FIDC

Finance Industry Development Council

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

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)

Tel: 022 21027324/9820035553 • E-mail: maheshthakkar45@yahoo.in website: www.fidcindia.org

To **June 23, 2014**

Mr. G. S. Sandhu,
Secretary, Dept. of Financial Services,
Ministry of Finance,
Government of India,
Jeevan Deep Building,
Parliament Street,
New Delhi – 110001.

Sir,

NOTE ON NBFCs

As you are aware, the Asset Financing NBFCs (NBFC-AFCs) registered with Reserve Bank of India have joined hands and formed a Self Regulatory Organization (SRO) under the name of **Finance Industry Development Council (FIDC).**

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 the poor states/credit starved areas for over 6 decades.

The objective of this note is to highlight the need for cash credit flow to the non corporate SME sector which contributes to roughly 50% of our GDP. The present scenario is outlined below:

1. Contribution of the unorganised sector of the Indian economy to its GDP is about 50% and the contribution to employment of this sector is about 90%, while the banking sector's credit supply to this critical sector is only around 5 %.

2. The consequences are:

   a. Interest rates at which this sector borrows ranges from 36% per annum to 360% per annum and above.
   b. High mortality rate for new enterprises, which impacts development of entrepreneurship leading to the growth slowing down.

3. Bank lending to this sector is coming down despite the Government putting pressure on commercial banks over the past 40 years ***(Please see Annexure 1).***

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4. NBFCs which were lending to this sector are being forced out of this activity by a continuous stream of regulatory measures ***(Please see Annexure 2).***

II. **What is the solution to the problem of credit starvation for this sector?**

a. Long term solution is the emergence of at least a thousand (1000) finance enterprises across the country managing funds of about Rs.1000 crores each, facilitating credit creation of Rs.10 lakh crores. To achieve this, the Government has to create a development agency for finance enterprises which should handle this responsibility of creating and nurturing finance enterprises across the country. If entrepreneurs are not encouraged and motivated to enter into the business of financing through incentives and a practical and supportive regulatory framework, this objective cannot be reached.

b. Short term solution should aim at encouraging the existing the small number of NBFCs, which are extending credit to this sector, to scale up their activities for which the Reserve Bank of India has to roll back their regulations for such NBFCs to what they were in the 1980s and till the early 1990s**.** **(*Please see Annexure 3*).**

We hope you will consider our suggestions favourably and take up the issues further.

We look forward to an **immediate positive response** and are confident that we are in the process of a long and beneficial relationship.

Thanking you,

Yours faithfully,
For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL