

Credit Potential for MSME in the State

INTRODUCTION:

MSME Sector has been recognized worldwide as an Engine of Economic growth and for Promoting equitable development of a country. This sector is capable of generating huge employment opportunities with low capital, operational flexibilities and quick adoption of technologies. Basically MSME Sector is BACKBONE of many developing countries of the world.

EVOLUTION OF MSME:

Indian Government in 1948 decided to industrialize the country with focus and attention towards small scale and cottage industry with a view to spur economic growth and development. Efforts were made to encourage small scale industry and improve competition among them. Linkages were established between small scale units with large industries.

Policy makers also stressed upon use of modern technology to make SSI more vibrant and competitive.

In 1977, concept of District Industries Centres (DICs) was introduced to ensure credit availability, supply of raw material and plant and machinery, new business strategies, quality control, coordination among various stakeholders in Government and financial institution and collection and collation of various data/information with regard to SSI and Cottage industries.

In subsequent years, gradually various steps were taken to liberalize the economy and integrate it to global economy. Important measures were : removal of license raj, introduction of free trade slowly moving towards globalization, investment limits in Plant and machinery increased. Later on more focus was given for women entrepreneurs, SC/ST entrepreneurs and also entrepreneurs in rural and backward areas. Small Industries Development Bank of India (SIDBI) came into existence in April 2, 1990 with a view to cater to the financial needs of MSME sector, as a specialized Bank.

Post year 2000, a comprehensive policy package was introduced where various duties were slashed, quality controls were emphasized to remain globally competitive. And thereafter Government, realizing the huge potential of MSMEs, took many initiatives such as further increase of investment limit in plant and machinery, Market Development Assistance scheme, Removal of items from reserve list category, inclusion of service sector in MSME and cluster development approach to create momentum in MSME development. Central Bank of country also instructed Banks to make credit available to MSME at highly competitive rates.

In 2006, MSME Act was passed redefining this sector as per investment in plant and machinery and equipment for manufacturing and service units. In 2008 MSME policy was framed to generate employment, increase exports and competitiveness to ensure robust

growth in MSME of at least 10%. Further measures and initiatives were taken for infrastructure development, incentives and subsidy schemes, technology up gradation, marketing support, simplification of systems, procedures, rules and regulations, special dispensation in export import policies and restructuring of stressed MSMEs. And finally a new definition of MSME sector was introduced effective from July 1, 2020.

DEFINITION:

Ministry of Micro, Small and Medium Enterprises vide its notification dated 1st June, 2020 has revised the definition of MSME Units by effecting amendments in the MSMED Act 2006. As per the recent notification Micro, Small and Medium Enterprises are defined as under:

1. A Micro Enterprise, where the investment in Plant and Machinery or Equipment does not exceed Rs.1 Crore and turnover does not exceed Rs. 5.00 Crores.
2. A Small Enterprise, where the investment in Plant and Machinery or Equipment does not exceed Rs. 10.00 Crores and turnover does not exceed Rs. 50 Crores.
3. A Medium Enterprise, where the investment in Plant and Machinery or Equipment does not exceed Rs.50.00 Crores and turnover does not exceed Rs.250.00 Crores.

The above new definition is effective from 1st July, 2020.

As per **OLD DEFINITION** MSME units were defined as under:

1. A Micro Enterprise, where investment in plant and machinery does not exceed Rs. 25.00 lacs for a manufacturing unit and investment in equipment does not exceed Rs. Rs.10.00 lacs for service unit.
2. A Small Enterprise, where investment in plant and machinery is Rs. 25.00 lacs and above but does not exceed Rs.5.00 Crores for manufacturing unit and investment in equipment is Rs.10.00 lacs and above but does not exceed Rs.2.00 Crores for service unit.
3. A Medium Enterprise, where investment in plant and machinery is Rs. 5.00 Crores and above and does not exceed Rs. 10.00 Crores for manufacturing unit and investment in equipment is Rs.2.00 Crores and does not exceed Rs.5.00 Crores for service unit.

It can be observed from the new definition that quantum of investment in plant and machinery has increased substantially across all three types of units, concept of turnover has been introduced and distinction between manufacturing and service units has been done away with.

The new definition of MSME units, which was announced by the honourable finance minister recently as part of the stimulus package is to boost economy and will assist the sector in growing and emerging as a vibrant and dynamic sector, contributing to self-reliance and employment in a big way.

