

MOST IMMEDIATE
BY SPEED POST / E-MAIL

No. 3(3)/2010-NB&AC
Government of India
Ministry of Micro, Small and Medium Enterprises (MSME)
Office of the Development Commissioner (MSME)
(NB & AC Division)

7th Floor, 'A' Wing, Maulana Azad Road,
Nirman Bhavan, New Delhi-110108
Dated: 23rd March 2010

Subject: Agenda for the Seventh Meeting of the National Board for Micro, Small and Medium Enterprises (NBMSME) scheduled on 07th April, 2010 (Wednesday), 11.00 A.M. at New Delhi.

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This has reference to letter No. 2(2)/2010-NB&AC dated 10 March 2010. Agenda Notes of the Seventh Meeting of the National Board for Micro, Small and Medium Enterprises (NBMSME) along with a 'Short Note /Guidelines' are enclosed. The 'Agenda Papers' may also be accessed at our website www.dcmsme.gov.in.

2. The meeting will be held on 7 April 2010 (Wednesday) at 11.00 A.M. in Hall No. 4 (First Floor) Vigyan Bhavan, Maulana Azad Road, New Delhi - 110108
3. Kindly make it convenient to attend the meeting and reach the meeting venue by 10.30 hrs. A line in confirmation is requested.

Encl.: As above.



(Madhav Lal)
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& Member Secretary (NBMSME)
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To

1. **PS to Hon'ble Minister of State (IC) (MSME) / Vice-Chairperson and all the Members, NBMSME / Sr. PPS to Secretary (MSME) / Special Invitees for NBMSME.**
2. **AS&FA(MSME) / JS (MSME) (PK) / JS (MSME) (SKP), EA (RKM), Udyog Bhavan, New Delhi**
3. **ADC&EA / ADC(Pol.)/DDG (GS)/ EA (MPS) / JDC (HSM) / JDC (AB) / JDC(DP), AEA / AIA, O/o the DC (MSME)**

Copy to:
SENET Division, O/o the DC (MSME)



SEVENTH MEETING OF THE NATIONAL BOARD FOR MICRO, SMALL AND MEDIUM ENTERPRISES

7 APRIL 2010

**AT
VIGYAN BHAVAN, NEW DELHI**

AGENDA NOTES

MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES
OFFICE OF THE DEVELOPMENT COMMISSIONER
(MICRO, SMALL AND MEDIUM ENTERPRISES)

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AGENDA ITEM NO.

Action Taken Note on the issues/points raised in the Sixth Meeting of the National Board for Micro, Small and Medium Enterprises (NBMSME) held at Vigyan Bhavan, New Delhi on 23rd October 2008:

Issues/points raised in the meeting	Action Taken/Comments
Points relating to RBI/Banks	
1. In the report of the Working Group (Dr. K.C. Chakrabarty's Report), the loans in respect of less than Rs. 5 lakh is stated to have come down from 1.96% to 1.14%, whereas, as per RBI there has been a substantial increase in the availability of credit. This needs to be verified from the RBI and actual position regarding availability of credit to the MSEs reported (para no. 8&9).	The RBI has informed that the quantum of advances from Scheduled Commercial Banks (SCBs) to MSEs (manufacturing enterprises) with investment in plant and machinery upto Rs. 5 lakh increased from Rs. 26,916 crore as at the end of March, 2008 to Rs. 27,696 crore as at the end of September, 2008 registering a growth of 2.9%. In percentage terms with reference to total MSE credit to manufacturing enterprises, the advances in this category has, however, declined slightly from 19.7% to 18.9% during the above period. In the service enterprises category, the advances from these banks to enterprises with investment upto Rs. 2 lakh increased from Rs. 13,581 crore to Rs. 14,969 crore registering a growth of 10.2%. In percentage terms with reference to total MSE credit to services enterprises, the advances in this category has, however, increased from 21.2% to 22.8% during the above period.
2. Instructions of RBI are not followed by the banks and there should be monitoring in this regard by the RBI. There should also be a Grievance Redressal Mechanism. The RBI may instruct the banks to ensure	As reported by the RBI, non-adherence to RBI instructions when brought to notice of the RBI are redressed under the Banking Ombudsman Scheme or through the concerned department of RBI taking up the matter with the banks. Banks

<p>smooth flow of credit to needy entrepreneurs (para no.11&18).</p>	<p>also have their own internal grievance redressal machinery. At RBI Regional Offices, Empowered Committees have been constituted under the Chairmanship of Regional Directors. The Committees comprising officials of State Government, SIDBI and selected MSE associations, meet quarterly and discuss problems and issues pertaining to MSEs and during these meetings, common grievances faced by MSE sector are discussed and solutions found.</p>
<p>3. Credit to MSMEs has come down from 15% in 1990 to 6.5% as of now and RBI needs to reserve certain percentage of NBC for MSEs (para no. 12).</p>	<p>The RBI has reported that as percentage to NBC, the bank credit of public sector banks to MSE had declined up to 2007, but increased in 2008 to 10.9%. As regards assigning a separate target for MSEs, while the RBI agrees that the MSEs should be given emphasis even within the priority sector, RBI is of the view allocation of credit at 12% to 15% of ANBC to this sector would imply crowding out of loans to housing and educational sector within the priority sector.</p>
<p>4. Banks are having very high rates of stamp duty as also very high rate of interest on loans and the processing and other charges should be waived (para no. 25).</p>	<p>The RBI has not specifically commented on the issue of high rates of stamp duty, which is decided /imposed by State Governments. However, on interest rates, it has been informed that all loans upto Rs. 2 lakh are charged interest not exceeding the PLR of the bank. Banks are free to fix the rate of interest of loans above Rs. 2 lakh. With regard to waiving of processing and other charges, RBI has issued instructions to banks vide Master Circular on Priority Sector Advances dated 1st July, 2009 that no service</p>

