भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2008-09/467
RPCD. SME&NFS. BC.No.**102**/06.04.01/2008-09 May 4, 2009

All Scheduled Commercial Banks

Dear Sir / Madam,

Credit delivery to the Micro and Small Enterprises Sector

In recognition of the problems being faced by the Micro and Small Enterprises (MSE) sector, particularly with respect to rehabilitation of potentially viable sick units, the Reserve Bank had constituted a Working Group under the Chairmanship of Dr. K. C. Chakrabarty, Chairman & Managing Director, Punjab National Bank.

2. The aforesaid Group submitted its report to Reserve Bank of India in April 2008, covering comprehensively the entire gamut of issues and problems (credit and non-credit related) confronting the sector. The Reserve Bank placed the report on its website and invited comments from all stake holders. The responses and comments on the report have been carefully examined.

3. The recommendations made by the Group need to be considered by Government of India, State Governments and commercial banks (Annexes I to III respectively). The recommendations relating to Government of India have been forwarded to them for consideration and necessary action. The recommendations relating to the State Governments have been forwarded to the SLBC Convenor banks for taking up the issue in the SLBC meetings. Other recommendations pertaining to SIDBI have been sent to them.

4. Several recommendations have been made regarding the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) Scheme. These recommendations will be considered by the Standing Advisory Committee on Flow of Institutional Credit to MSEs, in terms of paragraph 114 of the Annual Policy for 2009-10.

5. The Group has addressed problems being faced by the sector in getting adequate and timely credit. It has also made recommendations not only for timely detection and remedial action with respect to incipient sickness, but also rehabilitation of sick units which can be revived.

6. You are advised to consider, for speedy implementation, the recommendations made by the Working Group set out in **Annex III** with regard to timely and adequate flow of credit to the MSE sector.

7. The Reserve Bank has carefully considered the Group's recommendations regarding rehabilitation of potentially viable sick MSE units/enterprises, which essentially aim at timely detection of sickness and adoption of remedial measures to rehabilitate the potentially viable ones. While fully appreciating the sense of the Group's recommendations, attention of banks is invited to the guidelines issued by the Reserve Bank on MSE debt restructuring in respect of borrowal accounts that show symptoms of stickiness, vide its circulars:

i. DBOD.BP.BC. No.34/21.04.132/2005-06 dated September 8, 2005
ii. DBOD.BP.BC.No.37/21.04.132/2008-09 dated August 27, 2008

These guidelines, in fact, subsume the incipient sickness stage and, if implemented as intended, could significantly prevent or arrest sickness at the initial stages. Such MSE units/enterprises, which turn sick in spite of debt re-structuring are expected to be few and would fall within the ambit of the extant guidelines on rehabilitation of potentially viable sick units/enterprises (vide circular RPCD.No.PLNFS.BC.57/06.04.01/2001-2002 dated January 16, 2002). Banks are, therefore, advised to apply the Reserve Bank's guidelines on debt restructuring optimally and in letter and spirit. This would be to their advantage as well as their MSE clients.

8. The Group has also recommended that Reserve Bank of India may announce a One Time Settlement Scheme (OTS) for the MSME sector. However, any policy on settlement of non-performing loans is essentially a management function to be exercised by individual banks, based on their commercial judgment. It is necessary that the banks have their own non discretionary OTS policy which enables their officials to make quick and judicious decisions on OTS. As such, banks are advised to put in place a suitable OTS for this sector.

9. Accordingly, in the light of the recommendations of the Group and the Banking Codes Standards Board of India's Code of Commitment for the MSE borrowers, your bank may undertake a review and put in place the following policies for the MSE sector, duly approved by the Board of Directors:

i. Loan policy governing extension of credit facilities
ii. Restructuring/Rehabilitation policy for revival of potentially viable sick units/enterprises.
iii. Non-discretionary One Time Settlement scheme for recovery of non-performing loans.