WHY MSME IS IMPORTANT FOR INDIA:

If we need a robust growth rate, we must promote and assist MSME in a big way by providing them a MSME friendly ecosystem. MSME is very important for India because of following reasons:

1. There are around 63 million MSME units spread across the country and their contribution is 30% to India's GDP (6.11% to manufacturing GDP and 24% to Service Units GDP). Under ambitious plan of Government of India to make India a Rs. 5 Trillion Economy by 2025, MSME Ministry has set a target of 50% MSME contribution to GDP.
2. MSME sector is second largest generator of employment after Agriculture sector in India. It provides employment to around 110 million people in India, 40% of India's workforce.
3. 45% of total exports of India comes from MSME units, thus they are substantial contributor towards Forex Reserve and plays a significant role in balance of trade.
4. MSME promotes Financial Inclusion and inclusive growth in the country.
5. They constitute 95% of total industrial units in our country.
6. 16% of total lending goes towards MSME financing.
7. MSMEs produce more than 6000 products.
8. They account for 45% of the total Indian manufacturing output.

RBI GUIDELINES WITH REGARD TO MSME:

Definition:

Reserve Bank of India vide its notification dated July 2, 2020, in sync with Government of India definition of MSME, have issued following guidelines with regard to MSME classification.

Classification of enterprises

An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

- i. a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- ii. a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- iii. a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

Composite criteria of investment and turnover for classification

- i. A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.
- ii. If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
- iii. All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.

Calculation of investment in plant and machinery or equipment

- i. The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961.
- ii. In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.
- iii. The expression “plant and machinery or equipment” of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).
- iv. The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR.
- v. The cost of certain items specified in the Explanation I to sub-section (1) of section 7 of the Act shall be excluded from the calculation of the amount of investment in plant and machinery.

Calculation of turnover

- i. Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
- ii. Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
- iii. The turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN shall be mandatory.

In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place.

Priority Sector Guidelines for MSME sector

In terms of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 07, 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:

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.

Service Enterprises

All bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, shall qualify under priority sector without any credit cap.

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.

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

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.

To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units shall continue to enjoy the priority sector lending status up to three years after they grow out of the MSME category concerned.

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

Advances to Micro, Small and Medium Enterprises (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.

Domestic Commercial Banks and foreign banks with 20 branches and above 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. However, this sub-target for

lending to Micro Enterprises is not applicable to foreign banks with less than 20 branches operating in India.

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 per cent of total lending to MSE sector as on corresponding quarter of the previous year to Micro enterprises.

Common guidelines / instructions for lending to MSME sector

Issue of Acknowledgement of Loan Applications to MSME borrowers.

Banks are advised to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt. Banks are further advised 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.

Collateral

Banks are mandated not to accept collateral security in the case of loans up to Rs.10 lakh extended to units in the MSE sector. Banks are also advised 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, on the basis of good track record and financial position of the MSE units, increase the limit to dispense with the collateral requirement for loans up to Rs.25 lakh (with the approval of the appropriate authority).

Banks are advised to strongly 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.

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.

Revised General Credit Card (GCC) Scheme

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, the GCC guidelines were revised on December 2, 2013.

Credit Linked Capital Subsidy Scheme (CLSS)

Government of India, Ministry of Micro, Small and Medium Enterprises 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.

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

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 and Provisioning pertaining to Advances' and as updated from time to time.

(ii) All commercial banks are also advised in terms of our circular RPCD.SME&NFS.BC.No. 102/06.04.01/2008-09 dated May 4, 2009 to do the following:

- 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 Micro, Small and Medium Enterprises issued on March 17, 2016) 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. Give wide publicity to the One Time settlement scheme implemented by them, by placing it on the bank's website and through 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.

- c. Implement recommendations with regard to timely and adequate flow of credit to the MSE sector.

Framework for Revival and Rehabilitation of MSMEs

The Ministry of Micro, Small and Medium Enterprises, Government of India, vide their Gazette Notification dated May 29, 2015 had notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' 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. After carrying out certain changes in the captioned Framework in consultation with the Government of India, Ministry of MSME so as to make it compatible with the existing regulatory guidelines on 'Income Recognition, Asset Classification 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. 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 of the Framework are as under:

- i) Before a loan account of an MSME turns into a Non-Performing Asset (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

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 Indian Banking Association (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 management information system (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. The position in this regard is to be displayed by banks on their websites; and 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.

Specialised MSME branches

Public sector banks 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 Government of India for stepping up credit to MSME sector, the public sector banks 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. 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.

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.

