returns to RBI and NABARD.

Some of these returns are submitted online while most of these are offline submissions that involve manual handling and processing of data at various stages.

Online submission through ORFS or/and XBRL[11] has been adopted for certain statutory returns. Despite implementation of core banking solution, data for many returns are sourced from the root, i.e., the branches and it flows to the ultimate authority after multiple levels.

CHART 5: Existing Framework of MIS
(Manual handling & processing at all stages)



Presently, data pertaining to priority sector lending is collected with varied objectives. The following table shows the number of returns under priority sector required to be submitted by banks, RRBs and co-operative banks.

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[11]Online Returns Filing System (ORFS) is a single window returns submission system which harnesses the power of Internet. XBRL (eXtensible Business Reporting Language) is a natural evolution of XBRL and enables standardization and rationalization of elements of different returns using internationally recognized best practices in electronic transmission.

Table 19: Returns presently furnished by banks

No.	Returns submitted to	Submitted by	No. of returns
1.	RBI-RPCD	SCB RRB Coop Banks	42 9 15
2.	RBI-DSIM	SCB	7 (BSR)
3.	NABARD	RBI IBA SLBC LDM RRB Coop Banks	Multiple returns to monitor the performance of SCBs & supervisory returns for RRBs & Coop Banks
4.	IBA	SCB	4
5.	SLBC	LDM SCB – Controlling Offices	Differs from state to state
6.	Government Departments	RBI SLBC NABARD	Varies from time to time

5.3. Constraints observed in the present system

In order to understand the working of existing system for priority sector returns, field level executives of select banks were called for a workshop at College of Agriculture Banking, Pune. The following constraints emerged relating to existing system of submission of returns:

i. Different periodicity of returns: Fortnightly, monthly, quarterly, half-yearly and yearly.
ii. Different reference date across returns: As on the last Friday, reporting Friday or last day of the month/quarter/half-year/year; year ending in March/June/December.
iii. The unit of measurement is not uniform across returns: actual/in thousand/lakh/crore.
iv. Metro branches data is not included in credit flow at the state level
v. No uniformity in the reporting formats at National, State & District level.

- In case of SLBCs, the formats as well as the number of prescribed returns differ from state to state.

vi. Duplications, inconsistencies and non-standardized definitions in the returns.

- Major reason for inconsistencies in data is the ambiguous definitions, reporting/classification of loans under incorrect heads and reiteration of old details due to belated submission of returns.

vii. Manual compilation of data from different sources and different compilation methodologies.

- Despite complete automation of transactions-capturing by banks, the submission of returns involves manual intervention at almost every stage, resulting in delayed and irregular submission.
- Substantial man-hours are wasted in data collection resulting with little time for attending to core developmental functions.

Policy makers have also expressed concern over large variations in data sets and mismatches of data provided by various agencies and the need to revamp process is felt at all levels.

5.4. Efforts made so far

The Service Area Approach was relaxed in December 2004 giving commercial banks and RRBs freedom to lend in any rural and semi-urban area. Prior to this, all rural and semi-urban branches of banks were allocated specific villages, generally in geographical contiguous areas. Subsequently, NABARD was requested to review the 'Service Area Management Information System' (SAMIS). NABARD constituted a Working Group, which suggested a development of a standardized information system that would take into consideration all information requirements connected with priority sector lending by adopting BSR (Basic Statistical Returns) coding system as the base for fixing codes for detailed activities under priority sector. Then, the Ray Working Group constituted by RBI in 2007 recommended for a data-based reporting in place of the existing return-based reporting system and formulated an Extended

Coding System. Upon acceptance of this by the High Level Committee on Lead Bank Scheme (Chairperson: Smt. Usha Thorat), Reserve Bank released an approach paper on automation of dataflow from banks to RBI which states the mechanism of flow of information in a fully automated environment. Consequently, RBI has issued instructions to banks for its implementation and banks have submitted stage-wise implementation strategy to RBI.

5.5. Recommended approach- PSMIS

Demand for granular data for review of policy decisions has increased over the years with an emphasis on intensive monitoring. Automation of dataflow from banks to RBI has been accorded high priority and forms part of the vision of RBI in the context of Information Technology. All the commercial banks are presently working on centralized core banking environment and in case of most of the RRBs too, the implementation of CBS is completed.

To ensure faster and accurate transmission of uniform data for quick decision making, data may be captured at the base level entity and transmitted to a National Level Central Database common across banks, moving away from existing return-based reporting system to data-based reporting system. Data would flow from a single source from the head office of the banks (i.e. data centre) to a single target, i.e., Central Data Repository System, which will process the data centrally and make it available across all the stakeholders as per their needs. The users of these data may then retrieve the required information from the National Central Database in desired format as per needs. No further returns need to be submitted by the banks, as this database would be accessible to all the appropriate agencies to elicit the information needed by them. Once functional, this ‘Priority Sector Monitoring Information System’ (PSMIS) would make available detailed bank-wise, sub-sector-wise, state-wise, district-wise, block-wise and branch-wise information pertaining to priority sector lending by banks.

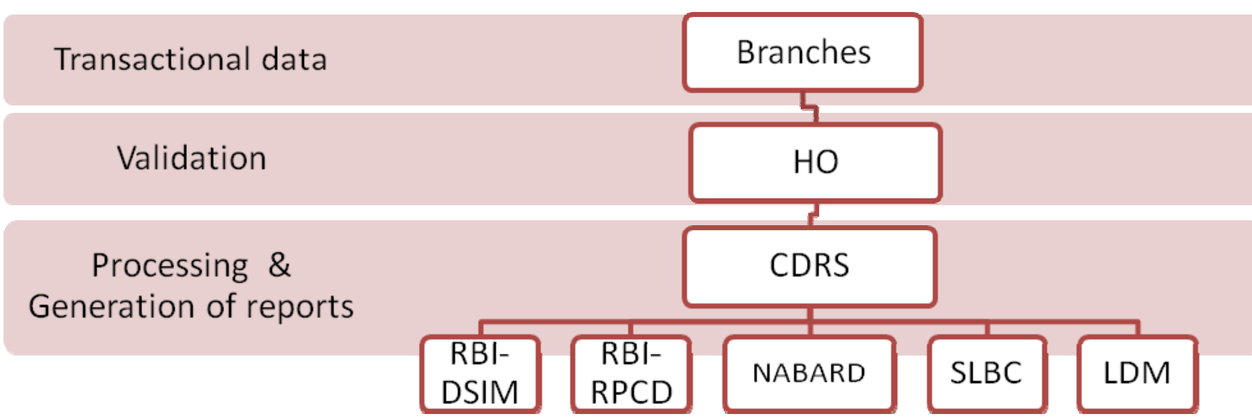
Implementation of PSMIS will ensure consistency of data while obviating the delay on account of data-handling at various levels in banks. It will also relieve the entire machinery presently deployed at RBI, NABARD and IBA towards compilation of the priority sector data. BSR returns will also be generated from this data. Real time availability of data to the decision makers can become a reality that would lead to effective policy formulations.

5.6. PSMIS- Implementation Strategy

5.6.1. Creation of Centralized Data Repository Agency

Implementation of PSMIS would require active involvement of various institutions, viz., RBI, NABARD and banks as well as a dedicated team with requisite expertise in the areas of Priority Sector Lending, Statistics, Information Technology and Management Information System. Further, it is recommended to create a Centralized Data Repository Agency (CDRA), which would be entrusted with the responsibility of designing the Centralized Data Repository System (CDRS), receiving all the base level data from the banks' data centres, storing it for effective retrieval, imparting trainings, hand-holding in the initial stages, system maintenance, monitoring the implementation, periodical review and updating of the system on a continuous basis.

CHART 6: PROPOSED FINAL FRAME WORK UNDER CDRS



Any user, with proper registration and appropriate rights granted by the CDRA, would be able to extract their required information in the desired format. In alignment with the vision of RBI to implement Automated Dataflow from banks without any manual intervention and to ensure time bound implementation of PSMIS, the Committee recommends that the CDRA may be created as a separate division under DSIM of RBI.

5.6.2. Standardization of base level definitions

In order to have a single common database across banks, it is necessary to define the different terms & concepts and design an exhaustive coding structure to meet some of the elaborate requirement of priority sector lending, especially for agricultural credit.

As BSR coding system is a detailed coding structure, which meets both the NIC (National Industrial Classification) and ISIC (International Standard Industrial Classification), the base level coding structure proposed for PSMIS should be based on BSR coding system with suitable modifications and extensions so that all the returns may be generated using the extended codes through a mapping algorithm. PSMIS code may comprise 9-digit extended activity/occupation coding structure (the first 2-digits for representing the sub-sector, the next 2-digits for the purpose and the last 5-digits for the concerned BSR activity/occupation code) for account level use to capture the additional categories that was not available under BSR. Thus, the PSMIS coding structure would provide for classification of activities further grouped into various sub-sectors.

5.6.3. Uniform Code Number of the branches and customers

Introduction of centralized coding for all the blocks in the country and its integration with Uniform Code Number of the branches allotted may be maintained by DSIM of RBI. Further, all districts should also be allotted code so that district-wise reports of lending could be generated. Moreover, as & when a new district is created in future, the code of the district should be allotted at the time of assigning its Lead Bank responsibility.

