Priority Sector Lending – Policy guidelines
Session Plan

• What and why of Priority Sector Lending (PSL)?
  ➢ Objective and Philosophy
• Evolution of PSL guidelines
• Categories under Priority Sector
• Priority Sector Targets
• The Investment Route to PS targets
• Compliance aspects
• Performance of Banks
What is Priority sector Lending?

**OBJECTIVE**

- To ensure flow of credit to certain productive sectors of the economy, which in normal course are handicapped in accessing credit.

- Credit linking the deserving but deprived segments of the economy
The Policy Philosophy*

1. Credit flow to Needy persons/ Viable and creditworthy sectors which may not get timely and adequate credit in the absence of this special dispensation.

2. Not a Corporate Social Responsibility but a normal business operation for banks

3. Lend directly to beneficiaries instead of routing these loans through intermediaries.

4. Banks to create innovative structures, products and processes to channel credit to these sectors.

5. To be viewed as an essential prerequisite to attaining allocational efficiency in the economy

*Dr K.C. Chakrabarty’s speech September 2012
# Evolution of PSL guidelines

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1968</td>
<td><strong>National Credit Council Meeting</strong> – Banks to increase priority sector financing viz. Agriculture/SSI</td>
</tr>
<tr>
<td>1972</td>
<td>Based on the report of <strong>Informal Study Group of 1971</strong> on Statistics</td>
</tr>
<tr>
<td></td>
<td>• Description of priority sectors and categories formalised</td>
</tr>
<tr>
<td></td>
<td>• Modified returns and guidelines – No targets fixed</td>
</tr>
<tr>
<td>Nov. 1974</td>
<td><strong>Target of 33.33%</strong> of total advances to PS to be achieved by <strong>March, 1979</strong></td>
</tr>
<tr>
<td>Mar. 1980</td>
<td>Based on Meeting of Union FM with CEOs of banks, and Working group (Dr. K S Krishnaswamy) on modalities of implementation of PSL and 20-point economic programme by banks</td>
</tr>
<tr>
<td></td>
<td>• Target of <strong>40% to be achieved</strong> by March 1985 and sub-targets given</td>
</tr>
<tr>
<td></td>
<td><strong>SEVERAL Changes in scope and targets/Sub-targets</strong></td>
</tr>
<tr>
<td>2007</td>
<td>Internal Working Group chaired by <strong>Shri C S Murthy (September, 2005)</strong> - Guidelines revised</td>
</tr>
<tr>
<td>July 2012</td>
<td><strong>M V Nair</strong> Committee set up in August 2011 to re-examine the existing classification and suggest revised guidelines which were issued in 2012</td>
</tr>
<tr>
<td>April 2015</td>
<td><strong>Internal WG set up in 2014 to reexamine the guidelines</strong> Guidelines revised on April 23, 2015</td>
</tr>
</tbody>
</table>
Categories of Priority Sector Lending

1. Agriculture
2. MSME
3. Export Credit
4. Education loan
5. Housing
6. Social Infrastructure
7. Renewable energy
8. Others
TARGETS
<table>
<thead>
<tr>
<th>Categories</th>
<th>Domestic Commercial Banks / Foreign Banks with 20 &amp; more branches</th>
<th>Foreign banks with less than 20 branches</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Priority Sector</strong></td>
<td>40% of ANBC or credit equivalent amount of Off-Balance Sheet exposure (OBE), whichever is higher. For foreign banks to be achieved by March 2018</td>
<td>40 percent of ANBC or Credit Equivalent of OBE, whichever is higher; to be achieved in a phased manner by 2020</td>
</tr>
<tr>
<td><strong>Total Agriculture</strong></td>
<td>• 18%</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td>• Within the 18%, a target of 8% for Small and Marginal farmers (achieved in phased manner i.e. 7% by March 2016 &amp; 8% by March 2017)</td>
<td></td>
</tr>
<tr>
<td><strong>Micro Enterprises</strong></td>
<td>• 7.5% of ANBC</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td>• To be achieved in a phased manner i.e. 7% by March 2016 &amp; 7.5% by March 2017</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• No target for MSME as a whole</td>
<td></td>
</tr>
<tr>
<td><strong>Export Credit</strong></td>
<td>Incremental export credit over corresponding date of the preceding year, up to 2% of ANBC or Credit Equivalent of OBE, whichever is higher.</td>
<td>allowed up to 32% of ANBC or Credit Equivalent Amount of OBE, whichever is higher.</td>
</tr>
<tr>
<td><strong>Advances to Weaker Sections</strong></td>
<td>10% of ANBC or credit equivalent amount of OBE whichever is higher.</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
Targets- Agriculture

• Domestic banks to ensure that the overall lending to non-corporate farmers does not fall below the system-wide average of the last three years achievement.