Empowered Committee on MSMEs

As part of the announcement made by the Union Finance Minister, Empowered Committees on MSMEs are constituted at the Regional Offices of Reserve Bank of India, 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 revival and rehabilitation of stressed 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.

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. The Code 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. However, 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.

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 to enable 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.

Micro and Small Enterprises 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.

Further, Financial Literacy Centres operated by Scheduled commercial Banks have been advised vide our circular FIDD.FLC.BC.No.22/12.01.018/2016-17 dated March 2, 2017 to conduct target specific financial literacy camps, where one of the target groups is small entrepreneurs.

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) for making available of appropriate information for risk assessment and
- (c) for 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.

(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.

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) 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.

Committees on flow of Credit to MSE sector

Scheduled Commercial Banks may be guided by the contents of the following circulars while extending credit to MSE sector:

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

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

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

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

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

The recommendations of the Committee was communicated to banks for implementation vide circular RPCD.PLNFS.BC.28/06.02.31(WG)/2004-05 dated September 4, 2004.

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

Banks were advised vide circular dated RPCD.SME&NFS.BC.No.102/06.04.01/2008-09 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.

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

A High Level Task Force was constituted by the Government of India (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.

Working Group to Review the Credit Guarantee Scheme for Micro and Small Enterprises

A Working Group was constituted by the Reserve Bank of India 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 to this effect was issued to all scheduled commercial banks vide RPCD.SME&NFS.BC.No.79/06.02.31/2009-10 dated May 6, 2010.

SUPPORT, INCENTIVES AND SUBSIDY FROM GOVERNMENT OF INDIA:

CGTMSE

The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to the MSE sector without the need for collaterals/ third party guarantees. The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of an MSE unit, which availed collateral-free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 85 per cent of the outstanding amount in default. The CGTMSE would provide cover for credit facility up to Rs. 100 lakh which have been extended by lending institutions without any collateral security and /or third party guarantees. A guarantee and annual service fee is charged by the CGTMSE to avail of the guarantee cover. Presently the guarantee fee and annual service charges are to be borne by the borrower.

CREDIT LINKED CAPITAL SUBSIDY SCHEME

Ministry implements a scheme called Credit Linked Capital Subsidy Scheme (CLCSS) for technology upgradation of Micro and Small enterprises in the country. Under the scheme, 15 per cent capital subsidy, limited to maximum of Rs 15 lakh (12 per cent prior to 29.09.2005 limited to maximum of Rs 4.8 lakh) is provided to the eligible MSEs for upgrading their technology with the well-established and improved technology as approved under the scheme. 48 products/sub-sectors have been approved under the CLCSS till date. If you are an MSE manufacturing a product and want to upgrade the technology of manufacturing the product with the well established and improved technology as approved under the Scheme, then you may have to approach to the nodal agencies/eligible financial institution for sanction of term loan for purchase of eligible machinery.

CLUSTER DEVELOPMENT:

The Ministry is implementing the Micro and Small Enterprises – Cluster Development Programme (MSE-CDP) wherein support is provided for Diagnostic Study; Soft Interventions like general awareness, counseling, motivation and trust building, exposure visits, market development including exports, participation in seminars, workshops and training programmes on technology upgradation etc; Hard Interventions like setting up of Common Facility Centers (Common Production/Processing Centre, Design Centre, Testing Centre etc.) and creation/upgradation of infrastructural facilities in the new/existing industrial areas/clusters of MSEs.

SKILL DEVELOPMENT:

The Ministry conducts various types of training programme through its various organisations for self employment as well as wage employment. The training programmes are primarily focused to promote self employment in the country. Thus all type of programmes have input which provide necessary information and skills to a trainee to enable him to establish his own micro or a small enterprises. The programmes include two week Entrepreneurship Development Programme (EDP), Six Week Entrepreneurship Skill Development Programme (ESDP). One week Management Development Programme (MDP), One Day Industrial Motivation Campaign(IMC) etc. For Monitoring of the programme a web based system has been developed where coordinator of the programme is bound to feed all details of trainees including his photo and phone no. on the website. The same will be linked to the call centre of Ministry where real time feedback is obtained from trainees.

TOOL ROOMS

Tool Rooms are equipped with state-of-the-art machinery & equipment. They are engaged in designing and manufacturing of quality tools, which are necessary for producing quality products, and improve the competitiveness of MSMEs in national and international markets. They also conduct training programmes to provide skilled manpower to industries specially MSMEs. The placement of trainees trained in Tool Room is more than 90%. There are 18 Autonomous Bodies (10 MSME Tool Rooms and 8 Technology Development Centres) under DC (MSME).

