Chapter - 2

Role of Institutional Finance
2.1 ROLE OF INSTITUTIONAL FINANCE FOR FINANCING THE PRIORITY SECTORS

The concept of priority sectors was evolved in the late sixties in order to focus attention on the need to ensure adequate credit facilities to certain neglected sectors of the economy particularly in the rural areas where banks had hardly made their presence felt. The involvement of banks in priority sector lending has grown considerably since the early Seventies along with the extension of the branch network of banks into the rural areas with special emphasis on opening branches in unbanked areas.¹

The nationalisation of major Indian commercial banks was intended to bright about banking reforms for reaching consequences. During the short period since July 1969, it has opened up new horizons, broadened and deepened the base of Indian banking. The most significant reforms since the banks take over have taken place in the lending policies and practices, which had been tailored to meet the needs of the hetero neglected sectors of the economy. Before the experiment of Social Control, banks had hardly given any attention towards advances to agriculture and small industries. Small borrowers, coming from a vast self-employed sector, were not at all served by the banking system. However after bank nationalisation financing of agriculture, small industries and self employed persons gathered
considerable momentum and a no. of special credit schemes have been evolved for this purpose. The entire outlook of the Indian banker has changed and the traditional Indian banking is evolving into a creative one. This chapter gives an amount of the changes that have taken place in banks lending practices as regards the priority sectors and neglected sectors of the economy and the system of institutional guarantees that has been sloped in India for this purpose.

The lending policies of the Commercial banks before the imposition of social control were characterised by the disproportionate flow of credit to larger business and industrial houses and almost total neglect of larger sector of economy comprising agriculture, small industries, small traders and self employed and professional persons. Infact the demand for nationalisation of banks was the outcome of this long left deficiency of the banking system. In the scheme of social control, therefore emphasis was laid on larger allocation of bank credit for the three sectors - agriculture, small industries, and exports designated as the priority sectors. The national credit council laid down the targets to be achieved by the banks in this regard. After the nationalisation of banks in July, 1969, banks were directed to proceed on the untrodden path of financing a no. of new classes of people - "Small road and water transport operators, Retail traders, Small business, Professional and Self employed persons, Education, Housing, Consumption loans". These classes are called the 'neglected sectors' because of the absolute apathy of the banks towards them. Banks have
subsequently introduced various schemes to provide necessary finance to them.2

One of the most important objectives of govt. policy since bank nationalisation has been to extend and expand credit not only to those sectors which were of crucial importance in terms of their contribution to national income and employment but also to those sectors which had been severely neglected in terms of access to institutional credit. The sectors which were initially identified for this purpose were agriculture, small scale industries and self employment. These sectors were to be accorded priority status in credit allocation by the banks. This major policy decision formed the basis of directed credit programmes followed by banks during the post-nationalisation period.

Among the directed credit programmes followed by the banks during the post-nationalisation period, priority sector lending has been perhaps one of the most effective programme. In 1969 (Table 2.1) Banks provided only 14.6% of their total credit to the priority sectors, with the percentage of credit disbursed to agriculture being 5.4% only. In 1991, 40.9% of net bank credit was advanced to priority sectors, and total credit to agriculture, even though below the prescribed level of 18%, was 16.4% by 1991 (Table21). Unfortunately, since 1991 there has been a reversal of the trends of the ratio of directed credit to total bank credit and the portion thereof going to the agriculture sector, even though there has been no known formal decision by the govt. on this score. At the same time, serious attempts have been made
in recent years to dilute the norms of whatever remains of priority sector bank lending.

Table 2.1

Trend and Progress of Banking in India

<table>
<thead>
<tr>
<th>Sector</th>
<th>1969</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net bank credit</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total priority sector advances</td>
<td>14.6</td>
<td>40.9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5.4</td>
<td>16.4</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India, RBI Bulletin various years.

In the first section of this chapter, we review the situation which prevailed in the country prior to bank nationalisation, especially with regard to channelisation of credit to various key sectors of the economy. In the second section, we review the policy measure adopted between 1969 and 1991 to increase priority sector bank lending. In the third section of this chapter, the closer look and review, widening the scope of priority sector. While, as noted, the recommendation of Narsimham Committee was to redefine the priority sector so as to cover only the weaker sections and drastic reduction the target for priority sector lending, what the authorities that have done exactly the opposite. This chapter also takes a closer look at the developments during the past six-seven years of banking sector reforms as they have impacted priority sector bank lending. In the fourth
section of the chapter, we will attempt diversion from direct priority sector lending according to the guidelines of RBI.

2.2 THE PRE-NATIONALISATION PERIOD : CRUCIAL SECTORS NEGLECTED

During Pre-Independence period, there were large credit gaps with respect to key sectors of the economy. By the end of the 1940's 79% of bank finances made available by the banks in the country went to industry and commerce. Of the 32% of total advances channelled to industry, large amounts were claimed by cotton, jute, sugar industries. Trade and finance accounted for a major share of the 47% of bank finance advanced to commerce. On the other hand, advances to agriculture stood at a mere 4% of the total bank advances. Moreover a major portion of this was disbursed for financing of commercial crops. This low level of disbursement to agriculture was, according to the RBI, mainly due the concentration of area of operation of commercial banks in urban areas and also because the amounts required by agriculturists were small, and period repayment and security offered did not suit to requirements to joint sector banks.

According to the report of the RBI committee on (Table 2.2) All India Rural Credit Survey (1954), out of the total amount borrowed by cultivators from different credit agencies in 1951-52, the contribution of institutional credit was only 7.3% of this, commercial banks contributed only 0.9% government and co-operatives contributed the rest. This meant
that an overwhelming percentage (92.7%) of the cultivator's borrowings in
the country at the beginning of 1950s, was accounted for by non-institutional
credit agencies, with professional money lenders having the highest share of
41.9%, followed by agricultural money lenders with contribution of 23.9%
Table 2 gives detail regarding bank advances to industry and agricultural
sectors during 1949-67.

Table 2.2 Scheduled Bank Advances to Industry and
Agriculture (1949-67)

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry (Rs. Cr.)</th>
<th>% of total advance</th>
<th>Agriculture (Rs. Crores)</th>
<th>% of Total Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>159</td>
<td>32</td>
<td>19</td>
<td>4.0</td>
</tr>
<tr>
<td>1955</td>
<td>221</td>
<td>34.3</td>
<td>11.3</td>
<td>1.8</td>
</tr>
<tr>
<td>1961</td>
<td>NA</td>
<td>NA</td>
<td>8.4</td>
<td>0.7</td>
</tr>
<tr>
<td>1963</td>
<td>921.24</td>
<td>57.2</td>
<td>4.09</td>
<td>0.3</td>
</tr>
<tr>
<td>1965</td>
<td>1287.32</td>
<td>61.5</td>
<td>3.95</td>
<td>0.2</td>
</tr>
<tr>
<td>1966-67</td>
<td>NA</td>
<td>NA</td>
<td>4.30</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Sources 1. Report on Trend and Progress of Banking in India, RBI, Various Years.

