Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector

Master Direction – Reserve Bank of India [Lending to Micro, Small & Medium Enterprises (MSME) Sector] - Directions, 2016

In exercise of the powers conferred by Sections 21 and 35 A of the Banking Regulation Act, 1949, the Reserve Bank of India, issued the following updated Directions.

CHAPTER – I

PRELIMINARY

1.1 Short Title and Commencement

Directions are called the "Reserve Bank of India [Lending to Micro, Small & Medium Enterprises (MSME) Sector] Directions, 2016" and shall come into effect on the day they are placed on the official website of RBI.

1.2 Applicability

These Directions are applicable to all Scheduled Commercial Bank but excluding RRBs.

1.3 Definitions/ Clarifications

(a) The "**MSMED Act, 2006**" means 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006' as notified by the Government of India on June 16, 2006 and the amendments thereafter, if any, by the Government of India.

(b) '**Micro, Small and Medium Enterprises'** mean the enterprises as defined in the MSMED Act, 2006 and the amendments, if any, from time to time.

(c) '**Manufacturing'** and '**Service' Enterprises** mean the enterprises as defined in the MSMED Act, 2006 or as notified by the Government of India, Ministry of MSME under the MSMED Act, 2006 from time to time.

(d) '**Priority Sector'** means the sectors as defined in Master Direction - Reserve Bank of India (Priority Sector Lending –Targets and Classification) Directions, 2016 dated July 7, 2016 or as modified from time to time.

(e) '**Adjusted Net Bank Credit (ANBC)'** would mean Adjusted Net Bank Credit (ANBC) as defined in Master Direction - Reserve Bank of India (Priority Sector Lending –Targets and Classification) Directions, 2016 dated July 7, 2016 or as modified from time to time.

CHAPTER – II

2 Micro, Small & Medium Enterprises Development (MSMED) Act, 2006

The Government of India (GOI) has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 and notified the same vide Gazette Notification dated June 16, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the services sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services.

2.1 Definition of Micro, Small and Medium Enterprises

(a) Manufacturing Enterprises would mean enterprises engaged in the manufacture or production of goods as specified below:

(i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

(ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

(iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006 (Annex I).

(b) Service Enterprises i.e. Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) as specified below:

(i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

(ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and

(iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

2.2 Priority Sector Guidelines for MSME sector

In terms of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 on 'Priority Sector Lending - Targets and Classification', bank loans to Micro, Small and Medium Enterprises, for both Manufacturing and Service sectors are eligible to be classified under the Priority Sector as per the following norms:

2.2.1 Manufacturing Enterprises

The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The Manufacturing Enterprises are defined in terms of investment in plant and machinery.

2.2.2 Service Enterprises

Bank loans up to Rs.5 crore per borrower / unit to Micro and Small Enterprises and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

2.3 Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.

2.4 Bank loans to food and agro processing units shall form part of agriculture.

2.5 Other Finance to MSMEs

(i) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

(ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.

(iii) Loans sanctioned by banks to MFIs for on-lending to MSME sector as per the conditions specified in the extant Master Direction on 'Priority Sector Lending - Targets and Classification'.

(iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

(v) Overdrafts extended by banks after April 8, 2015 up to Rs.5,000/- under Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts provided the borrower's household annual income does not exceed Rs.100,000/- for rural areas and Rs.1,60,000/- for non-rural areas. These overdrafts will qualify as achievement of the target for lending to Micro Enterprises.

(vi) Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

2.6 MSME units shall continue to enjoy the priority sector lending status up to three years even after they grow out of the MSME category concerned.

2.7 Since the MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by same person / company for the purpose of classification as Micro, Small and Medium enterprises, the Gazette Notification No. S.O.2 (E) dated January 1, 1993 on clubbing of investments of two or more enterprises under the same ownership for the purpose of classification of industrial undertakings as SSI has been rescinded vide GOI Notification No. S.O. 563 (E) dated February 27, 2009.

CHAPTER - III

3 Targets / sub-targets for lending to Micro, Small and Medium Enterprises (MSME) sector by Domestic Commercial Banks and Foreign Banks operating in India

3.1 Advances to MSME sector shall be reckoned in computing achievement under the overall Priority Sector target of 40 percent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, as per the extant guidelines on priority sector lending.

3.2 Domestic Commercial Banks are required to achieve a sub-target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for lending to Micro Enterprises **by March 2017**. The sub-target for Micro Enterprises for foreign banks with 20 branches and above operating in India would be made applicable post 2018 after a review in 2017. However, this sub-target for lending to Micro Enterprises is not applicable to foreign banks with less than 20 branches operating in India.