10. Please acknowledge receipt and forward an Action Taken Report by June 30, 2009.

Yours faithfully,

(B.P. Vijayendra)
Chief General Manager

Encl.: Annex - I to III

ANNEX-I

Sr. No.	Actions pertaining to GOI
1.	As it has been observed that rehabilitation of sick SMEs could not be taken up due to non availability of promoters' contribution in a large number of cases the Group recommends that the Government may create the following Funds to facilitate this sector **:** **i.** An independent Rehabilitation Fund may be created for rehabilitation of sick micro, small and medium enterprises. The fund may have a corpus of Rs 1000 crores. While 75% of the corpus could be earmarked for assisting the micro and small enterprises, balance could be utilized for assisting medium enterprises. The fund could go a long way in rehabilitation of sick micro and small enterprises. This fund may be utilized for providing soft loan at a concessional rate of interest, say 5-6% / quasi equity upto 50% of the required promoters' contribution subject to a maximum of Rs 75 lacs. **(Para 3.21 e (i))** **ii.** another fund may be created for contributing to the margin required to be brought in by the promoters of units taking up technological upgradation. This assistance may be provided in the form of a soft loan/ quasi equity/ equity. **(Para 3.21 e (ii))** **iii.** In order to encourage MSME units to market their products it will be desirable to set up a Marketing Development Fund which could interalia be used for providing financial assistance in setting up distribution and marketing infrastructure/ outlets. This can also contribute resources to institutions organising exhibitions etc at various level. (**Para 3.21 e (iii)** **iv**. National Equity Fund Scheme should be restarted. This fund could be utilized for green field or expansion projects. **(Para 3.21 e (iv)** **v.** In order to encourage the entrepreneurs to innovate new ideas, it is necessary that venture capital/ mezzanine finance should be encouraged. There should be a separate fund with the umbrella organisation (suggested in the report)/ SIDBI which should help venture capital funds in meeting the finance requirements of small enterprises by way of equity/ mezzanine finance/ soft loan etc. **(Para 3.21 e (v))** **vi.** Support of schemes like Credit Linked Capital Subsidy Scheme (for units in other than rural areas) and KVIC Margin Money Scheme (for units in rural areas) may be extended for rehabilitation packages also. **(Para 3.21 e (vi))**
2.	Recognising their contribution of State Financial Corporations to industrialization of the respective regions and having regard to the potential of these

Sr. No.	Actions pertaining to GOI
	Corporations, GOI may direct the respective State Governments to provide a one time financial support for recapitalization of viable SFCs. Those SFCs which are found unviable may be allowed to wind up their operations and the State Governments should settle the creditors/lenders. (**Para 3.22)**
3.	There is little availability of funds with the promoters for technological upgradation. Department of Science and Technology which is actively working for development of new technologies for the small and large industry, may also consider adaptation of technology developed in other countries to the needs of Indian MSME sector for making the sector more cost effective and dovetailed to the requirements of the customer. (**Para 5.4.2)**
4.	It is necessary that all stakeholders extend financial support to Engineering Colleges/IITs for undertaking research for technological upgradation in micro, small and medium enterprises. In order to encourage R&D towards upgradation of technology for micro, small and medium enterprise units, the Group propose that section 10 (21) of Income Tax Act may be amended to allow 150% deduction for contribution made towards funding of R&D work in Engineering Institutes. **(Para 5.4.3)**
5.	Government should introduce industry specific interest subsidy scheme for SMEs on the pattern of TUFS for technology upgradation and for setting up new units with latest technology. However, latest technology which may be covered in each industry has to be specified by the Ministry. **(Para 5.4.4)**
6.	The Government may set up more ITIs, Tool room training centres etc for training of the workforce on the latest technology, especially in the command areas of the user industry. **(Para 5.4.5).**

ANNEX-II

Sr.No	Action pertaining to State Government/ SLBC Convener banks
1	Creation of a Central Registry by the State Governments for registration of charges of all banks and other lending institutions in respect of all moveable and immovable properties of borrowers incorporated as proprietorship, partnership, cooperative society, trust, company or in any other form. **(Para 3.20d)**
2	Stamp duty is payable on assignment of actionable claims. Modification in these provisions for factors by way of exemption or prescribing a ceiling on the stamp duty would give impetus to the activity. (**Para 3.21 b)**
3.	A scheme for utilising specified NGOs to provide training services to tiny micro enterprises may be considered **(Para 4.10).**
4.	Each State Government may also have a separate Ministry for MSME. In addition, the State Governments may also have long term and short term policy for development/ promotion of MSME sector **(Para 5.9).**
5.	State Government should provide preferential treatment to MSMEs in providing uninterrupted power supply. In case the same is not possible, the State Government may provide back ended subsidy on loans taken for purchase of DG sets. **(Para 5.11).**
6.	The State Governments may be encouraged to provide land at 50% of the normal rate for setting up Industrial Estates exclusively for MSMEs. Further, 50% subsidy may be provided on the capital cost of common facilities like effluent treatment plant, power plant etc. **(Para 7.9)**
7.	The need for obtaining any clearance except registration with DIC for individual SME units set up in Industrial Estates developed by the State Industrial Development Corporations or DICs or approved Industrial Estates developed by private entrepreneurs for SMEs may not be considered necessary as they are developed as per the approved layouts. Further the defunct Industrial Estates may be made active once again by putting in place the complete infrastructure putting national resources to good use.(**Para 7.10)**
8.	The niche industry or the activities having good concentration in the area may be identified by the banks and DIC. The model cost of project for different sizes of commonly prevailing industry and overall viability of the activity may be assessed by a Committee comprising of 2-3 major banks of the District under the aegis of Lead Bank so as to obviate the need of any expert/professional to prepare TEV study in individual cases. The exercise may be carried out periodically after considering the price of machinery and other fixed assets required, sources of raw material, technical expertise and skilled labour availability, access to market etc. DIC may also be associated with the process. Small entrepreneurs may use these project profiles and not take help from professionals in preparation of time consuming and costly TEV study/viability report. While financing banks may not go for TEV study in individual cases. To begin with this practice may be started for projects requiring terms loan upto 1 crore which may be raised after review. **(para 3.6.1)**