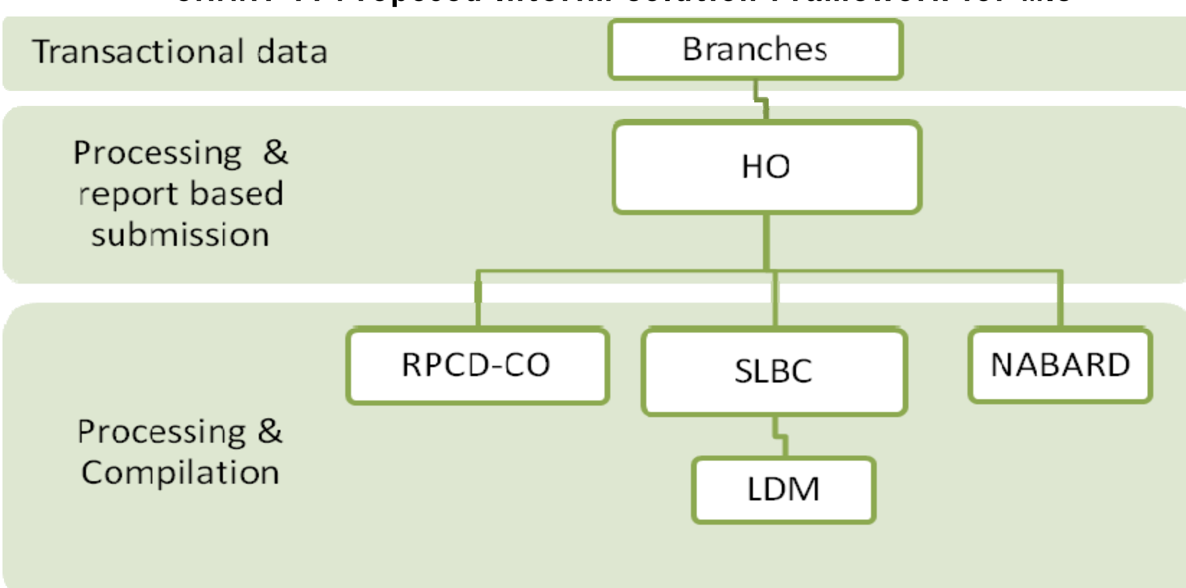
The Committee also recommends for linking of a unique customer identification code with each account of a customer. This code can be based on any national level ID like Aadhaar, PAN, etc.

5.6.4. Timeframe to implement the new approach

PSMIS may be implemented in a time-bound manner in four phases. The first phase would entail creation of CDRA and preparing the banking system for moving towards Centralized PSMIS. This will be followed by setting up of CDRS, release of PSMIS codes, issue of revised guidelines, preparation of handbook of instructions, arranging trainings, etc., in the second phase. With the ultimate objective of moving towards one source and one target, a secured way of capturing the data from the base system of the banks to a single target using latest IT initiatives to be put in place in the third phase. In the final phase, the CDRA to complete implementation of the Centralized Data Repository System (CDRS), that would receive all the data from the base level and store it, for effective retrieval in the form of any return. The last phase of implementation may be made effective from April 1, 2013.

5.7. An Interim Solution: Pending the Implementation

CHART 7: Proposed Interim Solution Framework for MIS



During the interim period, to maintain consistency of data and to eliminate duplicity of efforts in compilation, data in respect of a particular item may be collected from banks by a single agency based on its functional area, who may share the same with other agencies.

Head offices of banks should generate state-wise data and submit the same to RBI-RPCD, NABARD and SLBCs. The district-wise data can be forwarded to respective DLCCs. SLBCs may consolidate data from all banks for presentation in the state level meetings.

In order to arrive at the position of all Scheduled Commercial Banks at one place, it is recommended that except statutory or supervisory returns, the information from scheduled commercial banks including RRBs should be collected by RBI, while NABARD should collect returns from co-operative banks. The data so collected can be pooled and shared by both the institutions.

Further, to have uniformity in reporting in all the returns submitted by banks to RBI and NABARD, except the statutory returns, the number of accounts may be reported in actual, the amount may be reported in Rupees Thousands without decimals, periodicity of reporting may be quarterly, the reference date may be uniformly fixed as the last day of the quarter, i.e., June 30/ September 30/ December 31/ March 31.

RBI may examine the interim period solution and issue necessary instructions to the banks. Revised formats may be circulated to stakeholders or placed on website for seeking comments. Taking into accounts the suggestions received, final revised formats may be prepared and issued for adoption from April 2012.

6. IMPACT EVALUATION OF PRIORITY SECTOR LENDING

6.1. An Introduction to Impact Evaluation

Evaluation can be defined as a comparison of actual impacts against strategic plan. Specifically, impact evaluation assesses the changes that can be attributed to a particular intervention, such as a project, program or policy. In contrast to outcome monitoring, which examines whether targets have been achieved, impact assessment is ‘a process aimed at structuring and supporting the development of policies’[12]. Conducting impact assessment studies(evaluation) essentially is an input intensive exercise (in terms of time, physical effort and monetary expenditure), it is imperative that both ‘monitoring’ and ‘evaluation’ need to be intelligently combined to feed policy and to effectively answer cause-and-effect questions.

Impact evaluation studies usually require collection and analysis of primary data, which is not routinely collected. It comes at the cost of managing the volume of information generated and increases the transaction cost. In contrast, secondary data based analysis, on appropriate data set generated, would by itself be a monitoring tool that can help in course correction. Secondary data might throw up observations, which can be viewed as ‘outliers’. In such cases, primary data-based studies can be undertaken.

There exists a very large body of growing literature on various aspects related to conducting monitoring and impact evaluation studies. However, with the primary motive that the approach should be simple to understand as well as provide effective policy feedback, the structure of a basic evaluation study approach is suggested.

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[12]Website of the European Commission (http://ec.europa.eu/governance/impact/index_en.htm).

6.2. The Evaluation Process[13]

There are largely three phases to an evaluation:

- Evaluation assessment or framework (the planning phase),
- Evaluation study, and
- Decision-making based on findings and recommendations.

Enlisting the main issues and questions to be evaluated in a study and planning for the appropriate methods for gathering evidence on the inquiry, forms the basis of the assessment phase. The information gathered in this phase is presented for the evaluation in the form of multiple options, from which the most appropriate can be selected. Once the specific terms of reference are developed, the evaluation study can begin. Data is then collected and analyzed. The findings and subsequent recommendations form the basis on which decisions, about the future of the program/ project/ scheme or intervention, are made. One also needs to report the findings as it helps in maintaining accountability for results.

Evaluation studies of credit flows could be conducted to address the investment specific inputs on the impact it has generated. For broader and macro consideration, sector specific evaluations could also be conducted. Such studies could be useful not only the financial institutions but also regulators, Planning Commission and institutions involved in policymaking.

6.3. Two approaches to Evaluation Study

Evaluation may be conducted at several stages during a program's lifetime. Each of these stages raises different questions to be answered by the evaluator, and correspondingly different evaluation approaches are needed. There are two effective methods available for evaluation, (i) comparison of 'pre-project' situation with 'post-project' situation, and (ii) comparison of 'with project' and 'without project

[13] Program Evaluation Methods: Measurement and Attribution of Program Results, Third Edition, Published by The Treasury Board of Canada, Canada

situation'. Both modes have their relative merits and demerits. Between the two, the choice will depend on the investment/intervention that need to be evaluated. *Ceteris paribus*, the latter method ('with' & 'without') may be preferred. At times, use of both the methods could be considered.

6.4. Parameters to be measured

6.4.1. Aspects related to implementation of scheme/project

While dealing with the aspects related to the implementation of Scheme or Project, the following should form part of the analysis.

- The financial and physical target and achievement of the programme, reasons for shortfall, if any, should be accounted for in the study
- The overall coverage of the program/scheme viz., area coverage, target group (like, small & marginal farmers, women, and socially & economically backward groups) should be considered
- The evaluation should necessarily see whether the terms and conditions of scheme stipulated during implementation have been adhered to
- Apart from that the various aspects of scheme, implementation issues like unit cost, margin money, interest rate, grace period, repayment period, number of instalment, time lag involved in sanctioning and disbursement of loan, subsidy, if any, should form part of the assessment
- Forward and backward linkage, institutional support, constraints and problems faced should also be studied for complete evaluation

6.4.2. Aspects related to cost of the investment

The cost of the investment forms the vital part, for which component-wise & period-wise analysis has to be undertaken. Other factors that have to be considered are:

- Adequacy of loan amount (unit cost vs. actual loan amount), extent of down payment (investment portion not covered by loan, its sources & cost)

- Utilization of loan amount (present status of the covered units, functioning/defunct, registered/not registered, new units/expansion of old unit)

6.4.3. Aspects related to economics of the investment

The aspects related to the Economics of the Investment that should form part of the analysis are:

- The benefit (stabilized benefits) from the investment/activity per year
- The valuation of output/production and estimation of Gross Income
- Estimation of production cost (input costs, recurring cost on the activity/investment, operational, maintenance & transportation cost)
- Estimation of pre-development net income/net income of the control farm
- Calculation of net income from the investment/activity and derivation of net incremental income
- Analysis on employment generation (recurring and non-recurring), for family labour and outside labour

Care should be exercised to include both tangible and intangible benefits. Ideally, effort should be made in the direction of quantifying the intangible benefits.

