

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs – AFCs)

August 09, 2012

To

**Mr K.C. Chakrabarty,
Hon Dy Governor,
Reserve Bank of India,
Central office Building,
19th Floor, Shahid Bhagat Singh Marg,
Mumbai – 400 001**

Respected Sir,

**Sub: Revised Priority Sector Lending (PSL) Guidelines issued vide circular no
RPCD.CO.Plan.BC 13/04.09.01/2012-13 dated July 20, 2012**

FIDC is the Self-Regulatory Organisation(SRO) representing the interests of the Asset Financing NBFCs (NBFC-AFC) registered with Reserve Bank of India,. NBFC AFCs have been recognized for their role in credit delivery in remote corners of India and have carved a niche for themselves in the semi-rural and rural segments of the country.

NBFC-AFCs are also playing a vital role in furthering the cause of Financial Inclusion and in credit dispensation to customers having no or little banking habits and no track record and we largely provide credit to them without any collateral security as these customers don't have any assets.

We would like to place on record our sincere appreciation to the Reserve Bank of India for its efforts in framing revised guidelines for priority sector lending so as to keep a continuous focus on and further bolster the agenda of financial inclusion and poverty alleviation. NBFC – AFCs play a key role in the last mile connectivity to the needy sections of the society and thus are a vital constituent in achieving the objective of the Government as well as RBI to provide credit to the informal segments which are largely excluded from the banking universe.

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The revised guidelines have made certain key changes in the priority sector classification. This representation seeks to focus on a few key changes / clauses in the guidelines, their impact on the NBFC - AFC sector and consequent availability of credit to the desired segment. These are enumerated below for your kind consideration:

- 1. Loans to farmers for pre-harvest and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.**

Revised Guideline

As per the guidelines in force till July 19, 2012, loans granted for transporting farm produce were an eligible category under agriculture sector. However, the revised guidelines have limited the loans to farmers for transportation of their own farm produce only as the eligible category.

FIDC View:

It is quite customary to observe that in agricultural belts, there are lot of truck drivers who would own a truck and carry the farm produce from number of small and marginal farmlands owned by the farmers of the area to the local mandi for the purpose of sale and also transport back the fertilisers and building materials on return load. It is unviable for the farmer owning smaller land to buy a truck for his own usage and first he would buy a tractor. Therefore, denial of priority sector benefit to the purchase of a truck for transportation of farm produce of other farmer-owners will have a significant impact on the availability of credit for this activity in turn affecting the SFMF segment adversely. Moreover, as long as the end use of the vehicle is for transporting farm produce, it should not matter whether the farmer himself does it or hires the services of truck operator.

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It is therefore, requested that the transportation of farm produce, whether by farmer himself, or by any other entity, be restored as an eligible category under direct finance to agriculture under PSL guidelines.

2. On-lending by banks to NBFC – AFCs for PSL to be eligible

Revised Guideline

PSL benefit for onlending by banks to NBFC – AFCs for deployment in to priority sector has not been restored and status quo has been maintained w.r.t. to the change that was implemented w.e.f. April 1, 2011 of withdrawing such benefit.

FIDC View:

For the last more than 50 years, NBFC – AFCs have played a stellar role in providing organised credit at affordable interest rates to the hitherto unbanked segment in the rural / semi-rural areas who either did not have access to the credit or were forced to approach unorganised money lenders for all their credit needs. Thus, NBFC – AFCs were the pioneers in following the financial inclusion model to help uplift the vulnerable segment and provide them means for livelihood by providing finance for productive assets / activities. The flow of credit from the banking system on priority sector terms for on-lending by NBFC-AFCs to such underserved segments has helped them in providing credit at lower interest rates and without collateral security on competitive terms and broadening the market for automobile, mining equipment and tractor manufacturers and today India has comparable size of the market in the world due to wider financing availability in remotest corners of the country.

On the other hand, the other avenues to raise funding by NBFC-AFCs are not developed in India and will take more time as efforts to deepen the corporate bond market by RBI also bear fruits.

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It is also heartening to see that RBI has provided this benefit to NBFC-MFIs by way of extension of priority sector benefits to banks for on-lending to this segment of NBFCs to expand the financial inclusion.

Therefore, restoration of priority sector benefits for on-lending by NBFC-AFCs is very essential with due qualifying criteria to avoid any misuse thereof and channel the flow of credit to the desirable end borrower.

We understand the reason for withdrawal of this priority sector status to the bank lending to NBFCs for on lending to the priority sector, has been the concerns expressed relating to ensuring the end use of the funds so lent by banks to NBFCs. We would like to convey that the same can be easily done by asking NBFCs to submit documentary evidence to this effect for end use of these funds.

Nair committee had also recognized the important role played by NBFC-AFCs and had recommended certain percentage of net bank credit in the priority sector to be routed through NBFCs.

We hope the above receives your favourable consideration. It will be our pleasure to be present in person and offer our views on the above should your honourable self deem it necessary.

Thanking you,

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
Director General

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