	<p>charge will be levied on loans upto Rs.25,000/-.</p> <p>For loans above Rs.25,000/- banks are free to prescribe service charges with the prior approval of their Boards.</p>
<p>5. Furnishing of figures on loans of less than Rs. 10 lakh, higher rate of interest on MSE loans as compared to loans to big units, lack of support by banks to Credit Guarantee Scheme and as a result, majority of micro enterprises suffering from non-availability of credit, etc. (para no. 28).</p>	<p>As reported by RBI, already break-up is available for loans upto Rs.5 lakh and Rs.5 lakh to Rs.25 lakh. Increasing the amount of data would normally add to workload and modification in software without commensurate added value. With regard to issue of rate of interest, comments may be seen at point 4 above.</p> <p>As on 30th November, 2009, cumulatively 2,27,457 proposals have been approved for guarantee cover for a total sanctioned loan amount of Rs.8,328.89 crore under the Credit Guarantee Scheme (CGS). During 1st April to 30th November, 2009, 78,266 proposals for Rs.3,589.86 crore have been covered which is an increase of about 199% and 238% respectively over the corresponding period of previous year. During the Financial Year 2009-10, a target of 1,00,000 proposals for Rs.2,250 crore have been set. Further, various modifications have been carried out in the scheme which include enhancing the limit of collateral free loans for coverage under the scheme from Rs.50 lakh to Rs.1 crore with an incremental guarantee of 50% of the credit facility above Rs.50 lakh and up to Rs.100 lakh, increase in guarantee cover to 85% for loans up to Rs.5 lakh, etc.</p>
<p>6. There should be a National Credit Fund for MSEs and those banks who are not</p>	<p>As reported by RBI, under priority sector lending, there are presently no specific targets for</p>

<p>meeting their targets, should deposit the amount equivalent to shortfall in targets to this Fund 'free of cost' for 10 years. Those banks, which are exceeding their targets in disbursing loan to MSEs, should get loan from this National Fund equivalent to excess amount disbursed 'free of cost' for 10 years (para no. 29).</p>	<p>domestic banks for reasons given at point (3) above. However, foreign banks which do not meet the stipulated targets/sub-targets in the priority sector are required to contribute to SIDBI. As announced in the Union Budget 2008-09, two funds have been set up in SIDBI, viz., Micro, Small and Medium Enterprises (Refinance) Fund and MSME (Risk Capital) Fund. These funds have been set up with contributions from domestic banks which had not achieved their target in lending to the priority sector and/or agriculture as on the last reporting Friday of March 2008. An allocation of Rs.1,600 crore had been made for MSME (Refinance) Fund and Rs.1000 crore for MSME (Risk Capital) Fund. Further, taking into account the need to ensure growth momentum in employment intensive Micro and Small Enterprises Sector, it has since been decided to increase the corpus of MSME (Refinance) Fund maintained with SIDBI by Rs.2,000 crore. It was also decided that the enhanced portion of the corpus shall be contributed by domestic scheduled commercial banks having shortfall in achievement of sub-target to weaker sections category on a pro rata basis. The above allocations have been made in advance against the banks' estimated shortfall in achievement of the sub-target for lending to weaker sections category as on the last reporting Friday of March 2009. In addition, RBI has provided a refinance facility of Rs.7,000 crore to SIDBI in December, 2008.</p>
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<p>7. Non-insistence on collateral security from MSEs, banks to bear the fees under Credit Guarantee Scheme, same rate of interest for MSEs as in the case of agriculture loans, effective mechanism of factoring system, banks resorting to action under SARFAESI and avoiding compromise under DRT, etc. (para no. 29).</p>	<p>As informed by RBI in terms of the extant guidelines in respect of collateral free loans to MSE borrowers, guidelines were issued to banks advising them to extend loans upto Rs.5 lakh without insisting on collateral security. Besides, they were also advised to consider increasing the limit of dispensing of collateral requirements for loans upto Rs.25 lakh (with the approval of the appropriate authority) if they were satisfied with the track record and financial position of the borrower. These guidelines have been reiterated by us from time to time. In the wake of representations received from various quarters, we have again recently issued a circular (RPCD.SME&NFS.BC.No.84(A)/02.06.31(P)/2008-09 dated January 20, 2009) to all scheduled commercial banks reiterating that banks may extend collateral free loans upto Rs.5 lakh to all new loans to the MSE sector (both manufacturing and service enterprises). The provisions of SARFAESI Act, have a salutary effect on credit culture and may be retained in order that banks have the necessary incentive to extend more credit.</p> <p>CGTMSE has informed that as per the “Policy Package for stepping up credit to Small and Medium Enterprises” announced by the Government on August 10, 2005, Public Sector Banks were to be encouraged to absorb the Annual Service Fee (ASF) in excess of 0.25% p.a. Many of the Member Lending Institutions (MLIs) have been absorbing the Guarantee Fee (GF) and ASF or sharing the same with the</p>
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	beneficiaries. In terms of the CGS, the discretion is left to the MLI to pass on the GF/ASF to the MSEs or bear the same.
8. Export credit crunch faced by MSMEs and need to provide export loans (para 30).	As informed by RBI, to ease the export credit crunch, a number of measures such as extension in pre and post shipment period, increase in refinance limits from RBI, special refinance of Rs.5,000 crore to EXIM Bank, etc. have been taken by the RBI. Further, Government has provided interest subvention of 2 per cent on pre and post shipment rupee export credit for certain employment oriented export sectors including MSMEs.
9. The recommendations made in the Usha Thorat report for North-East should be made mandatory to help the entrepreneurs benefit from it. Further, working capital loans should be uniform all over the country and banks should give due recognition to natural calamities (para no. 32).	As informed by RBI, the recommendations made by the Committee chaired by Smt. Usha Thorat, Dy. Governor, RBI for North-East are being implemented and monitored by the SLBCs and the Reserve Bank. As regards instructions on working capital, banks do follow the general guidelines to provide working capital credit limits to MSEs computed on the basis of minimum 20% of their estimated annual turnover. This norm which was applicable in respect of units with credit limits upto Rs. 2 crore, has since been enhanced to Rs. 5 crore. (Master Circular on Micro, Small and Medium Enterprises dated 1st July 2009. On the subject of relief during natural calamities, instructions are already in place which have been consolidated vide RBI Master Circular RBI/2009-20010/36 dated July 1, 2009.

