

LENDING TO MSME SECTOR

Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 enacted in June 2006 classifies units as under:-

Category	Manufacture, processing or preservation of goods	Providing/rendering services **
Micro Enterprises	Investment in Plant & Machinery (original cost excl. land & building) not to exceed Rs. 25 Lakh.	Investments in equipments not to exceed Rs. 10 Lakh
Small Enterprises	Investment in Plant & Machinery (original cost excl. land & building) above Rs. 25 Lakh but not to exceed Rs. 5 crore.	Investments in equipments above Rs. 10 Lakh but does not exceed Rs. 2 crore.
Medium Enterprise	Investment in Plant & Machinery (original cost excl. land & building) above Rs.5 crore but not to exceed Rs.10 crore.	Investments in equipments above Rs 2 crore but not to exceed Rs. 5 crore.

**These will include small road & water transport operators, small business, retail trade, Professional & self-employed persons and other service enterprises

- Lending by banks to medium enterprises will not be considered for the purpose of reckoning of advances under the priority sector.
- No clubbing of investments of different enterprises set up by same person/company for the purpose of classification as Micro, Small and Medium enterprises,
- All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery will be covered under priority sector advances.

Indirect Finance

Lending to:-

- Persons involved in assisting the decentralized sector in the supply of inputs and Marketing of outputs of artisans, village and cottage industries;
- Cooperatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- Loans granted by banks to Micro Finance Institutions on, or after, April 1, 2011 For on-lending to micro and small enterprises (manufacturing as well as services); is considered as Indirect Finance under MSME.

Scheme of Small Enterprises Financial Centres (SEFCs)

The scheme refers for strategic alliance between branches of banks and SIDBI located in clusters named as “Small Enterprises Financial Centres”. This has been formulated in

consultation with Ministry of SSI and Banking Division, MOF, GOI, SIDBI, IBA and select banks. Under this scheme, SIDBI has so far executed MOU with 15 banks.

Targets

In order to ensure that sufficient credit is available to micro enterprises within the MSE sector, targets are fixed as under:-

Sector	Domestic Commercial Banks	Foreign Banks
Total Priority Sector Advances	40% of ANBC or credit equivalent amount of off-balance sheet exposure whichever is higher	32% of ANBC or credit equivalent amount of off-balance sheet exposure whichever is higher
Total advances to MSE sector	40% to micro (Mfg.) enterprises having investment in plant and machinery up to Rs. 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh.	10% of the Adjusted Net Bank Credit (ANBC) within the overall Priority Sector target of 32% to MSE sector.
Total advances to MSE sector	Further 20% to micro (Mfg.) enterprises with investment in plant and machinery above Rs. 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. In other words, 60 % of MSE advances should go to the micro enterprises.	--
Time frame for achievement	Targeted 60% of the MSE advances is to be achieved in stages viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13 (Prime Minister's Task Force)	20% year on year growth in credit to micro and small enterprises and a 10% annual growth in the number of MSE accounts.
Meeting the shortfall in priority sector lending , if any	Contributions towards RIDF or NABARD or funds with FIs as specified by RBI	Contribution towards funds to be set up with SIDBI or with FIs as may be stipulated by RBI

Common Guidelines / Instructions for Lending to MSME Sector

- All loan applications upto a credit limit of Rs. 25,000/- and upto Rs. 5 lakh should be disposed of within 2 and 4 weeks respectively provided the loan applications are complete in all respects.

- Not to accept collateral security in the case of loans upto Rs.10 lakh to units in the MSE sector. Banks to extend collateral-free loans upto Rs. 10 lakh to all units financed under the Prime Minister Employment Generation Programme of KVIC.
- A composite loan limit of Rs.1 crore can be sanctioned by banks to enable the MSE Entrepreneurs to avail of their working capital and term loan requirement through Single Window.
- Public sector banks to open at least one specialized branch in each district and to categorize their MSME general banking branches having 60% or more of their advances to MSME sector to specialized MSME branches. The existing specialized SSI branches also to be redesignated as MSME branches.

