

## Master Direction - Regional Rural Banks - Priority Sector Lending – Targets and Classification

### MASTER DIRECTION-REGIONAL RURAL BANKS-PRIORITY SECTOR LENDING-TARGETS AND CLASSIFICATION

The guidelines for priority sector lending by Regional Rural Banks were revised by the Reserve Bank of India vide circular dated December 3, 2015. The Master Direction enclosed incorporates the updated guidelines/ instructions/ circulars on the subject. The list of circulars consolidated in this Master Direction is indicated in the [Appendix](#). The Direction will be updated from time to time as and when fresh instructions are issued. This [Master Direction](#) has been placed on the RBI website at [www.rbi.org.in](http://www.rbi.org.in).

2. The revised guidelines on priority sector lending by Regional Rural Banks were made operational with effect from January 1, 2016. Accordingly, the priority sector loans sanctioned under the guidelines issued prior to this date will continue to be classified under priority sector till repayment/ maturity/ renewal.

#### CHAPTER – I PRELIMINARY

**1. Short Title and Commencement:** (a) These Directions shall be called the Reserve Bank of India (Regional Rural Banks -Priority Sector Lending – Targets and Classification) Directions, 2016, and shall come into effect on the day they are placed on the official website of the Reserve Bank of India.

**2. Applicability:** The provisions of these Directions shall apply to every Regional Rural Bank (RRB) licensed to operate in India by the Reserve Bank of India.

**3. Clarification:** All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act or the Reserve Bank of India Act, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

#### CHAPTER II CATEGORIES AND TARGETS UNDER PRIORITY SECTOR

**4. The categories under priority sector are as follows:**

- i. [Agriculture](#)
- ii. [Micro, Small and Medium Enterprises \(MSMEs\)](#)
- iii. [Education](#)
- iv. [Housing](#)
- v. [Social Infrastructure](#)
- vi. [Renewable Energy](#)
- vii. [Others](#)

The details of eligible activities under the above categories are specified in [Chapter III](#).

**5. Targets /Sub-targets for Priority sector:**

RRBs will have a target of 75 per cent of their outstanding advances for priority sector lending and sub-sector targets as indicated in table below.

| Categories                 | Targets                           |
|----------------------------|-----------------------------------|
| Total Priority Sector      | 75 per cent of total outstanding* |
| Agriculture                | 18 per cent of total outstanding  |
| Small and Marginal Farmers | 8 percent of total outstanding    |
| Micro Enterprises          | 7.5 per cent of total outstanding |
| Weaker Sections            | 15 per cent of total outstanding  |

\* The overall Priority Sector target should be achieved across all prescribed categories viz. – Agriculture, MSME, Education, Housing, Social Infrastructure, Renewable Energy and Others. However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of total outstanding.

The computation of priority sector targets/sub-targets achievement will be based on the total outstanding as on the corresponding date of the preceding year.

### CHAPTER III DESCRIPTION OF ELIGIBLE CATEGORIES UNDER PRIORITY SECTOR

**6. Agriculture:** The lending to agriculture sector will be categorized as

- (i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers)
- (ii) Agriculture Infrastructure and
- (iii) Ancillary Activities.

A list of eligible activities under the three sub-categories is indicated below:

|                 |  |
|-----------------|--|
| 6.1 Farm credit | <p>A. Loans to individual farmers [including Self Help Groups(SHG) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans], directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include:</p> <ul style="list-style-type: none"> <li>(i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.</li> <li>(ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)</li> <li>(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.</li> <li>(iv) Loans to farmers up to Rs. 50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.</li> <li>(v) Loans to distressed farmers indebted to non-institutional lenders.</li> <li>(vi) Loans to farmers under Kisan Credit Card Scheme.</li> <li>(vii) Loans to small and marginal farmers for purchase of land for agricultural purposes.</li> </ul> <p>B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of Rs. 2 crore per borrower. This will include:</p> <ul style="list-style-type: none"> <li>(i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.</li> <li>(ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)</li> <li>(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and</li> </ul> |
|-----------------|--|