<p>10. As delayed payment is affecting MSMEs badly, ‘factoring without recourse’ should be promoted by factoring companies. Further, norms for the NPA should be revised to 180 days from 90 days and the collateral requirement should be reviewed (para no. 34).</p>	<p>The RBI has informed that factoring business is carried out by subsidiaries of banks, which are non-banking financial institutions. The RBI has not issued any instructions with regard to ‘factoring business’ of companies. NBFCs registered with RBI and undertaking factoring business are not classified separately, but are treated generally as loan companies and they have to comply with extant regulations as applicable to NBFCs in this regard. Further, ‘without recourse factoring’ implies that the factoring company will not be able to go back to the exporter for recovering the dues in cases other than commercial disputes, if the import factor has not paid the debt. The RBI has no objection for providing Export Factoring ‘Without Recourse’ basis.</p> <p>Regarding relaxation in NPA norms, the position is as under:</p> <ul style="list-style-type: none"> - Guidelines on Income Recognition, Asset Classification and Provisioning Norms are uniformly applicable across all sectors, including MSE sector. Sector specific guidelines are not advisable in view of their potential to skew the credit market and vitiate the credit discipline. Acceding to such requests and relaxing guidelines will lead to similar demands from other sectors. - 90 days delinquency norm has been arrived at through a long evolution process in our efforts to bench mark the prudential regulations to the international best practices and standards. - Banks have been urged to fix realistic repayment schedules on the basis of cash flow
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	<p>with borrowers.</p> <p>- The restructuring guidelines of August 27, 2008 extend the special regulatory treatment for cases restructured, to the services sector. Also in January 2009, RBI allowed the continuation of asset classification for all Standard Accounts as on September 01, 2008, provided restructuring is taken up by January 31 and completed within 120 days.</p>
<p>11. Cost of funds for MSEs should be competitive, depending on the credit worthiness of the entrepreneurs and interest rates for MSMEs cut down by the RBI in line with recent cut in the repo rate (para no. 34).</p>	<p>Comments at point no.4 above.</p>
<p>Points relating to SIDBI</p>	
<p>1. Term lending institutions in the State of J&K have become sick and SIDBI should consider complete waiver of Rs.56 crore to revive JKSF (para no.10).</p>	<p>SIDBI has informed that despite several restructuring packages extended by SIDBI and continued support to JKSF by way of refinance till FY 2006, it could not come out of its financial problems and continued to default to SIDBI. Government of J&K itself has decided to enter into OTS with SIDBI and accordingly an OTS has been offered by SIDBI which is being pursued with them.</p>
<p>2. Term lending institutions in the State of U.P. viz., UPSFC is not working properly which is a matter of concern (para no.11).</p>	<p>SIDBI has informed that UPFC's problems have been compounded due to continued impairment in the quality of loans and advances portfolio. The financial position of the Corporation continues to deteriorate over the years. Despite</p>

	<p>repeated restructuring packages approved by SIDBI as well as continued support by way of refinance to UPFC, the Corporation has not been able to bring the needed improvement in its operations. The State Government has now indicated to support UPFC for settlement of SIDBI's dues through OTS. SIDBI is, therefore, working out for an OTS package with the Corporation.</p>
<p>3. All the six non-official members on SIDBI's Board are ex-bankers. Similar is the case with other banks and there is need for representation of MSMEs on their Board (para no.14).</p>	<p>In terms of various sections of SIDBI Act, 6 out of the 12 Directors currently on the Board have been appointed by Government of India (GoI). It may be mentioned that GoI, in addition to appointing the Chairman & Managing Director and one whole time Director (designated as Deputy Managing Director), has also nominated Additional Secretary & Development Commissioner (MSME), Ministry of MSME and Joint Secretary, Department of Financial Services, Ministry of Finance as Directors u/s 6(1)(c) of the SIDBI Act. The GoI has also appointed Shri S.S. Chattopadhyay, Chairman, West Bengal Financial Corporation and Shri A. Prabhakara, MSME Entrepreneur and the past President of SSI Association at Bangalore who is a Member of Karnataka Small Scale Industries Association u/s 6(1)(e) of the SIDBI Act.</p> <p>Further, u/s 6(1)(d) of SIDBI Act, 3 Directors have been nominated by the three largest shareholders, viz., IDBI, SBI and LIC.</p> <p>In terms of section 6(1)(f) of SIDBI Act, the Board may, at any time, co-opt such number of</p>