The study group of the National Credit Council (1969) headed by
D.R. Gadgil, while identifying credit gaps with respect to the key sectors of
the economy, including agriculture, noted the skewed nature of commercial
bank finance. Whereas the Industrial Sector, which accounted for 15% of
national output appropriated, two thirds of commercial bank credit, the
agriculture sector whose contribution to the national output was as large as
50%, was neglected virtually totally by the commercial banks.
2.3 **PRIORITY SECTOR LENDING AS A MAJOR POLICY INSTRUMENT, 1969-91**

It was in the context of the severe neglect by the banks of the credit requirements of agriculture sector that some thinking took place in the RBI to bring agriculture sector into the mainstream of institutional credit. The policy of social control and attempts to nationalise banks gave a further boost to this process. It was the setting up of the National Credit Council, which gave the initial indication that serious thinking was taking place in the RBI to lay down targets for bank lending. One of the main tasks of the credit council was to determine "the priorities for grant of loans and advances for investment, having regard to the availability of resources and requirements of the priority sectors in particular, agriculture, small scale industry and exports".

The indepth studies made by the study group on Organisational Framework for Implementation of Social Objectives', under the chairmanship of D.R. Gadgil, (one of the five study groups set up by the National Credit Council on different subjects), provided the basis for adopting targets for priority sector lending. This study group while highlighting the deficiencies in the system of institutional credit in the pre-nationalisation years, provided the rationale for formulation of lending policies in the future. It also brought to light the heavy dependence of artisans, farmers, village and cottage industries on the informal financial sector.

Accordingly the credit council decided that banks should take up financing of agriculture and small scale sectors urgently. Specific lending
targets were fixed for different sectors in terms of amounts. This can be said to be the first attempt to encourage target oriented lending to priority sectors of the economy.

Initially, priority sector was defined to include agriculture small scale industries and exports, and each major banks was given a target and the performance of banks in this regard was to be monitored continuously by the RBI. With the purpose of encouraging banks to increase their priority sector lending, the RBI took two concrete steps. One was to provide liberal refinance facilities to the banks and the other was to introduce credit guarantee scheme as a support measure for bank lending to the priority sector.

After bank nationalisation, lending to priority sector was seen as an essential component of national agenda. Still, the composition of priority sector was left rather vague till 1970, resulting in wide differences, between banks in the compilation of priority sector lending statistics. So the RBI constituted an informal study group on statistics related to priority sectors, to evolve a comprehensive definition for priority sectors. This study group recommmended expending the scope of priority sector lending to include not only agriculture (Direct and Indirect), small scale industries and industrial estates, but also road and water transport operators, retail traders, small business, professionals and self employed persons and education. This definition was adopted and it remained unchanged till the end of 1970s.

In 1980, a major review of the composition of the priority sector was undertaken by a working group headed by K.S. Krishnaswamy. The
Krishnaswamy Group, after a detailed review of the composition of the priority sector, came to the important conclusion that while there was serious lack of uniformity in the classification of the priority sector, the main drawback of priority sector bank credit found its way to more affluent sections which, according to it, was not at all justified. In order to rectify the situation, the group recommended the incorporation of the concept of weaker sections, so that "the concessions that are being offered to the priority sector as a class could be oriented to meet the needs of the weaker sections".

While endorsing the existing composition of priority sectors, the Krishnaswamy Group recommended of fixing lending targets for all the major catagories included under priority sector, except exports. The group did not endorse the proposal of fixing lending targets for exports, since it was predominantly an activity undertaken by the more affluent sections in the economy. Starting from 1969, there was only a single target for priority sector lending till the end of 1970s. In mid - 1970s, the RBI advised banks to raise the proportion of credit to priority sector as a proportion of total credit to 33.3% by March 1979.

The Krishnaswamy Group felt that the banks should be set the target of 16% credit agriculture by March 1983. This meant that at least 40% of the priority sector bank credit would have to extended to the agriculture sector. The group considred this as justified, taking into consideration the prominent position agriculture sector occupied in the national economy.
Another major recommendation of the group was that at least 50% of direct farm credit should be channelled for weaker sections including small/marginal farmers and agricultural labourers.

Another RBI working group, working under the chairmanship of A Ghosh Group, was set up specifically to review the targets of priority sector lending, with reference to the needs of the weaker sections. This group recommended comprehensive redefinition of the weaker sections and suggested a target of either 10% of net credit, or 25% of total priority sector lending to weaker sections to be reached by March 1985.

Table 2.3: Priority Sector Targetting as recommended by the Ghosh Working Group

<table>
<thead>
<tr>
<th>Purpose / Category of Beneficiaries</th>
<th>Target Prescribed of net bank credit (%)</th>
<th>To be reached by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aggregate advances to Priority Sectors</td>
<td>40%</td>
<td>March 1985</td>
</tr>
<tr>
<td>2. Direct advances for agriculture and allied activity</td>
<td>16%</td>
<td>March 1987</td>
</tr>
<tr>
<td></td>
<td>17%</td>
<td>March 1989</td>
</tr>
<tr>
<td></td>
<td>18%</td>
<td>March 1990</td>
</tr>
<tr>
<td>3. Advances to weaker Section</td>
<td>10%</td>
<td>March 1989</td>
</tr>
</tbody>
</table>

The Ghosh Group (Table 2.3) also made important recommendations regarding the nature of agricultural advances and targeting, with direct and indirect farm lending to have separate targets. Direct lending targets was to be fixed immediately at 14% (of total credit) taking into considerations the
need for increasing credit flow for farming operations, and was to be raised to 16% by March 1987, 17% by 1989 and finally to 18% by March 1990.

### Table 2.4: Scheduled Commercial Banks Advances to priority sectors (1969-1989)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Bank Credit</th>
<th>Advances to Priority Sectors</th>
<th>As a Percentage of (1)</th>
<th>Advances to Agriculture</th>
<th>As a Percentage of (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>3616</td>
<td>659</td>
<td>18.2</td>
<td>258</td>
<td>7.1</td>
</tr>
<tr>
<td>1972</td>
<td>5570</td>
<td>1331</td>
<td>23.9</td>
<td>485</td>
<td>8.7</td>
</tr>
<tr>
<td>1975</td>
<td>9885</td>
<td>2609</td>
<td>26.4</td>
<td>1024</td>
<td>10.3</td>
</tr>
<tr>
<td>1978</td>
<td>18480</td>
<td>5405</td>
<td>29.3</td>
<td>2234</td>
<td>12.1</td>
</tr>
<tr>
<td>1981</td>
<td>29091</td>
<td>10802</td>
<td>37.1</td>
<td>4657</td>
<td>16.0</td>
</tr>
<tr>
<td>1984</td>
<td>46295</td>
<td>18309</td>
<td>39.6</td>
<td>7621</td>
<td>16.5</td>
</tr>
<tr>
<td>1987</td>
<td>61325</td>
<td>27810</td>
<td>45.4</td>
<td>11712</td>
<td>19.1</td>
</tr>
<tr>
<td>1988</td>
<td>79234</td>
<td>34219</td>
<td>43.2</td>
<td>13950</td>
<td>17.6</td>
</tr>
<tr>
<td>1989</td>
<td>95475</td>
<td>40475</td>
<td>42.4</td>
<td>16612</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Source: Compiled from Table Titled 'Scheduled Commercial Banks Advances to Priority Sector' PP. 133-34, Priority Sector Lending - A Study of Indian Experience, R. Sreenivasan Himalayan Publishing House, 1995.