GLOBAL COMPETITIVE EDGE

The National Manufacturing Competitiveness Programme (NMCP) is the nodal programme of the Government to develop global competitiveness among Indian MSMEs. The Programme was initiated in 2007-08. This programme targets at enhancing the entire value chain of the MSME sector through the following schemes:(a) Lean Manufacturing Competitiveness Scheme for MSMEs;(b) Promotion of Information & Communication Tools (ICT) in MSME sector;(c) Technology and Quality Up gradation Support to MSMEs;(d) Design Clinics scheme for MSMEs;(e) Enabling Manufacturing Sector to be Competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTT);(f) Marketing Assistance and Technology Up gradation Scheme for MSMEs;(g) Setting up of Mini Tool Room under PPP Mode;(h) National campaign for building awareness on Intellectual Property Rights (IPR);(i) Support for Entrepreneurial and Managerial Development of SMEs through Incubators.(j) Bar Code under Market Development Assistance (MDA) scheme.

ENERGY CONSERVATION:

The Ministry implements the “Technology and Quality Upgradation Support to Micro, Small and Medium Enterprises (TEQUP)” which focuses on two important aspects, namely, enhancing competitiveness of MSME sector through Energy Efficiency and Product Quality Certification. The basic objective of this scheme is to encourage MSMEs in adopting energy efficient technologies and to improve product quality of manufacturing in MSMEs. It is a well known fact that energy consumption is a significant component in the cost structure of almost any manufacturing/ production activity. Adopting energy efficient technologies curtails the cost of energy there by reducing production cost and increasing competitiveness. Under this scheme, a capital subsidy of 25% of the project cost subject to a maximum of Rs. 10.00 lakh shall be provided to the registered MSME units. While 25% of the project cost will be provided as subsidy by the Government of India, the balance amount is to be funded through loan from SIDBI/banks/financial institutions. The minimum contribution as required by the funding agency will have to be made by the MSME unit.

TECHNOLOGY UPGRADATION SCHEME

The TEQUP scheme envisages another activity, namely, Product Quality Certification. The main objective of this scheme is to encourage MSMEs to Acquire Product Certification Licenses from National / International Bodies , thereby improving their competitiveness. The primary objective of this activity is to provide subsidy to MSME units towards the expenditure incurred by them for obtaining product certification licenses from National / International standardization Bodies. Under this Activity, MSME manufacturing units will be provided subsidy to the extent of 75% of the actual expenditure, towards licensing of product to National/International Standards. The maximum GOI assistance allowed per MSME is Rs.1.5 lakh for obtaining product licensing /Marking to National Standards and Rs. 2.0 lakh for obtaining product licensing /Marking to International standards. One MSME unit can apply only once under the scheme period.

DESIGN CLINIC

The Ministry implements the Design Clinic Scheme for Design Expertise to Micro, Small and Medium Enterprises (MSME) Sector is to improve the design of the product to meet global challenges and compete with similar products domestically and internationally. It is launched to problems and add value to existing products. The goal of this scheme is to help MSME manufacturing industries move up the value chain by switching the production mode from original equipment manufacturing to original design manufacturing and hence original brand manufacturing. In the Design Clinic scheme, the value additions to an idea or a concept are imparted through interaction at a lesser cost to a specific industry/sector. The expected outcome of such interventions is new product development by design improvement and value addition for existing products.

SUPPORT AND INCENTIVES BY GOVERNMENT OF GUJARAT FOR MSMEs

1. Scheme for financial assistance by way of Capital Subsidy and Credit linked interest subsidy to Micro, Small and Medium Enterprises.
2. Assistance for reimbursement of CGTMSE fees for Micro and Small Enterprises.