|   |                              |  |
|---|------------------------------|--|
|   | (iv)                         | transporting of their own farm produce.<br>(iv) Loans up to Rs. 50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.  |
| 6.2. Agriculture infrastructure   | i)<br>ii)<br>iii)            | Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage units/ cold storage chains designed to store agriculture produce/ products, irrespective of their location.<br>Soil conservation and watershed development.<br>Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting.   |
| For the above loans, an aggregate sanctioned limit of Rs. 100 crore per borrower from the banking system, will apply. |                              |  |
| 6.3. Ancillary activities   | (i)<br>(ii)<br>(iii)<br>(iv) | Loans up to Rs. 5 crore to co-operative societies of farmers for disposing of the produce of members.<br>Loans for setting up of Agriclincs and Agribusiness Centres.<br>Loans for Food and Agro-processing up to an aggregate sanctioned limit of Rs. 100 crore per borrower from the banking system.<br>Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis. |

For the purpose of computation of achievement of the sub-target, Small and Marginal Farmers will include following:-

- Farmers with landholding of up to 1 hectare are considered as Marginal Farmers. Farmers with a landholding of more than 1 hectare and up to 2 hectares are considered as Small Farmers.
- Landless agricultural labourers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within the limits prescribed for small and marginal farmers.
- Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual Small and Marginal farmers directly engaged in Agriculture and Allied Activities provided banks maintain disaggregated data of such items.
- Loans to farmers' producer companies of individual farmers, and co-operatives of farmers directly engaged in Agriculture and Allied Activities, where the membership of Small and Marginal Farmers is not less than 75 per cent by number and whose land-holding share is also not less than 75 per cent of the total land-holding.

### 7. Micro, Small and Medium Enterprises (MSMEs)

7.1. The limits for investment in plant and machinery/equipment for manufacturing / service enterprise, as notified by Ministry of Micro, Small and Medium Enterprises, vide S.O.1642(E) dated September 9, 2006 are as under:-

| <b>Manufacturing Sector</b> |   |
|-----------------------------|---|
| <b>Enterprises</b>          | <b>Investment in plant and machinery</b>                                |
| Micro Enterprises           | Does not exceed twenty five lakh rupees                                 |
| Small Enterprises           | More than twenty five lakh rupees but does not exceed five crore rupees |
| Medium Enterprises          | More than five crore rupees but does not exceed ten crore rupees        |
| <b>Service Sector</b>       |   |
| <b>Enterprises</b>          | <b>Investment in equipment</b>  |
| Micro Enterprises           | Does not exceed ten lakh rupees   |
| Small Enterprises           | More than ten lakh rupees but does not exceed two crore rupees          |
| Medium Enterprises          | More than two crore rupees but does not exceed five crore rupees        |

Bank loans to Micro, Small and Medium Enterprises, for both manufacturing and service sectors are eligible to be classified under the priority sector as per the following norms:

**7.2. Manufacturing Enterprises:** The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The Manufacturing Enterprises are defined in terms of investment in plant and machinery.

**7.3. Service Enterprises:** Bank loans up to Rs. 5 crore per unit to Micro and Small Enterprises and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

**7.4. Khadi and Village Industries Sector (KVI):** All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 per cent prescribed for Micro Enterprise under priority sector.

**7.5. Other Finance to MSMEs**

- (i) 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.
- (ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- (iii) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

**7.6.** To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units will continue to enjoy the priority sector lending status up to three years after they grow out of the MSME category concerned.

**7.7 Overdrafts under PMJDY:**

Overdrafts extended by banks after April 8, 2015 upto Rs. 5,000/- under Pradhan Mantri Jan-DhanYojana (PMJDY) accounts provided the borrowers household annual income does not exceed Rs. 100,000/- for rural areas and Rs. 1,60,000/- for non-rural areas. These overdrafts will also qualify for target of Micro Enterprises and Weaker Section under Priority Sector Lending.

**8. Education**

Loans to individuals for educational purposes including vocational courses upto Rs. 10 lakh irrespective of the sanctioned amount will be considered as eligible for priority sector.

