



भारतीय रिज़र्व बैंक

-----RESERVE BANK OF INDIA-----

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July 01, 2014

**The Chairman/ Managing Director/
Chief Executive Officer**
*[All scheduled commercial banks
(excluding Regional Rural Banks)]*

Dear Sir,

**MASTER CIRCULAR - PRIORITY SECTOR LENDING-TARGETS AND
CLASSIFICATION**

The Reserve Bank of India has, from time to time, issued a number of guidelines/instructions/directives to banks on Priority Sector Lending. In order to enable the banks to have current instructions at one place, a Master Circular incorporating the existing guidelines/instructions/directives on the subject has been prepared and enclosed. This Master Circular consolidates the current instructions of all the circulars/mail box clarifications issued by Reserve Bank on the subject up to June 30, 2014 as indicated in the *Appendix*.

2. Please acknowledge receipt.

Yours faithfully,

(A. Udgata)
Principal Chief General Manager

Encl: As above

ग्रामीण आयोजना और ऋण विभाग, केंद्रीय कार्यालय, 10वीं मंजिल, केंद्रीय कार्यालय बिल्डिंग, शहीद भगत सिंह मार्ग, पो.बा.सं.10014, मुंबई 400 001
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हिंदी आसान है, इसका प्रयोग बढ़ाइए

चेतावनी : रिज़र्व बैंक द्वारा मेल-ड्राक, एसएमएस या फोन कॉल के जरिए किसी की भी व्यक्तिगत जानकारी जैसे बैंक के खाते का ब्यौरा, पासवर्ड आदि नहीं मांगी जाती है। यह धन रखने या देने का प्रस्ताव भी नहीं करता है। ऐसे प्रस्तावों का किसी भी तरीके से जवाब मत दीजिए।

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Introduction

At a meeting of the National Credit Council held in July 1968, it was emphasised that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries. The description of the priority sectors was later formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. On the basis of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector. Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 percent by March 1979.

At a meeting of the Union Finance Minister with the Chief Executive Officers of public sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sector to 40 percent by March 1985. Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks (Chairman: Dr. K. S. Krishnaswamy), all commercial banks were advised to achieve the target of priority sector lending at 40 percent of aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups.

The guidelines were revised in the year 2007 based on the recommendations made in September 2005 by the Internal Working Group of the RBI (Chairman: Shri C. S. Murthy). The Sub-Committee of the Central Board of the Reserve Bank (Chairman: Shri Y. H. Malegam) constituted to study issues and concerns in the Micro Finance institutions (MFI) sector, inter alia, had recommended review of the guidelines on priority sector lending.

Accordingly, Reserve Bank of India in August 2011 set up a Committee to re-examine the existing classification and suggest revised guidelines with regard to Priority Sector lending

classification and related issues (Chairman: M V Nair). The recommendations of the committee were placed in the public domain inviting public comments. The recommendations of the Committee were examined based on the interface with various stakeholders and in the light of the comments / suggestions received from Government of India, banks, financial institutions, Non-Banking Financial Companies, Associations of industries, public and Indian Banks' Association; and revised guidelines were issued on July 20, 2012 in supersession of guidelines mentioned in the master circular on priority sector lending dated July 2, 2012.

The revised guidelines are operational with effect from July 20, 2012. The priority sector loans sanctioned under the guidelines issued prior to this date will continue to be classified under priority sector till maturity/renewal.

I. Categories under priority sector

- (i) Agriculture
- (ii) Micro and Small Enterprises
- (iii) Education
- (iv) Housing
- (v) Export Credit
- (vi) Others

The eligible activities under the above categories are specified in paragraph III

II. Targets /Sub-targets for Priority sector

- (i) The targets and sub-targets set under priority sector lending for domestic and foreign banks operating in India are furnished below:

Categories	Domestic commercial banks / Foreign banks with 20 and above branches	Foreign banks with less than 20 branches
Total Priority Sector	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii) below] or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	32 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Total agriculture	18 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No specific target. Forms part of total priority sector target.

