

August 30, 2007.

The Chief Executive Officer
All Primary (Urban) Co-operative Bank

Dear Sir/Madam,

Revised guidelines on lending to priority sector for UCBs

As announced in the Reserve Bank's Annual Policy Statement for the year 2005-06, the prescriptions relating to priority sector lending have been modified and several new areas included from time to time. There is a view that enlargement of areas has resulted in loss of focus. There have also been suggestions for a further review of the eligibility criteria and other related aspects. Further, it is argued that only 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 should be eligible for inclusion under the priority sector.

2. In this context, an Internal Working Group was set up in Reserve Bank (Chairman: Shri C. S. Murthy) to examine the need for continuance of priority sector lending prescriptions; review the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc., and to recommend changes, if any, required in this regard. The recommendations of the Group have been examined in the light of the comments/suggestions received from the banks, financial institutions, Non-Banking Financial Companies, Associations of industries, media, public and Indian Banks' Association, and accordingly the guidelines on priority sector lending have been revised. The detailed revised guidelines for UCBs are enclosed.

3. These guidelines take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.

4. The revised guidelines may be implemented **with immediate effect**. In case, any bank has any difficulty in complying with the revised priority sector guidelines, they may approach Regional Office concerned of Reserve Bank of India with appropriate reasons and time frame for compliance.

5. UCBs should make concerted efforts to achieve the targets and, if necessary, suitably simplify the systems and procedures keeping in view the types of beneficiaries to be financed.

6. The reporting formats (Statements I,II and III) for data on priority sector advances and credit flow to minority communities are enclosed.

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager in-Charge

Brief introduction on Priority Sector Lending:

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 per cent by March 1979.

The need for primary (urban) co-operative bank (UCBs) for providing credit to priority sectors had been examined by the Standing Advisory Committee for UCBs constituted by Reserve Bank in May 1983. The recommendations of the committee were accepted by Reserve Bank and accordingly the targets for lending to priority sector and weaker sections by the UCBs were stipulated.

2. On the basis of the recommendations made in September 2005 by the Internal Working Group (Chairman: Shri C. S. Murthy), set up in Reserve Bank to examine, review and recommend changes, if any, in the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc. and the comments/suggestions received thereon from banks, financial institutions, public and the Indian Banks' Association (IBA), it has been decided to include only those sectors as part of the priority sector, 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. Accordingly, the broad categories of priority sector for UCBs will be as under:

I. CATEGORIES OF PRIORITY SECTOR

(I) Agriculture (Direct and Indirect finance): Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) directly to individual farmers without limit for taking up agriculture/allied activities. Direct finance may be limited to regular members and not to nominal members or to agencies like primary agriculture credit societies (PACS), primary land development banks etc. Indirect finance to agriculture shall include loans given for agriculture and allied activities as specified in Section I appended.

(ii) Small Enterprises (Direct and Indirect Finance): Direct finance to small enterprises shall include all loans given to micro and small (manufacturing) enterprises engaged in manufacture/ production, processing or preservation of goods, and micro and small (service) enterprises engaged in providing or rendering of services, and whose investment in plant and machinery and equipment (original cost excluding land and building and such items as mentioned therein) respectively, does not exceed the amounts specified in Section I, appended. The micro and small (service) enterprises shall include small road & water transport operators, small business, professional & self-employed persons, and all other service enterprises, as per the definition given in Section I appended. 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.

(iii) Retail Trade shall include retail traders/private retail traders dealing in essential commodities (fair price shops) as per the definition given in Section I appended.

(iv) Micro Credit: Provision of credit and other financial services and products of amounts not exceeding Rs. 50,000 per borrower or the maximum permissible limit on unsecured advances whichever is lower.

(v) Education loans: Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions;

(vi) Housing loans: Loans up to Rs. 20 lakh to individuals for purchase/construction of dwelling unit per family, (excluding loans granted by banks to their own employees) and 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.