	<p>Directors, not exceeding four, from amongst the persons having special knowledge or professional experience which would, in the opinion of the Board, be useful to the Bank, who shall hold office until the assumption of charge by the elected Directors. Accordingly, the Board has co-opted 3 Directors, out of which one Director, viz., Shri S.K. Tuteja, former Secretary & Development Commissioner (SSI), GoI was co-opted considering his vast knowledge and experience in matters relating to MSME sector. Thus, only two ex-bankers, viz., Shri Janki Ballabh, former Chairman of State Bank of India and Shri M. Balachandran, former Chairman & Managing Director of Bank of India are well known and distinguished bankers and have been co-opted by the Board in order to have their guidance in SIDBI in devising appropriate strategies and innovative means of credit dispensation to meet the challenges of financing the MSME Sector.</p>
<p>4. Two funds of Rs. 2,000 crore each created with SIDBI should be made available to MSMEs urgently. The reduction in size of these funds was also pointed out (para no. 34).</p>	<p>As informed by SIDBI, the RBI has already allocated Rs.3,600 crore by way of MSME (Refinance) Fund and Rs.1,000 crore for MSME (Risk Capital) Fund.</p>

Points relating to Delayed Payment	
<p>. The majority of Micro enterprises are suffering from non-availability of credit and the delayed payment act is being violated by the big units and the PSUs which require serious attention (Para no 28).</p>	<p>Prior to October 2006, there existed “Interest on Delayed Payments to Ancillary and Small Industry Undertakings Act, 1993” (as amended in 1998) which dealt with the issues relating to delayed payments. However, it was felt that this Act lacked teeth to deal with the delayed payment problems effectively. Therefore, this Act was subsumed with MSMED Act, 2006 with following important modifications among others:</p> <ul style="list-style-type: none"> • Period of payment to MSEs by the buyers reduced to forty five days. • Rate of interest on outstanding amount increased to three times the prevailing bank rate of Reserve Bank of India compounded on monthly basis • Constitution of MSE Facilitation Council(s) mandatory for State Government. • Provision for inclusion of one or more representatives of MSE Associations in the Facilitation Council. • Jurisdiction of the Council in a State to cover wherever the buyer may be located.

Points relating to MSE-CDP	
<p>1. There are only three clusters in the State of Assam and suggested that government should develop more clusters as these clusters are proving very effective in generating employment".(Para No. 24)</p>	<p>So far, seven clusters in the State of Assam have been taken up for interventions under MSE-CDP. In addition, the O/o DC (MSME) have received proposals from the State Government, IIE, Guwahati and MSME-DI, Guwahati for initiating interventions in several other clusters. These proposals are under examination for initiating action as per the guidelines of MSE-CDP.</p> <p>A Model Common Facility Centre (MCFC) for Brass & Metal Handicraft cluster, Hajo, Guwahati, Assam was also approved (the soft interventions in this clusters were already completed) at a total revised project cost of Rs. 160.61 lakh, with GoI assistance of Rs. 100.00 lakh and Government of Assam/SPV contribution of Rs. 60.61 lakh under MSE-CDP. Director of Industries and Commerce (DI & C), Government of Assam will act as an implementing agency and its day to day working will be monitored by Brihattar Hajo Pragathishil Karikar Sangstha, Hajo, District Kamrup, Assam (SPV). This office issued the administrative approval for the project on 24th March 2008. Funds to the tune of Rs. 81.66 lakh have been released in September 2009 as 1st installment.</p>
<p>2. Opening of one Common Facility Centre at Jorhat (.Para no.24)</p>	<p>One Extension Centre of MSME-DI, Guwahati existed at Jorhat. Due to Government policies all the Extension Centres were closed during 1990 and the Extension Centre at Jorhat was also closed.</p>

Points relating to PMEGP	
<p>Pamphlet/literature on all the schemes/programmes for rural youths should be prepared and distributed to all <i>village pradhans</i> to create awareness in the rural areas (Para no16).</p>	<p>KVIC has already brought out printed information pamphlets and brochures on PMEGP, SFURTI, etc., for distribution among all concerned.</p>
<p>2. Possible delays in training of beneficiaries due to the requirement of prior approval of KVIC of the Training Centers under PMEGP.(Para no.17)</p>	<p>KVIC has informed that after receipt of the approval of PMEGP scheme on 26-09-2008, communications have been issued to Chief Secretaries of the all States/Union Territories; Managing Directors of all Nationalized Banks; Dy. Governor, RBI; all District Collectors in the county, in addition to In-charges of field offices of KVIC, with regard to selection/accreditation of Training centers, a communication was sent to the Principal Secretary, Industry of all States/UTs to identify and furnish the list of Training Centers. On receipt of the details across the country, a list of 569 Training Centers was compiled and placed on website for information to all concerned. As such there was no delay in accreditation of Training Centers for EDP Training.</p>