3.3 Bank loans above Rs.5 crore per borrower / unit to Micro and Small Enterprises and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, shall **not** be reckoned in computing achievement under the overall Priority Sector targets as above. However, bank loans above Rs.5 crore per borrower / unit to Micro and Small Enterprises would be taken into account while assessing the performance of the banks with regard to their achievement of targets prescribed by the Prime Minister's Task Force on MSMEs for lending to MSE sector.

3.4 In terms of the recommendations of the Prime Minister's Task Force on MSMEs, banks are advised to achieve:

i. 20 per cent year-on-year growth in credit to micro and small enterprises,

ii. 10 per cent annual growth in the number of micro enterprise accounts and

iii. 60% of total lending to MSE sector as on preceding March 31st to Micro enterprises

CHAPTER - IV

4 Common guidelines / instructions for lending to MSME sector

4.1 Issue of Acknowledgement of Loan Applications to MSME borrowers

Banks to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers and ensure to record running serial number on the application form and the acknowledgement receipt. Banks to put in place a system of Central Registration of loan applications, online submission of loan applications and a system of e-tracking of MSE loan applications.

4.2 Collateral

Banks not to accept collateral security for the loans up to Rs.10 lakh to units in the MSE sector. Banks to extend collateral-free loans up to Rs. 10 lakh to all units financed under the Prime Minister Employment Generation Programme (PMEGP) administered by KVIC.

Banks may increase the limit to dispense with the collateral requirement for loans up to Rs.25 lakh (with the approval of the appropriate authority), on the basis of good track record and financial position of the MSE units.

Banks to encourage their branch level functionaries to avail of the Credit Guarantee Scheme cover, including making performance in this regard a criterion in the evaluation of their field staff.

4.3 Composite loan

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.

4.4 Revised General Credit Card (GCC) Scheme

GCC guidelines were revised on December 2, 2013, in order to enhance the coverage of GCC Scheme to ensure greater credit linkage for all productive activities within the overall Priority Sector guidelines and to capture all credit extended by banks to individuals for non-farm entrepreneurial activity.

4.5 Credit Linked Capital Subsidy Scheme (CLSS)

GOI, Ministry of MSME had launched Credit Linked Capital Subsidy Scheme (CLSS) for Technology Upgradation of Micro and Small Enterprises subject to the following terms and conditions:

(i) Ceiling on the loan under the scheme is Rs.1 crore.

(ii) The rate of subsidy is 15% for all units of micro and small enterprises up to loan ceiling at Sr. No. (i) above.

(iii) Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery instead of term loan disbursed to the beneficiary unit.

(iv) SIDBI and NABARD will continue to be implementing agencies of the scheme.

4.6 Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle':

In order to provide timely financial support to Micro and Small enterprises facing financial difficulties during their 'Life Cycle', guidelines were issued to banks vide our circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015 on the captioned subject. Banks are advised to review and tune their existing lending policies to the MSE sector by incorporating therein the following provisions so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances:

i) To extend standby credit facility in case of term loans

ii) Additional working capital to meet with emergent needs of MSE units

iii) Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSMEs, every year based on the actual sales of the previous year.

iv) Timelines for Credit Decisions

4.7 Debt Restructuring Mechanism for MSMEs

(i) All scheduled commercial banks are advised to follow the guidelines / instructions pertaining to SME Debt Restructuring, as contained in circular DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015 on 'Master Circular - Prudential norms on Income Recognition, Asset Classification (IRAC) and Provisioning pertaining to Advances' and as updated from time to time.

(ii) In the light of the recommendations of the Working Group on Rehabilitation of Sick MSEs (Chairman: Dr. K.C. Chakrabarty), all commercial banks are advised vide our circular RPCD. SME &NFS.BC.No.102/06.04.01/2008-09 dated May 4, 2009 to:

(a) put in place loan policies governing extension of credit facilities, Restructuring/Rehabilitation policy for revival of potentially viable sick units / enterprises (now read with guidelines on Framework for Revival and Rehabilitation of MSMEs issued on March 17, 2016) and non- discretionary One Time Settlement scheme (OTS) for recovery of non-performing loans for the MSE sector, with the approval of the Board of Directors and

(b) implement recommendations with regard to timely and adequate flow of credit to the MSE sector.

(iii) Banks to give wide publicity to the OTS Scheme implemented by them, through their website and other possible modes of dissemination. They may allow reasonable time to the borrowers to submit the application and also make payment of the dues in order to extend the benefits of the scheme to eligible borrowers.