** Family for this purpose means and includes the spouse of the member and the children, parents, brothers and sisters of the member who are dependent on such member, but shall not include legally separated spouse.*

II OTHER IMPORTANT FEATURES OF THE GUIDELINES

The targets under priority sector lending would be linked to Adjusted Bank Credit (ABC) (total loans and advance plus investments made by UCBs in non-SLR bonds) or Credit Equivalent amount of Off-Balance Sheet Exposures (OBE), whichever is higher, as on March 31 of the previous year. Existing investments, as

on the date of this circular, made by banks in non-SLR bonds held in HTM category will not be taken into account for calculation of ABC. **However, fresh investments by banks in non-SLR bonds will be taken into account for the purpose.** For the purpose of calculation of credit equivalent of off-balance sheet exposures, banks may use current exposure method. Inter-bank exposures will not be taken into account for the purpose of priority sector lending targets/sub-targets.

III TARGETS/SUB-TARGETS

(i) The targets and sub-targets set under priority sector lending for UCBs are furnished below:

	Targets and sub-targets set under priority sector lending
Total Priority Sector advances	60 per cent of Adjusted Bank Credit (ABC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Agriculture Advances	No target.
Small Enterprise advances	Advances to small enterprises sector will be reckoned in computing performance under the overall priority sector target of 60 per cent of ABC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Micro enterprises within Small Enterprises sector	(i) 40 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs 5 lakh and micro (service) enterprises having investment in equipment up to Rs.2lakh; ii) 20 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. (Thus, 60 per cent of small enterprises advances should go to the micro enterprises).
Advances to weaker sections	Of the stipulated target for priority sector advances, at least 25% (or 15% of the ABC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher) should be given to weaker sections.
Advances to	Within the overall target for priority sector lending

Minorities.	and the sub- target of 25 per cent for the weaker sections, sufficient care may be taken to ensure that the minority communities also receive an equitable portion of the credit.
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- (ii) **Salary Earners' Banks:** The stipulation regarding priority sector lending is not applicable to the Salary Earners' Banks.
- (iii) **Credit Flow to Minorities:** UCBs should initiate steps to enhance/ augment flow of credit under priority sector to artisans and craftsmen as also to vegetable vendors, cart pullers, cobblers, etc. belonging to minority communities. The minority communities notified in this regard are Sikhs, Muslims, Christians, Zoroastrians and Buddhists. Within the overall target for priority sector lending and the sub- target of 25 per cent for the weaker sections, sufficient care may be taken to ensure that the minority communities also receive an equitable portion of the credit.

IV. REPORTING /MONITORING UNDER PRIORITY SECTOR:

- (i) UCBs should take effective steps to achieve the above recommended targets and monitor the priority sector lending, keeping in view the quantitative as well as qualitative aspects.
- (ii) In order to ensure that due emphasis is given to lending under priority sector, it is considered desirable that the performance is reviewed periodically. For this purpose, apart from the usual reviews, which the banks are periodically undertaking, specific reviews by the Board of Directors of the respective banks may be made on half-yearly basis. Accordingly, a memorandum may be submitted to the Board of Directors at half-yearly intervals i.e. as on September 30 and March 31 of each year giving a detailed critical account of the performance of the bank during the period showing increase/decrease over the previous half-year (Statement I). Further, annual review of the performance under priority sector advances as on March 31 may also be placed before the Board. (Statement II)
- (iii) A copy of the annual review as on March 31 may be forwarded to the concerned Regional Office of the Reserve Bank with the Board's observations, indicating the steps taken/proposed to be taken for improving the bank's performance. The report should reach the Regional Office within a month from the end of the period to which it relates.
- (iv) The banks should submit a half yearly statement as on March 31/ September 30 within 15 days of the close of the relevant half year, showing the progress made in deployment of credit to Minority communities, to the concerned

Regional Office of this department under whose jurisdiction they function, in the given format (Statement III).

(v) In order to facilitate compilation of the relative figures, banks may maintain a register to indicate all the items of priority sector advances and also another register for weaker section advances showing particulars, with separate folios to each activity so that the total of advances to priority sector and weaker sections under each activity and to each type of beneficiary may be available at any given point of time. The proforma of these registers may be on the lines of the annual return to be submitted to RBI.

