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Reserve Bank of India  
Financial Inclusion and Development Department  
Central Office Building  
10th Floor, S.B.S Marg  
Mumbai- 400 001

**Sub: Recommendation from Impact Investors Council (“IIC”) on the Reserve Bank of India (“RBI”) Report to Revisit the Existing Priority Sector Lending Guidelines**

Dear Madame/Sir,

The purpose of this Memorandum is to request your attention to the following recommendations from Impact Investors Council (“IIC”). In view of the RBI’s Press Release dated March 2, 2015, IIC would like to make the following suggestions/comments on the recommendations of the RBI’s Report- (i) review of the term ‘education’ as understood in the context of priority sector lending, (ii) inclusion of affordable Housing Finance Companies, (iii) widening the understanding of ‘healthcare facilities’ to include hospitals, (iv) widen the scope of “Agriculture”, (v) inclusion of “social enterprise” in PSL category, and (vi) introducing monitoring mechanism for Priority Sector Lending Certificates (PSLCs) credits.

**(i) Recognition of incidental training activities such as skill development, vocational training etc. as part of “education”**

Existing Framework	Proposed Changes	Rationale
<ul style="list-style-type: none"> <li>Presently the scope of the term ‘education’ is very narrow</li> <li>“Education” is considered as a charitable activity under section 2(15) of the Income-tax Act, 1961</li> <li>Not every acquisition of further knowledge is considered ‘education’ in India.</li> <li>The Reserve Bank of India (“RBI”) Report of the Internal Working Group to revisit the existing Priority Sector Lending Guidelines (“PSL Guidelines”) is silent on the broader framework of education, and only makes reference to ‘education loans’.</li> </ul>	<ul style="list-style-type: none"> <li>Entities providing education facilities under PSL should include <i>for-profit</i> social enterprises and <i>not-for-profit</i> social ventures as defined by SEBI (SVF- AIF Category I)</li> <li>Beyond ‘education loans’, PSL should also cover the following:               <ul style="list-style-type: none"> <li>Skill Development</li> <li>Vocational training courses</li> <li>Formal (Schools, Colleges, Universities, etc.) &amp; informal (Coaching Centres &amp; Exam Prep) educational activities</li> <li>Incidental training activities (e.g., Content Dev &amp; Academic Publishing)</li> </ul> </li> </ul> <p><i>(Select Skills &amp; VET firms already get PSL from NSDC)</i></p>	<ul style="list-style-type: none"> <li>Better access to institutional credit for entities providing support to school drop-outs and marginal youth who will not seek access to edu loans</li> <li>Expansion of education facilities has a bearing on employment generation and demographic dividend in the economy</li> </ul>

**(ii) Banks’ on-lending to Housing Finance Companies (HFCs) and NBFCs to be treated as PSL**

Existing Framework	Proposed Changes	Rationale
<ul style="list-style-type: none"> <li>The Housing Finance Companies (NHB) Directions, 2010</li> <li>Bank’s on-lending to HFCs considered as PSL only if HFC’s loan is less than INR 1 million</li> </ul>	<ul style="list-style-type: none"> <li>Specific sub-cap for housing loans</li> <li>Apply differential rate of interest on such loan amount</li> <li>Higher weightage for loans less than INR 1 million</li> <li>Housing loans with below</li> </ul>	<ul style="list-style-type: none"> <li>The total market for credit and its supply is uneven</li> <li>Credit needs of the lower segment of the population needs to be served better</li> <li>HFCs are more equipped to operate in local geographies</li> </ul>

<ul style="list-style-type: none"> <li>• Only 2% margin cap between borrowing and lending rate</li> <li>• Currently, NBFCs on-lending to MSME outside the purview of PSL</li> </ul>	<p>INR 0.5 million to be encouraged</p> <ul style="list-style-type: none"> <li>• Remove difference in PSL applicability of direct and indirect financing for housing</li> <li>• Removal of co-terminus clause to be qualified as PSL</li> <li>• Reduce the minimum tenor of indirect loans to five (5) years or allow the lending bank to access the credit-risk</li> <li>• Include on-lending by NBFCs to SME to qualify under PSL</li> </ul>	<p>and possess relevant expertise in comparison to customary banks</p> <ul style="list-style-type: none"> <li>• Fund flow for marginal sections of the population is extremely low</li> <li>• Need to provide affordable housing loans to these segments using effective, local channels which entails less transaction cost</li> <li>• Banks reluctant to lend to micro and small enterprises directly and focus their loans on the larger 'small' enterprises. NBFC loans can cater to such groups in a targeted manner.</li> </ul>
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**(iii) Widen the scope of 'healthcare facilities' to include hospitals / related infrastructure**