<p>3. Commercial banks do not adhere to RBI's norms for lending to small entrepreneur. (Para 11&18)</p>	<p>KVIC has informed that the RBI Guidelines regarding availing of loan from Bank without collateral security for projects up to Rs.5 lakh, has been widely circulated to all concerned and so far no specific instances have been reported for non sanction of the loan in absence of Collateral Security. The matter of extending collateral free loan to entrepreneurs for project up to Rs. 5 lakh was taken up with RBI, upon which RBI has clarified that the obligation of extending such collateral free loan is not advisory but mandatory on all public sector Banks. The same was communicated to all concerned.</p>
<p>4. The scheme should be properly publicized with the help of all forms of media so that it reaches maximum number of people (Para No 20).</p>	<p>KVIC has informed that as per the reports received from the field offices, advertisements have been issued in the local print media also for disseminating the information about the salient features of PMEGP scheme. Total no. of 45 workshops and 758 awareness camps were organized by KVIC / other agencies to give the scheme of PMEGP a wide publicity.</p>
<p>5. Local SME association may also be involved in training of beneficiaries under PMEGP (Para no. 20)</p>	<p>KVIC has informed that on the requests from Andhra Pradesh, Kerala and Goa SME Associations, their training Centres have already been included in the 569 training centres accredited for the purpose. KVIC has assured that if any request is received in this regard from the other local SME associations, the same will also be considered.</p>

<p>6. The concession of the ceiling on annual income should be admissible only in case of people below poverty line and that if the eligibility criteria becomes general, then it would not perhaps be possible to achieve the real benefit of the scheme vis-à-vis PMRY which had annual income ceiling. (Para no 21)</p>	<p>PMEGP has been formulated by merging the then existing 2 credit-linked subsidy schemes, namely, REGP and PMRY. Under the REGP, there was no criteria regarding annual income ceiling. Besides, while formulating the scheme, all such aspects had been given due consideration and therefore and it will not be feasible to change the guidelines of PMEGP in this aspect at this stage.</p>
<p>7. Under PMEGP special case has not been taken for the unemployed youth who are technically qualified or have managerial skill. Such candidates would require higher allocation for the projects to be set up them. The limit of project cost in their cases should be increased to Rs. 1 crore. (Para no 28)</p>	<p>The objective of PMEGP is to generate employment opportunities through the establishment of ‘micro enterprises’ defined in the “Micro, Small and Medium Enterprises Development Act, 2006”, i.e., the enterprises engaged in (i) the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951, where the investment in plant and machinery does not exceed twenty five lakh rupees; (ii) those providing or rendering of services, where the investment in equipment does not exceed ten lakh rupees.</p> <p>Hence, this suggestion cannot be agreed to.</p>

AGENDA ITEM NO. 2

Discussion on the Report of Prime Minister's Task Force on MSMEs with focus on credit related issues :

Part I: Overview of the Report

1. Background

1.1 The representatives of 19 prominent MSME Associations met the Hon'ble Prime Minister on 26th August 2009 to highlight their concerns and issues regarding MSMEs. The Prime Minister announced the setting up of a Task Force to reflect on the issues raised by the associations and formulate an agenda for action within a period of three months after discussions with all stakeholders. Accordingly, a Task Force under the chairmanship of the Principal Secretary to Prime Minister was constituted to address the issues of the MSME sector.

1.2 The Task Force classified the common issues into 6 major thematic areas and constituted separate Sub-Groups for detailed examination. These thematic areas covered (i) credit, (ii) marketing, (iii) labour, (iv) rehabilitation and exit policy, (v) infrastructure, technology and skill development and (vi) taxation. A separate Sub-Group was also constituted to look into the development of MSMEs in the North-East and Jammu & Kashmir. Each of the Sub-Groups examined the specific issues over a series of meetings, and after detailed deliberations with all the stakeholders, including MSME Associations, submitted their reports to the Task Force. The recommendations of the previous Committees, Working Groups and Study Groups, which are relevant in the current context, have been taken into consideration by the Task Force and its sub-groups.

2. Major issues concerning the MSME sector

2.1 The Task Force has mentioned in its report that although Indian MSMEs are a diverse and heterogeneous group, they face some common problems, which are as under:

- Lack of availability of adequate and timely credit;
- High cost of credit;
- Collateral requirements;
- Limited access to equity capital;
- Problems in supply to government departments and agencies;
- Procurement of raw materials at a competitive cost;
- Problems of storage, designing, packaging and product display;
- Lack of access to global markets;
- Inadequate infrastructure facilities, including power, water, roads, etc.;

- Low technology levels and lack of access to modern technology;
- Lack of skilled manpower for manufacturing, services, marketing, etc.;
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws;
- Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and
- Issues relating to taxation, both direct and indirect, and procedures thereof.

