



Priority Sector Lending Recommendations / Suggestions basis Terms of Reference provided:

1. To revisit the current eligibility criteria for classification of bank loans as priority sector with reference to

a. Nature of activities and types of borrowers (individuals versus institutions, corporate and partnership firms) of loans:

- Medium Enterprises to also be classified as Priority sector due to escalation in cost of Plant and Machinery & Equipments. Currently only Micro & Small Enterprises qualify for PSL.
- Categorization of retail trade for classification of service sector units to be linked to the investments in Equipment's.
- Financing for generation of renewable energy to be classified as Priority Sector Lending.

b. Limits on loan amounts:

- Manufacturing Enterprise with investments in plant and machinery up to `100 lakhs deserved to be categorized as "Micro (manufacturing) Enterprises" which currently is up to 25 lakhs. Corresponding limit for investment in equipment for Micro (service) enterprise could be revised to ` 40 lakhs which currently is up to 10 lakhs.
- Tiny (M1) and micro (M2) categories to clubbed as one totaling to 60%.
- Sub targets for small and micro may be linked to the 10% ANBC target. Finally the targets with reference to MSE should be fixed as on last year's ANBC just like any other PSL target instead of a 'moving target'. For the measurement of 60% achievement as discussed above, comparison is made with reference to the prevailing levels of MSME lending.
- Even though MSE sub targets are to be achieved gradually from 50% to 60% over the period of 2011-2013, the circular still mentions the Micro Enterprise target as 40% (for investment in Manufacturing enterprise upto Rs. 5 Lakhs and investment in equipment for service enterprise upto Rs. 2 lakhs) and 20% (for investment in Manufacturing enterprise from Rs. 5 Lakhs upto Rs. 25 lakhs and investment in equipment for service enterprise from Rs. 2 lakhs upto Rs. 10 lakhs). Modifications to be done for the same.

c. Appropriate documentation and due-diligence thresholds, with a view to ensuring that loans extended by banks are indeed for the eligible categories entities, cooperative societies:

- Loans to NBFCs for on-lending to MSE should be classified as Priority Sector. The reasonable guidelines on due diligence for end use of funds should be clearly spelt out by RBI.

2. To comprehensively review and fine-tune the definition of direct and indirect priority sector finance/lending, especially loans advanced to/routed through corporate entities, cooperative societies:

- Lending by banks to support Financial Institutions (FI) – formed the Government to support MSME - who use these borrowings to on lent to Micro and Small Enterprise (MSE) e.g. NSIC etc., should be considered as MSE PSL for the lending banks.

3. To consider if bank lending via financial intermediaries like Non-Banking Finance Companies, Housing Finance Companies, etc. for eligible categories of borrowers and activities could be classified under the priority sector and if so, to lay down the conditions subject to which this classification would be admissible:

- Loans to NBFCs for on-lending to MSE should be classified as Priority Sector. The reasonable guidelines on due diligence for end use of funds should be clearly spelt out by RBI.
- Under assistance given to a Non- Governmental agency approved by the NHB for the purpose of refinance – ‘purchase’ of dwelling units may also be included in addition to ‘construction / reconstruction’.
- Lending by banks to support Financial Institutions (FI) – formed the Government to support MSME - who use these borrowings to on lent to Micro and Small Enterprise (MSE) e.g. NSIC etc., should be considered as MSE PSL for the lending banks.

4. To consider the desirability, or otherwise of capping interest rate on loans under the eligible categories of the priority sector:

- No suggestions for point no:4

5.To review

a. The current allocation mechanism for RDIF and other Funds:

- On 10th August 2011 IBA has requested RBI for RIDF deposits with NABARD – Need for treatment as part of Priority Sector Lending similar treatment to be given to SEDF deposits with SIDBI (Foreign Banks).
- RIDF and SEDF Deposits not to form part of ANBC.

b. The interest rates payable on RDIF and other Funds to non-compliant (defaulting) banks:

- No suggestions on point no;5(b)

c. The interest rates to be charged on loans from these funds:

- The rate of interest on such deposits should be linked to floating benchmark such as reverse repo rate and should not be excessively low.

6. To review the existing Management Information System (MIS) prevalent in banks, and suggest ways to streamline in terms of frequency of compliance, data consistency and data integrity:

- No suggestions on point no.6

7. To consider and suggest the manner and periodicity of conducting impact evaluation studies of credit flows to different segments of priority sector and arrive at various policy options:

- No suggestion on point no.7

8. Any other issues and concerns germane to the subject matter:

- Proper Representation from Foreign Bank in PSL Committee.
- Draft Revised Guidelines on Securitization Transactions released by RBI on 27th September 2011, if approved in its current form will impact achievement of PSL targets.
- Reserve Bank Policy stance should be to encourage flow of credit to the priority sectors without additional investment by foreign banks to develop expertise, as flow of credit to priority sector is critical and not the mode of flow.
- PSL targets achievement may be linked to last year ANBC level rather than current year achievement. This will give clear benchmark for growth in this segment.