The setting of lending targets for priority sector as a whole, and sub-targets for major sectors, has had a very positive impact on the channelling of credit to hitherto neglected sectors of the economy while giving ample access for small borrowers to institutional credit. Thus, whereas in 1969
bank credit extended to priority sectors was Rs. 659 crore, out of a total net bank credit of Rs. 3616 Crore that is 18.2%, the share of priority sector bank lending had increased to Rs. 40,475 Crore (42.4%) out of a total net bank credit of Rs. 95,475 Crore by 1989. The best year in terms of the share of priority sector lending was 1987, when 45.4% of total bank lending was accounted for by the priority sector (Table 24).

The bank credit extended to agriculture which was only 7.1% of the total net credit in 1969, increased 17.4% of total net credit in 1989 (Table 24). Again 1987 was the best year in terms of share of agriculture, when it accounted for 19.1% of the net bank credit.

As is seen from Table 2.4, while between 1969 and 1989, credit to priority sector increased by more than 60 times from Rs. 659 crore. to Rs. 40,475 crore, the number of priority sector accounts also registered a quantum jump, from 7.8 lakhs in 1969 to 331 lakhs in the year 1989. The main beneficiary in the priority sectors was agriculture. In 1969 credit extended to agriculture formed 7.13% of the total net bank credit, and by 1989, it reached 17.4%. During the two decades since 1969, the number of amounts in the agriculture sector increased from 5.68 lakh, to 197.4 lakh. The reversal in the position of the priority sector in bank credit started with the banking sector reforms undertaken under the pressure of world bank and IMF in 1991.
2.4 **BANKING REFORM AND PRIORITY SECTOR LENDING, 1991-97**

The Committee on Financial System (CFS), appointed in 1991 under the chairmanship of M. Narsimham, as part of the government's commitment to introduce financial sector reforms, recommended phasing out of the bulk of priority sector targeting by the banks. The changes recommended by the committee in the field of priority sector bank lending were as follows.

1. The directed credit programmes should cover a redefined priority sector constituting of small and marginal farmers, tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections.

2. Credit targets for this redefined priority sectors should be fixed at 10% of aggregate bank credit.

3. Stipulations of concessional interest to the redefined priority sector should be reviewed with a view to its eventual elimination, in about three years.

4. A review should be undertaken at the end of three years to see whether the directed credit programmes need to be continued.

While conceding the need for reviewing the coverage and targets of priority sector bank credit, RBI did not accept fully the Narsimham
Committee's recommendations. The grounds offered by RBI for taking this position were: (1) "A detailed assessment indicated that the redefined priority sector would account for significantly larger than 10% of the total credit and as such acceptance of the committee's recommendation would put a severe squeeze on the sectors within the redefined priority sectors." (2) "Again there is little merit in a drastic reduction in the target for the priority sectors and then meeting the requirements of these sectors through refinance from Reserve Bank as this would result in increasing the amount of created money thereby fuelling inflationary pressures. From a pragmatic viewpoint, it is essential to ensure that any changes in the policy on priority sector credit does not result in a disruption in the flow of credit for production purposes". (3) While there is a case for reviewing the present coverage and targets for priority sector lending, the experience of a number of countries is that some direction of credit is necessary in the development process. Thus the recommendations of the Narsimham Committee on priority sector lending were not formally accepted. On the other hand, various policy measures were taken aimed at diluting the norms of priority sector lending, so as to ensure its gradual phase out in the future.

The rational of the policies to be followed on priority sector lending during the post reform period was summarised by RBI in its report on Trend and Progress of Banking in India, 1990-91, which it noted as follows:

Priority sector lending has now attained the correction which was sought to be achieved in the imbalance in the sectoral distribution of bank
credit. With attainment of these targets and having put in place a vast institutional set up, there is a need to transform the system of priority sector lending in a more selective and sharply focused arrangement taking into account the imperatives of social concerns for assisting weaker sections and tiny units.

2.5 WIDENING THE SCOPE OF PRIORITY SECTOR LENDING

While, as noted above, the recommendation of Narsimham Committee was to redefine the priority sector so as to cover only the weaker sections and drastic reduction in the target for priority sector lending, what the authorities that have done exactly the opposite. While the target has been allowed to remain untouched they have widened the coverage. At the same time target shortfalls have been overlooked. In agriculture initially indirect advances to agriculture were brought under the purview of finance to agriculture and clubbed with direct advances, for meeting the agriculture sub-target of 18% in 1993. Direct and Indirect categories of agriculture advances within the subtargets of 18% for agricultural lending were thus taken as a whole, subject to the stipulation however that 'indirect' lending to agriculture must not exceed one-fourth of total agriculture lending sub-targets of 18% or 4.5% of net bank credit. It was also decided to include indirect agricultural advances exceeding 4.5% net bank credit into the overall priority sector target of 40%. The definition of priority sector itself was also widened
to include financing and distribution of inputs for agriculture and allied sectors with the ceiling raised to Rs. 5 Lakh. Accordingly, financing and distribution of inputs for taking up allied activities such as dairy, poultry and piggy upto Rs. 5 lakhs were to be treated as indirect agriculture advances. Further finance extended to even dealers in drip irrigation / sprinkler irrigation system / agriculture machinery was classified as 'indirect finance to agriculture' as a part of priority sector advances. To scope of direct agriculture advances under priority sector lending was widened so as to include all short-term advances to traditional plantations including tea, coffee, rubber and spices, irrespective of the size of the holding.

In regard to small scale industries (SSI) which contribute more than 40% of value and 80% of employment added in manufacturing and about 35% of total exports, the start towards diluting norms was made by redefining SSI in terms of the level of investment in plant and machinery together with an increase in working capital limits. Initially SSI included those industries whose investment and machinery did not exceed Rs. 35 lakhs. In the case of ancillary units, the investment limit was Rs. 45 lakhs. In May 1994, these limits were raised to Rs. 60 lakhs and Rs. 75 lakhs respectively. All advances to SSIs as per revised definition were to be treated as priority sector advances. At the same time, banks were encouraged to move away from their responsibility of lending directly to SSIs. Instead, banks were advised to consider proposals for term finance loans, in the form of lines of credit to
state industrial development corporations, for loans to SSIs as a part of priority sector lending. The attempt at dilution has to be viewed in the context of the decline in credit to SSI from 7.6% in 1991-92 to 6.5% in 1995-96 as is brought of by an internal group in the planning commission. Together with this, existing ceiling limits on advances to other priority sectors, such as retail trade, small business enterprises, housing and professional and self employed persons under the category of priority sector advances were also raised. Further in Oct. 1997, the scope of priority sector credit to road transport operators was widened by increasing the number of eligible vehicles from 6 to 10 for credit to Road and water transport operators for purchase of vehicles and also by raising limit of priority sector credit to housing in rural and urban areas from Rs. 3 lakhs to Rs. 5 lakhs.

In addition, totally new areas were under the umbrella of priority sector for the purpose of bank lending. In 1995-96 Rural Infrastructural Development Fund (RIDF) was set up within NABARD and it was to start its cooperation with an initial corpus of Rs. 2000 crore. Public sector banks were asked to contribute to the fund an amount equivalent to the shortfall in the priority sector lending, subject to a maximum of 1.5% of their net credit. Public sector banks falling short of priority targets were asked to provide Rs. 1000 crore. on a consortium basis to the Khadi and Village Industries Commission (KVIC) over and above what banks were lending to handloom
co-operatives. The total amount contributed by each bank towards the consortium was to be treated as priority sector lending. In 1996-97 an additional amount of Rs. 2,500 crore. was made available for financing rural infrastructure through RIDF IInd. Again in 1997-98, the union Budget proposed the launching of RIDF III with a corpus of Rs. 2,500 crore. during 1997-98 Cumulative between 1995 and 1998.