	Of this, indirect lending in excess of 4.5% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, will not be reckoned for computing achievement under 18 percent target. However, all agricultural loans under the categories 'direct' and 'indirect' will be reckoned in computing achievement under the overall priority sector target of 40 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	
Micro & Small Enterprises (MSE)	Advances to micro and small enterprises sector will be reckoned in computing achievement under the overall priority sector target of 40 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No specific target. Forms part of total priority sector target.
	(i) 40 percent of total advances to micro and small enterprises sector should go to Micro (manufacturing) enterprises having investment in plant and machinery up to <u>₹10 lakh</u> and micro (service) enterprises having investment in equipment up to <u>₹4 lakh</u> ; (ii) 20 percent of total advances to micro and small enterprises sector should go to Micro (manufacturing) enterprises with investment in plant and machinery above <u>₹10 lakh</u> and up to <u>₹25 lakh</u> , and micro (service) enterprises with investment in equipment above <u>₹4 lakh</u> and up to <u>₹10 lakh</u> . (For details, please refer Reserve Bank's Master Circular on Lending to Micro, Small and Medium Enterprises (MSME) Sector)	
Export Credit	Export credit is not a separate category. Export credit to eligible activities under agriculture and MSE will be reckoned for priority sector lending under respective categories.	No specific target. Forms part of total priority sector target.
Advances to Weaker Sections	10 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No specific target in the total priority sector target.

(ii) For foreign banks with 20 and above branches, priority sector targets and sub-targets have to be achieved within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them as approved by RBI. Any subsequent reference to these banks in the circular, will be in accordance to the approved plans.

(iii) The current year's targets for priority sectors and sub-targets will be computed based on Adjusted Net Bank Credit (ANBC) or credit equivalent of Off-Balance Sheet Exposures of preceding March 31st. The outstanding priority sector loans as on March 31st of the current year will be reckoned for achievement of priority sector targets and sub-targets. For the purpose of priority sector lending, ANBC denotes the outstanding Bank Credit in India [(As

prescribed in item No.VI of Form ‘A’ (Special Return as on March 31st) under Section 42 (2) of the RBI Act, 1934] minus bills rediscounted with RBI and other approved Financial Institutions plus permitted non SLR bonds/debentures in Held to Maturity (HTM) category plus other investments eligible to be treated as part of priority sector lending (eg. investments in securitised assets). Outstanding deposits, as on preceding March 31st, under RIDF, Warehouse Infrastructure Fund, Short term Co-operative Rural Credit Refinance Fund and Short Term RRB Fund with NABARD will form part of ANBC. Deposits placed by banks with SIDBI/NHB, 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 reckoned for ANBC computation. Advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements, as per the Reserve Bank’s circulars [DBOD.No.Ref.BC.36/12.01.001/2013-14 dated August 14, 2013](#) read with [DBOD.No.Ref.BC.93/12.01.001/2013-14 dated January 31, 2014](#) and DBOD mailbox clarification issued on February 6, 2014 will be excluded from the ANBC for computation of priority sector lending targets, till their repayment. For the purpose of calculation of credit equivalent of off-balance sheet exposures, banks may be guided by the master circular on exposure norms issued by our Department of Banking Operations and Development.

Computation of Adjusted Net Bank Credit

Bank Credit in India (As prescribed in item No.VI of Form ‘A’ (Special Return as on March 31 st) under Section 42 (2) of the RBI Act, 1934.	I
Bills Rediscounted with RBI and other approved Financial Institutions + Advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements, till their maturity.	II
Net Bank Credit (NBC)*	III(I-II)
Bonds/debentures in Non-SLR categories under HTM category + other investments eligible to be treated as priority sector + Outstanding Deposits, as on preceding March 31 st , under RIDF, Warehouse Infrastructure Fund, Short term Co-operative Rural Credit Refinance Fund and Short Term RRB Fund with NABARD	IV
ANBC	III+IV

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

It has been observed that some banks are subtracting prudential write off at Corporate/Head Office level while reporting Bank Credit as above. In such cases it must be ensured that bank

credit to priority sector and all other sub-sectors so written off should also be subtracted category wise from priority sector and sub-target achievement.