SECTION I

THE DETAILED GUIDELINES IN THIS REGARD ARE GIVEN AS UNDER.

1.	AGRICULTURE	
	DIRECT FINANCE	
1.1	Finance to individual farmers for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, etc.)	
	1.1.1	Short-term loans for raising crops, i.e. for crop loans. This will include traditional/non-traditional plantations and horticulture.
	1.1.2	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.
	1.1.3	Working capital and term loans for financing production and investment requirements for agriculture and allied activities.
	1.1.4	Loans to small and marginal farmers for purchase of land for agricultural purposes.
	1.1.5	Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral

	1.1.6	Loans granted for pre-harvest and post-harvest activities such as spraying, weeding, harvesting, grading, sorting, processing and transporting undertaken by individuals, in rural areas.
1.2	Finance to others [such as corporates, partnership firms and institutions] for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, etc.)	
	1.2.1	Loans granted for pre-harvest and post harvest activities such as spraying, weeding, harvesting, grading, sorting and transporting.
	1.2.2	Finance upto an aggregate amount of Rs one crore per borrower for the purposes listed at 1.1.1,1.1.2,1.1.3, and 1.2.1 above.
	1.2.3.	One-third of loans in excess of Rs one crore in aggregate per borrower for agriculture and allied activities.
INDIRECT FINANCE		
1.3	Finance for Agriculture and Allied Activities	
	1.3.1	Two-third of loans to entities covered under 1.2 above in excess of Rs one crore in aggregate per borrower for agriculture and allied activities.
	1.3.2	Loans to food and agro-based processing units with investments in plant and machinery up to Rs. 10 crore, undertaken by those other than 1.1.6 above.
	1.3.3	(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.
	1.3.4	Finance for setting up of Agriclincs and Agribusiness Centres.
	1.3.5	Finance by scheduled UCBs to NBFCs for hire-purchase schemes for distribution of agricultural machinery and implements.
	1.3.6	Existing investments as on March 31, 2007, made by banks in special bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities may be classified as indirect finance to agriculture till the date of maturity of such bonds or March 31, 2010, whichever is earlier. Fresh investments in such special bonds made subsequent to March 31, 2007 will, however, not be eligible for such classification.

	1.3.7	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 registered as SSI unit/micro or small enterprise, the loans granted to such units may be classified under advances to Small Enterprises sector.
	1.3.8	Advances to Custom Service Units managed by individuals, institutions or organisations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake work for farmers on contract basis.
	1.3.9	Finance extended to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, irrespective of their location, subject to the following conditions:
	(a)	The dealer should be dealing exclusively in such items or if dealing in other products, should be maintaining separate and distinct records in respect of such items.
	(b)	A ceiling of up to Rs. 30 lakh per dealer should be observed.
	1.3.10	Loans already disbursed and outstanding as on the date of this circular to State Electricity Boards (SEBs) and power distribution corporations/companies, emerging out of bifurcation/restructuring of SEBs, for reimbursing the expenditure already incurred by them for providing low tension connection from step-down point to individual farmers for energising their wells and for Systems Improvement Scheme under Special Project Agriculture (SI-SPA), are eligible for classification as indirect finance till the dates of their maturity/repayment or March 31, 2010, whichever is earlier. Fresh advances will, however, not be eligible for classification as indirect finance to agriculture.
	1.3.11	Loans to National Co-operative Development Corporation (NCDC) for on-lending to the co-operative sector for purposes coming under the priority sector will be treated as indirect finance to agriculture till March 31, 2010.
	1.3.12	Loans granted by scheduled UCBs to Non-Banking Financial Companies