• All efforts should be maintained to reach the level of 13.5 percent direct lending to the beneficiaries who earlier constituted the direct agriculture sector.

• The applicable system wide average figure for computing achievement under PSL to be notified every year. FY 2017-18, the applicable system wide average figure is 11.78%.
## Computation of ANBC

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank Credit in India</strong> (as prescribed in item No. VI of Form ‘A’ [Special Return as on March 31st] under Sec 42 (2) of RBI Act, 1934)</td>
<td>I</td>
</tr>
<tr>
<td>Bills rediscouned with RBI and other approved Financial Institutions</td>
<td>II</td>
</tr>
<tr>
<td><strong>Net Bank Credit</strong></td>
<td>III = (I – II)</td>
</tr>
<tr>
<td>Bonds / Debentures in Non-SLR categories under HTM Category + other investments eligible to be treated as priority sector + outstanding deposits under RIDF &amp; other eligible funds with NABARD/ NHB / SIDBI / MUDRA on account of priority sector shortfalls + outstanding PSLCs</td>
<td>IV</td>
</tr>
<tr>
<td>Eligible amount for exemptions on issuance of long-term bonds for infrastructure and affordable housing</td>
<td>V</td>
</tr>
<tr>
<td>Eligible advances extended in India against incremental FCNR (B) / NRE deposits, qualifying for exemption from CRR/SLR requirements</td>
<td>VI</td>
</tr>
</tbody>
</table>

**Adjusted Net Bank Credit (ANBC)**

III+IV–V–VI
1. AGRICULTURE
## Sectoral composition of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industries</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>51.88</td>
<td>11.10</td>
<td>34.63</td>
<td>100.00</td>
</tr>
<tr>
<td>1960-61</td>
<td>47.65</td>
<td>13.68</td>
<td>36.60</td>
<td>100.00</td>
</tr>
<tr>
<td>1970-71</td>
<td>41.66</td>
<td>15.98</td>
<td>40.91</td>
<td>100.00</td>
</tr>
<tr>
<td>1980-81</td>
<td>35.69</td>
<td>18.05</td>
<td>45.26</td>
<td>100.00</td>
</tr>
<tr>
<td>1990-91</td>
<td>29.53</td>
<td>20.56</td>
<td>49.61</td>
<td>100.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>22.31</td>
<td>20.69</td>
<td>57.00</td>
<td>100.00</td>
</tr>
<tr>
<td>2010-11</td>
<td>14.51</td>
<td>19.95</td>
<td>65.54</td>
<td>100.00</td>
</tr>
<tr>
<td>2015-16</td>
<td>≈14</td>
<td>≈19</td>
<td>≈67</td>
<td>100.00</td>
</tr>
</tbody>
</table>
Agricultural Credit target of Rs.10,00,000 crore is fixed by the GoI for 2017-18

Agricultural Credit Target proposed by the Government of India for 2018-19 in the Budget dated Feb 1, 2018 is Rs.11,00,000 crore

A target of Rs.9,00,000 crore was fixed by the GoI for 2015-16
AGRICULTURE

The lending to agriculture sector INCLUDES:

i. Farm Credit
   (which will include short-term crop loans
   and medium/long-term credit to farmers)

ii. Agriculture Infrastructure

iii. Ancillary Activities
Small & Marginal farmers - Focus of PSL

Covering Small & Marginal farmers serves multi purposes
- Priority Sector Target
- Weaker Section Target
- Financial Inclusion Target

- 10 crore small and marginal farmer. Which is 82% of the total farmers
- Most vulnerable section of society

New PSL guidelines made 7% - 8% of ANBC as compulsory lending to this segment

Share in Operational Holding

- Marginal: 67%
- Small: 18%
- Semi-Medium: 10%
- Large: 1%
Farm Credit....1

Loans to

• individual farmers (including groups of individual farmers like SHGs/ JLGs), and

• and Proprietorship firms of farmers directly engaged in Agriculture and Allied Activities (dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture)
Farm Credit (Individual).... 2