3. Recommendations

3.1 To provide relief and stability to MSMEs, the Task Force has suggested the following measures:

A. Measures that need immediate action

- i. Extending for a further period of one year, beyond March 31, 2010, the components of the '*stimulus package*' which are specific to MSMEs.
- ii. Ensuring strict adherence to the stipulated targets by the commercial banks for the micro enterprises (viz. 20% year-on-year growth for micro and small enterprises lending with 60% apportionment for micro sector).
- iii. Creation of a separate fund with SIDBI, using the shortfalls, if any, against the MSE credit targets set for the commercial banks be utilized exclusively for lending to the micro enterprises.
- iv. Introduction of a Public Procurement Policy for MSMEs setting a goal for government departments and PSUs to reach, over a stipulated period, a target of at least 20% of their annual volume of purchases from micro and small enterprises (MSEs), and mandate them to report their achievements in this regard in the annual reports.
- v. Priority to MSMEs in the Offset policy of the government, particularly in the defence and aviation sectors and a permanent guidance mechanism under the Raksha Utpadan Rajya Mantri (RURM) with Secretaries of Defence Production, MSME and Civil Aviation and CEOs of Defence PSUs.
- vi. Earmarking additional public spending to the tune of Rs.5, 000 - 5,500 crore over the next 3-5 years to specifically target deficiencies in the existing infrastructure and institutional set up. These funds may be used for: (a) supporting the establishment of Rehabilitation Funds in the States for the revival of potentially viable sick units; (b) assisting MSMEs in the acquisition and adaptation of modern clean technologies as well as creation of Technology Banks and product-specific Technology Development Centres; (c) promoting

establishment of business incubators in educational institutions; (d) renovating existing industrial estates and developing new infrastructure for MSME sector; (e) re-engineering, strengthening and revitalizing District Industries Centres to enable them to play a more active role in advocacy and capacity building for MSMEs and as appropriate, in their rehabilitation; (f) strengthening NSIC's equity base for enhanced market support to MSMEs; and (g) up-scaling the existing programmes of entrepreneurship and skill development.

- vii. Creating an overall enabling environment using appropriate legal and fiscal instruments, to incentivize the transition of MSMEs from the unorganized to the organized sector and for their corporatization as entities. Also, encouraging higher investments for innovative and knowledge based ventures as well as for research and development.
- viii. The ongoing exercise to introduce a new Direct Tax Code and GST should specifically seek to achieve these policy objectives through appropriate provisions for graded corporate tax structure, tax pass through for angel and venture capital funds and incentives for R&D.

B. Medium Term Institutional Measures (to be achieved within a year or so)

- i. Setting up an independent body at the national level for the promotion and development of MSMEs to provide financial and managerial support for setting up of industrial estates/common facilities in partnership with the private sector, administer schemes for the unorganized sector, promote technology development (including clean technologies), provide marketing support and coordinate & disseminate information relevant to MSMEs.
- ii. An Expert Group headed by Member, Planning Commission may reflect on this and come up with suitable recommendations on the structure and mandate of this body within a timeframe of three months and submit these to the Prime Minister.
- iii. Setting up of a Standing Review Committee under Member (Planning Commission) to monitor flow of credit to MSME sector and its apportionment to the micro enterprises and the unorganized sector.
- iv. Encouraging Micro Finance Institutions (MFIs) to form self-help groups and financing micro enterprises in unbanked/identified excluded rural/semi-urban areas at reasonable rates. Also, encouraging banks to formulate schemes for refinancing loans taken by the MSEs from non-institutional sources/moneylenders and extending suitable incentives, including tax concessions to MFIs to encourage them to work as business correspondents and business facilitators for banks to service micro enterprises.

- v. Strengthening the District Industries Centres (DICs) with provision of modern IT-enabled communication facilities and re-training of human resources available with these institutions. Also, strengthening, revitalizing and transforming to play a more active role in advocacy and capacity building for potential and existing entrepreneurs.
- vi. Supporting States to set up Rehabilitation Funds and operationalise appropriate schemes for the rehabilitation of units temporarily rendered sick due to circumstances beyond their control. Also, the State Governments establishing a mechanism at the district level, in the DICs, to re-examine the viability of sick units in coordination with the banks and implement rehabilitation packages in a time bound manner.
- vii. Infusing industrial estates which are currently in a state of decay and neglect, with fresh capital and upgrading them to 'Industrial Townships'.
- viii. Creating new clusters for MSEs to meet the requirements of planned development and growth, consistent with the policy of progressively organizing the MSEs. Also, augmenting development of new infrastructure for the MSME sector with the Government stepping in with viability gap funding to encourage private sector participation.
- ix. Strengthening NSIC's equity base to give a demand side impetus to MSME enterprises in addition to preferential procurement and volume stipulations enunciated earlier.
- x. Earmarking funds to the tune of Rs. 1500 crore, within the enhanced investment package proposed in A(vi) above, to support clean technology initiatives of different Ministries involved with MSME growth, particularly in the context of the National Action Plan for Climate Change (NAPCC). Also, utilizing this amount by up-scaling existing schemes or by evolving new schemes to assist existing MSMEs in acquisition, adaptation and innovation of modern clean technologies as well as creation of a Technology Bank/product specific technology centres to enable them to move up the value chain.
- xi. Encouraging the concept of business incubators in educational institutions of repute by setting aside Rs.1000 crore within the overall package set out in A (vi).

C. Legal and Regulatory Structures [to be taken up in 1-3 years]

- i. Expediting the establishment of a *SME Exchange* which is already under consideration.
- ii. Developing workable legal options for the securitization of *trade credit receivables* and for the promotion of *factoring services*.
- iii. Giving wide publicity to new formats like Limited Liability Partnerships and Single Person Companies, which provide MSMEs with an interim solution in the move from the informal to the formal economy.

