

PRIORITY SECTOR LENDING

Targets and Classification – 2020

RBI Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 Dated September 04, 2020



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INTRODUCTION OF PRIORITY SECTOR LENDING

1968-1972

- National Credit Council held in 1968.
- Description of Priority Sector formalized in 1972

1974-1979

- Initially no specific targets for PSAs.
- In 1974 it was decided that share of PSAs should increase to 33 1/3 % of total advances by March 1979.

1980-2006

- Meeting of Union Finance Minister with chief of PSBs, it was agreed to raise the share of PSAs to 40% of Total Advances by March 1985.

2007-2015

- The guidelines were revised in the year 2007 and 2012.
- On recommendation of Internal Working Group (IWG), RBI revised PSL Guidelines w.e.f. 23/04/2015.

04/09/2020

- On recommendation of Internal Working Group (IWG), RBI has revised the existing Priority Sector Lending guidelines w.e.f. 04/09/2020.

TARGETS SUMMARY UNDER PRIORITY SECTOR ADVANCES

Domestic commercial Banks / Foreign Banks with 20 & above branches

- 40% of ANBC or Credit equivalent amount of Off - Balance Sheet exposure (CEOBE), Whichever is higher.

Foreign Banks with less than 20 branches

- 40% of ANBC or CEOBE, Whichever is higher. Out of which up to 32% to Exports and minimum 8% other priority sector.

Regional Rural Bank

- 75% of ANBC or CEOBE whichever is higher. However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 % of ANBC.

Small Finance Banks

- 75 per cent of ANBC as computed Table below or CEOBE whichever is higher.

SUMMARY OF THE OTHER PRIORITY SECTOR LENDING TARGETS

Categories	Domestic commercial banks & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Agriculture	18 per cent of ANBC. out of which a target of 10 percent# for SMFs.	Not applicable	18 per cent of ANBC. out of which a target of 10 percent# for SMFs.	18 per cent of ANBC. out of which a target of 10 percent# for SMFs.
Micro Enterprises	7.5 per cent of ANBC.	Not applicable	7.5 per cent of ANBC.	7.5 per cent of ANBC.
Advances to Weaker Sections	12 percent# of ANBC or CEOBE, whichever is higher	Not applicable	12 percent# of ANBC or CEOBE, whichever is higher	12 percent# of ANBC or CEOBE, whichever is higher

Revised targets for Agriculture and SMFs will be implemented in a phased manner.

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Categories	PRIMARY URBAN CO-OPERATIVE BANK					
Total Priority Sector	40 per cent of ANBC or CEOBE, whichever is higher, which shall stand increased to 75 per cent of ANBC or CEOBE, whichever is higher, with effect from March 31, 2024. UCBs shall comply with the stipulated target as per the following milestones:					
	Existing target	March 31, 2021	March 31, 2022	March 31, 2023	March 31, 2024	
	40%	45%	50%	60%	75%	
Micro Enterprises	7.5 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher					
Advances to Weaker Sections	12 per cent# of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.					

Revised targets for weaker sections will be implemented in a phased manner as indicated below.

Financial Year	Small and Marginal Farmers target *	Weaker Sections target ^
2020-21	8%	10%
2021-22	9%	11%
2022-23	9.5%	11.5%
2023-24	10%	12%

* Not applicable to UCBs
 ^ Weaker Sections target for RRBs will continue to be 15% of ANBC or CEOBE, whichever is higher.

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COMPUTATION OF ADJUSTED NET BANK CREDIT (ANBC)

Bank Credit in India (As prescribed in item No. VI of Form 'A' as on 31 st March) under Sec 42 [2] of RBI Act, 1934.	I
Bills rediscounted with RBI and other approved Financial institutions	II
Net Bank Credit (NBC)	III (I-II)
Outstanding Deposits under RIDF and other funds with NABARD, NHB, SIDBI and MUDRA Ltd for non-achievement of PSL targets/sub-targets + outstanding PSLCs	IV
Eligible amount for exemptions on issuance of long term bonds for infrastructure and affordable housing as per circular dated July 15, 2014.	V
Eligible advance extended in India against the incremental FCNR(B)/NRE deposits, qualifying for exemption from CRR/SLR requirements.	VI
Investments made by public sector banks in the Recapitalization Bonds floated by Government of India.	VII
Other investments eligible to be treated as PSL (e.g. investments in securitised assets)	VIII
Face Value of securities acquired and kept under HTM category under the TLTRO 2.0	IX
Bonds/debentures in Non-SLR categories under HTM category	X
For UCBs: investments made after August 30, 2007 in permitted non SLR bonds held under 'Held to Maturity' (HTM) category	XI
ANBC (Other than UCBs)	III + IV - (V+VI+VII) +VIII - IX + X
ANBC for UCBs	III + IV - VI - IX + XI

*For the purpose of priority sector computation only. Banks should not deduct / net any amount like provisions, accrued interest, etc. from NBC.