RIDF was expanded with a total corpus fund of Rs. 7000 crore. As for private sector banks, it was decided to give banks failing to achieve priority sector lending target of 40% of net bank credit an option to place 50% of the shortfall as deposits with NABARD / SIDBI for a period of upto five years, with an interest rate of 8 to 11.5% per annum. The export target of foreign banks was raised from 10 to 12%, with an overall target of 32%, for their priority sector lending.

The outcome of these new policy guidelines could not but be that banks in default in meeting the priority sector sub target of 18% of net credit to agriculture, would make good the deficiency by contributing to RIDF and the consortium fund of KVIC. In this way the banks could move away from their responsibility of direct lending to priority sectors. According to a report in the Economic Times the new set of guidelines has encouraged banks to move away from lending directly to the priority sector not only because they "have not found enough opportunities to fulfil this task" but also because "Some of the banks are not even trying to find avenues of funding priority sector needs". The latter are reportedly lending out instead
"to these developmental Banks (i.e. NABARD and SIDBI) at rates as low as 8%" "The logic behind banks parking funds in SIDBI and NABARD in said to be to avoid taking any risk as long as the minimum return is assured. By not lending to priority sector, the banks are able to avoid the rigours of tight monitoring and also non performing assets that may accrue in case of defaults".

Dilution took one more form and that was to redefine the weaker sections in the priority sector by including more sections in the category of weaker sections on the one hand and removing the borrowal limit for small / marginal farmers on the other. When RBI's working group headed by Ghosh formulated a comprehensive definition of weaker sections in 1984, small / marginal farmers, i.e. those with holding of 5 acres or less and persons engaged in allied activities with borrowal limits up to Rs. 10,000, were to be treated as weaker sections. But as per redefinition of 1995, this borrowal limit was removed. On the other hand, new categories such beneficiaries of SUME, SLRs, schemes and self help groups under NABARD were also brought into the ambit of weaker sections.

2.6 DIVERSION FROM DIRECT PRIORITY SECTOR LENDING

Another method to stifle channelling of credit to priority sectors, has been to ask banks to make investments in special bonds issued by certain specialised institutions, and treat such investments as priority sector advances. In 1996, the RBI asked the banks to invest State Financial
Corporations, State Industrial Development Corporations, Rural Electrification Corporation, NABARD, and National Housing Banks (NHB). The list was expanded later in by including SIDBI and NSIC. Investment made by banks in special bonds issued by these agencies were also to be treated as priority sector advances. In May 1997, even finance expanded to State Electricity Board (SEBS) for system improvement scheme in rural areas under Special Project Agriculture of REC was declared as 'indirect finance to agriculture' under the priority sector. The changes thus made in the policy guidelines on the subject of priority sector lending were obviously meant to enable the banks to move away from the responsibility of directly lending to the priority sectors of the economy.

The large volume of credit being extended to the priority sectors over a wide geographic area, the considerable varieties of activities being financed, the large no. of schemes for specific target groups, the no. of agencies involved in drawing up programmes to facilitates absorption of credit by the priority sector, the enormous increase in the no. of loan accounts, are notable features of priority sector lending which have made the Indian banking experience in this regard quite unique.

2.7 **RBI's GUIDELINES TO THE PRIORITY SECTOR**

The Reserve Bank of India has laid down specific guidelines for implementation by banks in the matter of financing various segments of priority sectors as under.
- Agriculture
- Small Scale Industries
- Small road and water transport operators
- Retail Traders
- Small business operators
- Professional and self employed persons
- State sponsored organisations for scheduled castes / scheduled tribes
- Students for education purposes
- Housing
- Borrowers belonging to weaker sections taking pure consumption loans.

2.7.1 **DIRECT FINANCE TO FARMERS FOR AGRICULTURE**

**PURPOSE**

(i) Short Term Loans for raising crops i.e. for crop loans. In addition advances upto Rs. One Lakh to farmers against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 6 months, where the farmers were given crop loans for raising the produce provided borrowers draw credit from one bank.

(ii) Medium and long-term loans (provided directly to farmers for financing production and development needs).

(A) Purchase of agricultural implements and machinery.

(a) Purchase of agricultural implements

Iron ploughs, harrows, hose, land - levellers, bundformers,
handtools, sprayers, dusters, hay-press, sugarcane crushers, thresher machines etc.

(b) Purchase of farm machinery

Tractors, trailers, power tillers, tractors accessories viz. disc ploughs, etc.

(c) Purchase of trucks, mini - trucks, jeeps, pick up vans, bullock carts and other transport equipments etc., to assist the transport of agricultural inputs and farm products.

(d) Purchase of plough animals.

(B) Development of irrigation Potential through -

(a) Construction of shallow and deep tubewells, tanks etc. and purchase of drilling units.

(b) Constructing, deepening, cleaning of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motor and pumps.

(c) Purchase and installation of turbine pumps, construction of field channels (open as well as underground), etc.

(d) Construction of lift irrigation project.

(e) Installation of sprinkler irrigation system.

(f) Purchase of generator sets provided they are for energisation of pumpsets used for agricultural purposes.

(C) Reclamation and land development schemes - Bunding of farm land, levelling of land, terracing, conversion of dry paddy lands into wet irrigable paddy lands, waste land development, development of farm
drainage, reclamation of soil lands and prevention of salinisation, reclamation of ravine lands purchase of bulldozers, etc.

(D) Construction of farm buildings and structures etc. Bullock sheds, implement sheds, tractor and truck sheds, farm stores etc.

(E) Construction and running of storage facilities - construction and running of warehouses, godowns, silos and cold storage.

(F) Production and processing of hybrid seeds of crops.

(G) Payment of irrigation charges etc.
Charges for hired water from wells and tubewells, canal water charges, maintenance and upkeep of oil engines and electric motors, payment of labour charges, electricity charges, marketing charges, service charges to custom service units, payment of development cess, etc.

(H) Other type of direct Finance to Farmers
(i) Short Term Loans
   (a) To traditional / non traditional plantation and horticulture.
   (b) For allied activities such as dairying, fishery, piggery, poultry, beekeeping etc.

(ii) Medium and long term loans
   (a) Development loans to all plantations, horticultures, forestry etc.
   (b) Development loans for allied activities.
   (i) Development of dairying and animal husbandry in all its aspects.
   (ii) Development of fisheries in all its aspects from fish catching to
stage of export, financing of equipment necessary for deep sea fishing, rehabilitation of tanks (fresh water fishing), fish breeding etc.

(iii) Development of poultry, piggery, etc. in all its aspects including erection of poultry houses, pig houses, beekeeping etc.

(iv) Development and maintenance of stud farms, sericulture (including grainages), etc. However breeding of race horses can not be classified here.

(v) Bio-gas plants.

(vi) Loans granted to farmers for establishing cold storage units which are used for storing their own produce.

2.7.2. INDIRECT FINANCE TO AGRICULTURE

1. (a) Credit for financing the distribution of fertilisers, pesticides, seeds etc.