4.8 Framework for Revival and Rehabilitation of MSMEs

The Ministry of MSME, GOI, vide their Gazette Notification dated May 29, 2015 had notified a 'Framework for Revival and Rehabilitation of MSME' to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs. The RBI was advised to issue necessary instructions to banks for effective implementation and monitoring of the said Framework. After carrying out certain changes in the captioned Framework in consultation with the GOI, Ministry of MSME so as to make it compatible with the existing regulatory guidelines on 'IRAC and provisioning pertaining to Advances' issued to banks by RBI, the guidelines on the captioned Framework along with operating instructions were issued to banks on March 17, 2016. The revival and rehabilitation of MSME units having loan limits up to Rs.25 crore would be undertaken under this Framework. Banks were required to put in place their own Board approved policy to operationalize the Framework not later than June 30, 2016. The revised Framework supersedes our earlier Guidelines on Rehabilitation of Sick Micro and Small Enterprises issued vide our circular RPCD. CO. MSME & NFS.BC.40/06.02.31/2012-2013 dated November 1, 2012, except those relating to Reliefs and Concessions for Rehabilitation of Potentially Viable Units and One Time Settlement, mentioned in the said circular.

The salient features are as under:

i) Before a loan account of an MSME turns into a NPA, banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Framework
ii) Any MSME borrower may also voluntarily initiate proceedings under this Framework
iii) Committee approach to be adopted for deciding corrective action plan
iv) Time lines have been fixed for taking various decisions under the Framework

4.9 Structured Mechanism for monitoring the credit growth to the MSE sector

In view of the concerns emerging from the deceleration in credit growth to the MSE sector, an IBA-led Sub-Committee (Chairman: Shri K.R. Kamath) was set up to suggest a structured mechanism to be put in place by banks to monitor the entire gamut of credit related issues pertaining to the sector. Based on the recommendations of the Committee, banks are advised to:

- strengthen their existing systems of monitoring credit growth to the sector and put in place a system-driven comprehensive performance MIS at every supervisory level (branch, region, zone, head office) which should be critically evaluated on a regular basis;
- put in place a system of e-tracking of MSE loan applications and monitor the loan application disposal process in banks, giving branch-wise, region-wise, zone-wise and State-wise positions and to be displayed on their websites; and

- monitor timely rehabilitation of sick MSE units with the progress in rehabilitation of sick MSE units to be displayed on their websites.

Detailed guidelines were issued to the scheduled commercial banks vide our circular RPCD. MSME&NFS.BC.No.74/06.02.31/2012-13 dated May 9, 2013.

Chapter - V

5 Institutional arrangements

5.1 Specialised MSME branches

Public sector banks (PSB) are advised to open at least **one specialised branch in each district**. Further, banks have been permitted to categorise their general banking branches having 60% or more of their advances to MSME sector as **specialized MSME branches** in order to encourage them to open more specialised MSME branches for providing better service to this sector as a whole. As per the policy package announced by the GOI for stepping up credit to MSME sector, the PSBs would ensure specialized **MSME branches in identified clusters/centres** with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise. The **existing specialised SSI branches**, if any, may also be **re-designated as MSME branches**. Though their core competence will be utilized for extending finance and other services to MSME sector, they will have operational flexibility to extend finance/render other services to other sectors/borrowers. Banks may take care to **train the officials** posted in such branches appropriately.

5.2 State Level Inter Institutional Committee (SLIIC)

In order to deal with the problems of co-ordination for rehabilitation of sick micro and small units, State Level Inter-Institutional Committees were set up in the States. However, the matter of continuation or otherwise, of the SLIIC Forum has been left to the individual States / Union Territory. The meetings of these Committees are convened by Regional Offices of RBI and presided over by the Secretary, MSME or Industry of the concerned State Government. It provides a useful forum for adequate interfacing between the State Government Officials and State Level Institutions on the one side and the term lending institutions and banks on the other. It closely monitors timely sanction of working capital to units which have been provided term loans by SFCs, implementation of special schemes such as Margin Money Scheme of State Government and reviews general problems faced by industries and sickness in MSE sector based on the data furnished by banks. Among others, the representatives of the local state level MSE associations are invited to the meetings of SLIIC which are held quarterly.