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SUB-TARGETS UNDER AGRICULTURE

Domestic commercial Banks, RRBs, Foreign Banks with 20 & above branches & Small Finance Banks:

❖ 18 per cent of ANBC or CEOBE, whichever is higher.

❖ Out of which a target of 10 percent is prescribed for Small and Marginal Farmers (SMFs), to be achieved by March 2024.

❖ **Foreign Banks with less than 20 branches:- No specific target.**

SMALL & MARGINAL FARMERS

Computation of 10 % loan to small and marginal farmers include the following:

- ❖ **Marginal Farmer:** Farmer Landholding up to 1 hectare,
- ❖ **Small Farmer:** Farmer Landholding up to 2 hectare,
- ❖ Landless agricultural labourers, tenant farmers, oral lessees and share-croppers,
- ❖ Loan to SHG or JLG engaged in agriculture and allied activities,
- ❖ Loans up to ₹ 2 lakh to individuals solely engaged in Allied activities without any accompanying land holding criteria,
- ❖ Loan to farmer producer companies of individual farmers and co-operative society having 75% Small and Marginal farmer engaged in agriculture activities.

AGRICULTURE ADVANCE

Farm Credit Loans to individual farmers, SHG, JLG:

- Short term loan for raising crops, i.e. Crop Loans.
- Medium & long term loan to farmers for agriculture & allied activities.
- Loan to farmers for pre & post harvest activities.
- Loan to farmers up to 50 lakh against agriculture produce (including warehouse receipt) for 12 months.
- Loans to farmers under KCC Scheme.
- Loans to distress farmers indebted to non institutional lenders.
- Loans to farmers for installation of stand-alone Solar Agriculture Pumps, solar power plants and for solarisation of grid connected Agriculture Pumps.
- Loan to small & marginal farmers to purchase of land for agriculture purpose.

AGRICULTURE ADVANCE

Farm Credit Loan to corporate farmer, farmer producer organization, Partnership forms, Co operative societies engaged in Agriculture and Allied activities for Loans limit up to 2 crore per borrower. This will include:

- Crop Loans to farmer which will include traditional/ Non-traditional plantations and horticulture, and loans to allied activities.
- Medium & long term loan to farmers for agri. & allied activities.
- Loan to farmers for pre & post harvest activities.
- Loan to farmers up to 50 lakhs against agriculture produce(including warehouse receipt)for 12 months.
- Loans up to ₹5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price;
- UCBs are not permitted to lend to co-operatives of farmers.

AGRICULTURE INFRASTRUCTURE

Loan for aggregate sanction limit of Rs. 100 crore per borrower from the banking system.

- Loans for construction of storage facilities (Warehouse, Godowns, market yards) including cold storage units designed to store Agriculture produce, irrespective of their location.
- Soil conservation and watershed development
- Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting.
- Loans for construction of oil extraction/ processing units for production of bio-fuels, their storage and distribution infrastructure along with loans to entrepreneurs for setting up Compressed Bio Gas (CBG) plants.

AGRICULTURE ANCILLARY ACTIVITIES

- Loans up to Rs. 5 crore to co-operative societies of farmers for disposing of the produce of farmers.
- Loans for setting Agrclinic & Agribusiness centre.
- Loan sanction to MFIs for on lending Ag activities.
- Loans for Food & Agro-processing up to an aggregate sanction limit of Rs. 100 crore per borrower from the banking system.
- Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in agriculture and allied services.
- Bank loans to Primary Agricultural Co operative Society(PACS), Farmer's Service Societies (FSS) and Large sized Adivasi Multi Purpose Scheme (LAMPS) for on lending to Agriculture.
- Outstanding deposits under RIDF and eligible funds with NABRD on account of priority sector shortfall.

MICRO, SMALL & MEDIUM ENTERPRISES

Domestic commercial Banks, RRBs, Foreign Banks with 20 & above branches & Small Finance Banks: All Bank loan to Micro, Small & Medium Enterprises both manufacturing and services are eligible to classified under Priority Sector Advances.

Micro Enterprises: 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

Foreign Banks with less than 20 branches:- No specific target.

