

PRIORITY SECTOR LENDING - RRB

Priority Sector lending includes lending to those sectors that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises. With a view to providing more credits to the segments under priority sector, RRBs are required to achieve a target of 60% of their outstanding advances for priority sector advances of which at least 25% (i.e. 15% of the total advances) are to be made to weaker sections of the society w.e.f. 2003-04.

Categories of Priority Sector

1. a) Agriculture (Direct Finance)

Direct Finance to agriculture includes short term and long term loans given for agriculture and allied activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) directly to individual farmers, Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers and to others (such as corporate, partnership firms and institutions), for taking up agriculture/allied activities.

Direct finance includes:-

- Short-term loans for raising crops, i.e. for crop loans including traditional/ non-traditional plantations and horticulture.
- Advances up to Rs. 10 Lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not.
- Working capital and term loans including credit sanctioned under Kisan Credit Card for financing production and investment requirements for agriculture and allied activities.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral or group security.
- Loans granted for pre-harvest and post-harvest activities such as spraying, weeding, tilling, grading, sorting, processing and transporting undertaken by individuals, SHGs co-operatives in rural areas.
- Loans granted for agricultural and allied activities, irrespective of whether the borrowing entity is engaged in export or otherwise.

Finance to others (corporate, partnership firms and institutions) includes:-

- Loans granted for pre-harvest and post harvest activities such as spraying, weeding, harvesting, grading, sorting and transporting.
- Finance up to an aggregate amount of Rs. one crore per borrower for the purposes listed at above.
- One-third of loans in excess of Rs. one crore in aggregate per borrower for agriculture and allied activities.

b) Agriculture (Indirect Finance)

Finance for Agriculture and Allied Activities such as:-

- Two-third of loans to other than individual borrowers in excess of Rs. one crore in aggregate per borrower for agriculture and allied activities.
- Loans to food and agro-based processing units with investments in plant and machinery up to Rs. 10 crore, undertaken by those other than individual borrowers.

- i) Credit for purchase and distribution of fertilizers, pesticides, seeds, etc.
- (ii) Loans up to Rs. 40 lakh granted for purchase and distribution of inputs for the allied activities such as cattle feed, poultry feed, etc.
- Finance for setting up of Agri-clinics and Agribusiness Centres.
- Finance for hire-purchase schemes for distribution of agricultural machinery and implements.
- Loans to farmers through Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS).
- Loans to cooperative societies of farmers for disposing of the produce of members.
- Financing the farmers indirectly through the co-operative system (otherwise than by subscription to bonds and debenture issues).
- Loans for construction and running of storage facilities (warehouse, market yards, godowns, and silos), including cold storage units designed to store agriculture produce/products, irrespective of their location.
- Finance extended to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, irrespective of their location, subject to:-
 - a. The dealer should be dealing exclusively in such items or if dealing in other products with distinct records in respect of other items;
 - b. A ceiling of upto Rs. 30 Lakh to be observed.
- Loans to Arthias (commission agents in rural/semi-urban areas functioning in markets/mandies) for extending credit to farmers, for supply of inputs as also for buying the output from the individual farmers/ SHGs/ JLGs.
- Credit outstanding under loans for general purposes under General Credit Cards (GCC).
- Loans granted to NGOs/MFIs for on-lending to individual farmers or their SHGs/JLGs.
- Overdrafts, up to Rs.25, 000 (per account), granted against 'no-frills' accounts in rural and semi-urban areas.
- Loans eligible for classification as direct/indirect finance to agriculture
- Credit under the Kisan Credit Card would be treated as direct finance for agriculture.

Loans not eligible for Classification as Direct / Indirect finance to Agriculture

Loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery, investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase / assignment of gold loan portfolio from NBFCs.

2. Micro & Small Enterprises : Direct finance to MSE includes:-

i) Manufacturing Enterprises

(a) Micro (manufacturing) Enterprises

Enterprises engaged in the manufacture/production, processing or preservation of goods and whose original cost of investment in plant and machinery (excl. land & building and other items as per MSMED Act 2006) does not exceed Rs. 25 Lakh, irrespective of the location of the unit.

(b) Small (manufacturing) Enterprises

Enterprises engaged in the manufacture/production, processing or preservation of goods and whose original cost of investment in plant and machinery (excl. land and building and other items as per the Act) is more than Rs. 25 Lakh but does not exceed Rs. 5 crore, irrespective of the location of the unit.

ii) Service Enterprises

(a) Micro (Service) Enterprises

Enterprises engaged in providing/rendering of services and whose original cost of investment in equipment (excl. land and building and furniture, fittings and other items not directly related to the service rendered) does not exceed Rs. 10 Lakh, irrespective of the location of the unit.

b) Small (service) Enterprises

Enterprises engaged in providing/rendering of services and whose original cost of investment in equipment (excl. land and building and furniture, fittings and such items) is more than Rs. 10 Lakh but do not exceed Rs. 2 crore, irrespective of the location of the unit.

c) Other activities

The small and micro (service) enterprises also include small road & water transport operators, small business, professional & self-employed persons, and other service enterprises engaged in activities as listed in the Act and satisfy the investment in equipment criteria i.e. not exceeding Rs. 10 Lakh and Rs. 2 crore respectively.