(b) Credit limits upto Rs. 5 Lakhs granted for financing distribution of inputs for the allied activities, such as cattle feed, poultry feed, etc.

2. Loans to electricity boards for reimbursing the expenditure already incurred by them for providing low tension connection from step-down point to individual farmers for energising their wells.

3. Loans to farmers through PACS, FSS, VAMPS.

4. Deposits held by the banks in Rural Infrastructural Development Fund (RIDF) maintained with NABARD.
5. 50% of the amount of refinance granted by the sponsor banks to RRBs.

6. Subscription to bonds issued by Rural Electrification Corporation (REC) exclusively for financing pump set energisation programme in rural and semi urban areas.

7. Subscription to bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities.

8. Other types of indirect finances such as
   (a) Finance for hire - purchase schemes for distribution of agricultural machinery and implements.
   (b) Loans for construction and running of storage facilities (warehouse, market yards, godowns, silos and cold storage*) in the producing areas.

* Loans to cold storage units which are mainly used for hiring, provided
   (i) The cold storage unit is in rural areas.
   (ii) The unit is used for storing mainly agricultural produce, and
   (iii) The unit is not registered as a small scale industrial unit.

   If the cold storage registered as SSI units the loans granted to such unit may be classified under advances to SSI provided the investment in plant and machinery is within the stipulated ceiling.

   (c) Advances to custom services units managed by individuals, institutions or organisations who maintain a fleet of tractors, bulldozers, well boring
equipments, threshers, combines etc. and undertake work from farmers on contract basis.

(d) Loans to individuals, institutions or organisations who undertake spraying operations.

(e) Loans to co-operative marketing societies, co-operative banks for relending to co-operative marketing societies (Provided a certificate from the state co-operative bank in favour of such loan is produced) for disposing of the produce of members.

(f) Loans to co-operative banks of producers (e.g. Aarey Milk Colony Co-operative Bank, consisting of licensed cattle owners).

(g) Financing the farmers indirectly through the co-operative system (otherwise than by subscription to bonds and debentures issue) provided a certificate from the State Co-operative Bank in favour of such loans introduced.

(h) Advances to state sponsored corporations for onward lending to weaker sections.

(i) Finance extended to dealers in drip irrigation / sprinkler irrigation system / agricultural machinery subject to the following conditions.

(i) The dealer should be located in the rural / semi urban areas.

(ii) He 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.

(iii) A ceiling of upto Rs. in lakhs per dealer should be observed.
In the Pre-Independence days, both in Agriculture and industry, India was leagues behind other countries. In fact the position was a degree worse in as much as even the desire to improve was not there. In the wake of independence came the people's demand for land reforms. Land they said, belonged to those who tilled it, and not to the big land lord and the Zamindari System had eventually to go. In Industry too the forces of progress moved on, similar lines, but with a vital difference while the big land lord at not stage created wealth the big industrialist was in the fore engaged only in this avocation. Therefore, while the big landlord had to go and the vacuum is gradually being filled as it were, by the small man - the tiller of the soil. The big industrialist was not replaced either by the state or small man. On the contrary, his orbit of activity expanded. But then he was now no longer alone in the field with the mounting desire to improve his lot and at the same time share in the great national enterprise of industrialising the country, the small man also moved into the arena, quite apart from the state which stepped in on a gigantic scale.7

Considering the importance of small scale industries in the national economy and with a view to making its own contribution to their progress, the state Bank of India, introduced at a few selected centres in 1956 a Pilot scheme for the provision of co-ordinated finance to small scale industries, under which the lending rules and practices of the Bank were considerably liberalised for these industries. Since the first January 1959, the scheme has been operating at all the branches of the Bank.8
Industries need black capital to finance fixed assets, such as land, buildings machinery and other durables and permanent apparatus and working capital to finance floating assets e.g. for the purchase of raw materials, that conversion into finished goods, the purchase of shares, expenses connected with marketing of goods, financing outstandings, concerning goods supplied, and the provision of funds for daily needs. Block capital is needed by new industries to make a start, and by all industries for expansion and replacement, and is more or less permanent. The working capital is partly long-term and partly short term. The preposition between block capital and working capital in every industry depends upon its nature. The more roundabout the process of production in an industry, the greater is the proposition of fixed to circulating capital in it.

2.7.3 SMALL SCALE INDUSTRIES

Small Scale Industrial units are those engaged in the manufacture processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs. 60 lakhs. These would inter alia, include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units and export oriented units, the investment in plant and machinery (original cost) should not exceed Rs. 75 lakhs to be classified under small scale industry.

Advances to industries related Small Scale Service / Business Enterprises (SSSBEs) having investment in fixed assets excluding land and
building up to Rs. 5 lakhs and registered as much, are also to be treated as advances to SSIS. Indirect Finance in the small scale industrial sector will include credit to -

(1) Agencies involved in assisting decentralised sector in the supply of inputs and marketing of output of artisans, village and cottage industries.

(2) Government sponsored corporations / organisations providing funds to the weaker sections in the priority sector.

(3) Term finance / loans in the form of lines of credit made available to State Industrial Development Corporations / State Financial Corporation for financing SSIs.

(4) Credit provided by banks to KVIC under the Scheme for provision of credit to KVIC by consortium of banks for lending to viable khadi and village industrial units.

(5) Fund provided by banks to SIDBI / SFCs by way of rediscounting of bills.

(6) Subscription to bonds floated by SIDBI, SFCs, SIDCs and NSIC exclusively for financing SSI units.

(7) Subscription to bonds issued by NABARD with the objective of financing exclusively non farm sector.

2.7.4 SMALL ROAD AND WATER TRANSPORT OPERATORS

Advances to small road and water transport operators owning a fleet of vehicles not exceeding six vehicles including the one proposed to be
financed. The taxi or scooters is financed to the extent of 75% of the cost and the truck to the extent of 70%. The rest of the cost is to be financed by the borrowers. The vehicle will remain mortaged to the Bank till the loan is repaid and its registration will be in the joint names of the bank and the borrower. Besides comprehensive insurance of the vehicle, personal guarantee from a suitable person is also required. The loan is repayable in monthly installments within 6 months. Interest is charged 9% for cars and scooters and 9½ for trucks.

2.7.5 RETAIL TRADERS

Advances granted to agencies involved in assisting the decentralised sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries. Private retail traders dealing in essential commodities (fair price shopes) and consumer co-operative stores and Government sponsored corporations / organisations providing funds to the weaker sections in the priority sectors. Other private retail traders with credit limits not exceeding Rs. 2 lakh (Advances to retail traders in fertilizers will form a part of indirect finance for agriculture and those to retail traders of mineral oils under small business).

2.7.6 SMALL BUSINESS

Small Business would include individuals and firms managing a business enterprise established mainly for the purpose of providing any
service other than professional services whose original cost price of the equipment used for the purpose of business does not exceed Rs. 10 lakhs with working capital limits of Rs. 5 lakhs or less. Further, the aggregate of term loan and working capital limits sanctioned to a small business unit should not exceed Rs. 10 lakh. Advances for acquisition, construction renovation of house boats and other tourist accommodation will be included here. Distribution of mineral oils shall be included under "Small business".