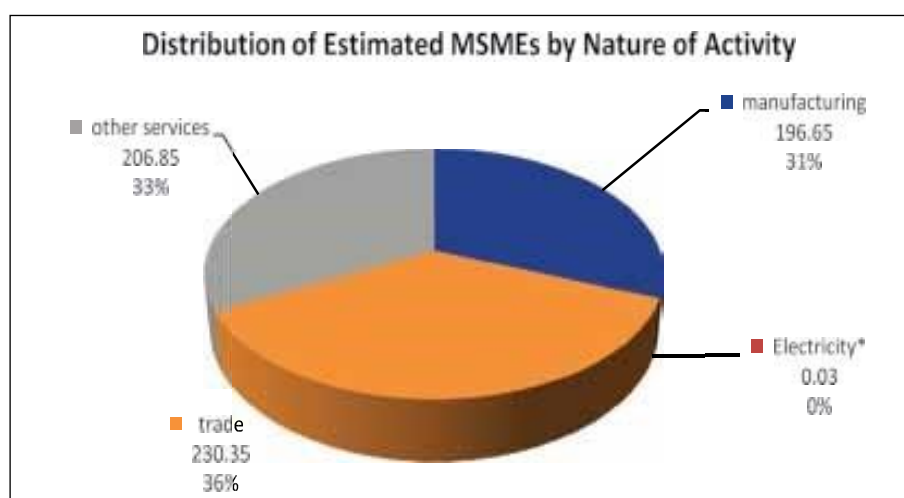
3. Assistance for interest subsidy to service enterprise.
4. Scheme for financial assistance for Quality Certification.
5. Scheme for Technology Acquisition.
6. Assistance for patent registration.
7. Scheme for financial assistance for Energy and Water Conservation
8. Assistance to SME for raising capital through SME Exchange.
9. Rehabilitation of Sick enterprises.
10. Assistance for Venture Capital.
11. Scheme for assistance for start -ups and innovation.
12. Assistance for shed and plot developed by GIDCs.
13. Scheme for assistance for R&D activities.
14. Scheme for assistance Labour Intensive Industries.

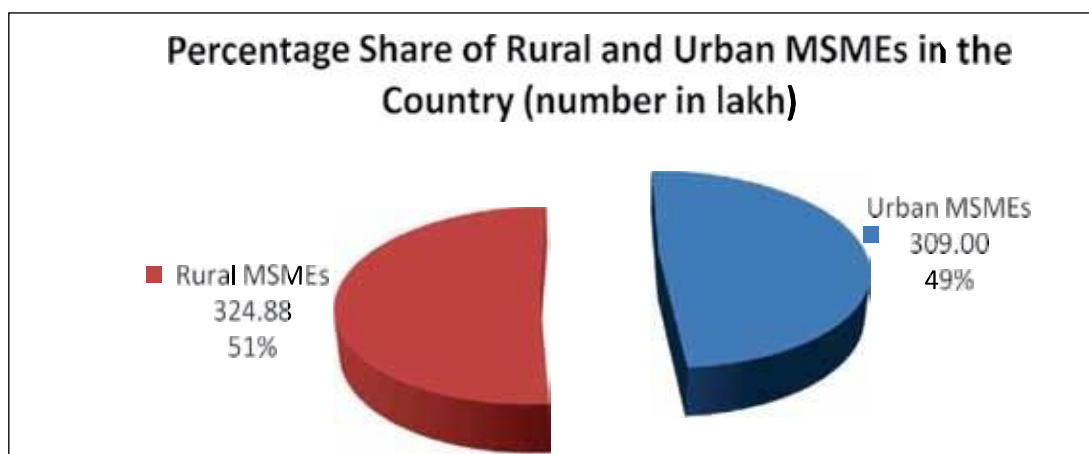
SOME INTERESTING STATISTICS RELATED TO MSMEs:

Number of MSMEs (Activity Wise) PAN INDIA

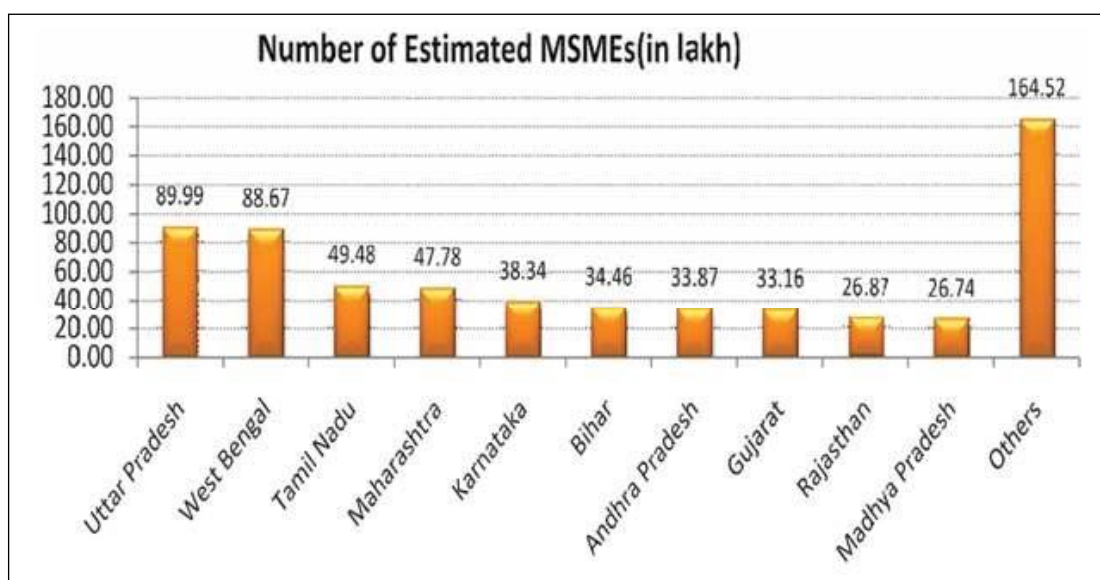
Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
All	324.88	309.00	633.88	100

