

Small Finance Banks on Certification of Priority Sector Lending (PSL)

White Paper

RBI's Master Direction dated 29/07/2019

The Categories under priority sector, targets and sub-targets are:

Sr. No.	Categories	Target
1	Agriculture	18% of ANBC *
2	Micro, Small and Medium Enterprises (MSME)	
3	Export Credit	
4	Education	
5	Housing	
6	Social Infrastructure	
7	Renewable Energy	
8	Others	
	Total	75% of ANBC

* Advances to small and marginal farmers – 8% of ANBC

Advances to Weaker Section – 10% of ANBC

Advances to Micro Enterprises – 7.50% of ANBC

Advances to different Sub-sectors of PSL – 40% of ANBC

1. Agriculture:

a. Farm credit including short term crop loans and medium and long term credit to farmers:

- i) Loan to individual farmers incl. SHG, JLG and firms directly engaged in Agriculture and Allied activities viz. dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture
- ii) Medium and long term loans for purchase of agriculture implements, machinery, developmental loans for irrigation and other developmental activities 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 ₹5 million against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months
- v) Loans to distressed farmers indebted to non-institutional lenders.
- vi) Loans to farmers under the Kisan Credit Card Scheme.
- vii) Loans to small and marginal farmers for purchase of land for agricultural purposes.
- viii) 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 ₹20 million per borrower. Also, loans up to ₹5 million against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

b. Agriculture Infrastructure:

- i) Loans for construction of storage facilities (warehouse, market yards, godowns and silos) including cold storage units/cold storage chains designed to store agriculture produce/products, irrespective of their location.
- ii) Soil conservation and watershed development
- iii) Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting.
- iv) For the above loans, an aggregate sanctioned limit of ₹1 billion per borrower from the banking system, will apply.

c. Allied Activities:

Loans up to Rs. 5 crores to co-operative societies of farmers for disposing of the produce of members. Loans for setting up of Agriclincs and Agribusiness Centres. Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crores per borrower from the banking system. 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.

Small and Marginal Farmers will include the following:

- Farmers with landholding of up to 1 hectare (Marginal Farmers). Farmers with a landholding of more than 1 hectare and up to 2 hectares (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 loans.
- 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.

2. Classification of MSME

Manufacturing Sector Enterprises: Investment in plant and machinery	
Micro	Not exceeding ₹25 lakhs
Small	₹25 lakhs to not exceeding ₹5 crores
Medium	₹5 crores to not exceeding ₹10 crores
Service Sector Enterprises: Investment in Equipment	
Micro	Not exceeding ₹10 lakhs
Small	₹10 lakhs to not exceeding ₹2 crores
Medium	₹2 crores to not exceeding ₹5 crores

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

Priority Sector Lending (PSL)

Importance of MSME

- Micro, Small & Medium Enterprises (MSME) is the pillar of economic growth in many developed, and developing countries in the world.
- It's the engine of growth for India,
- MSME has employed more than **50 million people**, scaling manufacturing capabilities, curtailing regional disparities, balancing the distribution of wealth,
- **GDP-MSME sector forms 8% of GDP.**
- Requirement of minimum investment

Share of MSME in Manufacturing, Exports and Employment sectors in India

Sr. No.	Sector	% of Share
1	Manufacturing	45
2	Exports	40
3	Employment	69

3. Export Credit

Pre-shipment and post-shipment credit facilities extended to the borrowers will be eligible for Priority sector classification

During the first financial year of operation, Export Credit subject to a limit of up to ₹25 crores per borrower to units having turnover of up to ₹100 crores will be classified as priority sector. However, for subsequent financial years only incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC shall be treated as priority sector.

4. Education Loans

Loans to individuals for educational purposes including vocational courses up to ₹10 lakhs irrespective of the sanctioned amount will be considered as eligible for priority sector.

5. Housing Loans

Criteria	Metropolitan Centers (population of 10 lakhs and above)	Non-Metropolitan Centers
Loan Amount	₹35 Lakhs	₹25 Lakh
Cost of Dwelling Unit	₹45 Lakhs	₹30 Lakh
Loan of Repair	₹5 Lakhs	₹2 Lakh

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 lakhs per dwelling unit.

*The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for Economically Weaker Sections (EWS) and Low Income Groups (LIG), the total cost of which does not exceed Rs. 10 lakhs per dwelling unit. For the purpose of identifying EWS and LIG, the family income will be in alignment with the income criteria specified under the Pradhan Mantri Awas Yojana.

Priority sector loans to the following borrowers are eligible to be considered under Weaker Sections category

Sr. No.	Category
1	Small and Marginal Farmers
2	Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh
3	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
4	Scheduled Castes and Scheduled Tribes
5	Beneficiaries of Differential Rate of Interest (DRI) scheme
6	Self Help Groups
7	Distressed farmers indebted to non-institutional lenders
8	Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders
9	Individual women beneficiaries up to ₹1 lakh per borrower
10	Persons with disabilities
11	Overdraft limit to PMJDY account holder upto ₹10,000/- with age limit of 18-65 years.
12	Minority communities as may be notified by Government of India from time to time

Others PSLs

- i. Loans not exceeding ₹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 ₹1 lakh and for non-rural areas it does not exceed ₹1.60 lakhs.
- ii. Loans to distressed persons not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders.
- iii. 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.