**9. Housing**

- (i) Loans to individuals up to Rs. 20 lakh in for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit should not exceed Rs. 25 lakh. The housing loans to banks' own employees will be excluded.
- (ii) Loans for repairs to damaged dwelling units of families up to Rs. 2 lakh.
- (iii) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of Rs. 10 lakh per dwelling unit.
- (iv) 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. 2 lakh per annum, irrespective of the location, is prescribed.

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

**11. Renewable Energy:** Bank loans up to a limit of Rs. 15 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. For individual households, the loan limit will be Rs. 10 lakh per borrower.

**12. Others:**

**12.1** Loans not exceeding Rs. 50,000/- per borrower provided directly by banks to individuals and their SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed Rs. 100,000/- and for non-rural areas it does not exceed Rs. 1,60,000/-.

**12.2** Loans to distressed persons [other than farmers already included under 6.1(A) (v)] not exceeding Rs. 100,000/- per borrower to prepay their debt to non-institutional lenders.

**12.3** 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.

### 13. Weaker Sections

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

| No.    | Category   |
|--------|--|
| (i)    | Small and Marginal Farmers   |
| (ii)   | Artisans, village and cottage industries where individual credit limits do not exceed Rs. 1 lakh   |
| (iii)  | Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)  |
| (iv)   | Scheduled Castes and Scheduled Tribes  |
| (v)    | Beneficiaries of Differential Rate of Interest (DRI) scheme  |
| (vi)   | Self Help Groups   |
| (vii)  | Distressed farmers indebted to non-institutional lenders   |
| (viii) | Distressed persons other than farmers, with loan amount not exceeding Rs. 1 lakh per borrower to prepay their debt to non-institutional lenders  |
| (ix)   | Individual women beneficiaries up to Rs. 1 lakh per borrower   |
| (x)    | Persons with disabilities  |
| (xi)   | Overdrafts upto Rs. 5,000/- under Pradhan Mantri Jan-DhanYojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed Rs. 100,000/- for rural areas and Rs. 1,60,000/- for non-rural areas |
| (xii)  | Minority communities as may be notified by Government of India from time to time   |

In States, where one of the minority communities notified is, in fact, in majority, item (xii) will cover only the other notified minorities. These States/ Union Territories are Jammu & Kashmir, Punjab, Meghalaya, Mizoram, Nagaland and Lakshadweep.

## CHAPTER IV MISCELLANEOUS

**14. Monitoring:** The data on priority sector advances has to be furnished by RRBs to NABARD at quarterly and annual intervals. The [quarterly](#) and [annual](#) reporting formats are annexed. For the purpose of calculation of priority sector lending targets, total outstanding will be calculated as on corresponding date of the previous year. (i.e. for reporting PSL data for quarter ending June 2016, total outstanding will be considered as on June 30, 2015).

**15. Other Guidelines:** RRBs can issue Inter Bank Participation Certificates (IBPCs) to Scheduled Commercial Banks in respect of their priority sector advances in excess of 75 per cent of their outstanding advances.

**16. Common guidelines for priority sector loans:** RRBs should comply with the following common guidelines for all categories of advances under the priority sector.

- (i) **Rate of interest:** The rate of interest on bank loans will be as per directives issued by our Department of Banking Regulation from time to time.
- (ii) **Service charges:** No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to Rs. 25,000. In case of lending to SHGs/JLGs, the loan limit shall be applicable per member of SHG/JLG and not to the group as a whole.
- (iii) **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. The register/electronic record should be made available to all inspecting agencies.

- (iv) **Issue of Acknowledgement 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.

**17. Amendments:** These directions are subject to any further instructions that may be issued by the RBI from time to time. Banks should ensure that loans extended under priority sector are for approved purposes and the end use is continuously monitored. The banks should put in place proper internal controls and systems in this regard.

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**APPENDIX**

**LIST OF CIRCULARS CONSOLIDATED**

| <b>S.No.</b> | <b>Circular No.</b>                                 | <b>Date</b>      | <b>Subject</b>  |
|--------------|---|------------------|---|
| 1            | <a href="#">FIDD.CO.Plan.BC.14/04.09.01/2015-16</a> | December 3, 2015 | Regional Rural Banks- Priority Sector Lending- Targets and Classification |