2.7.7 PROFESSIONAL & SELF EMPLOYED PERSONS

Professional & Self Employed Persons loans to professional and self employed persons include loans for the purpose of purchasing equipment, repairing or renovating existing equipment and / or acquiring and repairing business premises or for purchasing tools and / or for working capital requirements to medical practitioners including Dentists, Chartered Accountants, Cost Accountants, Lawyers or Solicitors, Engineers, Architects, Surveyors, Construction Contractors or Management Consultants or to a person trained in any other art or craft who holds either a degree or diploma from any institution established, aided or recognised by Government or to a person who is considered by the bank as technically qualified or skilled in the field in which he is employed. the undernoted specific categories of advances will also be eligible for classification under this item.

(i) Advances to accredited journalists and cameramen who are free lancers i.e. not employed by a particular news paper / magazine, for acquisition
of equipments / vehicle (one per borrower) by such borrowers for their professional use.

(ii) Credits for the purpose of purchasing equipment, acquisition of premises and tools, vehicles etc., to practising company secretaries who are not in the regular employment of any employer.

(iii) Financial assistance for running "Health Centre" by an individual who is not a doctor, but has received some formal training about the use of various instruments of physical exercise.

(iv) Advances for setting up beauty parlours where the borrower holds qualification in the particular profession and undertakes the activity as the sole means of living / earning his / her livelihood.

Preference may be given by banks to financing professionals like doctors, etc., who are carrying on their profession in rural or semi-urban areas. The term also includes firms and joint ventures of such professionals and semi-employed persons. This category will include all advances granted by the bank under special schemes, if any, introduced for the purpose.

Only such professionals and self-employed persons whose borrowing (limits) do not exceed Rs. 5 lakh of which not more than Rs. / Lakh should for working capita requirement, should be covered under this category i.e. professional and self-employed persons. However in the case of professionally qualified medical practitioners setting up practice in semi-urban and rural areas, the borrowing limits should not exceeds Rs. 10 lakhs of which not more than Rs. 2 Lakh should be for working capital purposes.
Within the above mentioned ceilings an advance granted to a qualified medical practitioner for purchase of one motor vehicle may also be reckoned under the priority sector lendings. Advances granted for purchase of a motor vehicle to professional and self-employed persons other than qualified medical practitioners will, however, not be included under the priority sector.

2.7.8 STATE SPONSORED ORGANISATIONS FOR SCHEDULED CASTES / SCHEDULED TRIBES

Advances sanctioned to state sponsored organisations for Schedule Caste / Scheduled Tribes for the specific purpose of purchase and supply of inputs to and/or the marketing of the output of beneficiaries of these organisations.

2.7.9 EDUCATION

Educational loans should include only loans and advances granted to individuals for educational purposes and not those granted to institutions and will include all advances granted by banks and special schemes, if any, introduced for the purpose.

2.7.10 HOUSING

(a) Direct Finance

(i) Loans upto Rs. 3 lakhs for construction of houses granted to all categories of borrowers except to own employees of the banks.
(ii) Loans upto Rs. 50,000/- for repairs to damaged houses granted to all categories of borrowers except to own employees of the banks.

(b) **Indirect Finance**

(i) Assistance given to any governmental agency or to a non-governmental agency, approved by the National Housing Bank for provision of refinance for the purpose of constructing houses where the loan component does not exceed Rs. 3 lakh per housing unit.

(ii) Assistance given to any governmental agency or to a non-governmental agency, approved by National Housing Bank for provision of refinance for slum clearance and rehabilitation of slum dwellers where loan component does not exceed Rs. 3 lakh per housing unit.

(iii) Subscription to bonds issued by NHB and HUDCO exclusively for financing of housing as defined under the priority sectors (i.e. for construction of houses where the loan component does not exceed Rs. 3 lakh per dwelling unit).

2.7.11 **CONSUMPTION LOANS**

Pure consumption loans granted under the consumption credit scheme should be included in this item.11

2.8 **GUIDELINES TO BE FOLLOWED FOR ADVANCES TO THE PRIORITY SECTORS**

These guidelines relate to application farm, loan procedure, margin money, security norms, rates of interest and other charges to be levied, etc. and cover all categories of priority sector lendings.
2.8.1 AGRICULTURE

(A) The application forms as finalised by the working group (Baldev Singh Committee) on simplification of forms and lending procedures for loans to agriculture and allied activities should be adopted. Such forms should also be made available in regional languages and branches should be supplied with adequate stock of these forms.

(B) Advance planning should be done by the banks to collect and process applications. Disbursement of loans for certain purposes such as land reclamation, laying of irrigation, pipelines, farm houses, etc. should be restricted to non-monsoon / non-cultivation periods so as to prevent any possible diversion / misutilisation of loans.

(C) So far as term loans are concerned, banks should take steps to increase the share of advances for minor irrigation and land development purposes.

(D) The scales of finance for crop loans should be those worked out by the Technical Committee for the various crops grown locally. The Technical Committee constituted for co-operatives for determining the scales of finances for crop loans should be enlarged, if not done so far, to include representatives of the lead bank of the district and one of the commercial banks having large no. of branches in the area. The scale of finance so determined should be uniformly adopted
by all commercial banks and should be notified at their branches for
the general information of the farming community.

(E) The crop loans should generally be divided into cash and kind
components. It should be ensured that the kind component is lifted in
kind and necessary payment made directly by the bank. A list of
approved dealers may be maintained for this purpose.

(F) The unit cost for various purpose, the no. of units that constitute an
economic, size, etc. have been indicated by the NABARD for various
types of investment and where NABARD has not done so, the State
Govts. may have indicated these parameters. These norms should be
taken into account for working out the credit needs of the borrowers.

(G) A branch should generally serve the population residing within the
service area allotted to it.

(H) For both short term and term loans the repayment schedule should
coincide with the time when the cultivator has sold his produce and is
in funds. The due date of loan should be fixed on the basis of this
information. Efforts at recovery should commence in advance of the
due dates. Reminders and notices should be sent one or two weeks
before the due date to ensure timely payment.

(I) The Branch Managers should be provided with detailed guidelines by
the banks to facilitate sanction of loans for different purpose.
(J) **Margin Money**

(1) **Crop Loans**

(i) For crop loans to small and marginal farmers upto Rs. 10,000/- sanctioned according to the standard scale of finance approved by the Technical Committee.

(ii) For crop loans and borrowers not covered under (i) 15% to 25% (depending upon purpose and quantum of loan)

(2) **Term Loans**

(i) Upto the cost of economic unit (where applicable) or Rs. 10,000/- whichever is lower in each case and term loans aggregating not more than Rs. 10,000/-

(a) For small / marginal farmers, agricultural labourers and other specified categories of borrowers where subsidy is available under special agricultural development programme like IRDF, etc.

(b) For borrowers mentioned under (a) where subsidy is not available 5% (NABARD requirements may be borne in mind).
(ii) For all term loans and borrowers not covered under (i) 15% to 25% (depending upon purpose and quantum of loan and subject to NABARD requirements.

**NOTES** : (Both for 1 and 2 above)

(a) Subsidy

Where subsidy is available, the same should be treated as margin and no further margin money should be stipulated.

(b) Economic Unit

NABARD has identified a minimum economic unit in respect of certain activities such as purchase of milch cattle-2 animals, poultry - 50/100 layers, pig breeding - 3 sowes. These are illustrative. No specific ceiling need be fixed as outlay on these activities may differ according to type of breed and availability of animals / birds depending also on seasonal / regional variations. Banks will have to make an allowance for these factors.