6.4.4. Aspects related to financial viability of the investment

The aspects related to financial viability of the investment of scheme or project that should form part of the analysis is given below:

- The economic life, stabilization period, cost and benefit of the investment
- Calculation of Financial Rate of Return, Benefit Cost Ratio, NPV (Net Present Value)
- Calculation of breakeven point of operation and output level. Sensitivity analysis across various levels of estimation
- Examining bankability of the investment/activity and rationality of repayment period.

An essential factor that needs to be reckoned is that the tools of analysis for determining viability aspects are dependent on the type of investment. For example The method adopted for assessing returns to education sector may have to different than from the one adopted for, say irrigation.

6.4.5. Aspects related to repayment and banking aspects of the investment

The aspects related to the repayment performance/banking aspects of the investment that should form part of the analysis are

- Trends in financing of selected investment/activity in the selected banks
- Recovery of the activity as against order activities in the sample branches, year-wise, agency-wise analysis
- Recovery performance of the samples, agency-wise & year-wise analysis
- The estimation of wilful & genuine defaulters, and full & partial defaulters

An indicative structure is placed in the Annex VI. A similar framework can be developed by the institution conducting the study on case-to-case basis.

6.5. Institutions to conduct the study

The impact evaluation studies can be undertaken by the apex institutions with the collaboration from a mix of in-house and outside agencies. For a very large sample sized studies, the services of specialized survey agencies may be utilised.

6.6. Periodicity of the studies

The volume of information associated with priority sector lending is substantial. With a vibrant data base in place, a fairly intensive monitoring and evaluation of the various segments of the priority sector lendings can be reviewed at a periodicity of less than a year. To that extent, the need of the policymakers for a feedback is fulfilled. Hence, impact assessment studies may be conducted over a longer periodicity, say once in 2 to 5 years, on case-to-case basis.

6.7. Social Audit

An important impact evaluation tool for directed lending may be social audit. Social audit may be conducted comprehensively for overall priority Sector, or in the focused priority sectors of small & marginal farmers, micro enterprises or weaker sections, on a localized basis to the community level.

Social audit may be defined as an in-depth scrutiny and analysis of the working of any public utility vis-à-vis its social relevance. The purpose of conducting social audit is not to find fault with the individual functionaries but to assess the performance in terms of social, environmental and community goals of the policy objectives. It is a way of measuring the extent to which the objectives are met. It provides an assessment of the impact of policy's non-financial objectives through systematic and regular monitoring based on the views of its stakeholders.

These social audits may be undertaken by independent agencies. These reports may be used by the Reserve Bank in policy formulation and review of existing guidelines.

7. SUMMARY OF RECOMMENDATIONS

Sl. No.	Para. no	Recommendations
		Targets for Domestic Banks
1	3.2	The Overall Priority Sector Lending target is retained at **40 per cent** of ANBC[14] for domestic banks. Agriculture, MSE, Micro credit, Education, Housing, Off-grid Energy Solutions for households and exports (for foreign banks only) form part of priority sector.
2	3.3.1	Lending to the Agriculture sector would cover the entire spectrum of 'agriculture & allied activities' without any distinction between Direct & Indirect Agriculture and **18 per cent** of ANBC is retained as target for agriculture sector.
3	3.3.4	A focused sub-target of **9** per cent of ANBC is fixed for loans extended by banks to small and marginal farmers, to be achieved in stages latest by 2015-16. Further, all banks must endeavor to achieve a minimum increase of 15 per cent in number of accounts every year.
4	3.4.1	Similarly, a focused sub-target of **7** per cent of ANBC is fixed for loans extended by banks to micro enterprises, to be achieved in stages latest by 2013-14. Further, all banks must endeavor to achieve a minimum increase of 15 per cent in number of accounts every year.
		Off-grid Energy Solutions for Households
5	3.8	Loans given to individuals for setting up off-grid solar and other renewable energy solutions for households is classified as Priority sector.
		Weaker Sections
6	3.10	Priority sector Loans to Individual Women and Housing Loans to EWS & LIG segments is considered as loans to weaker sections in addition the existing

[14] ANBC denotes Adjusted Net Bank Credit or Credit equivalent of off-Balance Sheet Exposure (CEOBE), whichever is higher, as defined in the subsequent Para no. 3.15. Any reference to ANBC in this report would mean ANBC or CEOBE, whichever is higher.

		categories of beneficiaries. The existing target level of **10 per cent** of ANBC is retained as target under weaker sections. Achievement of not more than **6 per cent** of ANBC will be reckoned under lendings to ' **(a)** eligible Small and marginal farmers' AND '**(b)** eligible village & cottage industries and artisans' put together**.**
7	2.9	**Revision of Limits** The ceilings for various activities for qualifying under Priority sector lendings have been revised. A summary of all the limits in given in **Table 21.**
8	2.9.1	The thresholds for investments in plant & machinery defined in the MSMED Act is recommended for revision by amendment in the statue.
9	2.10	**Differential Rate of Interest Scheme** DRI scheme may be discontinued as other Government Sponsored schemes target the similar beneficiaries with better features.
10	3.11	**Targets for Foreign Banks:** For foreign banks, target is fixed at 40 per cent for total priority sector, 15 per cent targets each for MSE and export credit . Export credit upto a limit of ₹ 10 crore will only qualify for the purpose of reckoning under priority sector.
11	3.11	Additionally, a Focused Priority Sector target is recommended for Micro Enterprises, equivalent to 7 per cent of ANBC.
12	3.12	**Loans to Non-Bank Financial Intermediaries:** Bank loan sanctioned to non-bank financial intermediaries for on-lending to specified segments may be reckoned for classification under priority sector, up to a maximum of 5 per cent of ANBC

13	3.13	**Priority Sector Lending Certificates** PSLC are recommended to be allowed on a pilot basis with Domestic SCBs, Foreign Banks and RRBs as market players.
14	3.15	**ANBC Calculation** The existing calculation methodology for Adjusted Net Bank Credit or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE) is retained.
15	3.14	**Reckoning of Targets and Interest Rates on Penal Deposits** The date of reckoning of achievement of Priority Sector Lending targets may be changed as 31st March of the financial year under review.
16	3.16.1	The deposits deployed by the banks, as a penalty for non-achievement of Priority sector lending targets for the previous years, is to be netted off from the actual penalty for the subsequent years computed for non-achievement of targets.
17	3.16.2	The calculation methodology for arriving at total shortfall in achievement of Priority Sector targets has been detailed for arriving at the actual amount of deposit to be made in appropriate funds as decided by RBI.
18	3.16.3	The interest rates payable to banks on deposits placed on account of non-achievement of priority sector targets is linked to Reverse Repo rate, with appropriate mark-down, depending upon the degree of non-achievement.
19	3.16.4	While making available refinance from these penal funds these institutions may have a margin of not more than 2 per cent over the average cost of the funds.

20	4.4.1	**Promoting Good Credit Culture** Interest Subvention scheme may be extended exclusively for prompt repayment of loans, to improve credit culture. Secondly, agriculture loans extended by Private Sector banks may also be included in scheme as the benefit of the subvention ultimately reaches to the farmers.
21	2.14	Encouraging usage of information from credit Information bureaus in taking credit decision**.**
22	2.14	**Agriculture Credit Risk Guarantee Scheme** Establishment of Agriculture Credit Risk Guarantee Fund for Small and Marginal Farmers, similar to CGTMSE, is recommended as an efficient mechanism to address the risk in lending to agriculture sector.
23	4.2	**Documentation Guidelines** The uniform standard for due diligence for the portfolio originated through intermediaries and the qualifying criteria for being eligible for classification under priority sector for NBFCs/MFIs are specified.
24	4.3	The Documentation requirements for SFMF, timelines & adequacy of power for loan application disposal and the details regarding the levy of service charges/penal interests are also specified.
25	5.5	**Management Information System** The Approach for a holistic MIS is prescribed by the Committee by way of submission of account level data to a nodal agency, moving away from the existing Returns-based reporting system to data-based reporting system.
26	5.7	In the interim, data quality may be enhanced through better data definitions. Alongside, rationalization of large number of returns may be attempted

27	6.4	**Impact Evaluation Studies** The approach for Impact evaluation, Parameters to be measured, Institutions that may conduct the study and the frequency of such studies have been considered. Further, Social Audit may be conducted comprehensively for overall priority Sector, or in the focused priority sectors of small and marginal farmers, micro enterprises or weaker sections, on a localized basis to the community level.
28	6.7	**Social Audit** Social audits may be undertaken by independent agencies and such reports may be used by the Reserve Bank in policy formulation and review of existing guidelines.