MICRO, SMALL & MEDIUM ENTERPRISES

Khadi and Village Industries Sector (KVI): All loan given to units of KVI sector will eligible for classification of 7.5% Micro Enterprises.

Other finance to MSMEs:

- a) Loans to person involve in assisting the Artisans, village and Cottage Industry.
- b) Loan to cooperative of producers in the Artisans, village and Cottage Industry (Not applicable for UCBs).
- c) Loan sanction to Banks, MFIs for on lending to MSE sectors.
- d) Credit outstanding under GCC (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. credit needs of individuals).
- e) Loans up to ₹ 50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India of MSME;
- f) Overdraft to PMJDY account holders as per limits and conditions prescribed by Department of Financial Services;
- g) Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

TARGETS UNDER EXPORT CREDIT

(Not applicable to RRBs and LABs)

Domestic Commercial Banks / WoS of Foreign banks/ SFBs/ UCBs: Incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to ₹ 40 crore per borrower.

Foreign Banks with 20 & above branches: Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or CEOBE whichever is higher.

Foreign Banks with less than 20 branches: Export Credit will be allowed up to 32 % of ANBC or Off- Balance Sheet exposure, whichever is higher.

WEAKER SECTION

Weaker Section:- Existing 10% to 12% target of ANBC or CEOBE, whichever is higher, have to achieve phase wise by 31 March 2024. (Not applicable to Foreign banks with less than 20 branches).

- Loan to Small and Marginal farmers,
- Beneficiaries of Govt. Sponsored Schemes such as NRLM, NULM, DRI, SRMS,
- Artisans, Village and cottage industries where individual credit limits do not exceed Rs. 1 lakh per borrower,
- Loan to individual SC & ST category ,
- Loan to persons with disabilities,
- Loans to individual women beneficiaries up to Rs. 1 lac per borrower (For UCBs, existing loans to women will continue to be classified till their repayment.),
- Loans to distressed farmers indebted to non-institutional lenders,
- Loans to distressed persons other than farmers not exceeding Rs. 1 lac per borrower to prepay their debt to non-institutional lenders,
- OD limit to PMJDY account holder as per limit prescribed by Govt. of India.
- Minority communities as may be notified by Govt. of India from time to time.

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EDUCATION LOAN

- ❖ Loans to individuals for educational purposes, including vocational courses, not exceeding ₹ 20 lakh will be considered as eligible for priority sector classification.
- ❖ Loans currently classified as priority sector will continue till maturity.

SOCIAL INFRASTRUCTURE

- Bank loans up to a limit of ₹ 5 crore per borrower for setting up schools, drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and water improvements at household level, etc. and loans up to a limit of ₹ 10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres.
- In case of UCBs, the above limits are applicable only in centres having a population of less than one lakh.
- Bank loans to MFIs extended for on-lending to individuals and also to members of SHGs/JLGs for water and sanitation facilities.

RENEWABLE ENERGY

- Bank loans up to a limit of ₹ 30 crore to borrowers for purposes like solar based power generators, biomass-based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities, viz., street lighting systems and remote village electrification etc., will be eligible for Priority Sector classification.
- For individual households, the loan limit will be ₹ 10 lakh per borrower.

HOUSING LOAN

- a) Loan for Construction and Purchase:** Loans to individuals up to Rs.35 lakh in metropolitan centres (with population of ten lakh and above) and loans up to Rs. 25 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed Rs. 45 lakh and Rs. 30 lakh respectively.
- Existing individual housing loans of UCBs presently classified under PSL will continue as PSL till maturity or repayment.
 - The housing loans to banks' own employees will be excluded.
- b) Loan for Repairs:** Loans for repairs to damaged dwelling units of families up to Rs.10 lakh in metropolitan centres and up to Rs. 6 lakh in other centres.

HOUSING LOAN

- c) **Loan to governmental agency:** Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of not more than 60 sq.m.
- d) **Loan for housing projects:** The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for economically weaker sections and low-income groups, the total cost of which does not exceed Rs.10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low-income groups, the family income limit of Rs.3 lakh for EWS and Rs. 6 lakh for LIG per annum, in alignment with the income criteria specified under the Pradhan Mantri Awas Yojana.
- e) **Loan to HFC:** Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs. 20 lakh per borrower.
- f) Bank loans for affordable housing projects using at least 50% of FAR/FSI for dwelling units with carpet area of not more than 60 sq.m.
- g) Outstanding deposits with NHB on account of priority sector shortfall.