5.3 Empowered Committee on MSMEs

As part of the announcement made by the Union Finance Minister, at the Regional Offices of RBI, Empowered Committees on MSMEs are constituted under the Chairmanship of the Regional Directors with the representatives of SLBC Convenor, senior level officers from two banks having predominant share in MSME financing in the state, representative of SIDBI Regional Office, the Director of MSME or Industries of the State Government, one or two senior level representatives from the MSME Associations in the state, and a senior level officer from SFC/SIDC as members. The Committee would meet periodically and review the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units. It would also coordinate with other banks/financial institutions and the state government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector. The committees may decide the need to have similar committees at cluster/district levels.

5.4 Banking Codes and Standards Board of India (BCSBI)

The Banking Codes and Standards 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 Micro Small and Medium Enterprises Development (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 also mentions, inter alia, that the banks are expected to dispose of MSE loan application for a credit limit or enhancement in the existing credit limit up to Rs.5 lakh within two weeks; and for credit limit above Rs.5 lakh and up to Rs.25 lakh within 3 weeks; and for credit limit above Rs.25 lakh within 6 weeks from the date of receipt, provided the application is complete in all respects and is accompanied by documents as per ‘check list’ provided.

While banks may voluntarily adhere to such time limits in the Code, every effort should be taken to reduce further the time taken to process and dispose of MSE loan applications.

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.

5.4.1 Objectives of the BCSBI Code

The Code is developed to:

(a) Give a positive thrust to the MSE sector by providing easy access to efficient banking services.

(b) Promote good and fair banking practices by setting minimum standards in dealing with MSE.

(c) Increase transparency so that a better understanding of what can reasonably be expected of the services.

(d) Improve understanding of business through effective communication.

(e) Encourage market forces, through competition, to achieve higher operating standards.

(f) Promote a fair and cordial relationship between MSE and banks and also ensure timely and quick response to banking needs.

(g) Foster confidence in the banking system.

The complete text of the Code is available at the BCSBI's website (www.bcsbi.org.in)

5.5 MSME Sector – The imperative of Financial Literacy and consultancy support

Keeping in view the high extent of financial exclusion in the MSME sector, it is imperative for banks that the excluded units are brought within the fold of the formal banking sector. The lack of financial literacy, operational skills, including accounting and finance, business planning etc. represent formidable challenge for MSE borrowers underscoring the need for facilitation by banks in these critical financial areas. Moreover, MSE enterprises are further handicapped in this regard by absence of scale and size. To effectively and decisively address these handicaps, Scheduled commercial banks were advised vide our circular RPCD.MSME & NFS.BC.No.20/06.02.31/2012-13 dated August 1, 2012 that they could either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centres (FLCs) set up by them, as per their comparative advantage. The bank staff should also be trained through customised training programs to meet the specific needs of the sector.

5.6 Cluster Approach

All SLBC Convenor banks are advised to incorporate in their Annual Credit Plans, the credit requirement in the clusters identified by the Ministry of Micro, Small and Medium Enterprises, Government of India. They are also encouraged to extend banking services in such clusters / agglomerations which have come up and identified subsequently by SLBC / DCC members.

(i) As per Ganguly Committee recommendations (September 4, 2004), banks are advised that a full-service approach to cater to the diverse needs of the SSI sector (now 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. A cluster based approach to lending may be more beneficial:
  (a) in dealing with well-defined and recognized groups;
  (b) availability of appropriate information for risk assessment and
  (c) monitoring by the lending institutions.

Clusters may be identified based on factors such as trade record, competitiveness and growth prospects and/or other cluster specific data.

(ii) All SLBC Convenor banks were advised vide letter RPCD.PLNFS.No.10416/06.02.31/ 2006-07 dated May 8, 2007 to review their institutional arrangements for delivering credit to the MSME sector, especially in 388 clusters identified by United Nations Industrial Development Organisation (UNIDO) spread over 21 states in various parts of the country. A list of SME clusters as identified by UNIDO has been furnished in Annex II.

(iii) The Ministry of Micro, Small and Medium Enterprises has approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 Minority Concentration Districts. Accordingly, appropriate measures have been taken to improve the credit flow to the identified clusters of micro and small entrepreneurs from the Minority Communities residing in the minority concentrated districts of the country.

(iv) In terms of recommendations of the Prime Minister's Task Force on MSMEs banks should open more MSE focused branch offices at different MSE clusters which can also act as Counselling Centres for MSEs. Each lead bank of a district may adopt at least one MSE cluster.