All types of loans, investments or any other item which are treated as eligible for classifications under priority sector target/sub-target achievement should also form part of Adjusted Net Bank Credit.

(iv) The targets for Micro Enterprises within the Micro and Small Enterprises segment (MSE) will be computed with reference to the outstanding credit to MSE as on preceding March 31st.

III Description of the Categories under priority sector

1. Agriculture

1.1 Direct Agriculture

1.1.1 Loans to individual farmers [including Self Help Groups (SHGs) 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 (up to cocoon stage).

(i) Short-term loans to farmers for raising crops, i.e. crop loans.

This will include traditional/non-traditional plantations, horticulture and allied activities.

(ii) Medium & 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 development loans for allied activities).

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

(iv) Loans to farmers up to ₹50 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 or not.

(v) Loans to small and marginal farmers for purchase of land for agricultural purposes.

(vi) Loans to distressed farmers indebted to non-institutional lenders.

(vii) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS) ceded to or managed/controlled by such banks for on lending to farmers for agricultural and allied activities.

(viii) Loans to farmers under Kisan Credit Card Scheme.

(ix) Export credit to farmers for exporting their own farm produce.

1.1.2 Loans to corporates including farmers' producer 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 cocoon stage) up to an aggregate limit of ₹2 crore per borrower for the following activities:

(i) Short-term loans to farmers for raising crops, i.e. crop loans.

This will include traditional/non-traditional plantations, horticulture and allied activities.

(ii) Medium & 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 development loans for allied activities).

(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, grading and sorting.

(iv) Export credit for exporting their own farm produce.

1.2. Indirect agriculture

1.2.1. Loans to corporates including farmers' producer 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 cocoon stage)

(i) If the aggregate loan limit per borrower is more than ₹2 crore in respect of para. (III) (1.1.2) of this circular, the entire loan should be treated as indirect finance to agriculture.

(ii) Loans up to ₹50 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 or not.

1.2.2 Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS) other than those covered under paragraph III (1.1.1) (vii) of this circular.

1.2.3. Other indirect agriculture loans

(i) Loans up to ₹5 crore per borrower to dealers /sellers of fertilizers, pesticides, seeds, cattle feed, poultry feed, agricultural implements and other inputs for agriculture and allied activities.

(ii) Loans for setting up of Agriclincs and Agribusiness Centres.

(iii) Loans up to ₹5 crore to cooperative societies of farmers for disposing of the produce of members.

(iv) 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.

(v) 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.

If the storage unit is a micro or small enterprise, such loans will be classified under loans to Micro and Small Enterprises sector.

(vi) Loans to MFIs for on-lending to farmers for agricultural and allied activities as per the conditions specified in paragraph VIII of this circular.

(vii) Loans sanctioned to NGOs, which are SHG Promoting Institutions, for on-lending to members of SHGs under SHG-Bank Linkage Programme for agricultural and allied activities. The all inclusive interest charged by the NGO/SHG promoting entity should not exceed the Base Rate of the lending bank plus eight percent per annum.

(viii) Loans sanctioned to RRBs for on-lending to agriculture and allied activities.

(ix) Outstanding deposits, as on March 31st of the current year, under RIDF, Warehouse Infrastructure Fund, Short term Co-operative Rural Credit Refinance Fund and Short Term RRB Fund with NABARD.

2. Micro and Small Enterprises

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:-

Manufacturing sector	
Enterprises	Investment in plant and machinery
Micro Enterprises	Do not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Service Sector	
Enterprises	Investment in equipment
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees

Bank loans to micro and small enterprises both manufacturing and service are eligible to be classified under priority sector as per the following:

2.1. Direct Finance

2.1.1. Manufacturing Enterprises

The Micro and Small 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.

2.1.1.1. Loans for food and agro processing

Loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units satisfy investments criteria prescribed for Micro and Small Enterprises, as provided in MSMED Act, 2006.