Table 20: Targets at a Glance

Targets[15] for	Domestic SCBs	Foreign Banks
Overall Priority Sector	**40%**	**40%**
Agriculture	**18%**	**-**
Of which, SFMF	**9%**	**-**
Micro & Small Enterprises	**-**	**15%**
Micro Enterprises	**7%**	**7%**
Exports	**-**	**15%**
Weaker Sections	**10%**	

[15] Target are with reference to ANBC. ANBC denotes Adjusted Net Bank Credit or Credit Equivalent of off-Balance Sheet Exposure (CEOBE), whichever is higher, as defined in the subsequent Para no. 3.15. Any reference to ANBC in this report would mean ANBC or CEOBE, whichever is higher.

Table 21: Recommended Framework

	Sector/Activities	Sub Limits
Priority Sector Classification		
1. Agriculture & Allied activities		
1.1	Farmers including SHGs/ JLGs, other Aggregators, Individuals & Propretorship firms	
	Production credit	No Loan ceiling
	Investment credit	No Loan ceiling
	Debt-Swap scheme	No Loan ceiling
	Adv for Pre-Harvest activities	No Loan ceiling
	Adv for Post-Harvest activities incl. Processing	No Loan ceiling
	Loans for Allied Activities	No Loan ceiling (₹ 3 lakh for SFMF*)
	Pledge / Hyp. of Produce incl WHR	Adv upto ₹ 20 lakh per farmer
1.2	Institutions (Corporates, Partnerships, Cooperatives for own use)	
	Production credit	No Loan ceiling
	Investment credit	No Loan ceiling
	Loans for Allied Activities	No Loan ceiling
	Adv for Pre-Harvest activities	No Loan ceiling
	Adv for Post-Harvest activities excl. Processing	No Loan ceiling
	Food & Agro-based Processing**	Inv in P&M upto ₹ 20 cr**
	Loans for Distributors / Hirers of Agro Inputs / Implements	Adv upto ₹ 70 lakh per borrower
	Creation Warehouse & Supply Chain	No Loan ceiling
2. Micro Enterprises		
	Micro-Service	Inv in Equipments upto ₹ 10 lakh
	Micro-Mfg	Inv in P&M upto ₹ 25 lakh
	KVIS	No Loan ceiling
3. Small Enterprises		
	Small-Service	Inv in Equipments upto ₹ 2 crore
	Small-Mfg	Inv in P&M upto ₹ 5 crore
4. Micro credit		
	Individuals incl. SHG & JLG	Loans upto ₹ 50,000 per borrower
5. Education		
5.1	Individuals	
	In India	Loans upto ₹ 15 lakh per borrower
	Abroad	Loans upto ₹ 25 lakh per borrower
5.2	Educational Institutions	Inv in P&M upto ₹ 2 crore
6. Housing		
6.1	Individuals -Directly by Banks	
	Construction / Purchase	Loans upto ₹ 25 lakh per borrower
	Repair - R & SU	Loans upto ₹ 2 lakh per borrower
	Repair - U & M	Loans upto ₹ 5 lakh per borrower
6.2	Through Govt. Agencies	
	Construction / Rehabilitation	Loans upto ₹ 10 lakh per borrower
6.3	Through Non-Govt agencies	
	Construction / Purchase	Loans upto ₹ 10 lakh per borrower
7. Off-Grid energy solutions		
	For individual households	No Loan ceiling
8. Advances to Exports		
	Only for Foreign Banks	Loan limits upto ₹ 10 crore per borrower

* SFMF includes Small & Marginal Farmers, Agri Landless labourers, Tenant Farmers, Oral Lessees & share croppers

** For primary processing of perishable agriculture produce, ceiling of investment limit will not be applicable

Annex I

प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
इ-मेल email: helpdoc@rbi.org.in

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August 25, 2011

Committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification and related issues

The Reserve Bank of India has set up a Committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification and related issues.

Shri M. V. Nair, CMD, Union Bank of India will chair the Committee. Other members of the Committee include,

1. Dr.P.K.Mishra, IAS (Retd.), Former Secretary, Ministry of Agriculture and Co-operation, Government of India
2. Smt. Nupur Mitra, ED, Indian Overseas Bank
3. Smt. Sreya Guha, Director, Ministry of Finance, Department of Financial Services
4. Shri Rajiv Sabharwal, Executive Director, ICICI Bank Ltd.
5. Shri V. Ramakrishna Rao,Executive Director, NABARD
6. Shri N.K.Maini, Deputy Managing Director, SIDBI
7. Shri J K Sinha, Chief General Manager, State Bank of India
8. Shri N C Khulbe, General Manager, Bank of India
9. Shri Pranab.K.Roy, General Manager, United Bank of India

Dr. Deepali Pant Joshi, CGM-in -Charge, RBI, Rural Planning and Credit Department will be the Member Secretary. The Committee will submit its report in four months from the date of its first meeting.

The Terms of reference of the committee are as under:-

To revisit the current eligibility criteria for classification of bank loans as priority sector with reference to

(a) Nature of activities and types of borrowers (individuals versus institutions, corporate and partnership firms) of loans.

(b) Limits on loan amounts.

(c) Appropriate documentation and due-diligence thresholds, with a view to ensuring that loans extended by banks are indeed for the eligible categories of purposes and borrowers, which need special attention and treatment.

To comprehensively review and fine-tune the definition of direct and indirect priority sector finance/ lending, especially loans advanced to/ routed through corporate entities, cooperative societies.

To consider if bank lending via financial intermediaries like Non-Banking Finance Companies, Housing Finance Companies, etc., for eligible categories of borrowers and activities could be classified under the priority sector and if so, to lay down the conditions subject to which this classification would be admissible .

To consider the desirability, or otherwise of capping interest rate on loans under the eligible categories of the priority sector

To review

(a) The current allocation mechanism for RIDF and other Funds

(b) The interest rates payable on RIDF and other Funds to non-compliant (defaulting) banks.

(c) The interest rates to be charged on loans from these funds.

To review the existing Management Information System (MIS) prevalent in banks, and suggest ways to streamline the same in terms of frequency of compliance, data consistency and data integrity.

To consider and suggest the manner and periodicity of conducting impact evaluation studies of credit flows to different segments of priority sector and arrive at various policy options.

Any other issues and concerns germane to the subject matter.

The Committee will submit the report within four months from the date of its first meeting.

Backdrop

The sub-committee of the Central Board of Directors of the Reserve Bank to study issues and concerns in the MFI sector (Malegam Committee) recommended that the existing guidelines on bank lending to the priority sector be revisited. Requests were also received from various quarters in the recent past to relook at the definition of the priority sector, especially where bank finance was being routed through other agencies. In this backdrop, it has been proposed in Paragraph 94 of the Monetary Policy Statement 2011-12 “to appoint a committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification."

Ajit Prasad
Assistant General Manager

Press Release : 2011-2012/299

LIST OF INDIVIDUALS AND INSTITUTIONS

1. Ministry Representatives who interacted with the Committee on 25-11-2011

Ministry of Women & Child Development represented by Shri Ramesh, GM; Ministry of Agriculture & Co-operation represented by Shri G C Patti, AS; Ministry of Housing and Urban Poverty Alleviation represented by Ms. Aruna Sundararajan, JS; Ministry of Rural Development represented by Ms. Nita Kejariwal, Director; Warehousing Development & Regulatory Authority represented by Ms. Ravneet Kaur, JS; Planning Commission represented by Shri H K Hajong, Director (FR);Ministry of Minority Affairs represented by Shri Abrar Ahmed, JS; Ministry of Social Justice & Empowerment represented by Dr. M L Mathur, Sr. Research Officer; Ministry of Tribal Affairs represented by Shri A K Srivastava, Director.

2. Managing Committee members of IBA present during the interaction with the Committee on 25-01-2012

Shri M D Mallya, CMD, Bank of Baroda, Shri Alok Misra, CMD, Bank of India, Shri K R Kamath, CMD, Punjab National Bank, Shri Pratip Chaudhuri, Chairman, State Bank of India, Shri J P Dua, CMD, Allahabad Bank, Shri T M Bhasin, CMD, Indian Bank, Shri R M Malla, CMD,IDBI Bank Ltd., Shri S Raman, CMD, Canara Bank, Shri M Narendra, CMD, Indian Overseas Bank, Shri H S Upendra Kamath, CMD, Vijaya Bank, Shri Shyamal Acharya, DMD & Group Executive (A&S),State Bank of India, Shri Aditya Puri, MD,HDFC Bank Ltd., Ms. Chanda Kochhar, MD & CEO, ICICI Bank Ltd., Shri Gunit Chadha, CEO-India, Deutsche Bank AG, Shri Stuart Davis, CEO-India, The Hong Kong & Shanghai Bkg. Corp. Ltd., Shri N D Behere, CEO, Janakalyan Sahakari Bank Ltd., Mr Satish R Utekar, CEO, The Thane Janata Sahakari Bank Ltd., Ms. Shikha Sharma, MD & CEO, Axis Bank Ltd., Shri Nagesh Pydah, CMD, Oriental Bank of Commerce.

