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RESERVE BANK OF INDIA ISSUES REVISED GUIDELINES ON PRIORITY SECTOR LENDING

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BACKGROUND

The Reserve Bank of India (RBI) on 04 September 2020 released the revised Master Direction – Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions 2020 (Revised PSL Guidelines).

The RBI has revised the erstwhile priority sector lending guidelines with a view to align them with evolving national priorities and to foster inclusive development. The Revised PSL Guidelines are aimed at achieving deeper credit penetration in a multi-level manner and shall aid smaller and credit deficient businesses.

KEY HIGHLGHTS OF THE REVISED PSL GUIDELINES

- **Objectives:** The objectives of the Revised PSL Guidelines is to achieve greater credit penetration and liquidity in rural, weaker, smaller and credit deficient businesses while augmenting funding opportunities for companies impacted by the global coronavirus induced pandemic. It is an effort to divert liquidity towards new areas and sectors which need credit boosts for growth and development. The move has been intended to address regional disparities in the flow of priority sector credit by assigning higher weightage to incremental priority sector credit in 'identified districts' where priority sector credit flow is comparatively low.

- **Fresh Inclusions:** The Revised PSL Guidelines have included bank finance to start-ups (up to INR 50 crores), loans to farmers for installation of solar power plants for solarisation of grid connected agriculture pumps and loans for setting up Compressed Bio Gas (CBG) plants as fresh categories eligible for finance under the priority sector.

- **Increased Targets and Higher Credit Limits**: The targets prescribed for lending by banks to small and marginal farmers and weaker sections have been increased. The applicable target for lending by banks to non-corporate farmers for the Financial Year 2020-21 has been set at 12.14% of the adjusted net bank credit or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever would be higher. Banks have been directed to make efforts to reach the erstwhile target level of 13.5% of the adjusted net bank credit for lending to the agricultural sector. Further, the RBI has moved to provide a higher credit limit to farm producers' organization (FPOs) and farm producers' companies (FPCs) undertaking farming along with assured marketing of their produce at a pre-determined price. Credits for these activities will be subject to an aggregate limit of INR 2 crores per borrowing entity.

- **<u>Targeted increase of loan limits</u>**: The loan limits for renewable energy sector and health infrastructure (including those under 'Ayushman Bharat') has been doubled. Bank loans up to a limit of INR 5 crore per borrower for setting up schools, drinking water facilities, and sanitation facilities including the construction and refurbishment of household toilets and water improvements at household level; and up to a limit of INR 10 crore per borrower for building healthcare facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres, have been permitted. Further, the Revised PSL Guidelines envisages bank loans up to a limit of INR 30 crore to borrowers for purpose of setting up solar-based and biomass-based power generators, windmills, micro-hydel plants, and non-conventional energy-based public utilities viz. street lighting systems and remote village electrification, which have been made eligible for priority sector classification. Lending limits to individual households for the purposes of setting up or procuring renewable energy resources or infrastructure have been set at INR 10 lakh per borrower.

COMMENTS

While most banks are largely in compliance with the current credit limit requirements at an aggregate level, there remain certain credit deficit areas that will benefit from this curative measure employed by the RBI. The Revised PSL Guidelines compel banks to inject liquidity in areas, that banks generally avert from lending stating weak creditworthiness and other practical or commercial concerns. The inclusion of start-ups in the priority sector status may act as a boost for bootstrapped and smaller start-ups in terms of funding and seeking credit. It is pertinent to note here that for most start-ups, timely bank credit is of essence and often the risk profile associated with start-ups prevent banks from extending credit to them which results in dependence on VC/PE fund for funding requirements. This move will be viewed as a welcome measure to truly foster 'ease of doing business' for Indian start-ups and makes available funding options to start-ups beyond angel investments and PE and VC funding. Further, the agricultural and healthcare lending augmentation could go a long way in supporting a market reeling from the coronavirus-induced lockdown. Overall, the Revised PSL Guidelines are a step away from the usual prioritization that is offered borrowers in the financial services sector and attempts to provide adequate reinforcements to a new set of national priorities from start-ups to renewable energy to healthcare infrastructure.

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