2.1.2. Service Enterprises

Bank loans up to ₹5 crore per unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

2.1.3. Export credit to MSE units (both manufacturing and services) for exporting of goods/services produced/rendered by them.

2.1.4. Non-farm entrepreneurial credit outstanding under General Credit Card.

2.1.5 Khadi and Village Industries Sector (KVI)

All loans sanctioned to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery. Such loans will be eligible for classification under the sub-target of 60 percent prescribed for micro enterprises within the micro and small enterprises segment under priority sector.

2.2. Indirect Finance

(i) Loans to persons 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 cooperatives of producers in the decentralized sector viz. artisans village and cottage industries.

(iii) Loans sanctioned by banks to MFIs for on-lending to MSE sector as per the conditions specified in paragraph VIII of this circular.

3. Education

Loans to individuals for educational purposes including vocational courses upto ₹10 lakh for studies in India and ₹20 lakh for studies abroad.

4. Housing

(i) Loans to individuals up to ₹25 lakh in metropolitan centres with population above ten lakh and ₹15 lakh in other centres for purchase/construction of a dwelling unit per family excluding loans sanctioned to bank's own employees.

(ii) Loans for repairs to the damaged dwelling units of families up to ₹2 lakh in rural and semi-urban areas and up to ₹5 lakh in urban and metropolitan areas.

(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 ₹10 lakh per dwelling unit.

(iv) The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which do not exceed ₹10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of ₹1,20,000 per annum, irrespective of the location, is prescribed.

(v) 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 ₹10 lakh per borrower, provided the all inclusive interest rate charged to the ultimate borrower is not exceeding lowest lending rate of the lending bank for housing loans plus two percent per annum.

The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis. The maturity of bank loans should be co-terminus with average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio.

5. Export Credit

Export Credit extended by foreign banks with less than 20 branches will be reckoned for priority sector target achievement.

As regards the domestic banks and foreign banks with 20 and above branches, export credit is not a separate category under priority sector. Export credit mentioned under paragraphs (III) (1.1.1) (ix), (III) (1.1.2) (iv), (III) (1.2.1) (i) and (III) (2.1.3) of this circular will count towards the respective categories of priority sector, i.e. Agriculture and MSE sector.

6. Others

6.1. Loans, not exceeding ₹50,000 per borrower provided directly by banks to individuals and their SHG/JLG, provided the borrower's household annual income in rural areas does not exceed ₹60,000/- and for non-rural areas it should not exceed ₹1,20,000/-.

6.2. Loans to distressed persons [other than farmers-already included under III (1.1) (vi)] not exceeding ₹50,000 per borrower to prepay their debt to non-institutional lenders.

6.3. Overdrafts, up to ₹50,000 (per account), granted against basic banking / savings accounts provided the borrowers household annual income in rural areas does not exceed ₹.60,000/- and for non-rural areas it should not exceed ₹1,20,000/-.

6.4. Loans 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.

6.5. Loans sanctioned by banks directly to individuals for setting up off-grid solar and other off-grid renewable energy solutions for households.

IV Weaker Sections

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

- (a) Small and marginal farmers;
- (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) Loans to Self Help Groups;
- (i) Loans to distressed farmers indebted to non-institutional lenders;
- (j) Loans to distressed persons other than farmers not exceeding ₹50,000 per borrower to prepay their debt to non-institutional lenders;
- (k) Loans to individual women beneficiaries upto ₹50,000 per borrower;
- (l) Loans sanctioned under (a) to (k) above to persons from 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 (l) will cover only the other notified minorities. These States/Union Territories are Jammu & Kashmir, Punjab, Meghalaya, Mizoram, Nagaland and Lakshadweep.

V. 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 (direct or indirect) 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.

The investments in securitised assets originated by MFIs, which comply with the guidelines in Paragraph VIII of this circular are exempted from this interest cap as there are separate caps on margin and interest rate.

(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.