(K) **Security Norms**

<table>
<thead>
<tr>
<th>Type of Credit Facility</th>
<th>Loan Amount</th>
<th>Security to be Furnished</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Crop Loan</td>
<td>(i) Upto Rs. 1000</td>
<td>DPN / Loan agreement only</td>
</tr>
<tr>
<td></td>
<td>(ii) Rs.1001/- to 25,00/-</td>
<td>Hypothecation of crops</td>
</tr>
<tr>
<td></td>
<td>(iii) Over Rs.25,000/-</td>
<td>(a) Hypothecation of crops</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) Mortgage of land* or Third Party Guarantee.</td>
</tr>
</tbody>
</table>
2. Investment loan

(i) Where moveable assets are created

(i) Upto the cost of economic unit (where applicable) or Rs. 25,000/- whichever is lower.

(ii) Others (i.e. amounts over those under (i) above)

(b) Mortgage of land* or third party guarantee.

(ii) Where moveable assets are not created (e.g. dug well, development on land etc.)

Rs. 10,000/- and over

* mortgage of land at banks discretion. Where there are genuine difficulties in the creation of mortgage / charge on lands whereever required, banks could take third party guarantee or such other security as considered appropriate.

Notes

(a) In cases where mortgage of land or third party guarantee has not been indicated as security, banks should not take such security.

(b) In the case of powre tillers, even where loan amount exceeds Rs. 25,000.00 hypothecation, of the power tiller should normally suffice.

(c) In states where legislation on the lines suggested by the Talwar Committee has been passed, a simple declaration creating a charge
on the land offered as security will be sufficient. In such, cases, mortgage of land may not be necessary.

(d) In the case of sericulture projects costing upto Rs. 20,000.00 being launched in various states funded / proposed to be funded by the World Bank, banks should not insist on mortgage of land / shed as security.

(L) Interest due on Agricultural Advances

(a) Payment of interest should be insisted upon only at the time of repayment of loan / instalments so fixed.

(b) In case of direct agricultural advances, interest on current dues, i.e. crop loans and instalments not falling due in respect of term loans should not be compounded.

(c) Interest should not be compounded on dues from PACS ceded to commercial banks. Penal interest on the principal amount in default may be charged to the ceded societies from the date of default at the same rates as charged by the District Central Co-op. Banks in the area.

(d) When crop loans or instalments under terms loans become overdue, banks can add interest outstanding to the principal and compound the interest. However, total interest debited to an account should not exceed the principal amount in respect of short term advances to small and marginal farmers.
2.8.2 SMALL SCALE INDUSTRIES

(A) Pursuant to the recommendation of the Committee on SSIs under the Chairmanship of Shri P.R. Nayak and taking into account the subsequent developments including the simplified system of lending to the SSI units upto the credit limit of Rs. 1 cr. (c.f. IECD No. 19/08. 13.09/93-94 dated 28.10.93) the loan application forms have been revised.

The forms have been divided into the following categories:

(i) For total advances upto Rs. 2 lakh (including composite loans).

(ii) Total assistance above Rs. 2 lakh and upto Rs. 15 lakh.

(iii) Total assistance above Rs. 15 lakh and upto Rs. 1 cr.

(iv) Total assistance above Rs. 1 cr.

The specimen 'A' for assistance upto Rs. 2 lakh is a simple four page form to be filled in by the borrowers who constitute nearly 90% of all SSI borrowers.

(B) The terms and conditions regarding margin and security should be printed on the reverse of the application form itself.

(C) Margin Money

<table>
<thead>
<tr>
<th>Type of Borrowers</th>
<th>Amount of Credit Limit</th>
<th>Margin to be maintained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artisans, village and cottage</td>
<td>Composite loan upto Rs. 25,000/-</td>
<td>Nil</td>
</tr>
<tr>
<td>industries.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Small Scale Industries.</td>
<td>Credit limit upto and inclusive of Rs. 25,000.00</td>
<td></td>
</tr>
</tbody>
</table>
Artisans, village and cottage industries Composite loan over Rs. 25,000.00 and upto Rs. 50,000 15% to 25% (depending upon the purpose and quantum of loan)

Other Small Scale industries Credit limits over Rs. 25,000.00

(D) Where subsidy / margin money assistance is available from Govt. and / or other agencies and is not less than 15% of total requirements, it should serve as margin. Where lower margins (i.e. less than 15%) are prescribed by banks in respect of special schemes for technocrats, etc. these may be continued.

(E) Margin money may be permitted to be introduced in stages, as and when required, and it should not be insisted that such margin money should be brought in at the beginning of the loan operations.

(F) Security Norms

<table>
<thead>
<tr>
<th>Type of Borrowers</th>
<th>Loan / Credit Limit</th>
<th>Security to be furnished</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Artisans, village and cottage industries</td>
<td>Composite loan upto Rs. 25,000.00</td>
<td>Pledge / Hypothecation / mortgage of assets created out of the loans.</td>
</tr>
<tr>
<td>(b) Other small scale industries</td>
<td>Limits upto and inclusive of Rs. 25,000/- guarantee</td>
<td>Collateral security / third party guarantee should not be taken.</td>
</tr>
<tr>
<td>(c) Artisans village and cottage industries</td>
<td>Composite loans over Rs. 25,000/- and upto Rs. 50,000/-</td>
<td>As determined by the bank on the merits of each case.</td>
</tr>
<tr>
<td>(d) Other Small Scale Industries</td>
<td>Credit Limits over Rs. 25,000/-</td>
<td>-- do --</td>
</tr>
</tbody>
</table>
(G) In respect of advances over Rs. 25,000/- collateral security by way of immovable properties or third party guarantee may be asked for only in cases where primary security is inadequate or for other valid reasons and not as a matter of routine. Proposals otherwise viable should also not be turned down merely for want of such collateral security or third party guarantee.

(H) Wherever feasible, equitable mortgage instead of registered mortgage should be taken in the interest of simplicity and to save stamp duty.

(I) As per present RBI guidelines 'Pari Passu' charge on the fixed assets is required to be given by the financial institution (Including SFCs) to banks for a part of their outstandings from sick units (including those in the SSI sector) representing the principal irregular dues termed as "Working Capital Term Loan" (WCTL). In respect of all other financial assistance provided by the banks, they will get a second charge on the fixed assets.

(J) Artisans, village and cottage industry will be defined as "Artisans (irrespective of location) or small industries activities (viz. manufacturing, processing, preservation and servicing) in villages and small towns with a population not exceeding 50,000 involving utilisation of locally available natural resources and / or human skills (where individual credit requirements do not exceed Rs. 50,000/-).

(K) An acknowledgement with date of receipt for all loan applications received from SSI applicants should be issued. After the receipt of
the application, a definite date may be indicated to the applicant for discussion, clarifications, etc., if considered necessary. The banks decision regarding credit assistance should be communicated to the applicant within the prescribed period from the date of receipt of the application. For monitoring the timely disposal of cases, banks should introduce an appropriate system.

(L) Banks should sanction the full working capital limits determined on the basis of 'need' related to the rated capacity of the unit, at the commencement itself by adding a contingency provision of say 10% to take care of unforcing circumstances due to operational bottlenecks, etc. The branches should be flexible and realistic in permitting operations on the limits sanctioned. Requests for increase in limits should be considered expeditiously and decision taken promptly and in any case within six weeks.

