

## JAIB IE & IFS Module A (Unit 4- Role of Priority Sector & MSME in the Indian Economy)

### Priority Sector Lending

**36.2 APPLICABILITY:-** The targets and sub-targets as fixed for each category are applicable to every commercial bank [including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank] and Primary (Urban) Co-operative Bank (UCB) other than Salary Earners' Bank.

- Banks are required to provide a part of their credit to a particular set of borrowers. This is done to promote development of all regions and sections equally.
  - It is popularly called as "rationing of credit".
- Sectors which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country
- Given priority over other sectors
- The banks are mandated to encourage the growth of such sectors with adequate and timely credit.

### Sectors of PSL:

1. Agriculture
2. Micro, small and medium enterprises
3. Export credit
4. Education
5. Housing
6. Social infrastructure
7. Renewable energy
8. Others

#### 36.4.9 Weaker Sections

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

- (a) Small and marginal farmers;
- (b) Artisans, village and cottage industries where individual credit limits do not exceed ₹ 1 lakh;
- (c) Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS);
- (d) Scheduled Castes and Scheduled Tribes;
- (e) Beneficiaries of Differential Rate of Interest (DRI) scheme;
- (f) Self Help Groups;
- (g) Distressed farmers indebted to non-institutional lenders;
- (h) Distressed persons other than farmers with loan amount not exceeding ₹ 1 lakh per borrower to prepay their debt to non-institutional lenders;
- (i) Individual women beneficiaries up to ₹ 1 lakh per borrower;
- (j) Persons with disabilities
- (k) Minority communities as may be notified by Government of India from time to time.

## What has changed now?

- **New activities eligible for finance under the priority sector now include:**
  - Bank finance of up to ₹50 crores to start-ups,
  - Loans to farmers so as install solar power plants for solarisation of grid-connected agriculture pumps,
  - Loans for setting the compressed biogas (CBG) plants
- High weightage has been assigned to incremental priority sector credit in 'identified districts' where priority sector credit flow is comparatively low.
- **Agriculture specific targets has been revised:**
  - Targets prescribed for 'small and marginal farmers' and 'weaker sections' are being increased.
  - High credit limit has been specified for farmer producer organizations (FPOs) or farmers producers' companies (FPCs) undertaking farming with assured marketing of their produce at a pre-determined price.
- The loan limits for renewable energy have been doubled.

## DEFINITION OF MSME

- ❑ In terms of Government of India Gazette Notification S.O. 2119(E) dated June 26, 2020 the definition of Micro, Small and Medium Enterprises is changed.

Definition of MSMEs - Old and New			
	Old Definition		New Definition
	Manufacturing	Services	Manufacturing/Services
Micro	Investment in Plant and Machinery:  Does not exceed Rs. 25 Lakh.	Investment in Equipment:  Does not exceed Rs. 10 Lakh.	Investment in Plant and Machinery or Equipment and turnover:  The investment in plant and machinery or equipment does not exceed Rs. 1 Crore and turnover does not exceed Rs. 5 crores.

	Old Definition		New Definition
	Manufacturing	Services	Manufacturing/Services
Small	Investment in Plant and Machinery: More than Rs. 25 lakhs but does not exceed Rs. 5 crores.	Investment in Equipment: More than Rs. 10 Lakh but does not exceed Rs. 2 crores.	Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed Rs. 10 crore and turnover does not exceed Rs. 50 crores.
Medium	Investment in Plant and Machinery: More than Rs. 5 crores but does not exceed Rs. 10 crores.	Investment in Equipment: More than Rs. 2 crores but does not exceed Rs. 5 crores.	Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed Rs. 50 crore and turnover does not exceed Rs. 250 crores.

**Q. What is the target percentage of ANBC or CEOBE, is prescribed by RBI for PSL under Agriculture sector for Schedule commercial banks?**

- A. 18% of ANBC or CEOBE whichever is higher
- B. 12% of ANBC or CEOBE whichever is higher
- C. 40% of ANBC or CEOBE whichever is higher
- D. 7.5% of ANBC or CEOBE whichever is higher

**Ans: (a)**

**Q. What is the landholding for farmers to be considered as Small farmers?**

- A. Upto 1 hectare
- B. Upto 2.5 hectare
- C. More than 1 hectare and upto 2 hectare
- D. Upto 2 hectare

**Ans: (d)**

**Q. What is the target for weaker section of society to be achieved by Schedule Commercial Banks?**

- A. 18% of ANBC or CEOBE whichever is higher
- B. 12% of ANBC or CEOBE whichever is higher
- C. 40% of ANBC or CEOBE whichever is higher
- D. 7.5% of ANBC or CEOBE whichever is higher

**Ans: (b)**

**Q. What is the amount under education loan for study will come under PSL?**

- A. Rs. 10 crore
- B. Rs. 20 lakh
- C. Rs. 5 crore
- D. Rs. 1 lakh

**Ans: (b)**

**Q. Which of the following statements best defines Micro, Small, and Medium Enterprises (MSMEs) according to the MSME Development Act, 2006?**

- A. MSMEs are defined only based on the number of employees working in the enterprise.
- B. MSMEs are defined based on the annual turnover of the enterprise, without considering investment in plant and machinery.
- C. MSMEs are defined based on the investment in plant and machinery or equipment and annual turnover, depending on the category of the enterprise.
- D. MSMEs are defined based solely on the number of years the enterprise has been operational.

**Ans: (c)**

- Q. Which of the following statements is true regarding the revised agriculture-specific targets?**
- A. The loan limits for renewable energy have been reduced to encourage alternative energy sources.
  - B. High credit limits have been specified for Farmer Producer Organizations (FPOs) or Farmer Producer Companies (FPCs) engaged in farming with assured marketing and pre-determined pricing of their produce.
  - C. The targets prescribed for 'small and marginal farmers' have been decreased.
  - D. No changes have been made to the credit limits for renewable energy.

**Ans: (b)**

- Q. Which of the following activities are now eligible for finance under the priority sector as per the new guidelines?**
- A. Bank finance up to ₹50 crores for start-ups, loans for solar power plants for agriculture pumps, and loans for setting up compressed biogas (CBG) plants.
  - B. Loans for housing construction, loans for luxury vehicles, and financing for large-scale manufacturing projects.
  - C. Loans for solar power plants for commercial use, loans for the construction of large residential complexes, and loans for personal loans.
  - D. Loans for setting up education institutes, loans for agricultural exports, and loans for foreign trade businesses.

**Ans: (a)**