- iv. Reviewing the insolvency legislation comprehensively in recognition of the reality of the global market where enterprises continuously get created and destroyed.
- v. Simplification of *Labour laws*, especially those applicable to enterprises in the MSME sector. While some steps have been taken by the Labour Ministry in this regard, a single and comprehensive legislation for MSEs with 40 workers may be worked out. At the same time, keeping in view the large size of the unorganized sector within MSMEs, the labour related issues for this sector should be focused more on welfare rather than legislation by, inter alia, use of the recently promulgated Unorganised Workers Social Security Act, 2008.

D. North-Eastern States and J&K

While the Government has introduced special packages and policies for the NER and J&K, there have been intra-state and intra-regional asymmetries in utilization which need to be looked into by the respective state governments. Additionally,

- i. Some modifications in the capital subsidy scheme should be made, so as to allow MSMEs to avail of subsidy for their expansion.
- ii. The budgetary provisions which have been reportedly inadequate to meet subsidy claims under these schemes may be supplemented so as to clear all pending claims for MSEs up to 31.3.09.
- iii. The J&K Government has been demanding that the incentives available for MSMEs in the State be brought on par with the modified NEIIPP of NER. This demand appears to have some merit. The J&K package may be enhanced and brought at par with the modified NEIIPP of NER for MSMEs.
- iv. A Fund of Rs.100 crore within the corpus may be earmarked for implementing a special rehabilitation package on easier terms for identified sick units in J&K.

The Task Force has recommended the establishment of Prime Minister's Council on Micro and Small Enterprises in the Prime Minister's Office which may oversee implementation of these recommendations on a half yearly basis. The Ministry of MSME shall be the servicing arm for the Council.

Part II: Recommendations on Credit

4. Status and Issues regarding Credit to MSE sector

4.1 Of all the problems faced by the micro and small enterprises (MSEs), issues relating to credit are the most critical. Credit related problems of MSE sector have been examined by several Committees in the past. In spite of acceptance of most of the credit-related recommendations of these Committees by the Reserve Bank of India (RBI), the availability and cost of credit remain far from satisfactory. While the quantum of advances from the public sector banks (PSBs) to the MSEs has increased over the years in absolute terms from Rs.46,045 crore in March 2000 to Rs.1,85,208 crore in March 2009, the share of the credit to the MSE sector in the Net Bank Credit (NBC) has declined from 12.5 per cent to 10.9 per cent during the period. Similarly, there has been a decline in the share of micro sector as a percentage of NBC from 7.8 per cent in March 2000 to 4.9% in March 2009.

4.2 The major reasons for low availability of bank finance to this sector are high risk perception of the banks in lending to MSEs and high transaction costs in processing of loan applications of MSEs. The major areas focused by the Task Force related to: (i) Ensuring adequate and timely credit in a hassle-free manner; (ii) Issues relating to cost of credit; (iii) Augmentation of collateral-free credit to the sector, particularly micro enterprise sector; and (iv) Enhancing the ability of the sector to access equity capital.

4.3 After detailed deliberation with all the stakeholders and taking due consideration to the recommendations made by the earlier Committees/Working Groups, the Task Force made the following recommendations for enhancing the flow of credit to MSMEs:

- (i) All the scheduled commercial banks should achieve a 20% growth in credit year-on-year to micro and small enterprises and strictly adhere to the allocation of 60% thereof to micro enterprises to ensure enhanced credit flow. From 1st April 2010, shortfall of any bank against the already accepted target of 60% to micro enterprises (of the total lending to MSEs) may be put into an appropriately named corpus with the Small Industries Development Bank of India (SIDBI). This would facilitate additional credit flow of over Rs.3 lakh crore to micro enterprises from the scheduled commercial banks over a period of 5 years.
- (ii) A target of 15% annual growth in number of micro enterprise accounts may be stipulated for all scheduled commercial banks till financial inclusion has been substantially achieved. Reserve Bank of India (RBI) may issue necessary instructions in this regard. This would help in covering an additional 30 lakh micro enterprises under institutional credit in a period of 5 years.

- (iii) The stimulus package announced by the government/RBI/IBA may be extended upto 31st march 2011 including special refinance facility of Rs.7000 crore provided to SIDBI.
- (iv) A Committee under the chairmanship of Member (Industry), Planning Commission, with the Secretary, Department of Financial Services, Chairman, Indian Banks' Association and representative of the industry as Members and the Secretary, Ministry of MSME as its Member Secretary may be constituted. The Committee may (i) Monitor the overall credit flow to the MSME sector at regular intervals; (ii) Look into the existing interest subvention schemes for the agriculture and housing sectors to examine the extent of replicability for the MSEs; (iii) Identify institutional bottlenecks in the flow of credit to the sector; and (iv) Suggest policy measures for augmenting credit flow to the MSME sector.
- (v) The ability of MSMEs (especially those involving innovations and new technologies) to access alternative sources of capital like angel funds/risk capital needs to be enhanced considerably. For this purpose, removing fiscal/regulatory impediments to use such funds by the MSMEs should be considered on priority.
- (vi) SIDBI may constitute an Advisory Group comprising members from M/o MSME, D/o Financial Services and representatives of MSME Associations for monitoring the operations of Special Cell set up to provide refinance for micro/unorganised sector enterprises. The Group may periodically meet to resolve any problems relating to lending of funds earmarked for micro enterprises. The Group may also review the effectiveness of this arrangement after a year to decide on the need for a separate body for this purpose.
- (vii) Securities and Exchange Board of India (SEBI) may expedite the process of setting up of SME Exchanges in consultation with all the stakeholders.
- (viii) The recommendations of the High Level Committee to review the Lead Bank Scheme under Smt. Usha Thorat, Deputy Governor, RBI may be implemented on priority basis to facilitate banking penetration and to strengthen the monitoring systems at State/District level.
- (ix) The Task Force noted that a Working Group under the chairmanship of Executive Director, RBI is looking into the issues regarding: (a) Enhancement of the collateral-free loan limit for MSEs from Rs.5 lakh to Rs.10 lakh; and (ii) Absorption of the one-time guarantee fee and annual service charges by the banks under the Credit Guarantee Scheme to facilitate higher flow of credit to MSEs