Delayed Payment

- As per MSMED Act 2006, the payments in respect of supplies made by MSE units should be received on or before the date agreed on between him and the supplier in writing or, in case of no agreement before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.
- In case of any failure to effect the payments, the buyer is liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.
- In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.
- Further, banks have been advised to fix sub-limits within the overall working capital limits to the large borrowers specifically for meeting the payment obligation in respect of purchases from MSMEs.

Rehabilitation of sick SSI (now MSE) units

- A unit is considered as sick when any of the borrowal account remains substandard for more than 6 months or there is erosion in the net worth due to accumulated cash losses to the extent of 50% of its net worth during the previous accounting year and the unit has been in commercial production for at least two years.
- Potentially viable sick units under the category can be considered for rehabilitation or put under 'Holding on operations' as also consider grant of relief and concessions for revival (Kohli Working Group recommendations)

- Concessional rate granted below the Base Rate for the purpose of viability and there are recompense, etc. such lending by SCBs shall not construed to be a violation of the Base Rate Guidelines.

State Level Inter Institutional Committee

- State Level Inter-Institutional Committees (SLIICs) have been set up in all the States to deal with the problems of co-ordination for rehabilitation of sick micro and small units. Quarterly meetings are being held at RBI, R.O. and presided by the Secretary, Industry of the concerned State Government to monitor the sanctions, implementation of special schemes, etc. A sub-committee of SLIIC looks into the problems of individual sick MSE unit and submits its recommendations to the forum of SLIIC for consideration.
- Besides SLIICs, an empowered Committee on MSMEs has been constituted to review the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units. The committees may decide the need to have similar committees at cluster/district levels.
- A debt restructuring mechanism for units in MSME sector for stepping up credit to viable and potentially viable small and medium enterprises has been formulated by DBOD, RBI and advised all commercial banks for corporate MSME upto Rs. 10 crore.
- Banks are required to put in place loan policies governing extension of credit facilities, Restructuring/Rehabilitation policy for revival of potentially viable sick units/enterprises and non- discretionary One Time Settlement scheme for recovery of non-performing loans for the MSE sector, with the approval of the Board of Directors (Working Group on Rehabilitation of Sick MSEs)

Cluster Approach

For focused development of small enterprises sector, 60 clusters have been identified by Ministry of MSME. As per Ganguly Committee recommendations banks have been advised that a full-service approach to cater to the diverse needs of the MSE sector may be achieved through extending banking services to recognized MSE clusters by adopting a 4-C approach namely, Customer focus, Cost control, Cross sell and Contain risk.

Banking Codes and Standard Board of India (BCSBI)

The Banking Codes and Standard Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the MSMED Act, 2006. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to-day operations and in times of financial difficulty. The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and banks will comply with such instructions /directions issued by the RBI from time to time.

Objectives

- Give a positive thrust to the MSE sector by providing easy access to efficient banking services.
- Promote good and fair banking practices by setting minimum standards in dealing with MSE.
- Increase transparency so that a better understanding of what can reasonably be expected of the services.
- Improve understanding of business through effective communication. Encourage market forces, through competition, to achieve higher operating standards.
- Promote a fair and cordial relationship between MSE and banks and also ensure timely and quick response to banking needs.
- Foster confidence in the banking system.

Committees on flow of credit to MSE sector

- a) High Level Committee on credit to S.S.I (now MSE) i.e. Kapoor Committee
- b) Committee to examine adequacy of credit to S.S.I. (now MSE) i.e. Nayak Committee
- c) Working Group on credit to S.S.I. (now MSE) i.e. Ganguly Committee
- d) Prime Minister's Task Force on MSME (Chairman: T.K.A. Nair)

- e) Working Group to review the Credit Guarantee Scheme for MSME (Chairman: V.K.Sharma). The Group has recommended, among others, doubling of the limit for collateral free loans to micro and small enterprises (MSEs) sector from Rs.5 lakh to Rs.10 lakh which has been accepted by RBI and advised to banks accordingly.

SOURCE: RBI M. CIRCULAR

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