- Crop loans to farmers (will include traditional / non-traditional plantations, horticulture and allied activities)

- Medium & Long-term loans to farmers for agriculture & allied activities (purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm and development loans for allied activities)

- Loans for pre-harvest and post-harvest activities viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.
Loans to:

- Farmers upto Rs.50 lakh against pledge / hypothecation of agricultural produce (incl. WR), for a period not exceeding 12 months
- Distressed farmers indebted to non-institutional lenders
- farmers under KCC Scheme
- Small & Marginal Farmers for purchase of land for agricultural purposes
Farm Credit (Corporate).... 4

• Loans to corporate farmers, farmers’ producer organizations, companies of individual farmers partnership firms and cooperatives of farmers directly engaged in Agriculture and Allied Activities (dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture) upto an aggregate limit of Rs.2 crore
Farm Credit (Corporate) .... 5

- Crop loans to farmers which will include (traditional / non-traditional plantations, horticulture and allied activities)
- Medium & Long-term loans for agriculture & allied activities (purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm and development loans for allied activities)
- Loans for Pre-harvest and post-harvest activities viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.
- Loans upto Rs.50 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not > 12 months
Agriculture Infrastructure

1. Loans for construction of storage facilities (warehouses, market yards, godowns & silos) including cold storage units / cold storage chains designed to store agriculture produce/products irrespective of their location.

2. Soil conservation and watershed development.

3. Plant tissue culture and agro-biotechnology, seed production, production of bio-pesticides, bio-fertilizer and vermi composting.

For all the above loans an aggregate sanctioned limit of Rs.100 crore per borrower from the banking system will apply.
Ancillary activities.....1

1. Loans upto Rs.5 crore to cooperative societies of farmers for disposing of the produce of members

2. Loans for setting up of Agriclinics and Agribusiness Centres

3. Loans for Food & Agro-processing upto an aggregate sanctioned limit of Rs.100 crore per borrower from the banking system

4. Loans to Custom Service Units managed by individuals, institutions/organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers etc., and undertake farm work on contract basis.
Ancillary activities…..2

5. Bank loans to PACS, Farmers’ Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture.

6. Loans sanctioned by banks to MFIs for on-lending to agriculture sector as per certain conditions.

7. Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.
2. MICRO, SMALL & MEDIUM ENTERPRISES
What is MSME?

• **Manufacturing Enterprises:**
  - Micro enterprises – Investment in plant & machinery does not exceed Rs 25 lakh
  - Small enterprises – Investment more than Rs.25 lakh but does not exceed Rs 5 crore
  - Medium enterprises – Investment more than Rs.5 crore but does not exceed Rs.10 crore

• **Service Enterprises:**
  - Micro enterprises - Investment in equipment not exceeding Rs 10 lakh
  - Small enterprises - Investment in equipment is more than Rs.10 lakh but does not exceed Rs 2 crore.
  - Medium enterprises – Investment is more than Rs.2 crore but does not exceed Rs.5 crore.
Loans to MSME as Priority sector

• Manufacturing Enterprises: MSMEs engaged in the manufacture/production of goods to any industry specified in the 1st Schedule to Industries (Dev. & Regulation) Act, 1951

• Service Enterprises:
  - Bank loans upto Rs.5 crore per unit to Micro and Small Enterprises and Rs. 10 crore to Medium Enterprises engaged in providing or rendering of services

• Khadi and Village Industries Sector:
  - All loans sanctioned to units in the KVI sector will be eligible for classification under the sub-target of 7% / 7.5% prescribed for Micro enterprises under priority sector.
MSME – Other finance

• Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries

• Loans to cooperatives of producers in the decentralized sector viz., artisans, village and cottage industries

• Loans sanctioned by banks to MFIs for on-lending to MSME sector subject to conditions.
MSME – Other finance

• Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card and Weavers Card etc.)

• Overdrafts extended by banks after April 8, 2015 upto ₹5,000/- under PMJDY accounts provided the borrower’s household annual income does not exceed ₹ 100,000/- for rural areas and ₹ 1,60,000/- for non-rural areas. These overdrafts will qualify as achievement of the target for lending to Micro Enterprises.