**Non-captive electricity generation and transmission*





STATEWISE DISTRIBUTION OF MSME:



	State/UT	Estimated Number of MSMEs	
		Number (in lakh)	Share (in %)
1	Uttar Pradesh	89.99	14
2	West Bengal	88.67	14
3	Tamil Nadu	49.48	8
4	Maharashtra	47.78	8
5	Karnataka	38.34	6

6	Bihar	34.46	5
7	Andhra Pradesh	33.87	5
8	Gujarat	33.16	5
9	Rajasthan	26.87	4
10	Madhya Pradesh	26.74	4
11	Total of above ten States	469.36	74
12	Other State/UTs	164.52	26
13	All	633.88	100

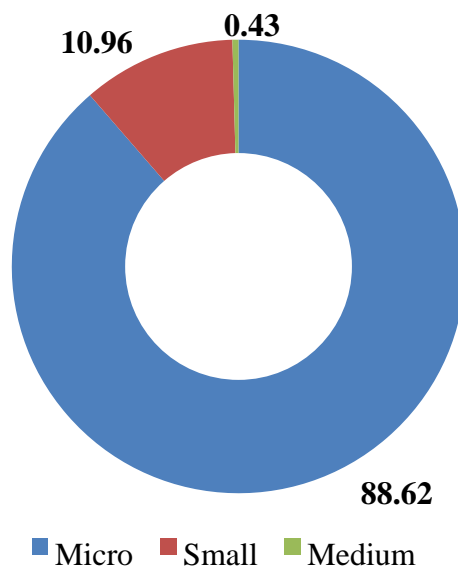
Year wise and MSME wise Registration from October 15 to December 19

Year/Cat ory	2015-16*	2016-17	2017-18	2018-19	2019-20 [#]	Total
Micro	4,21,516	21,47,908	13,44,612	18,70,932	16,32,644	74,17,612
Small	70,866	2,16,558	1,66,259	2,41,187	2,22,226	9,17,096
Medium	2,631	8,592	6,584	9,426	8,506	35,739
Total	4,95,013	23,73,058	15,17,455	21,21,545	18,63,376	83,70,447
GUJARAT	52015	194843	193525	171325	137598	749306

Out of 7,49,306 MSME registered in Gujarat, break up for manufacturing units and service units is as under:

	Manufacturing	Services	Total
Micro	346881	285253	632134
Small	71265	40941	112206
Medium	3675	1291	4966
Total	421821	327485	749306

Percentage share of Micro, Small and Medium Enterprises during October 2015 to December 2019



Contribution of MSMEs in Country's Economy at Current Price

(Figures in Rs. Crores adjusted for FISIM ³ at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	30208	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

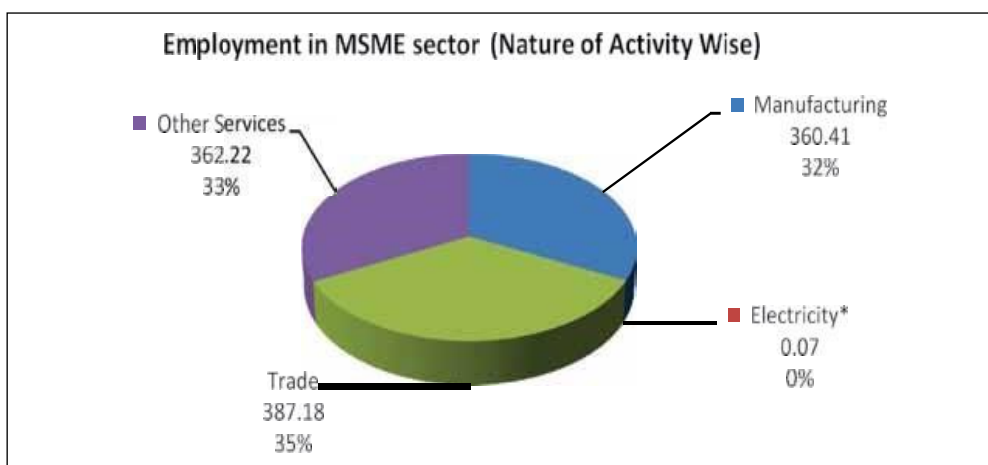
Source: Central Statistics Office

Estimated Employment in MSME Sector (Broad Activity Category Wise)