5.7 Delayed Payment

In the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, the provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened as under:

(i) The buyer has to make payment to the supplier on or before the date agreed upon between him and the supplier in writing or, in case of no agreement, before the appointed day. The period agreed upon between the supplier and the buyer shall not exceed forty five days from the date of acceptance or the day of deemed acceptance.

(ii) (ii) In case the buyer fails to make payment of the amount to the supplier, he shall be 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.

(iii) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.

(iv) 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 are 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.

CHAPTER - VI

6 Committees on flow of Credit to MSE sector

6.1 Report of the High Level Committee on Credit to SSI (now MSE) (Kapur Committee)

RBI had appointed a one-man High Level Committee (June 30, 1998) headed by Shri S L Kapur, (IAS, Retd.), Former Secretary, GOI, Ministry of Industry to suggest measures for improving the delivery system and simplification of procedures for credit to SSI sector. The Committee made 126 recommendations covering wide range of areas pertaining to financing of SSI sector. These recommendations were examined by the RBI and it was decided to accept 88 recommendations which include the following important recommendations:

(i) Delegation of more powers to branch managers to grant ad-hoc limits;

(ii) Simplification of application forms;

(iii) Freedom to banks to decide their own norms for assessment of credit requirements;

(iv) Opening of more specialised SSI branches;

(v) Enhancement in the limit for composite loans to Rs. 5 lakh. (since enhanced to Rs.1 crore);

(vi) Banks to pay more attention to the backward states;

(vii) Special programmes for training branch managers for appraising small projects;

(viii) Banks to make customers grievance machinery more transparent and simplify the procedures for handling complaints and monitoring thereof.

All scheduled commercial banks were advised vide our circular was RPCD.No.PLNFS.BC.22 /06.02.31/98-99 dated August 28, 1998 to implement the Kapur Committee Recommendations.

6.2 Report of the Committee to Examine the Adequacy of Institutional Credit to SSI Sector (now MSE) and Related Aspects (Nayak Committee)

The Committee was constituted by RBI in December 1991 under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor to examine the issues confronting SSIs (now MSE) in the matter of obtaining finance. The Committee submitted its report in 1992. All the major recommendations of the Committee have been accepted and the banks have been, inter-alia, advised to:

(i) give preference to village industries, tiny industries and other small scale units in that order, while meeting the credit requirements of the small scale sector;

(ii) grant working capital credit limits to SSI (now MSE) units computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is upto Rs.2 crore [since raised to Rs.5 crore];

(iii) ensure that there should not be any delay in sanctioning and disbursal of credit. In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities should be made;

(iv) not to insist on compulsory deposit as a `quid pro-quo' for sanctioning the credit;

(v) open specialised SSI (now MSE) bank branches or convert those branches which have a fairly large number of SSI (now MSE) borrowal accounts, into specialised SSI (now MSE) branches;

(vi) standardise loan application forms for SSI (now MSE) borrowers; and

(vii) impart training to staff working at specialised branches to bring about attitudinal change in them.

All scheduled commercial banks were advised vide our circular was RPCD.PLNFS/BC.No.61/06.0262/2000-01 dated March 2, 2001 to implement the Nayak Committee Recommendations.

6.3 Report of the Working Group on Flow of Credit to SSI (now MSE) Sector (Ganguly Committee)

As per the announcement made by the Governor, Reserve Bank of India, in the Mid-Term Review of the Monetary and Credit Policy 2003-2004, a "Working Group on Flow of Credit to SSI sector" was constituted under the Chairmanship of Dr. A S Ganguly.

The Committee made 31 recommendations covering wide range of areas pertaining to financing of SSI sector. The recommendations pertaining to RBI and banks have been examined and RBI has accepted 8 recommendations so far and communicated to banks for implementation vide circular RPCD.PLNFS.BC.28/06.02.31(WG)/2004-05 dated September 4, 2004 which are as under:

(i) adoption of cluster based approach for financing MSME sector;

(ii) sponsoring specific projects as well as widely publicising successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs;

(iii) sanctioning of higher working capital limits by banks operating in the North East region to SSIs (now MSE) , based on their commercial judgment due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system;

(iv) exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs

6.4 Working Group on Rehabilitation of Sick SMEs (Chairman: Dr. K.C. Chakrabarty)

In the light of the recommendations of the Working Group on Rehabilitation of Sick MSEs (Chairman: Dr. K.C. Chakrabarty, the then CMD of Punjab National Bank), all commercial banks were advised vide our circular RPCD. SME & NFS.BC.No.102/06.04.01/2008-09 dated May 4, 2009 to:

a) 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 and
b) implement the recommendations with regard to timely and adequate flow of credit to the MSE sector as detailed in the aforesaid circular.