• Outstanding deposits with SIDBI and MUDRA on account of priority sector shortfall.
### 3. EXPORT CREDIT

<table>
<thead>
<tr>
<th>Domestic Banks</th>
<th>Foreign Banks with 20 branches and above</th>
<th>Foreign Banks with less than 20 branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental export credit over corresponding date of the preceding year, upto 2% of ANBC, effective from April 1, 2015 subject to a sanctioned limit of Rs.25 crore per borrower to units having turnover of upto Rs. 100 crore</td>
<td>Incremental export credit over corresponding date of the preceding year, upto 2% of ANBC, effective from April 1, 2017</td>
<td>Export credit will be allowed upto 32% of ANBC.</td>
</tr>
</tbody>
</table>
4. EDUCATION

Loans to individuals for educational purposes (including vocational courses) upto Rs. 10 lakhs, irrespective of the sanctioned amount, is considered as eligible for priority sector.
5. HOUSING....1

- Loans to individuals upto Rs. 28 lakh in metropolitan centres for purchase / construction of a dwelling unit per family is considered as eligible for priority sector. (overall cost of the unit not to exceed Rs. 35 lakh)

Loans to individuals upto Rs. 20 lakh in other centres (other than metropolitan) for purchase / construction of a dwelling unit per family is considered as eligible for priority sector. ((overall cost of the unit not to exceed Rs. 25 lakh))
5. HOUSING....2

• Loans given for **repairs** to the damaged dwelling units of families
  • up to Rs. 5 lakh in metropolitan centres
  • and up to Rs. 2 lakh in other areas.

• Loans to any governmental agency for construction of dwelling units or slum clearance and rehabilitation of slum dwellers, up to Rs.10 lakh per dwelling unit.

• Loans for housing projects exclusively for the purpose of construction of houses only to EWS and LIGs the total cost of which is not > Rs. 10 lakh per dwelling unit. *(family income limit Rs.2 lakh per annum irrespective of location)*
• Bank loans to HFCs 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, upto Rs. 10 lakh per dwelling unit.

(Upto max. 5% of the individual bank’s total priority sector lending)

• Outstanding deposits with NHB on account of priority sector shortfall.
6. SOCIAL INFRASTRUCTURE

- Bank loans up to a limit of Rs.5 crore per borrower for building social infrastructure activities namely schools, health care facilities, drinking water facilities and sanitation facilities including construction/refurbishment of household toilets in Tier II to Tier VI centres.

- Bank credit to MFIs extended for on-lending to individuals and also to members of SHGs/JLGs for water and sanitation facilities subject to certain criteria.
7. RENEWABLE ENERGY

- Bank loans upto a limit of Rs.15 crore to borrowers for purpose like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities viz., street lighting systems and remote village electrification.

- For individual households, the loan limit will be Rs.10 lakh per borrower.
8. OTHERS

• Loans not exceeding Rs.50,000/- per borrower provided directly by banks to individuals and their SHG / JLG (borrower’s household annual income not to exceed Rs.1,00,000/ in rural areas and Rs.1,60,000/ in non-rural areas).

• Loans to distressed persons (other than farmers- already included) not > Rs.1,00,000/- per borrower to prepay their debt to non-institutional lenders.

• Loans sanctioned to State Sponsored Organizations for SCs / STs for the specific purpose of purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries of these organizations.
Weaker Sections

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

i. Small and Marginal Farmers

ii. Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh

iii. Beneficiaries under Government Sponsored Schemes such as NRLM, NULM and SRMS

iv. Scheduled Castes and Scheduled Tribes

v. Beneficiaries of DRI scheme

vi. Self Help Groups

vii. Distressed farmers indebted to non-institutional lenders
Weaker Sections Category

viii. Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders

ix. Individual women beneficiaries up to ₹1 lakh per borrower

x. Persons with disabilities

xi. Overdrafts upto ₹5,000/- under PMJDY accounts, provided the borrower’s household annual income does not exceed ₹100,000/- for rural areas and ₹1,60,000/- for non-rural areas

xii. Minority communities as may be notified by Government of India from time to time.
The Investment Route to achieve Priority Sector Targets
1. Investment by banks in securitized assets

- Investment by banks in securitized assets representing loans to PS (except ‘others’ category) are eligible for classification under respective categories of PS depending on the underlying assets provided:
  - the securitized assets are originated by banks / Fis and are eligible to be classified as PS advances prior to securitization
  - the all inclusive interest charged to the ultimate borrower by the originating entity should not exceed Base Rate + 8%
- Investments made by banks in securitised assets originated by NBFCs where underlying assets are loans against gold jewellery are not eligible for PS status
2. Transfer of assets through direct assignment / outright purchases