VI. 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 (direct or indirect) provided:

(a) The assets are originated by banks and financial institutions and 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.

The assignments/Outright purchases of eligible priority sector loans from MFIs, which comply with the guidelines in Paragraph VIII of this circular are exempted from this interest rate cap as there are separate caps on margin and interest rate.

(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.

VII. Inter Bank Participation Certificates bought by Banks

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 priority sector and the banks fulfil the Reserve Bank guidelines on IBPCs.

VIII. Bank loans to MFIs for on-lending

(a) Bank credit to MFIs extended on, or after, April 1, 2011 for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., agriculture, micro and small enterprise, and 'others', as indirect finance, provided not less than 85% of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of “qualifying assets”. In addition, aggregate amount of loan, extended for income generating activity, is not less than 70% of the total loans given by MFIs.

(b) A “qualifying asset” shall mean a loan disbursed by MFI, which satisfies the following criteria:

(i) The 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 ₹1,20,000/-.

(ii) Loan does not exceed ₹35,000/- in the first cycle and ₹50,000/- in the subsequent cycles.

(iii) Total indebtedness of the borrower does not exceed ₹50,000/-.

(iv) Tenure of loan is not less than 24 months when loan amount exceeds ₹15,000/- with right to borrower of prepayment without penalty.

(v) The loan is without collateral.

(vi) Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

(c) 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: With effect from April 1, 2014, margin cap should not exceed 10 percent for MFIs having loan portfolio exceeding ₹100 crore and 12 percent for others. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.

(ii) Interest cap on individual loans: With effect from April 1, 2014, interest rate on individual loans will be the average Base Rate of five largest commercial banks by assets multiplied by 2.75 per annum or cost of funds plus margin cap, whichever is less. The average of the Base Rate shall be advised by Reserve Bank of India.

(iii) Only three components are to be included in pricing of loans viz., (a) a processing fee not exceeding 1% of the gross loan amount, (b) the interest charge and (c) the insurance premium.

(iv) The processing fee is not to be included in the margin cap or the interest cap of 26%.

(v) Only the actual cost of insurance i.e. actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges may be recovered as per IRDA guidelines.

(vi) There should not be any penalty for delayed payment.

(vii) No Security Deposit/ Margin are to be taken.

(d) The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that (i) 85% 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 70% of the total loans given by the MFIs, and (iii) pricing guidelines are followed.

IX. Non-achievement of priority sector targets

All scheduled commercial banks having shortfall in lending to priority sector target/sub shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other Funds with NABARD/NHB/SIDBI/other Financial Institutions, as decided by the Reserve Bank from time to time.

For the purpose of allocation of RIDF and other Funds, as decided by Reserve Bank from time to time, the achievement levels of priority sector lending as on the March 31st will be taken into account. The deposits under the various Funds will be called upon by NABARD or such other Financial Institutions as per the terms and conditions of the scheme.

The interest rates on banks' contribution to RIDF or any other Funds, periods of deposits, etc. shall be fixed by Reserve Bank of India from time to time and will be communicated to the concerned banks every year by the Reserve Bank at the time of allocation of funds.

The misclassifications reported by the Reserve Bank's Department of Banking Supervision 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.

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

X. Priority Sector-Data Reporting System

The data on priority sector advances has to be furnished by banks as per the extant guidelines on reporting.

XI. Common guidelines for priority sector loans

Banks should comply with the following common guidelines for all categories of advances under the priority sector.

1. Rate of interest

The rates of interest on various categories of priority sector loans will be as per DBOD directives issued from time to time.

2. Service charges

No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to ₹25,000.

3. 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.

4. 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.

XII. Amendments

These guidelines are subject to any instructions that may be issued by the RBI from time to time.

XIII. Definitions

1. On-lending: Loans sanctioned by banks to eligible intermediaries for onward lending only for creation of priority sector assets. The average maturity of priority sector assets thus created should be co-terminus with maturity of the bank loan.