Annex III

	Action pertaining to banks
1.	The model cost of project for different sizes of commonly prevailing industry and overall viability of the activity may be assessed by a Committee comprising of 2-3 major banks of the District under the aegis of Lead Bank so as to obviate the need of any expert/professional to prepare TEV study in individual cases. The exercise may be carried out periodically after considering the price of machinery and other fixed assets required, sources of raw material, technical expertise and skilled labour availability, access to market etc. DIC may also be associated with the process. Small entrepreneurs may use these project profiles and not take help from professionals in preparation of time consuming and costly TEV study/viability report. Sufficient delegation of powers for sanction/rehabilitation of SMEs should be made at the field level. **(Para 3.6.1)** Lead Banks may take necessary action.
2.	Lending in case of all advances upto Rs 2 crores may be done on the basis of scoring model. Information required for scoring model should be incorporated in the application form itself. No individual risk rating is required in such cases. **(Para 3.6.3 a)**
3.	Banks may start Central Registration of loan applications. The same technology may be used for online submission of loan applications as also for online tracking of loan applications. **(Para 3.6.3 b)**
4.	The application forms, may be so designed that all documents required to be executed by the borrower on sanction of the loan form its part. The forms should invariably have a Checklist of the documents required to be submitted by the applicant along with the application and the formalities required to be completed, post sanction. **(Para 3.6.3 c)**
5.	In case of all micro enterprises, simplified application cum sanction form (which should also be printed in regional language) be introduced for loans upto Rs 1 crore and working capital under Nayak Committee norms. **(Para 3.6.3 d)**
6.	Banks who have sanctioned term loan singly or jointly must also sanction WC limit singly (or jointly, in the ratio of term loan) to avoid delay in commencement of commercial production. It may be ensured that there are no cases where term loan has been sanctioned and working capital facilities are yet to be sanctioned. **(Para 3.8)**
7.	Centralised Credit Processing Cells may be introduced. These Cells may be utilized for single point appraisal, sanction, documentation, renewal and enhancement. The working of Centralised Processing Cell should be

	Action pertaining to banks
	reviewed by the controlling office of the bank. CPC should act as the back office of the bank. **(Para 3.9)**
8.	Committee Approach may be introduced for sanction of new loans as also rehabilitation cases. This will not only improve the quality of decision as collective wisdom of the members shall be utilised, especially while taking decision on loan applications for green-field projects in the micro, small and medium enterprise sector or the rehabilitation proposals. (**Para 3.10)**
9.	The banks may consider a combined level of stock and receivables and no separate sub limit for debtors may be fixed. Banks may allow CC/OD against stock and receivables under one facility. (**Para 3.14)**
10.	In terms of the Nayak Committee norms, the banks are required to provide minimum 20% of the turnover to the business enterprises as bank finance and 5% is to be obtained as margin. This translates into a current ratio of 1.25. **(Para 3.15)**
11.	Banks may develop appropriate Credit Appraisal and Rating Tool (CART) on the pattern of software developed by SIDBI or can take the help of such tools for processing the loan/working capital proposals of small and medium enterprises. **(Para 3.19)**
12.	The banks may focus on opening more specialised micro, small and medium enterprise branches. The expansion of specialised branch network in all identified clusters and Industrial Estates may be completed in a time bound manner say within next 3-5 years. **(Para 3.20 b)**
13.	The banks may use the platform provided by the technical institutions and send their staff to such institutions on a regular basis. Training is also required to be imparted to the branch managers and their loan officers for change in their mindset away from the perceived risk in financing MSMEs. A system of incentives for good performance in financing to MSMEs may be implemented, which could be by way of special mention in the Performance Appraisal, special training etc. **(Para 3.20 a)**
14.	Banks may consider introduction of Factoring Services, particularly for MSMEs **(Para 3.21 b)**
15.	Intervention of technology may be adopted for correct identification and reporting of sick micro, small and medium enterprises (**Para 9.19)**