Assignments/Outright purchases of pool of assets by banks representing loans under various categories of PS, except the 'others' category, is eligible for classification under PS provided:

• The assets originated by banks and Fis and are eligible to be classified as PS advances prior to purchase
• The eligible loan assets so purchased should not be disposed of other than by way of repayment
• The all inclusive interest charged to the ultimate borrower by the originating entity should not exceed Base Rate + 8%

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.
3. Inter Bank Participation Certificates

- IBPCs bought by banks on a risk sharing basis shall be eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of PS and the banks fulfill the RBIs guidelines on IBPCs
4. Priority Sector Lending Certificates (PSLC)

- The outstanding PSLCs bought by banks will be eligible for classification under respective categories of priority sector, provided the assets are originated by banks and are eligible to be classified as PS advances and fulfill the RBIs guidelines on PSLCs.

- There will be no transfer of risks or loan assets.
AGRICULTURE- Credit Targets

• Agricultural Credit target of Rs.10,00,000 crore is fixed by the GoI for 2017-18

• Agricultural Credit Target proposed by the Government of India for 2018-19 in the Budget dated Feb 1, 2018 is Rs.11,00,000 crore

• A target of Rs.9,00,000 crore was fixed by the GoI for 2015-16
PSLC

**Purpose:** To enable banks to achieve the PSL target and sub-targets by purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under priority sector.

**Nature of the Instruments:** The seller will be selling fulfillment of priority sector obligation and the buyer would be buying the same. **There will be no transfer of loan assets and therefore no transfer of credit risk.**

**Modalities:** The PSLCs will be traded through the CBS portal (e-Kuber) of RBI.

**Sellers/Buyers:** SCBs, RRBs, LABs, SFBs and UCBs who have originated PSL eligible category loans
Four Types of PSLCs

i) **PSLC Agriculture**: Counting for achievement towards the total agriculture lending target.

ii) **PSLC SF/MF**: Counting for achievement towards the sub-target for lending to Small and Marginal Farmers.

iii) **PSLC Micro Enterprises**: Counting for achievement towards the sub target for lending to Micro Enterprises.

iv) **PSLC General**: Counting for achievement towards the overall priority sector target.

If shortfall in overall target – bank can buy any PLSC, otherwise specific PSLC.
Compliance Aspects
Common Guidelines.....1

• Issue of Acknowledgment of Loan Applications

  Banks should provide acknowledgement for loan applications received under priority sector loans.

  - Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

• Receipt, Sanction/Rejection/Disbursement Register

  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 and made available to all inspecting agencies.
Common Guidelines.....2

• Service Charges

No loan related and adhoc service charges / inspection charges should be levied on priority sector loans upto Rs.25,000/- For SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole

• Monitoring end-use of loans

Banks should ensure that loans extended under priority sector are for the approved purposes and the end use is continuously monitored. Banks should put in place proper internal controls and systems in this regard
Common Guidelines.....3

• Collateral
  - Banks mandated not to accept collateral security in case of loans upto **Rs.10 lakh** extended to units in the MSE sector
  - Based on the track record and financial position of the MSE units, banks **may increase** the limit of dispensation of collateral requirement for loans **upto Rs.25 lakh** (with the approval of the appropriate authority)
  - Banks to **encourage** their branch level functionaries to avail of the **Credit Guarantee Scheme** cover, including making performance in this regard a criterion in the evaluation of their field staff.
Monitoring of Priority Sector Lending targets

To ensure continuous flow of credit to priority sector, the compliance of banks will be monitored on ‘quarterly’ basis.

The data on priority sector advances has to be furnished by banks at quarterly and annual intervals as per the reporting formats prescribed vide Circular FIDD.CO.Pl an.BC.58/04.09.01/ 2014-15 dated June 11, 2015 on Priority Sector Lending – Revised Reporting System.
Non-achievement of Priority Sector targets

- Non-achievement of priority sector targets/sub-targets taken into account while granting regulatory clearances/approvals.
- SCBs having any shortfall in PSL are allocated amounts for contribution to the RIDF established with NABARD and other Funds with NABARD/NHB/SIDBI/ MUDRA, as decided by RBI. The RoI and tenure of deposits is also decided by RBI.
- While computing 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 in target/subtarget at the year end.
- The misclassifications reported by DBS would be adjusted/reduced from the achievement of that year, to which the amount of declassification/misclassification pertains, for allocation to various funds in subsequent years.