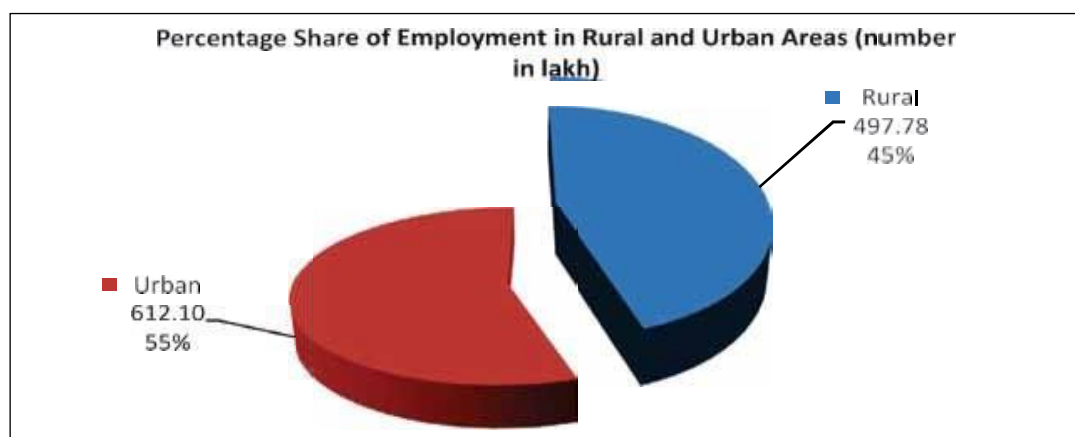
Broad Activity Category	Employment (in lakh)			Share (%)
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
All	497.78	612.10	1109.89	100

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*Non-captive electricity generation and transmission



