

## **Credit Delivery to the Micro and Small Enterprises Sector**

### **Initiative by Reserve Bank of India**

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MSMED Act, 2006 provides that the policies and practices in respect of credit to the micro, small and medium enterprises shall be progressive and such as may be specified in the guidelines or instructions issued by the Reserve Bank of India, from time to time. MSMED Act became effective from 2<sup>nd</sup> October 2006, since then RBI has issued various circulars relating to the credit policies for the MSEs.

Recently the RBI has issued a circular dated 16<sup>th</sup> June 2006, vide RBI/ 2008-09/ 501 UBD. BPD. No.71/09.09.001/2008-09 for **Credit delivery to the Micro and Small Enterprises Sector. This circular provides the references of circulars earlier issued by the RBI with reference to Credit facilities to be provided to Small Medium and Micro Enterprises. The background and the gist of the circular is as follows;**

In recognition of the problems being faced by the Micro and Small Enterprises (MSE) sector, 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. This 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 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. The recommendations made by the Group need to be considered by Government of India, State Governments and commercial banks. While fully appreciating the sense of the Group's recommendations, attention of banks is invited to the guidelines issued on MSE debt restructuring in respect of borrowal accounts that show symptoms of stickiness, vide circulars:

i. UBD.BPD.Cir.No. 36/09.09.001/2005-06 dated March 9, 2006

ii. UBD.PCB.BPD.No. 53/13.05.000/2008-09 dated March 6, 2009

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 (issued vide circular UBD. No. PCB. POT. 01 / 09.09.01 / 2002-03 dated July 19, 2002). Banks are, therefore, advised to apply the guidelines on debt restructuring optimally and in letter and spirit. This would be to their advantage as well as their MSE clients.

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, banks are

recommended to 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.

Above referred circulars issued by RBI in March 2006, were issued with reference to the rehabilitation policies for potentially sick Small, Micro and Medium Enterprises. It covers the eligibility criteria of the SME and Potential Norms for the restructuring of their accounts by banks / financial institutions

RBI has also issued in the past UBD. No. PCB. POT. 01 / 09.09.01 / 2002-03 dated July 19, 2002 containing the general guidelines for rehabilitation of sick SSI units incipient sickness in order to take measures to ensure that sickness is arrested at the incipient stage itself. It provided for the eligibility criterion for viable units, Reliefs and Concessions for Rehabilitation of Potentially Viable Units Illustrative list of warning signals of incipient sickness that are thrown up during the Scrutiny of Borrowal Accounts and other Related Records (e.g. Periodical Financial Data, Statements, Report on Inspection of Factory Premises and Godowns, etc.) in the units out of their future profits/ cash accruals. etc.

**Following is the list of Circulars issued by RBI from time to time with respect to the SMEs**

RBI Circular	Date	Details
<u>UBD. PCB. BPD. No. 53/ 6.03.2009</u> 13.05.000/ 2008-09	2009	Prudential Guidelines on Restructuring of Advances by Urban Co-operative Banks
UBD.BPD.Cir.No.36/09.09.001 /05-06	09.03.2006	Debt restructuring mechanism for Small and Medium Enterprises (SMEs) - Announcement made by the Union Finance Minister. The circular provides for the eligibility of SMEs and prudential norms
<u>DBOD.No.BP.BC.37/21.04.13</u> 2/2008-09	27.08.2008	Prudential guidelines on restructuring of advances which harmonizes the prudential norms over all categories of debt restructuring mechanisms (other than those restructured on account of natural calamities)
<u>DBOD.No.BP.BC.58/21.04.04</u> 8/2008-09	13.10.2008	Banks were advised to consider restructuring the dues of SMEs where warranted and also continue to disburse loans against the sanctioned limits.

RPCD. SME & NFS. BC. No. 16.76 / 06.02.31(P)/2008-09	2.2008	<p>a. Applicability of certain norms with reference to the SSI units - made effective for the SME also</p> <p>b. Banks have been advised to contribute an aggregate amount of Rs. 2000 crore to the Micro, Small &amp; Medium Enterprises (MSME) (Refinance) Fund with SIDBI in advance on the basis of the banks' projected shortfall in achievement of sub-target of 10 per cent for lending to Weaker Section category as on the last reporting Friday of March 2009.</p> <p>c. RBI has provided a refinance limit of Rs.7000 crore to SIDBI for incremental on-lending to the sector directly and through banks, NBFCs and SFCs</p>
<b>RBI/2008-09/483</b> RPCD. SME & NFS. BC. No. 106 /06.02.31(P)/2008-09	25.05.2009	Clarification regarding applicability of Circular RPCD. SME & NFS. BC. No. 76/ 06.02.31 (P) /2008-09 the guidelines contained therein pertain only to scheduled commercial banks and not to RRBs and LABs.
RBI/ 2008-09/ 501 UBD. BPD. No.71/09.09.001/2008-09	6.06.2006	Credit delivery to the Micro and Small Enterprises Sector

Above overview provides for the initiative taken by the Reserve Bank of India by issuing circulars to the banks and financial institutions while framing the credit policies to the Micro, Small & Medium Enterprises.

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