3. Associations and their representatives who interacted with the Committee

All India Democratic Women's Association (AIDWA) represented by Ms. Brinda Karat, MP, Ms. T N Seema, MP, Ms. Sudha Sundaram, Ms. Kiran Moghe and Ms. Tapasi

Praharaj; Micro Finance Intuitions Network (MFIN)represented by Shri Alok Prasad, CEO and Ms. Priya Shanker, AVP; Federation of Indian Export Organisations (FIEO) represented by Ms. Priya Safaya; Finance Industry Development Council (FIDC) represented by Shri R Sridhar, Shri T T Srinivas Ragavan, Shri Sanjay Chamria and Shri Raman Aggarwal; Chamber of Indian MSME, represented by Shri Mukesh Mohan Gupta and Shri Ashok Shanker; Federation of Indian Chambers of Commerce and Industry (FICCI) represented by Ms. Sunita Rattan, Ms. Jyoti Vij, Ms. Anjani Sinha, Dr. S Bhaskar Reddy, Shri Vishwesh Palekar and Ms. Rita Roy Choudhury; Associated Chambers of Commerce and Industry of India (ASSOCHAM) represented by Shri Y L Madan, Shri T Jagannathan, Shri Mukesh Mohan Gupta and Shri Jain; Confederation of Indian Industry (CII) represented by Shri A Ramesh Kumar; PHD Chamber of Commerce and Industry represented by Shri Satish Girotra, Shri Sanjeev Gupta, Ms. Bhawna Malhotra; Sa-Dhan represented by Dr. Amiya Sharma, Shri Parshuram Nayak, Shri Rajesh Singhi, Shri Chandra Sekhar Ghosh and Ms. Achla Savyasaachi; Association of Gold Loan Companies (India) represented by Shri George Alexander Muthoot, Shri Thomas George Muthoot and Shri Unnikrishnan.

4. <u>Individuals & Institutions who submitted Suggestions/Representations</u>

Prof. MS Sriram, Dr. Yerram Raju, Dr. Naresh Jyoshi, Shri. Prabakar Raju; College of Agriculture Banking, Business for Livelihood, CREDILA Financial Services Ltd, Currency First.com, DHFL Vysya Housing Finance Ltd, Farmers Forum India, FINISH Foundation, Financiers (India) Pvt. Ltd, KPMG Consultants, National SC & ST Finance & Development Corporation, Nand & Jeet Khemka Foundation, National Small Industries Corporation, NEXTGEN, Mahindra Finance Ltd, Sriram Transport Finance; NABARD, National Housing Board; Ministry of Finance, Ministry of Agriculture & Food Processing Industries. Ministry of Human Resources Development, Ministry of Statistics & Program Implementation; Principal Secretary, Rajasthan & Uttar Pradesh, Directorate of Institutional Finance, GoMP, Kerala State Financial Corporation, Warehousing Development and Regulatory Authority; All India Democratic Women's Association, Associated Chambers of Commerce and Industry of India, Association of Gold Loan Companies in India, Bombay Chambers of Commerce and Industry, Chamber of Indian

Micro Small & Medium Enterprises, Confederation of Indian Industry , CII National Council on Agriculture, Federation of Indian Banks' Association, Indian Merchants' Chamber, Indian Chambers of Commerce and Industry, Federation of Indian Export Organisations, Finance Industry Development Council, M-Fin India, PHD Chamber of Commerce, Sa-Dhan, Confederation of Indian Textile Industry, Apex Chamber of Commerce & Industry, Gujarat Finance Companies Association, All India Confederation of Goods Vehicle Owners' Association, Federation of West Bengal Truck Operators' Association, All India Motor Transport Congress, All India Inter-State Lorry Owners Association; Indian Banks' Association, Bank of India, Bank of Baroda, Bank of Maharashtra, Canara Bank, Central Bank of India, IDBI Bank, Indian Bank, Oriental Bank of Commerce, Punjab National Bank, State Bank of Bikaner & Jaipur, State Bank of India, State Bank of Travancore, Syndicate Bank, UCO Bank; Axis Bank, Catholic Syrian Bank, Federal Bank, HDFC Bank Ltd, ICICI Bank, IndusInd Bank, ING Vysya Bank, Karnataka Bank, South Indian Bank, Tamilnad Mercantile Bank, YES Bank; Bank of America, Bank of Tokyo-Mitsubishi UFG Ltd, Barclays Bank, Citi Bank, Deutsche bank, First Rand Bank, HSBC, JP Morgan Chase Bank, Krung Thai Bank, Standard Chartered Bank.

5. <u>Participants at workshop for Field functionaries at CAB held on 18-01-2012:</u>

Shri Sunil Kumar Singh, AGM, Allahabad Bank; Shri G N Patel, Senior Manager, Bank of Baroda; Shri Mohar Singh, GM, Bank of Baroda; Shri O Ravindran, LDM, Canara Bank; Shri M D Parihar, Chief Manager, SBBJ; Shri Satish Pimple, AGM , SBI; Shri Chandrasekar C R, Sr Manager, Karnataka Bank Ltd ; Shri S Jagannadha Raju, LDM, Andhra Bank; Shri S N Nanal, LDM, Bank of Maharashtra; Shri H N Sukhdeve, Dy General Manager, Bank of Maharashtra; Shri Janardan Joshi, LDM, Central Bank of India; Shri Jeet Singh, LDM, Punjab and Sind Bank; Shri Parimal Das , LDM, SBI; Shri P R Ramdasi, LDM, SBI; Shri Rajeev Nayan Sharma , Chief Manager, Allahabad Bank; Shri Raju S Nair, Chief Manager, Federal Bank; Shri B S Sivakumar, Executive VP, Kotka Mahindra Bank Ltd ; Shri S K Pralvaraj, Chief Manager, SBI; Shri A K Pandit, AGM, SBI; Shri Kumar Keswani, Managing Director, Standard Chartered Bank; Shri V N Jain, Regional Head, Union Bank of India; Shri B V S N Murthy, DGM, Andhra Bank; Shri M M

Chiniwar , AGM, Canara Bank; Shri Rajeev Tandon , Head-Trade Services Operations, Deutsche Bank AG ; Shri Sunil Giridhar, Regional Head, ICICI Bank; Ravinder Yadav, AGM, Oriental Bank of Commerce; Shri T C Garg, AGM, SBI; Shri V K Goyal, LDM, Union Bank of India.

6. Participants at workshop for MIS at CAB held on 06-01-2012:

Shri Anil Shukla, Chief Manager, State Bank of India; Shri K S Salaria, Chief Manager, Punjab National Bank; Shri Rajkumar Bhoi, Manager, RBI-RPCD-RO; Ms. Mary Kochuvaried, AGM, RBI-RPCD-CO; Shri C Devendran, Sr Manager, Indian Overseas Bank; Shri Nilakantha Panda, Chief Manager, UCO Bank; Shri Arun Kulkarni, Chief Manager, Corporation Bank; Shri Nabin Kumar Roy, AGM, NABARD; Shri A P Vaithylingam, AGM, RBI-RPCD-CO; Shri D A Mangrole, Manager, UBI; Shri R K Patil, Chief Manager, Bank of Baroda; Shri R R Halder, AGM (Lead Bank & RRB), State Bank of India; Shri K P Padmakumar, Manager, NABARD; Smt. Prabhuta Vyas, Sr Vice President, IBA; Shri G H Rao, AGM, RBI-RPCD-RO; Shri A B P Pandey, AGM, RBI-RPCD-CO; Shri Manab Roy, AGM (SME), SBI; Shri T R Venkateswaran, Chief Manager, Punjab National Bank; Shri Prashant Pednekar , Manager, Bank of India; Shri Shoke Mishra, AGM(Lead Bank, RRB), State Bank of India; Shri Avinash Kapoor, AGM, RBI-RPCD-RO; Shri P D Chavan, CM(SME), SBI; Shri M N Abhang, Senior Manager, Union Bank of India; Shri Rajendra Kumar Jain, AGM, Bank of India; Ms. S V Vijayalakshmi, Manager, IBA; Shri Sachin Verma, Manager, Bank of Baroda; Shri Rahul Kumar, Deputy Manager, Bank of Baroda; Dr. Srinath Reddy, AGM, NABARD; Shri M P Sajid, AGM, RBI-RPCD-CO; Smt. Jayabharati Kannan, AGM, RBI-RPCD-CO; Shri R S Sorgavasan, Senior Manager, Indian Overseas Bank; Shri Udayakumar Holla, Senior Manager, Syndicate Bank; Shri B S Bhati, Chief Manager, Dena Bank; Shri Shriram Nanal, Chief Manager, Bank of India; Shri J Sankhyan, AGM, RBI-RPCD-CO; Shri T V Rao, AGM(LB), SBI; Shri Shankar Narayan Kotian, Chief Manager, ICICI Bank; Shri Arun Kumar, Senior Manager, Canara Bank; Shri K S Chakravarthy, AGM, RBI-RPCD-RO; Shri K Rajendra Prasad, Manager, RBI-RPCD-CO; Dr M P Singh, Chief Manager, Punjab National Bank; Shri Arun Kumar Saxena, Chief Manager, Bank of India; Shri Rajesh Sharan, Senior Manager, Allahabad

Bank; Shri Gyaneshwar Pathak, AGM, RBI-RPCD-RO; Shri Bipin Nair, AGM, RBI-RPCD-CO; Shri Sundaresh Iyer, Chief Manager, SBI; Shri B C Jain, Senior Manager, Bank of Baroda; Shri Prasad Revdekar, Dy General Manager, IDBI.

