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## Report of the Nair Committee on Priority Sector Lending

The Reserve Bank of India released on its website today, [the report](#) of the Committee (Chairman: Shri M V Nair, Chairman, Union Bank of India) constituted to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending and related issues.

The Reserve Bank has sought views/comments on the report of the Committee from banks, non-bank financial institutions, other institutions and members of public. Suggestions and comments on the Report may be sent by March 31, 2012 to the Chief General Manager-in-Charge, Reserve Bank of India, Rural Planning & Credit Department, Central Office, 10<sup>th</sup> floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001 and by [email](#).

Final circular on priority sector lending will be issued after receiving feedback, comments and suggestions on the Report.

### Constitution of the Committee

The Reserve Bank had constituted the Committee under the chairmanship of Shri. M. V. Nair on August 25, 2011 pursuant to the announcement made in the Monetary Policy Statement 2011-12. The Committee was to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending and related issues. The Committee had 10 Members from diverse fields and Dr. Deepali Pant Joshi, CGM-in-Charge, Rural Planning and Credit Department, Reserve Bank of India was its Member Secretary. The Committee was given a broad-based terms of reference.

### Major Recommendations of the Committee are:

By adopting a wide and exhaustive consultation process, the Committee identified key issues facing diverse segments and sections of society; examined them thoroughly and made recommendations that would support achieving the objectives of directed lending.

1. The target of domestic scheduled commercial banks for lending to priority sector may be retained at 40 per cent of adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposure (CEOBE), whichever is higher.
2. The sector 'agriculture and allied activities' may be a composite sector within priority sector, by doing away with distinction between direct and indirect agriculture. The targets for agriculture and allied activities may be 18 per cent of ANBC or CEOBE, whichever is higher.
3. A sub target for small and marginal farmers within agriculture and allied activities is recommended, equivalent to 9 per cent of ANBC or CEOBE, whichever is higher to be achieved in stages by 2015-16.

4. The MSE sector may continue to be under priority sector. Within MSE sector, a sub target for micro enterprises is recommended equivalent to 7 per cent of ANBC or CEOBE, whichever is higher, to be achieved in stages by 2013-14.
5. Banks may be encouraged to ensure that the number of outstanding beneficiary accounts under 'small and marginal farmers' and micro enterprises' each register a minimum annual growth rate of 15 per cent.
6. The loans to housing and education may continue to be under priority sector. Loans for construction/purchase of one dwelling unit per individual up to Rs.25 lakh; loans up to Rs.2 lakh in rural and semi urban areas and up to Rs.5 lakh in other centres for repair of damaged dwelling units may be granted under priority sector.
7. In order to encourage construction of dwelling units for Economically Weaker Sections (EWS) and Low Income Groups (LIG), housing loans granted to these individuals may be included in Weaker Sections Category.
8. All loans to women under priority sector may also be counted under loans to weaker sections.
9. Limit under priority sector for loans for studies in India may be increased to Rs. 15 lakh and Rs. 25 lakh in case of studies abroad, from existing limit of Rs 10 lakh and Rs 20 lakh, respectively.
10. The priority sector target for foreign banks may be increased to 40 per cent of ANBC or CEOBE, whichever is higher with sub-targets of 15 per cent for exports and 15 per cent for MSE sector, within which 7 per cent may be earmarked for micro enterprises.
11. The committee recommends allowing non-tradable priority sector lending certificates (PSLCs) on pilot basis with domestic scheduled commercial banks, foreign banks and regional rural banks as market players.
12. Bank loans to non-bank financial intermediaries for on-lending to specified segments may be allowed to be reckoned for classification under priority sector, up to a maximum of 5 per cent of ANBC or CEOBE, whichever is higher, subject to certain due diligence and documentation standards.
13. The present system of report-based reporting has certain limitations and it may be improved through data-based reporting. There is a need to address the issues in data reporting like pre-defined parameters, reference date, periodicity, unit of reporting, etc.

The recommendations of the Committee are expected to have significant impact in addressing issue of directing lending to those who have lack of access to credit and to those sectors which generate large employment. It is hoped that these recommendations would promote country's developmental and inclusive goals.