		(NBFCs) for on- lending to individual farmers.
	1.3.13	Loans granted to NGOs/MFIs provided they have been admitted as members for on-lending to individual farmers.
2	Small ENTERPRISES	
DIRECT FINANCE		
2.1	Direct Finance in the small enterprises sector will include credit to:	
	2.1.1 Manufacturing Enterprises	
	(a) Small(manufacturing) Enterprises	
	Enterprises engaged in the manufacture/production, processing or preservation of goods and whose investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated October 5, 2006] does not exceed Rs. 5 crore.	
	(b) Micro (manufacturing) Enterprises	
	Enterprises engaged in the manufacture/production, processing or preservation of goods and whose investment in plant and machinery [original cost excluding land and building and such items as in 2.1.1 (a)] does not exceed Rs. 25 lakh, irrespective of the location of the unit.	
	2.1.2 Service Enterprises	
	(a) Small (service) Enterprises	
	Enterprises engaged in providing/rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) does not exceed Rs. 2 crore.	
	(b) Micro (service) Enterprises	
	Enterprises engaged in providing/rendering of services and whose investment in equipment [original cost excluding land and building and furniture, fittings and such	

items as in 2.1.2 (a)] does not exceed Rs. 10 lakh.	
(c) The small and micro (service) enterprises shall include small road & water transport operators, small business, professional & self-employed persons, and all other service enterprises.	
2.1.3 Khadi and Village Industries Sector (KVI)	
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. Such advances will be eligible for consideration under the sub-target (60 per cent) of the small enterprises segment within the priority sector.	
INDIRECT FINANCE	
2.2	Indirect finance to the small (manufacturing as well as service) enterprises sector will include credit to:
2.2.1	Persons involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
2.2.2	Existing investments as on March 31, 2007, made by banks in special bonds issued by NABARD with the objective of financing exclusively non-farm sector may be classified as indirect finance to Small Enterprises sector till the date of maturity of such bonds or March 31, 2010, whichever is earlier. Investments in such special bonds made subsequent to March 31, 2007 will, however, not be eligible for such classification.
2.2.3	Loans granted by scheduled UCBs to NBFCs for on-lending to small and micro enterprises (manufacturing as well as service).
3.	RETAIL TRADE
	3.1 Advances granted to retail traders dealing in essential commodities (fair price shops) and;
	3.2 Advances granted to private retail traders with credit limits not exceeding Rs. 20 lakh.

4.	MICRO CREDIT
	4.1 Loans of amounts not exceeding Rs. 50,000 per borrower or the maximum permissible limit on unsecured advance whichever is lower.
	4.2 Loans to poor indebted to informal sector Loans to distressed persons (other than farmers) to prepay their debt to non-institutional lenders, against appropriate collateral , would be eligible for classification under priority sector.
5.	State Sponsored Organizations for Scheduled Castes/Scheduled Tribes
	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.
6.	Education
	6.1 Educational 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 institutions will not be eligible to be classified as priority sector advances.
	6.2 Loans granted by scheduled UCBs to NBFCs for on-lending to individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad.
7.	Housing
	7.1 Loans up to Rs. 20 lakh, irrespective of location, to individuals for purchase/construction of a dwelling unit per family, excluding loans granted by banks to their own employees.
	7.2 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.
	7.3 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.
	7.4	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. 5 lakh per dwelling unit.
8. Weaker Sections		
		The weaker sections under priority sector shall include the following:
		(a) Small and marginal farmers with land holding of 5 acres and less, and landless labourers, tenant farmers and share croppers;
		(b) Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50, 000;
		(c) Scheduled Castes , Scheduled Tribes and Women
		(d) Loans to distressed poor to prepay their debt to informal sector, against appropriate collateral
		(e) Education loans to persons having monthly income not exceeding Rs 5000/-
		(f) 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 (f) will cover only other notified minorities. These States/Union Territories are Jammu & Kashmir, Punjab, Sikkim, Mizoram, Nagaland and Lakshadweep.

Note: Although no specific target for lending to agriculture both direct and indirect has been prescribed for UCBs, the classification mentioned herein should be used for monitoring the credit flow and reporting purposes.