Existing Framework	Proposed Changes	Rationale
<ul style="list-style-type: none"> <li>• RBI's PSL Guidelines prescribes building social infrastructure</li> <li>• RBI's PSL Guidelines are, however, silent on what constitutes social infrastructure</li> <li>• No specific reference to 'hospitals' forming part of 'healthcare facilities'</li> </ul>	<ul style="list-style-type: none"> <li>• Social infrastructure in PSL lending to be created in a manner which is physically distinguishable</li> <li>• Such social infrastructure should comprise of buildings</li> <li>• The scope of 'healthcare facilities' needs to be expanded</li> <li>• Include hospitals, primary healthcare centres and clinics etc. within the scope of 'healthcare facilities'</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of infrastructure in the form of a designated hospital or a clinic or primary health centers is a major impediment</li> <li>• Including 'hospitals' and related infrastructure will ensure better health infrastructure in lower segments of the population</li> <li>• Will help in reducing quality gaps in such areas that had otherwise failed to gain public or private investments earlier</li> </ul>

**(iv) Widen the scope of agricultural sector**

Existing Framework	Proposed Changes	Rationale
<p>Presently direct and indirect financing to agriculture under PSL</p>	<p>Include financing to 'start-ups' focusing on Agricultural R&amp;D, e.g. affordable and environment friendly bio-pesticides instead of chemical-based pesticides</p>	<p>Many start-ups are focusing on R&amp;D to improve the overall agriculture, which has a long gestation period and significant capital requirement. Such start-ups may be considered for PSL</p>

**(v) Inclusion of "social enterprise" in PSL**

Existing Framework	Proposed Changes	Rationale
<ul style="list-style-type: none"> <li>• RBI has defined priority sector as including agriculture,</li> </ul>	<ul style="list-style-type: none"> <li>• RBI's PSL Guidelines should include and define "social</li> </ul>	<ul style="list-style-type: none"> <li>• Specific reference to Social Enterprises will make it</li> </ul>

<p>MSMEs, education, housing, export credit and others</p> <ul style="list-style-type: none"> <li>• Categorization of what constitutes micro and small enterprises under priority sector has been made as per the Micro Small and Medium Enterprises Development Act, 2006 (“<b>MSMED</b>”) Act.</li> <li>• RBI’s PSL does not include “social enterprise”</li> </ul>	<p>enterprises”</p> <ul style="list-style-type: none"> <li>• “Social enterprise” means a trust, society or company or limited liability partnership which has the achievement of measurable, positive social impact as a primary objective under its memorandum and articles of association</li> </ul>	<p>easier for social businesses in low cost housing, water, sanitation etc. to benefit from priority sector lending</p> <ul style="list-style-type: none"> <li>• Under the current priority sector lending norms, there is no recognition given to social businesses</li> <li>• Banks are typically reluctant to lend to MSMEs outside the specified sectors</li> </ul>
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**(vi) Maintaining standardization and monitoring priority PSLC credit transfers**

Existing Framework	Proposed Changes	Rationale
<ul style="list-style-type: none"> <li>• Currently no norm to ensure regular monitoring of credit transfer</li> <li>• Currently no indicators developed to ascertain quality checks and standardization of PSLCs</li> </ul>	<p>Priority Sector Lending Certificates (“<b>PSLCs</b>”) should have the following indicators to ascertain quality checks and standardization:</p> <ul style="list-style-type: none"> <li>• Whether the loan is to an eligible sector;</li> <li>• Whether the interest rate follows the norms of transparency;</li> <li>• Whether the duration of the loan was sufficiently placed to create some fiscal or social impact;</li> <li>• Whether targeted lending towards social enterprise among the PSL categories</li> <li>• Whether internal mechanism put in place to facilitate regular monitoring by external agencies</li> <li>• Whether reports published [quarterly or half yearly] to inform the stakeholders about adherence to standards.</li> <li>• Other indicators and self-certification norms that the Committee for Certification or Agency may decide</li> </ul>	<ul style="list-style-type: none"> <li>• To ensure that the credit scheme does not tilt in favor of the large enterprises operating within the PSL sectors.</li> <li>• It is required that certain internal mechanisms are put in place to allow regular monitoring of PSLC scheme.</li> </ul>

Madame/Sir, we will be grateful if you can address the needs of social enterprises and consider the above suggestions in the RBI’s Report. We see ourselves as being partners to financial inclusion and growth in India and look forward to your support in respect of the above suggestions.

Thanking you,

Sincerely,



Amit Bhatia  
Chief Executive Officer