Loans granted by RRBs to micro and small enterprises (MSE) (manufacturing and services) are eligible for classification under priority sector, provided such enterprises satisfy the definition of MSE sector as contained in MSMED Act, 2006, irrespective of whether the borrowing entity is engaged in export or otherwise.

All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery.

Indirect Finance

Indirect finance to small enterprises shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

3. Micro Credit

- Loans of very small amount not exceeding Rs. 50,000 per borrower, either directly or indirectly through a SHG/JLG mechanism.
- Loans to distressed persons (other than farmers) to prepay their debt to non-institutional lenders, against appropriate collateral or group security.

4. State sponsored organization for SC/ST

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

5. Education

Loans granted to individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad. Loans granted to educational institutions which qualify under MSMED Act 2006 are eligible to be classified under priority sector under MSE (services) provided they qualify under MSMED Act 2006.

6. Housing

- Loans up to Rs. 25 lakh, irrespective of location, to individuals for purchase/construction of a dwelling unit per family, excluding loans granted by banks to their own employees, w.e.f. 01.04.2011.
- Loans given for repairs to the damaged dwelling units of families up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban and metropolitan areas.
- Assistance given to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of Rs. 5 lakh of loan amount per dwelling unit.
- Assistance given to a non-governmental agency approved by the NHB for the purpose of refinance for construction/reconstruction of dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of loan component of Rs. 10 Lakh per dwelling unit.

7. Weaker Sections : includes :-

- Small and marginal farmers with land holding of 5 acres and less, and landless labourers, tenant farmers and share croppers;
- Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50,000
- SC and ST and DRI beneficiaries.
- Beneficiaries under Swarna Jayanti Shahari Rozgar Yojana (SJSRY), Swarnjayanti Gram Swarozgar Yojana (SGSY) now National Rural Livelihood Mission (NRLM), and Beneficiaries under the Scheme for Rehabilitation of Manual Scavengers (SRMS)
- Loans to distressed poor to repay their debt to informal sector against appropriate collateral, etc.

Other common guidelines:

- Govt. Agencies should complete applications in respect of govt. sponsored schemes like NRLM, etc. and in other areas the bank staff should help the borrowers for this purpose.
- Banks should give acknowledgement for loan applications received from weaker sections.
- All loan applications up to a credit limit of Rs. 25,000 should be disposed of within a fortnight and those for over Rs. 25,000, within 8 to 9 weeks.
- All loan applications for Micro and Small Enterprises up to a credit limit of Rs. 25,000 should be disposed of within 2 weeks and those up to Rs. 5 lakh within 4 weeks,

provided the loan applications are complete in all respects and are accompanied by a 'check list'.

- Branch Managers may reject applications (except in respect of SC/ST) provided the cases of rejection are verified subsequently by the Divisional/Regional Managers. In the case of proposals from SC/ST, rejection should be at a level higher than that of Branch Manager.
- A register should be maintained at the branch, wherein the date of receipt, sanction/rejection/disbursement with reasons therefore, etc., should be recorded. The register should be made available to all inspecting agencies.
- Banks may disburse all loans for agricultural purposes in cash which will facilitate dealer choice to borrowers and foster an environment of trust. However, banks may continue the practice of obtaining receipts from borrowers.
- Repayment schedule should be based on surplus available, sustenance requirements, life of asset, etc and not on "ad hoc" manner. For people affected by natural calamities, restructuring of the loans may be considered as per NABARD guidelines.
- Rate of interest on various categories of priority sector advances should be as per the RBI directives being issued from time to time.
- No service charges/inspection charges for loans upto Rs. 25,000/- and above the limit, banks may charge as approved by their respective Boards.
- Banks may waive insurance for all categories of priority sector advances upto and inclusive of Rs. 10,000/- and for Micro & Small Enterprises upto Rs. 25,000/-. However, insurance on vehicles and other equipments wherever it is compulsory as per Law or for availing refinance, etc. must be insisted upon.
- Banks should make arrangements for taking photographs of priority sector borrowers wherever it is required at the cost should also be borne by the banks.
- All Branch Managers should be vested with adequate powers to sanction proposals from weaker sections, if not, should exist at district level so as to expedite the sanctions/decisions promptly.
- Banks should put in place a suitable machinery to look into complaints, if any, being received from borrowers and the name and address of the officer with whom complaints can be lodged should also be displayed on the Notice Board of every branch.

(Source: RBI M. Circular)

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