(M) The guidelines issued by Reserve Bank of India regarding Joint / Simultaneous appraisal of projects by commercial banks and State Financial Corporations, or acceptance of the SFC's appraisal by the commercial banks wherever joint appraisal has not been possible, may be followed. The guidelines also require that working capital assistance should be sanctioned by banks at least 4 months before a unit goes on stream. Banks are required to formulate effective monitoring system for ensuring that projects approved by State Level Financial Institutions are sanctioned the needed working capital finance well in time.
(N) (a) Rejection of applications for fresh limits / enhancement of existing limits should not be done without the approval of the next higher authority.
(b) Sanction of reduced limits should be reported to the next higher authority immediately with full details for review and confirmation.

2.8.3 OTHER BORROWERS IN THE PRIORITY SECTOR

(A) The other borrowers in the priority sectors -
(a) Small road and water transport operators.
(b) Retail traders
(c) Small business operators.
(d) Professional and self employed persons.
(e) State sponsored organisations for scheduled castes / scheduled tribes.
(f) Students for educational purposes.
(g) Housing
(h) Borrowers belonging to weaker sections taking pure consumption loans.

(B) The application and interview - cum - appraisal forms as finalised by the Banker's Group appointed by the IBA should be adopted. The Banker's Group has not evolved separate forms for housing finance and consumption loans. While the application forms for small business devised by the Bankers' Group may be used for housing finance and consumption
loans, all the details as given in the interview - cum - appraisal forms for small business may not be necessary for these categories of advances. Branches should be supplied with adequate stocks of application forms and such forms should be made available in the regional languages with terms and conditions relating to margin and security printed on their reverse.

(C) The purpose and ceilings per family in respect of consumption loans are as follows:

(i) General Consumption 150.00
(ii) Medical Expenses 500.00
(iii) Educational Needs 200.00
(iv) Marriage Ceremonies 500.00
(v) Funerals, births, etc. 150.00
(vi) Certain religious ceremonies 150.00

The aggregate finance for two or more purposes should not exceed Rs. 1000/- per family per year.

However, purpose-wise ceiling will not apply in the case of loans against the security of gold and silver ornaments. In such cases, a ceiling of Rs. 2,000/- per family may be stipulated. The banks may extend for general consumption loan upto Rs. 250/- to be released in suitable instalments in areas affected by natural calamity after proper assessment of individual cases. The limits for general consumption purposes may be raised to Rs. 1000/- in the states where the state
government have constituted risk funds for such lendings by commercial banks.

**D) Margin Money**

(a) General

(i) Credit limit upto and inclusive of Rs. 25,000.00 No Margin

(ii) Credit limit exceeding Rs. 25,000/- 15 to 25% depending upon the purpose and amount of loan.

Where subsidy / margin money is available and is not less than 15% of loan amount, no further margin should be stipulated.

(b) Housing Loans

<table>
<thead>
<tr>
<th>Amount of Loan</th>
<th>Margin as percentage of estimated cost (including cost of land)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Upto Rs. 20,000/-</td>
<td>20</td>
</tr>
<tr>
<td>(ii) Above Rs. 20,000/- and upto Rs. 50,000/-</td>
<td>25</td>
</tr>
<tr>
<td>(iii) Above Rs. 50,000/- and upto Rs. 1,00,000/-</td>
<td>30</td>
</tr>
<tr>
<td>(iv) Above Rs. 1,00,000/-</td>
<td>35</td>
</tr>
</tbody>
</table>

(E) Security Norms

(a) General Norms Security required

(i) Credit limit upto and inclusive of Rs. 25,000/- Pledge / hypothecation / mortgage of assets created out of loan.
(ii) Credit limit in excess of Rs. 25,000/-

As determined by the banks on the merits of each case.

(b) Housing Loan

Mortgage of properties or Government guarantee.

Where neither is feasible, banks can accept at their discretion security of adequate value in the form of life insurance policies, Government promissory notes, shares and debentures, gold ornaments or such other security as deemed appropriate.

(c) Consumption Loan

Guarantee of one or more individuals or group of persons.

(F) Banks should not ask for collateral security / third party guarantee for loans upto and inclusive of Rs. 25,000.00. For loans in excess of Rs. 25,000.00, collateral security by way of immovable properties or third party guarantee may be asked for only in cases where primary security is inadequate or for other valid reasons and not as matter of routine. Proposals otherwise viable should not be turned down merely for want of such collateral security or third party guarantee.

(G) Wherever feasible, equitable mortgage instead of registered mortgage should be taken to save stamp duty.

(H) In respect of advances granted on clean basis for education, guarantee / collateral security may be taken based on the merits of each case.

(I) SIDBI's stipulations relating to margin etc. in regard to refinance for loans to transport operators and others should be observed.
2.8.4 CREDIT LINKED GOVERNMENT SPONSORED PROGRAMMES

(A) Margin Money Scheme Margin
(i) Integrated Rural Development Programme (IRDP) : No Margin for loans upto Rs. 25000/- Suitable margin at the discretion of bank for loans above Rs. 25000/-
(ii) Prime Minister's Rozgar Yojana (PMRY) : 5% of the project cost.
(iii) Scheme of Urban Micro Enterprises (SUME) : No Margin
(iv) Scheme of Liberation and Rehabilitation of Scavengers (SLRS) : 15% of the project cost as margin money loan assistance to be provided by Scheduled Castes Development Corporations will serve as margin.
(v) Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP) : 5% of the project cost.
(vi) Differential Rate of Interest (DRI) Scheme : No margin

(B) Security Norms Scheme Security
(i) IRDP : Upto loan amount of Rs. 25,000/-, hypothecation/pledge of assets created out of bank loan for all activities under IRDP. For loan amounts between Rs.25,000/- and Rs. 50,000/-, in addition to the pledge/hypothecation of assets created out of bank loan, obtainment of mortgage of land/margin etc. to be considered by banks without however asking for any collateral security. Where there are genuine
difficulties in mortgage of land, banks may take third party guarantee. For loan amount above Rs. 50,000/-, banks may examine in detail before suitable security is obtained.

| (ii) PMRY | : Assets created out of loan and subsidy. No collateral security or third party guarantee. |
| (iii) SUME | : Assets created out of loan and subsidy. No collateral security or third party guarantee. |
| (iv) SLRS | : Assets created out of the loan / subsidy. (The State Scheduled Castes Development Corporation will have second charge / pari passu charge over the assets to cover their margin money loan assistance). No collateral security or third party guarantee. |
| (v) PMIUPEP | : Assets created out of loan and subsidy. No collateral security or third party guarantee. |
| (vi) DRI | : Assets created out of loan amount.12 |

Chapter second discussed about the role of institutional finance for the priority sector, the Pre nationalisation period: crucial sector neglected, priority sector lending during 1969-91, Banking Reform and priority sector lending, widening the scope of priority sector lending, Division from direct priority sector lending, Guidelines to be followed for advances to the priority sector. In the next chapter, we will discuss about the State Bank of India, reasons of establishment of the State Bank of India, its constitution, business of the Bank etc.
SOURCES

5. Guidelines for Advances to Priority Sector, Reserve Bank of India, Rural Planning and Credit Department, Mumbai, Second Edition, April, 1997, P-128.