7. **Individuals who participated in sub-group meetings**

Shri C K Gopalakrishna, CGM, Shri A Lahiri, CGM, Shri B K Dey, GM, Shri D K Mishra, DGM, Shri K Premakumaran, DGM, Shri Nirupam Mehrotra, AGM, Shri K C Badatya, AGM, Shri P A Premakumar, AGM, Ms. Deepmala Ghosh, AGM, all from NABARD; Shri Sanjay Bose, Director, Shri I S Negi , GM, Smt. Lily Vadera, GM, all from RBI; Shri B Hariprasad, DGM, SBI; Shri M Mittal, GM, Shri Sanjay Gowan, DGM, both from SIDBI; Shri R Kandasamy, DGM, UBI; Shri Srinivasan Iyenger, Standard Chartered Bank; Mr T K Naganath & Shri Asit Bhatia, both from Bank of America;; Shri Arun Kamath and Shri Shyamal Malhotra, both from Deutsche Bank; Shri Abhijit Sen, Citi Bank; Shri Mani Subramanian, Barclays Bank; Shri L Manjunath, JP Morgan Chase Bank; Shri Munish Sapra, Bank of Nava Scotia.

8. **Individuals who provided support to Committee**

Dr. R N Kulkarni, CGM, Shri T Ramesh, AGM, both from NABARD; Shri U R Tata, CEO, CGTMSE; Shri C D Srinivasan, CGM, Smt. Alpana Killawala, CGM, Shri Chandan Sinha, Regional Director (Delhi), Shri Ajay Kumar Misra, GM, Ms. Sonali Sengupta, GM, Ms. Sushma Vij, DGM, Shri R K Verma, Manager, Ms. Swati Sharma, Manager, Shri D G Nalawade, Asst. Manager, Shri Brian Pias, all from RBI; Shri Anil Kaul, GM, ICICI Bank; Dr V Eswaran, GM and Dr. Brinda Jagirdar, Chief Economist & GM, Shri R Mohanavenkatachalam, AGM, all from SBI; Shri Sujit Kumar, Manager & Shri Jitender Kumawat, Manager, both from Union Bank of India.

9. **Members of Secretariat to Committee**

Shri T V Rao, DGM and Shri P Manoj, AGM, both from RBI; Shri Nitesh Ranjan, AGM and Shri R Viswesvaran, Senior Manager, both from Union Bank of India.

Members of Sub-groups and their area of Reference

Sub-Group: 1

Members: Shri J K Sinha (Coordinator), Dr. P K Mishra, Shri S C Kalia, Shri Rajiv Sabharwal

- To revisit the current eligibility criteria for classification of bank loans as priority sector with reference to:
  - (a) Nature of activities and types of borrowers (individuals versus institutions, corporate and partnership firms) of loans.
  - (b) Limits on loan amounts.
  - (c) Appropriate documentation and due diligence thresholds, with a view to ensuring that loans extended by banks are indeed for the eligible categories of purposes and borrowers, which need special attention and treatment.
- To consider the desirability, or otherwise of capping interest rate on loans on the eligible categories of the priority sector.

Sub-Group: 2

Members: Smt. Nupur Mitra (Coordinator), Smt. Sreya Guha, Shri. N C Khulbe

- To review the definition of direct and indirect priority sector classification.

Sub-Group: 3

Members: Shri Rajiv Sabharwal (Coordinator), Shri N K Maini

- To consider if bank lending via financial intermediaries like Non-Banking Finance Companies, Housing Finance Companies, etc., for eligible categories of borrowers and activities could be classified under the priority sector and to lay down the conditions subject to which this classification would be admissible.

Sub-Group: 4

Members: Shri V Ramakrishna Rao (Coordinator), Shri S C Kalia

- To review
  - (a) The current allocation mechanism for RIDF and other funds.
  - (b)The interest rates payable on RIDF and other funds to non-compliant (defaulting) banks.
  - (c)The interest rates to be charged on loans from these funds.
- To consider and suggest the manner and periodicity of conducting impact evaluation studies of credit flows to different segments of priority sector and arrive at various policy options.

Sub-Group: 5

Members: Shri S C Kalia (Coordinator), Dr. Deepali Pant Joshi, Smt. Sreya Guha, Shri Ranjan K Mohanty

- To review the existing System (MIS) and suggest ways to streamline the same in terms of frequency of reporting, data consistency and data integrity.

CONCEPT NOTE – AGRICULTURE CREDIT GUARANTEE SCHEME

There is a perceived risk in bank lending to small and marginal farmers[16]. These farmers operate in small fragmented holdings and are unable to meet adequate collateral requirement of domestic commercial banks. Their income from agriculture and allied activities is also prone to a number of unforeseen factors, such as weather, diseases and market conditions including high price uncertainty. Establishment of a credit guarantee fund for loans to small and marginal farmers may be a good option to address this issue in a comprehensive manner. The roadmap for banks extending 9 per cent of their ANBC/CEOBE, whichever is higher, to small and marginal farmers assumes that the Government of India would take necessary steps for establishing a Credit Guarantee Scheme for small and marginal farmers. Such a scheme may be developed on lines of credit guarantee fund trust for micro and small enterprises.

The broad contours of the Scheme are given hereunder:

Credit Guarantee Scheme for Small and Marginal Farmers

Introduction

1. The Scheme shall be known as the Credit Guarantee Scheme for Small and Marginal Farmers (CGSSMF).
2. The Scheme will be for the purpose of guaranteeing credit facility/ies, extended by the scheduled commercial banks to the eligible borrowers.
3. Government of India may appoint an appropriate institution as 'Operating Agency' for the scheme.
4. The preparatory work for launching the Scheme such as seeking necessary approval within the parameters of the Scheme, financial provision for the

[16] The Small & Marginal Farmers for this purpose includes Small and Marginal Farmers, Landless Agricultural labourers, Tenant Farmers, Oral Lessees & share croppers (whose share is eligible under small and marginal farmer)

scheme, arrangement of necessary infrastructure, preparation of guidelines, etc. may be done by the operating agency.

5. The Scheme may be operational initially for a period of 5 years as a pilot scheme. Based on its success track record, the scheme may be extended and considered also for coverage of larger size credits.

Corpus of fund

6. Appropriate fund corpus may be created to operationalise the Scheme. This corpus may be contributed by the Government of India through budgetary allocation or through any other appropriate mechanism.

7. Any fee collected as premium from member banks will also form part of corpus.

8. The corpus will generate income which will be added to it for making it self-sustaining.

Eligible institutions

9. The Scheme may be confined to guaranteeing of loans extended by the Scheduled Commercial Banks.

10. The operating agency will sign MOU/Agreement with bank concerned prior to covering loans under the scheme.

Maximum risk cover

11. Under the scheme, guarantee will be for an amount up to 75 per cent of the principal amount of credit facility extended by the lender per borrower. Other charges such as interest, commitment charges, service charge or any other levies, expenses debited to the loan account shall not qualify for the guarantee cover.

12. Guarantee only to the extent of 75 per cent will be provided to ensure that banks remain interested in the healthy performance of the borrower and in the recovery of the loan.

Fees payable by lenders

13. The fee payable by the lender to operating agency may be fixed in alignment with the premium being charged by Agriculture Insurance Company of India Ltd. under the National Agricultural Insurance Scheme (NAIS).

Appraisal of proposal

14. All the loan application received by a bank will be appraised by it and bank shall use their business discretion in selecting commercially viable proposal.

15. The operating agency will have the right to undertake scrutiny of the proposal covered under the guarantee scheme for effective monitoring and follow-up.

16. All appraisal, processing, legal work and documentation will be done by bank that will hold lien and assets created by the loan on its own behalf of the operating agency.

Systems and procedures for operating the scheme

17. The operating agency shall work out appropriate structure, system, claim settlement procedures, modalities and operational aspect of the fund after evaluation of best practices in the country and experience of other countries operating such guarantee scheme.

18. The guarantor shall not exercise any subrogation rights and the responsibility of the recovery of the dues, including takeover of assets, sale of assets, etc., shall rest with the lender.

Governing Board

19. The fund may be governed by the Governing Board comprising representatives of the contributors to the Fund, Government of India, Reserve Bank of India and other stakeholders.

20. Within the overall parameter of the scheme, the Governing Board shall have all powers to lay down policy guidelines and give necessary direction for smooth functioning of the Scheme. It shall effectively monitor and supervise implementation of the Scheme.