Banks were also advised vide above circular dated May 4, 2009 to consider implementation of the recommendations, inter alia, that lending in case of all advances upto Rs 2 crores may be done on the basis of scoring model. Banks have further been advised vide circular DBOD. Dir. BC.No.106/13.03.00/2013-14 dated April 15, 2014 to undertake a review of their loan policy governing extension of credit facilities to the MSE sector, with a view to using Board approved credit scoring models in their evaluation of the loan proposals of MSE borrowers.

6.5 Prime Minister's Task Force on Micro, Small and Medium Enterprises

A High Level Task Force was constituted by the GOI (Chairman: Shri T K A Nair), in January 2010, to consider various issues raised by Micro, Small and Medium Enterprises (MSMEs). The Task Force recommended several measures having a bearing on the functioning of MSMEs, viz., credit, marketing, labour, exit policy, infrastructure/technology/skill development and taxation. The comprehensive recommendations cover measures that need immediate action as well as medium term institutional measures along with legal and regulatory structures and recommendations for North-Eastern States and Jammu & Kashmir.

Banks are urged to keep in view the recommendations made by the Task Force and take effective steps to increase the flow of credit to the MSE sector, particularly to the micro enterprises.

A circular was issued to all scheduled commercial banks vide RPCD.SME&NFS BC.No. 90/06.02.31/2009-10 dated June 29, 2010 advising implementation of the recommendations of the Prime Minister's task Force on MSMEs.

6.6 Working Group to Review the Credit Guarantee Scheme for MSME

A Working Group was constituted by the RBI under the Chairmanship of Shri V.K. Sharma, Executive Director, to review the working of the Credit Guarantee Scheme (CGS) of CGTMSE and suggest measures to enhance its usage and facilitate increased flow of collateral free loans to MSEs.

The recommendations of the Working Group included, inter alia, mandatory doubling of the limit for collateral free loans to micro and small enterprises (MSEs) sector from Rs.5 lakh to Rs.10 lakh and enjoining upon the Chief Executive Officers of banks to strongly encourage the branch level functionaries to avail of the CGS cover and making performance in this regard a criterion in the evaluation of their field staff, etc. have been advised to all banks.

A circular was issued to all scheduled commercial banks vide RPCD.SME&NFS.BC.No.79/06.02.31/2009-10 dated May 6, 2010 mandating them not to accept collateral security in the case of loans upto Rs 10 lakh extended to units in the MSE sector and advising them to strongly encourage their branch level functionaries to avail of the CGS cover, including making performance in this regard a criterion in the evaluation of their field staff.

Annex I

MINISTRY OF SMALL SCALE INDUSTRIES
NOTIFICATION
New Delhi, the 5th October, 2006

S.O. 1722(E) – In exercise of the powers conferred by sub-section (1) of Section 7 of the MSMED Act, 2006 (27 of 2006) herein referred to as the said Act, the Central Government hereby specifies the following items, the cost of which shall be excluded while calculating the investment in plant and machinery in the case of the enterprises mentioned in Section 7(1)(a) of the said Act, namely:

(i) equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumables stores;
(ii) installation of plant and machinery;
(iii) research and development equipment and pollution controlled equipment
(iv) power generation set and extra transformer installed by the enterprise as per regulations of the State Electricity Board;
(v) bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
(vi) procurement or installation of cables, wiring, bus bars, electrical control panels (not mounted on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;
(vii) gas producer plants;
(viii) transportation charges (excluding sales-tax or value added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise;
(ix) charges paid for technical know-how for erection of plant and machinery;
(x) such storage tanks which store raw material and finished products and are not linked with the manufacturing process; and
(xi) firefighting equipment.

2. While calculating the investment in plant and machinery referred to in paragraph 1, the original price thereof, irrespective of whether the plant and machinery are new or second hand, shall be taken into account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;

(i) Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
(ii) Shipping charges;
(iii) Customs clearance charges; and
(iv) Sales tax or value added tax.

(F.No.4(1)/2006-MSME- Policy)
JAWHAR SIRCAR, Addl. Secy.

Annex II
List of MSME Clusters in India (identified by UNIDO) - as per RBI Website

Appendix

List of Circulars consolidated by the Master Direction – as per RBI Website, last Master Circular being 17/3/2016

Ref: RBI/FIDD/2016-17/37 Master Direction FIDD.MSME & NFS.3/06.02.31/2016-17 July 21, 2016

=== END ===