Statement - I

Memorandum to be Submitted to the Board of Directors of the Bank

[Priority Sector Advances - Half-yearly Review - Position as on _____]

I	1.	Name of the Bank			
	2.	Place			
	3.	State			
	4.	Number of Branches			
			Position as on (Rs. in thousands)		
		Particulars	Last Year's Half-year ended	Previous Half-year ended	Current Half-year ended
II.	1.	Total Deposits			
	2.	Total Borrowings			
	3.	Total Loans and Advances			
	4.	Investments in Non SLR Bonds			
	5.	Adjusted Bank Credit (ABC) i.e. item nos. 3 and 4			
	6.	Credit equivalent of Off balance sheet exposure			
	7.	Credit Deposit Ratio % of item no 3 to item no 1			
III.	1.	Total Loans and Advances under Priority Sector			
	2.	Total Loans and Advances to Weaker Sections under Priority Sector			
	3.	Percentage of Item no 1 of III to Item no (higher of 5 or 6 of II)			
	4.	Percentage of item no 2 of III to item no 1 of III above			
	5.	Total Overdues of the Bank*			
	6.	Overdues under Priority Sector*			

	7.	Overdues under Weaker Sections under Priority Sector *			
IV.		Sector-wise Break-up of Loans and Advances under Priority Sector			
	1	Finance to Agriculture & Activities Allied to Agriculture			
	2	Small Enterprises			
	3	Retail Trade			
	4	Micro –credit			
	5	State sponsored organizations for SC / ST			
	6	Educational Loans			
	7	Housing Loans			
	8	Weaker Section			
	9	Total			
V.	1.	Where target fixed for priority sector / weaker sections lending has not been achieved, the reasons therefore			
	2.	Concentration of loans and advances under any particular sub-group and the reasons therefore			
	3.	Suggestions for improvement in performance under priority sector / weaker section			
	4.	Observations of the Board of Directors and action resolved to be taken for improvement of performance and implementation thereof			

* Please also indicate percentage in bracket.

Date :

G.M./ CEO

Chairman

	organizations for SC/ ST										
6.	Educational loans										
7.	Housing loans										
8.	Weaker Section										
9.	Total										

* Figures to be incorporated from col. 23 to 27 of Part II of the Return.

Part – II

"Weaker Sections" Advances - Position as on _____

Sr. No.	Priority Sector Items	Scheduled Castes					Scheduled Tribes				
		No. of Borrower / Units	Limit Sanctioned	Amount Advanced	Balance Outstanding	Amount Overdue under Col. 6	No. of Borrower / Units	Limit Sanctioned	Amount Advanced	Balance Outstanding	Amount Overdue under Col. 11
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1	Agriculture and activities allied to agriculture										
	(i) Direct finance										
	(ii) Indirect finance										
	of which										
	a) Advances to individuals										
	b) Others										
	c) Lending by scheduled PCBs to NBFC for on lending to agriculture										
2.	(i) Small Enterprises										

Direct finances to small

5.	State sponsored organizations for SC /ST										
6.	Educational loans										
7.	Housing loans										
8.	Weaker Section										
9	Total										

* Figures to be incorporated from col. 23 to 27 of Part II of the Return.

Statement III

Statement of credit flow under Priority Sector to artisans, craftsman, vegetable vendors, cart pullers, cobblers etc. belonging to Minority Communities

Name of the Urban Co-operative Bank: -----

Statement for the half year ended March 31, (Year)/ September 30, (Year)
(Rs.in lakhs)

Total Advances Outstanding		Total Advances to Priority Sector		% of Advances under PS to Minority community to PS Advances	
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Sr.No.	Category	Amount outstanding as at the end of previous half year ending March/Sept.		Fresh loans disbursed			Amount outstanding at the end of half year under report	
		No. of borrowers	Amount (Rs.)	No. of borrowers	Amount sanctioned (Rs.)	Amount disbursed (Rs.)	No. of borrowers	Amount (Rs.)
1.	2.	3.	4.	5.	6.	7.	8.	9.
1.	Sikhs							
2.	Muslims							
3.	Christians							
4.	Zoroastrians							
5.	Buddhists							
	Total							

Chief Executive Office

Date :