List of Agriculture & Activities

Activities covered under Agriculture and allied activities

No.	Activity Type	Type of Loan	Description of activities
1.	**Production**	Crop loans including traditional/non-traditional plantations and horticulture, allied activities	Activities relating to raising of food/cash/plantation/medicinal/forestry crops, including tissue culture relating to agriculture; Animal husbandry
2.	**Investment**	Medium & long-term credit that leads to capital formation through asset creation and those that induces technological upgrade resulting in increased production, productivity and incremental income to farmers	Activities including development of land for cultivation, digging of well (*dug/bore/tube*), land reclamation, waste land development, soil conservation services, including soil testing and soil desalination services; operations of irrigation systems; purchase of tractor, combine harvester, trailers and other farm machineries etc. including construction of sheds (*for assisting transport of agricultural inputs and farm products*); High tech agriculture activities such as green house/ shade-net cultivation.
3.	**Purchase of Land**	Loans extended to small and marginal farmers for purchase of land for Agricultural purposes only.	
4.	**Debt-Swap**	Loans granted to distressed farmers indebted to non-institutional lenders	
5.	**Pre-harvest**	Loans granted for pre-harvest activities such as plough, leveling, development, spraying, weeding	Activities relating to promoting growth of crops or protecting from disease and insects (*spraying operations etc*); Harvesting, Transplantation of crops in the fields; Horticultural and nursery services;
6.	**Post-harvest**	Loans granted for post-harvest activities such as grading, sorting, packaging, labeling, transporting and storing	All activities relating to post-harvest loss reduction and value addition, cleaning, grading, packaging of the farm produce, and transport, processing, canning, including pre-cooling of cut flowers, controlled ripening of fruits and drying of all agriculture produce originating from agricultural farm,

No.	Activity Type	Type of Loan	Description of activities
			livestock, aqua-cultural sources and forests.
7.	**Processing**	Loans granted for activities pertaining to Food and Agro-based processing with Initial investment in Plant & Machinery up to Rs.20 crore. However, for primary processing of perishable Agriculture produce, the ceiling would not be applicable.	Activities pertaining to food and agro-based processing covering primary processing and integrated processing units. Agro processing comprises set of activities applied to all the produces originating from agricultural farm, livestock, aquaculture sources and forests for their conservation, handling and value-addition to make them usable as food, feed, fibre, fuel or industrial raw materials. Processing of Agricultural residues, by-products and packaging. Production of Seeds
8.	**Pledge/Hypothecation of Produce**	Advances against pledge/hypothecation of agricultural produce	Advances against pledge/ hypothecation of agriculture produce (*including warehouse receipts and cold storage*) for a period not exceeding 12 months, extended to farmers irrespective of the category
9.	**Allied Activities**		Animal husbandry services such as, activities to promote propagation, growth and output of animals and to obtain animal products, artificial insemination, herd testing, poultry caponizing, coop cleaning, dung gathering etc.; Sheep dipping and shearing, egg cleaning and grading, animal skinning and related activities; (*Veterinary services*) and other animal husbandry service activities. Purchase of bullocks, bullock carts & other draught animals for agriculture purposes. Setting up of Bio-gas plants.
10.	**Distributors/hirers of Agro Inputs /Implements**	Credit for purchase and distribution of inputs for agriculture and allied activities, Drip /Sprinkler Irrigation systems/ Agricultural Machinery.	Credit for purchase and distribution of inputs for agriculture & allied activities such as fertilizers, pesticides, seeds, cattle feed, poultry feed.

No.	Activity Type	Type of Loan	Description of activities
			Finance extended to dealers in agricultural machinery like drip irrigation/sprinkler irrigation system and to those who undertake work with tractors, bulldozers, well-boring equipment, threshers, combines, etc., for farmers on contract basis. Units providing various services for agriculture and allied activities on contract basis (*such as Soil/Land operations machinery/equipments services - e.g. services of tractors for ploughing, harrowing etc., well boring equipment, threshers, combines etc. & operation of other agricultural equipments to farmers on contract basis; Service activities related to harvesting*) Setting up of Agri Clinics and Agri Business Centres
11.	**Creation of Warehouse & Supply Chain**	Loans for construction and running of Storage facilities,	Control of stored grain insects, by using chemical and physical methods, storage structures for on-farm and process plant level operations including Warehouse, Market-yards, Go-downs, silos, Milk Chilling plants, Cold chains and Cold Storage units designed to store agriculture produce or agro-products.

An Illustrative List of Agriculture and Allied Activities

1. Growing of Paddy
2. Growing of Wheat
3. Growing of Jowar
4. Growing of Bajra
5. Growing of Ragi
6. Growing of Maze
7. Growing of Other millets
8. Growing of Pulses
9. Growing of Mustard
10. Growing of Groundnut
11. Growing of Soya bean
12. Growing of Sunflower
13. Growing of Other oilseeds
14. Growing of Sugarcane
15. Growing of Sugar beet
16. Growing of Cotton
17. Growing of Jute & Other fibre crops
18. Growing of Tobacco
19. Growing of Vegetables, including mushroom
20. Growing of Misc. food/cash crops

21. Growing of Safed Musli
22. Growing of Isabgol
23. Growing of Senna (Sonamukhi)
24. Growing of Annato (Bixa)
25. Growing of Lemongrass
26. Growing of Kutki (HA)
27. Growing of Mentha
28. Growing of Patchouli
29. Growing of medicinal/aromatic plants
30. Growing of Tea
31. Growing of Coffee
32. Growing of Cocoa trees
33. Growing of Rubber
34. Growing of Guar Gum
35. Growing of Betelvine
36. Growing of Pineapple
37. Growing of Apple
38. Growing of Mango
39. Growing of Orange
40. Growing of Banana
41. Growing of Grape
42. Growing of Other fruit crops
43. Growing of Cashew
44. Growing of Coconut
45. Growing of Areca nut
46. Growing of Other edible nuts
47. Growing of Spice crops
48. Growing of Floriculture trees
49. Growing of any other Plantation and Horticulture crops
50. Plucking of Tendu Leaves
51. Construction of Dug well
52. Construction of Bore well
53. Construction of Tube well
54. Construction of Farm Ponds/ Tanks
55. Purchase and installation of Pump sets
56. Purchase and installation of Generator Sets for energizing pump sets
57. Purchase and installation of Drip Irrigation
58. Purchase and installation of Sprinkler sets
59. Purchase and installation of Lift Irrigation
60. Development of Other irrigation systems
61. Land reclamation
62. Bunding of farm lands
63. Water management (development of channels and drainage)
64. Land leveling/Terracing
65. Organic farming
66. Other land development schemes
67. Purchase of agricultural implements (*iron ploughs, harrows, hose, hand*

tools, sprayers, dusters, land-levelers, bund formers, hay-press, thresher machines)

68. Purchase of Tractors
69. Purchase of Power tillers
70. Purchase of Harvesters
71. Purchase of Other farm machinery/ Accessories
72. Social Forestry
73. Farm Forestry
74. Jatropha cultivation
75. Bamboo cultivation
76. Waste Land Development
77. Other Forestry and waste land development
78. Construction and running of Cold Storage
79. Construction and running of Milk Chilling plants
80. Construction and running of Market Yards (including advances to APMC)
81. Construction and running of Godowns/ Warehouse/ Silos, etc.
82. Construction and running of Other storage facilities
83. Cows (including sheds)
84. Buffalo (including sheds)
85. Cattle breeding (including sheds)
86. Other Dairy activities (including sheds)
87. Broilers (including sheds)
88. Layers (including sheds)
89. Hatcheries (including sheds)
90. Other Poultry activities (including sheds)
91. Sheep Rearing (including sheds)
92. Shearing of Hide and skin
93. Goat Rearing (including sheds)
94. Piggery (raising of pigs and swines)
95. Rabbit Rearing (farming of rabbits including angora rabbits) (including sheds)
96. Sericulture (raising of silk worms including production of silk worm cocoons), including cultivation of mulberry
97. Bee keeping (raising of bees including production of honey)
98. Miscellaneous Animal Husbandry
99. Purchase of fishing equipments (including fishing nets)
100. Fish culture (including construction of Ponds/ Tanks) (from fish catching export)
101. Fish Hatcheries
102. Shrimp/prawn farming - brackish water

103. Shrimp/ prawn farming - fresh water
104. Purchase of Mechanised Boats
105. Purchase of Non-mechanised Boats
106. Biotechnology including Tissue culture relating to agriculture
107. Cotton, ginning, cleaning
108. Cleaning, grading and drying of all agriculture produce originating from agricultural farm, livestock, aqua-cultural sources and forests.
109. Processing of Agricultural residues, by-products
110. Processing for high recovery oil and improved storage structures for cereals, pulses, oilseeds, onion and potato.
111. Processing for parboiling of rice, preparation of puffed rice and flaked rice.
112. Processing of pulses to produce dhal for higher recovery and better quality.
113. Production of protein rich produces such as full fat soy flour, soy drink/ soy milk, soy paneer (TOFU) and soy fortified baked products.
114. Processing for production of high quality ground spices and spice mix, development of raw materials and processes for production of food items, production and packaging of milk products including butter milk, paneer, ghee etc.
115. Processing for high recovery of sugarcane juice, processes for production of high quality jaggery and liquid jaggery.
116. Processing pilot plants for production of various industrial raw material from lac including dyes and pharmaceutical products.
117. Processing of jute sticks to yield jute fibre and impregnation, preparation of jute based textile materials and bags.
118. Control of stored grain insects by using chemical and physical methods, storage structures for on farm, trade, and process plant level operations.
119. Processing and canning of meat, meat products and fish.
120. Pre-cooling, packaging & transport of cut flowers and low cost designs of green houses.
121. Processing of fruits and vegetables, pre-cooling of freshly harvested produce, processing, controlled

ripening, juice extraction, concentration & storage

122. Processing of forest produce such as oil extraction from oil bearing materials, collection and processing of resins and production of dyes, chemicals and pharmaceutical products.
123. All activities related for post-harvest loss reduction and value addition of spices & condiments, floriculture, production of mushrooms, honey, eggs and fish etc.
124. Processing of agro-based products for manufacture of animal feeds