OTHERS

1. Loans not exceeding ₹1.00 lakh per borrower provided directly by banks to individuals and individual members of SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed ₹1.00 lakh and for non-rural areas it does not exceed ₹1.60 lakh, and loans not exceeding ₹2.00 lakh provided directly by banks to SHG/JLG for activities other than agriculture or MSME, viz., loans for meeting social needs, construction or repair of house, construction of toilets or any viable common activity started by the SHGs.

2. Loans to distressed persons [other than distressed farmers indebted to noninstitutional lenders] not exceeding ₹1.00 lakh per borrower to prepay their debt to non-institutional lenders.

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

4. Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in activities other than Agriculture or MSME.

PRIORITY SECTOR LENDING CERTIFICATES

The outstanding priority sector lending certificates bought by banks will be eligible for classification under respective categories of priority sector provided the assets are originated by banks, are eligible to be classified as priority sector advances and fulfill the Reserve Bank of India guidelines on Priority Sector Lending Certificates issued vide Circular FIDD.CO.Plan. BC.23/04.09.001/2015-16 dated April 7 2016.

INVESTMENTS BY BANKS IN SECURITISED ASSETS

- (i) Investments by banks in securitised assets, representing loans to various categories of priority sector, except 'others' category, are eligible for classification under respective categories of priority sector depending on the underlying assets provided:**
 - (a) the securitised assets are originated by banks and financial institutions and are eligible to be classified as priority sector advances prior to securitisation and fulfil the Reserve Bank of India guidelines on securitisation.**
 - (b) the all inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the investing bank plus 8 percent per annum.**
- (ii) Investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.**

TRANSFER OF ASSETS THROUGH DIRECT ASSIGNMENT /OUTRIGHT PURCHASES

- (i) Assignments/Outright purchases of pool of assets by banks representing loans under various categories of priority sector, except the 'others' category, will be eligible for classification under respective categories of priority sector provided:**
 - (a) the assets are originated by banks and financial institutions which are eligible to be classified as priority sector advances prior to the purchase and fulfil the Reserve Bank of India guidelines on outright purchase/assignment.**
 - (b) the eligible loan assets so purchased should not be disposed of other than by way of repayment.**
 - (c) the all inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the purchasing bank plus 8 percent per annum.**

TRANSFER OF ASSETS THROUGH DIRECT ASSIGNMENT / OUTRIGHT PURCHASES

- (ii) When the banks undertake outright purchase of loan assets from banks/ financial institutions to be classified under priority sector, they must report the nominal amount actually disbursed to end priority sector borrowers and not the premium embedded amount paid to the sellers.**
- (iii) Purchase / assignment / investment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.**

INTER BANK PARTICIPATION CERTIFICATES

- ❖ Inter Bank Participation Certificates (IBPCs) bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector and the banks fulfil the Reserve Bank of India guidelines on IBPCs.
- ❖ With regard to the underlying assets of the IBPC transactions being eligible for categorization under 'Export Credit' the IBPC bought by banks, on a risk sharing basis, may be classified from purchasing bank's perspective for priority sector categorization. However, in such a scenario, the issuing bank shall certify that the underlying asset is 'Export Credit', in addition to the due diligence required to be undertaken by the issuing and the purchasing bank as per the guidelines in this regard.

NON-ACHIEVEMENT OF PRIORITY SECTOR TARGETS

(i) Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other funds with NABARD/NHB/SIDBI/MUDRA Ltd., as decided by the Reserve Bank from time to time.

(ii) With effect from March 31, 2021, all UCBs (excluding those under all-inclusive directions) will be required to contribute to RIDF established with NABARD and other funds with NABARD / NHB / SIDBI / MUDRA Ltd., against their priority sector lending (PSL) shortfall.

NON-ACHIEVEMENT OF PRIORITY SECTOR TARGETS

(iii) While computing priority sector target achievement, shortfall / excess lending for each quarter will be monitored separately. A simple average of all quarters will be arrived at and considered for computation of overall shortfall / excess at the end of the year. The same method will be followed for calculating the achievement of priority sector sub-targets.

(iv) The interest rates on banks' contribution to RIDF or any other funds, tenure of deposits, etc. shall be fixed by Reserve Bank of India from time to time.

(v) The mis-classifications reported by the Reserve Bank's Department of Supervision (DoS) (NABARD in respect of RRBs) would be adjusted/ reduced from the achievement of that year, to which the amount of misclassification pertains, for allocation to various funds in subsequent years.

(vi) Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

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Thank You



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