Dear Ladies and Gentlemen,

I] Priority Sector Lending

Priority sector refers to those sectors of the economy which, though viable and creditworthy, may not get timely and adequate credit in the absence of a special dispensation. Typically, priority sector loans are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education, other low income groups and weaker sections. Such sectors are spread across the length and breadth of the country and especially prevalent in the hilly and coastal regions.

PSL- Revised guidelines

The salient features of the revised priority sector lending guidelines issued on April 23, 2015 are:

• Separate targets of 8 per cent for small and marginal farmers (within the agriculture target of 18 per cent) and 7.5 per cent for micro industries are prescribed to be achieved in a phased manner by 2017. These targets are made applicable to foreign banks with 20 branches and above post 2018 after a review in 2017.

• Priority sector widened to include medium enterprises, social infrastructure and renewable energy.

• Monitoring of priority sector lending compliance on a 'quarterly' average basis at the end of the respective year from 2016-17.

• Priority Sector Lending Certificates (PSLCs) will be an eligible tradable instrument for achieving priority sector targets. The buyer (a deficient bank) will pay a 'price/ fee' to the seller bank (a bank which has over achieved its PSL requirements) for purchasing a specified amount of PSL obligation applicable for a particular date.

• Educational loans (including loans for vocational courses) up to Rs 1 million irrespective of the sanctioned amount will be considered as eligible for the priority sector.

• Export credit up to 32 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (CEOBE), whichever is higher, will be eligible as part of the priority sector for foreign banks with less than 20 branches. For domestic and foreign banks with 20 branches and above, the incremental export credit over the corresponding date of the preceding year will be reckoned up to 2 per cent of ANBC or CEOBE (whichever is higher), as part of the priority sector.

• Foreign banks with less than 20 branches are required to achieve the total priority sector target of 40 per cent of ANBC or CEOBE, whichever is higher, in a phased manner by 2020.

Further, banks have also been directed vide circular dated July 16, 2015 to ensure that their share of lending to non-corporate farmers does not fall below the system wide average for the last three years of direct lending to non-corporate farmers.

II] PSLCs

The Internal Working Group constituted in July 2014 to revisit the existing priority sector lending guidelines recommended introduction of PSLCs to enable banks to meet their PSL requirements and allow leveraging of their comparative advantage (Report submitted in March 2015).

As stated in the Report of the Committee on Financial Sector Reforms, the merit of a scheme of this nature is that it would allow the most efficient lender to provide access to the poor, while finding a way for banks to fulfil their norms at a lower cost. Essentially, the PSLCs will be a market-driven interest subsidy to those who make priority sector loans.

The model on PSLCs envisages that banks will issue PSLCs that can be purchased at a market determined fee on an electronic platform. This purchase will give the buyer a right to undershoot his PSL achievement for the stated amount of PSLC. PSLCs would count specifically towards PSL achievement and thus would be sector/ sub-sector specific where particular targets have been mandated. It would not be necessary for an issuer to have underlying assets on his books at the time of issue of PSLC or for the buyer to have a shortfall in obligation of that amount. The issuer could assess possible credit achievement during the year and issue PSLCs of the estimated surplus. However, as the PSLCs could be issued without an underlying, there is a risk that the issuing bank may overestimate its achievement and fall short on reporting date, thereby subjecting itself to penalties. Therefore, no bank can issue PSLCs of more than 50 percent of last year's PSL achievement or excess over the last year's PSL achievement, whichever is higher. However, there would be no limit on the amount of PSLCs that could be purchased for achievement of various targets.

PSLCs- Current Status:

Priority Sector Lending Certificates (PSLCs) were introduced as an eligible tradable instrument for achieving priority sector targets vide Circular FIDD.CO.Plan.BC.No.54/04.09.001/2014-15 dated April 23, 2015. The buyer (a deficient bank) will pay a 'price/ fee' to the seller bank (a bank which has over achieved its PSL requirement) for purchasing a specified amount of PSL obligation applicable for a particular date. The guidelines in respect of PSLCs would be issued shortly.

III] Credit Bureaus for SHGs:

Based on the recommendations of the Committee to Recommend Data Format for furnishing of Credit Information to Credit Information Companies (Chairman: Shri Aditya Puri) constituted by the Bank, banks and FIs were advised vide Circular dated June 27, 2014 to obtain data on individual members of SHGs and start reporting the same to Credit Information Companies (CICs) within six months. At a stakeholders' meeting it was revealed that overall banks had not made significant headway in this regard. The banks reported many challenges in implementation of the RBI directions.

The group constituted by RBI to examine the key challenges in collection and reporting of the individual borrower level data of SHGs by banks and furnishing it to CICs (comprising of representatives from FIDD/ DBR and NABARD, IBA, CIBIL, SBI, Union Bank, HDFC and ICICI) agreed that while there was need for strengthening the information and data on individual SHG members, it was still not clear as to whether the banking system should embark on full-fledged data collection. In the circumstances, the group believes that it would be appropriate to adopt a phased approach in regard to the capturing of data with regard to individual SHG members.

IV] Trade Receivables Discounting System (TReDS)

- MSME sector faces the problem of delayed payment mainly due to their dependency on their buyers within corporate and other sectors, including government departments / undertakings.

- In order to ameliorate the issue of delayed payments several laws have been put in place including the Delayed Payments Act. However the MSME suppliers are unable to take advantage of the legal options on account of the asymmetry of power relations ships between MSME supplier and corporate buyer.

- Reserve Bank of India announced the guidelines for setting up and operating the Trade Receivables Discounting System (TReDS) with the intention to facilitate Electronic Bill Factoring Exchanges in the country, which could electronically accept and auction MSME bills against large companies so that MSMEs could be paid promptly.

- TReDs is a scheme for setting up and operating the institutional mechanism to facilitate the financing of trade receivables of Micro, Small and Medium Enterprises (MSMEs) from corporate and other buyers, including government departments and public sector undertakings (PSUs) through multiple financiers.

- The TReDS will be an authorised payment system and will also be subject to the oversight of the Reserve Bank of India under the Payment and Settlement Systems (PSS) Act, 2007.

- MSME sellers, corporate buyers and financiers – both banks and non-bank (NBFC factors) will be direct participants in the TReDS.
- The TReDS will provide the platform to bring these participants together for facilitating uploading, accepting, discounting, trading and settlement of the invoices / bills of MSMEs.

- Reserve Bank of India had invited applications for setting up of and operating the Trade Receivables Discounting System (TReDS during February to March, 2015.

- Applications were received from seven entities.

- Presently, as a part of Authorisation, the process of due diligence of the entities desirous offsetting up TReDS has been initiated. Letters have been issued to various Government Departments, Investigating agencies and other regulators to garner Information regarding these entities.

<u>V] Payment Banks & Small Finance Banks</u>

Reserve Bank of India has recently issued 11 licences for payment banks which will be an effective tool for extending financial inclusion and increasing its pace as well. As they will be accepting only small deposits and are likely to use technology to a greater scale it will result in speedy and inexpensive means of remittance. Reserve Bank will also be issuing licences for small finance banks and that will also accelerate the financial inclusion besides addressing the financial and credit needs of the recently included sections in the financial fold.

All the above initiatives taken by Reserve Bank are expected to extend the reach and bring hitherto excluded sections of the society into the financial inclusion in the very near future.

I wish the Conference all success.

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