2. Small and Marginal Farmers: Farmers with landholding of up to 1 hectare is considered as Marginal Farmers. Farmers with a landholding of more than 1 hectare but less than 2 hectares are considered as Small Farmers. For the purpose of priority sector loans 'small and marginal farmers' include landless agricultural labourers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within above limits prescribed for "Small and Marginal Farmer".

XIV. Clarifications

(i) Contingent liabilities/off-balance sheet items do not form part of priority sector target achievement. Banks should declassify such accounts with retrospective effect, where a contingent liability/off-balance sheet item is treated as a part of priority sector target achievement. However, foreign banks with less than 20 branches have an option to reckon the credit equivalent of off-balance sheet items, extended to borrowers for eligible priority sector activities, along with priority sector loans for the purpose of computation of priority sector target achievement. In that case, the credit equivalent of all off-balance sheet items (both priority sector and non-priority sector excluding interbank) should be added to the ANBC in the denominator for computation PSL targets.

(ii) Off-balance sheet interbank exposures are excluded for computing Credit Equivalent of Off -Balance Sheet Exposures for the priority sector targets.

(iii) The term “all inclusive interest” includes interest (effective annual interest), processing fees and service charges.

(iv) 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.

Master Circular
Lending to Priority Sector

List of Circulars consolidated by the Master Circular

S.No.	Circular No.	Date	Subject	Paragraph No.
1.	RBI/2013-14/591 RPCD.CO.Plan. BC 101 /04.09.01/2013-14	May 15, 2014	Treatment of RIDF and certain other funds under priority sector	II (iii), III (1.2.3) (ix)
2.	RBI/2013-14/515 RPCD.CO.Plan. BC 91 /04.09.01/ 2013-14	March 12, 2014	Priority Sector Lending-Targets and Classification-Bank Loans to MFIs for on-lending- pricing criteria	VIII (c) (i), VIII (c) (ii)
3.	DBOD Mailbox clarification	February 6, 2014	FCNR (B)/NRE Deposits- exemption from ANBC	II (iii)
4.	RBI/2013-14/389 RPCD.MSME&NFS.BC.No. 61 /06.02.31/ 2013-14	December 2, 2013	Revised General Credit Card (GCC) Scheme	III (2.1.4)
5.	RBI/2012-13/558 RPCD.CO.Plan. BC 80 /04.09.01/ 2012-13	June 27, 2013	Priority Sector Lending-Targets and Classification-Bank Loans to MFIs for on-lending-Amendment in income generation criteria	VIII (a), VIII (d)
6.	RBI/2012-13/487 RPCD.CO.Plan. BC 72 /04.09.01/ 2012-13	May 03, 2013	Priority Sector Lending-Targets and Classification-Revision of Limits	III (1.1.1) (iv), 1.2.1 (ii), 1.2.3 (i), 2.1.2
7.	DBOD Mailbox clarification	April 18, 2013	Categorization of eligible Activities under Priority Sector for Manufacturing Enterprises under MSMED Act, 2006	III 2.1 (2.1.1)
8.	RBI/2012-13/455 RPCD.CO.Plan. BC 70 /04.09.01/ 2012-13	March 22, 2013	Priority Sector Lending-Treatment of Contingent Liabilities-Clarifications	II (iii), XIV (i)
9.	RBI/2012-13/354 RPCD.MSME & NFS. BC.No.54/06.02.31/ 2012-13	December 31, 2012	Revision in existing investment limits in plant & machinery/equipment for lending to Micro Enterprises in the 40:20	II (i)

			proportion	
10.	RBI/2012-13/253 RPCD. CO. Plan. BC 37 /04.09.01/ 2012-13	October 17, 2012	Priority Sector Lending – Targets and Classification	III 1.1.2, III 1.2.1 (i), III 2.1.2, III 4 (iii), (iv), (v), XIV (ii), (iii), (iv)
11.	RBI/2012-13/138 RPCD. CO. Plan. BC 13/04.09.01/ 2012-13	July 20, 2012	Priority Sector Lending – Targets and Classification	I, II, III, IV, V, VI, VII, VIII, IX, XI, XII, XIII