Template for conducting evaluation studies - Investments in agriculture

Particulars	**Observations**	**Agricultural Investments**	**Example:** **Case of Investment in Minor Irrigation**
Terms of Reference (ToRs) & Objectives of the Evaluation	The ToR needs to be disaggregated into specific objectives. A 'rule of thumb' is to specify the various objectives into measurable parameters.	The nature and peculiarities of the selected agricultural investment should be kept in mind while formulating the objectives. Should include rationale of the study area, districts, block covered under the study with special reference to the activity/investment covered under the study. A detailed profile of the activity/investment to be studied needs to be covered.	Both direct and indirect benefits emanating from irrigation intervention should be specified upfront. For instance, the direct benefit of investment in a dug well is to increase the cropping intensity and induce changes in the cropping pattern in favour of high value crops. Indirect benefits result from backwards linkages in the agrarian economy, say, when the farmer producing an agricultural commodity purchases additional inputs from other sectors of the economy. Aspects that the evaluation study will not be able to cover should be clearly mentioned in the 'scope of the study'.
Selection of Scheme/ Project	Select *stabilised schemes and projects* for undertaking an evaluation. Time taken for stabilization could be different for different investments. Stabilised scheme is one, where the stream of benefits gets fairly grounded and has an element of 'permanence'. For	For agricultural investments, it is critical that investment chosen for evaluation must have stabilised, otherwise, there is a possibility of either overestimating or underestimating the benefits. Even the costs in such a situation may not be captured fully. Therefore, as far as possible, pre-mature investments may not be evaluated	If required, representation of different sub-sectors of the investment say, sprinkler, drip, tube-well, etc., should form part of the sample selection to get an overall evaluation of the sector. In the case of a dug well scheme, it takes almost 3 years for benefits to stabilise. Thus, for any meaningful evaluation one needs at least 3 years

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	instance, in the case of dairy, the benefits gets stabilised almost immediately, whereas for an apple plantation scheme, it may not be before 9th year that the benefits emanating are considered as stabilised.	and if evaluated, results may be interpreted cautiously.	before it can be launched.
Broad approach to an evaluation study	Among the various approaches/ methods available for evaluation, the two preferred are comparison of 'pre-project' situation with 'post-project' situation and comparison of 'with project' and 'without project' situation.	Depending on the investment and situation, the choice of the approach needs to be made. Ideally, the 'with' and 'without' approach/method is preferred. However, if suitable control situation is not available, then 'pre' & 'post' method can be adopted. Many a time, a combination of both the methods is also adopted.	If the primary objective is to estimate and quantify the increase in income of an individual borrower due to irrigation, then 'pre'& 'post' is preferred as getting an exactly similar control may be difficult. But if the primary objective is to estimate the impact of irrigation, then a 'with' & 'without' approach is preferred as then only the impact can be captured fully.
Sample Design	Selection of district, bank branches, and borrowers needs to be carefully made. The number should fulfil the requirements of the objectives and the statistical rigour. The chosen approach will also have an implication for the sample select	For agricultural investments, usually small sample studies are undertaken to facilitate intensive analysis. For such small investments, simple random sampling technique is adopted as it is simple to execute.	The selected sample needs to represent the population or the beneficiaries. For instance, in the case of surface irrigation investment, the beneficiaries/users - both at the 'tail end' and near the 'head works' need to be included in the sample. Sample selection should also cover all categories of farmers (small, marginal and large). Selection of control farms remains

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			desirable, particularly in the case of sprinkler, irrigation, etc.
Choice of Reference year of the Study	Reference year means the year in which the evaluation is conducted. Rationale for the choice of reference year should be indicated.	Especially for agricultural investments, the reference year should be 'normal'. Broadly speaking, the year is normal from the point of view of agricultural season, (without major aberrations in the rainfall, weather conditions, floods) and no major deviations are observed in production /productivity. This is necessary to ensure that the observed costs and benefits are also normal.	Sometimes, the year with low rainfall also considered. This should be avoided.
Aspects related to Implementation	Comparison between assumed norms applied at the time of loan sanction and actual implementation with respect to financing, cost, release of bank loan and its instalments, margin money, etc., must be undertaken.	For agricultural investments, the scheme under study lays down the **targets** to be achieved. These targets may be construed as a crude proxy for a base line survey. The financial parameters laid down need to be necessarily analysed against the physical norms that were to be achieved. Since most agricultural investments are small in nature it becomes imperative to capture the delay (or otherwise) in time lag in the implementation	For minor irrigation schemes, implementation aspect could be related to delay in asset creation, delay in energisation (pump sets), collection of water charges, recovery of loans, etc.

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		process.	
Investment cost	Break-up into measurable parameters like fixed and operating costs should be given. Difference between actual cost and approved cost of investment needs to be captured. Investment cost needs to be assessed at reference year prices and not historical prices. Reference year prices are the prices that a scheme/project confronts during the year of the study and that need not necessarily be the year of the establishment of the project/ scheme.	For agricultural investments, off late, there is increasing evidence of incurring of marketing cost (commercial agriculture). These also need to be captured and mentioned separately both as percentage to fixed and variable cost. This analysis should be strengthened in the studies for agricultural investments as there is a tendency not to incorporate these costs.	Component-wise break-up of unit costs in case of dug well, ring well, bore well, etc. Adequacy of unit costs of the investment and bank loan. Recurring cost, say maintenance charges, diesel charges for operating the pump set, etc., need to be factored in while identifying the cost.
Benefits	Need to divide the benefits zone into - tangible (direct) and intangible (indirect) benefits. As far as possible, attempt should be made to measure even the intangible benefits through some estimates and statistical tools. Where quantitative assessment is not possible, qualitative assessment is recommended.	For agricultural investments it is necessary that both direct and indirect benefits be specified. Care may be taken that the trail of indirect benefits should not extend to the direct benefit part. For example, in the case of a rural road investment, indirect benefit say of increase in enrolment rates, reduction in teacher absenteeism may be construed as direct benefits. Though these are important benefits emanating from	- Analysis of (potential) command area, effective command, irrigation utilization level, etc. - Analysis of groundwater status in the area. - Analysis of irrigation efficiency in terms of irrigation intensity by crops cost of irrigation, etc. - Induced benefits such as changes in the cropping pattern in favour of high value crops, increase in the level of input use (seeds, fertilisers, etc.),

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		the scheme but have to be classified as indirect benefit. Benefits need to be assessed with respect to the 'economic life of the project'. The investment/the project may run longer than its envisaged economic life, but for working out the economics, we restrict ourselves to its economic life. For instance, for a traditional apple plantation, the economic life is 32 years, whereas the apple tree may survive for even 100 years.	need to be captured and quantified appropriately.
Analysis of Repayment Performance	Default rate to be estimated both at the agency level and at the sample level.	The default rates for agricultural investments need to be probed from the angle of 'wilful' and 'non-wilful' defaulters. Since agricultural investments are exposed to the vagaries of nature this is an important dimension. For agricultural investment portfolio of the financing agency , the systemic risk on both these account should be analysed.	Wilful and non-wilful default need to be analysed/explained. Cross-sectional analysis of repayment performance is recommended
Bankability of the Investment	Important parameter usually not included in the evaluation studies	Debt service ratio for each agricultural investment chosen to be calculated separately.	Adequacy of incremental income flowing from the minor irrigation investment vis-à-vis repayment obligation must be quantified. Rationality of repayment instalment as

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			fixed by the bank should be based on the above.
Financial Rate of Return (FRR) or Economic Rate of Return (ERR)	Important to capture the rate of return of a project/scheme/ intervention. FRR indicates the **viability** of the project/scheme from an individual standpoint, whereas ERR indicates **viability** from society's angle.	For agricultural investments, where the benefits accrue to the individual borrowers, we need to estimate the FRR while in case of projects/interventions and ERR in case of society. It is important that while fixing the discount rate, which is a proxy for opportunity cost of capital, the benchmark should be a market-based interest rate and should also include a risk component.	Depreciation and interest on term loan are often included as a part of cost stream to arrive at net income. The same net income is used to calculate FRR. This becomes a double count and overestimates cost and underestimates net income/incremental income.
Macro Impact Assessment	Estimate the macro impact of the investment in terms of income and employment generation. This facilities broader policy analysis/decision making.	For agricultural investment the Incremental Capital Output Ratio (ICOR) varies tremendously. So while blowing up for macro estimates, care has to be taken that it does not overestimate the contribution to the Gross Domestic Product (GDP).	The ratio of Net Incremental Income (NII) to the benefitted area accruing for the sample should become the basis for arriving at the blowing up factor. This ratio needs to be applied to the total benefitted area for the selected scheme and then blown up for a macro estimate to arrive at the contribution of the scheme.