without collateral/third party guarantee. The Working Group may submit its report within 3 months.

- (x) The Task Force noted that the RBI has constituted a Working Group on ‘Securitization of Trade Credit Receivables’ to examine various options for liquidating the receivables before maturity. This process need to be expedited for larger benefits to MSMEs. Further, the D/o Financial Services may look into the issue of evolving a suitable legal framework for promotion of factoring services without recourse in the country for MSMEs.
- (xi) Banks should approve project loans (comprising of both term loan and working capital) for MSEs to avoid delay in tying up of funds by the MSEs. The RBI may consider making this mandatory for the banks.
- (xii) Banks may be encouraged to use scoring model so as to have speedy disposal of loan applications of micro and small enterprises.
- (xiii) In order to simplify the process of credit dispensation to micro enterprises, a uniform loan application form for loans up to Rs.25 lakh should be devised by the IBA that should be applicable to all the banks. The D/o Financial Services may bring out a model form within 3 months.
- (xiv) All the banks may adopt Banking Code for MSEs to bring about uniformity in operations. DFS may examine this issue through RBI.
- (xv) Banks should be encouraged to participate in organizing joint programmes relating to entrepreneurship and skill development. RUDSETI, which are promoted by the banks, should also impart entrepreneurship and skill development training for different MSME clusters.
- (xvi) Taking into account the recent experience during the economic slowdown, banks may extend liberal moratorium on their term loans and working capital to MSE entrepreneurs by including interest during first 6-12 months of operation as part of the long term funding of the projects.
- (xvii) Banks may put in place an electronic tracking system for ensuring timely approval/rejection of loan applications of MSEs and they should be informed about the reasons for rejection of their loan application within a definite period. For this purpose, Banks may have a dedicated cell at the Regional Office level to monitor the progress of applications received till its final disposal. RBI may suitably advise the Banks in this regard.

- (xviii) The Lead Bank in association with the District Industries Centre should prepare a shelf of project profiles on a periodic basis for different viable activities which have a good potential. The progress in this regard may be monitored at the District, State and Central level.
- (xix) Each lead bank of a district may adopt at least one MSE cluster and banks should open more MSE focused branch offices at different MSE clusters which can also act as Counseling Centres for MSEs.
- (xx) While loans up to Rs.50,000 are covered under micro finance, banks are generally not inclined to provide loans below Rs.5 lakh due to a high risk perception and transaction costs. Banks may lend to pool of micro entrepreneurs who have been financed by Micro Finance Institutions and are now ready for borrowing at higher levels in the missing middle segment of Rs .50,000 to Rs. 5 lakh by covering them under the Credit Guarantee Scheme.
- (xxi) Banks should encourage their officials to undergo specialized certificate course run by Indian Institute of Banking and Finance on the subject of SME Finance for Bankers by suitably incentivising them. The Task Force noted that an incentive scheme already exists in the Banks.
- (xxii) The Ministry of MSME may set up an ‘MSME Helpline’ after detailed discussions with the Departments/agencies having similar ‘Helplines’ to ensure that the same is successfully implemented.

Part III: Status/Action Taken

5.1 The Ministry of MSME has initiated action for implementing the recommendations of the Task Force in a time-bound manner. The Ministry has also circulated the report to all the Departments/agencies concerned and the State/UT Governments for implementing the recommendations, as per the time lines laid down in the report. Some of the specific action taken in respect of the recommendations contained in the Task Force Report is as under:

- As recommended by the Task Force, the proposed “Public Procurement Policy for MSEs” has been considered by the Committee of Secretaries (COS). Based on the decision taken by the COS, the Ministry has finalized the Policy and is in the process of obtaining comments/views of the Ministries/Departments concerned.
- An Expert Group under the chairmanship of Member (Industry), Planning Commission with Secretaries of M/o MSME and D/o Financial Services, Deputy Governor, RBI, Additional Secretary & Development Commissioner (MSME), CMD, SIDBI, CEO, KVIC, CMD, NSIC, Director & Chief Executive, ICRIER and Chairman, Development Credit Bank Ltd. as its members has been constituted for recommending the structure and mandate of an independent body at the national level for the promotion and development of MSMEs.
- The Working Group on Credit Guarantee Scheme under the chairmanship of Executive Director, RBI has submitted its report.

AGENDA ITEM NO.3 : Any other point with the permission of Chair.