1. NBFCs can play a critical role in strengthening our SME ecosystem and contributing to economic development. Comment. Also, discuss the need to build a regulatory framework to address the challenges that NBFCs face.

Answer :

Over the past several decades, Non-Banking Financial Companies (NBFCs) have emerged as important financial intermediaries, particularly for the small-scale and retail sectors, in underserved areas and unbanked sectors.

- They complement the banking sector in providing credit to the unbanked segments of the society, especially to the micro, small and medium enterprises (MSMEs), which forms the backbone of entrepreneurship and innovation in the country.
- Better ground level understanding of the customers and their credit give NBFCs the edge, and also the ability to customize products as per their clients‟ needs.
- The distribution reach of many NBFCs has remain unmatched by banks in areas such as microfinance, used-vehicle financing or rural housing.
- NBFCs play a critical role by providing a fillip to transportation, employment generation, wealth creation, bank credit in rural segments and to support financially weaker sections of the society.
- They channelize the scarce financial resources to capital formation specifically in MSMEs.

This makes them an integral part of the Indian financial system playing a critical role in boosting the economy in the right direction. But, credit penetration of NBFCs‟ in India is at 13% of GDP, which is significantly low compared to other emerging economies, reflects that there are still few challenges that need to be addressed immediately such as:

- Dependency on competitors, banks and capital markets for raising funds which is detrimental to their growth, as funds from these sources can dry up without much notice.
- Lack of flexibility in classification of loans.
- Withdrawal of priority sector status of bank lending to NBFCs.
- Disparity in treatment in terms of taxation for NBFCs and Banks.
- Minimum mandatory credit rating for deposit taking NBFCs.

A strong regulatory framework from RBI is needed which allows opening up of refinance windows and credit insurance support to NBFCs not only to overcome above challenges but also help them raise low cost funds and increase their lending penetration. It also needs to consider the borrowers‟ profile and assets under classification to address the classification issue. Along with robust regulatory framework NBFCs need to become self-sufficient.

Recommendations of various committees such as A C Shah Committee, UshaThorat Committee, Nachiket Mor Committee on financial inclusion etc. also need to be looked into to bring lasting reforms in NBFCs.

PRACTICE QUESTIONS

Answer the following Questions

1. In the light of increasing NPAs and frauds, the twin balance sheet problem has grown immensely. Comment on the issue and analyse the potential of the Insolvency and Bankruptcy Code to be a game changer for Indian economy's health and long-term growth.

   (150 words)

2. Public Sector Enterprises formed the backbone of industrial development after independence, but with changing times, their role has also changed. Discuss. Also, comment on the need to adopt a multi-pronged strategy to deal with the issues that they are facing.

   (150 words)