*Non-captive electricity generation and transmission

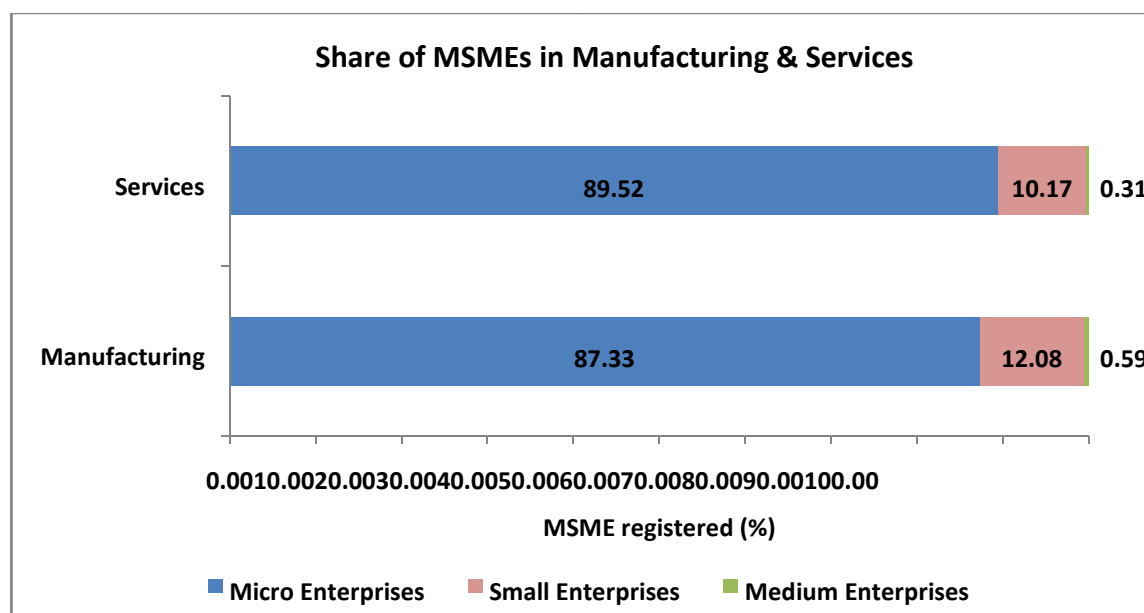


Year wise and MSME wise Employment

Year/Category	2015-16*	2016-17	2017-18	2018-19	2019-20#	Total
Micro	18,40,539	77,66,716	52,30,911	74,78,863	63,65,626	2,86,82,655
Small	12,73,583	42,64,924	28,06,570	36,54,468	30,28,756	1,50,28,301
Medium	2,17,822	8,47,102	5,64,523	6,88,694	6,32,765	29,50,906
Total	33,31,944	1,28,78,742	86,02,004	1,18,22,025	1,00,27,147	4,66,61,862
GUJARAT	362417	1231337	1034520	1008251	793587	4430112

* From October 2015 to March 2016, #From April 2019 to December 2019

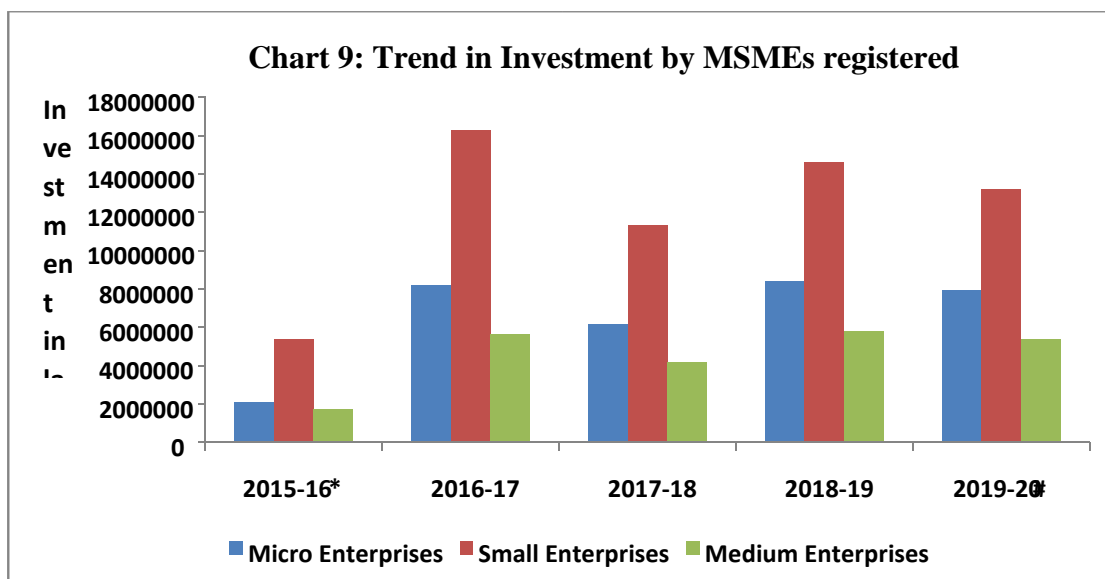
Out of 44,30,112 employment generation during October 2015 to December 2019, 26,31,138 was for Micro, 14,99,231 for Small Enterprise and 2,99,231 for Medium Enterprise.



Year wise Investment by MSMEs (In Rs. lakh)

Year/Category	2015-16*	2016-17	2017-18	2018-19	2019-20#	Total
Micro	20,60,206	81,82,709	61,70,872	83,87,685	79,39,485	3,27,40,957
Small	53,86,170	1,62,61,673	1,13,25,661	1,46,00,710	1,31,82,372	6,07,56,586
Medium	17,46,302	56,41,428	41,96,142	57,83,700	53,65,641	2,27,33,213
Total	91,92,678	3,00,85,810	2,16,92,675	2,87,72,095	2,64,87,498	11,62,30,756

* From October 2015 to March 2016, #From April 2019 to December 2019



RECENT ANNOUNCEMENTS BY GOVERNMENT OF INDIA FOR THE MSME SECTOR:

1. Collateral free automatic loans (Emergency Credit line Guarantee Scheme) worth Rs. 3.00 lakh crores for MSMEs with following features:
 - Borrowers with up to Rs. 25 Crores outstanding and Rs. 100 Crores turnover to be eligible.
 - 100% Credit Guarantee by Government.
 - Twelve Month Moratorium on payment of principal.
 - Interest to be capped.
 - No Guarantee Fee and no Collateral.
 - Re-payable in 4 years. 100% credit guarantee cover to Banks and NBFCs on principal and interest.
 - Scheme can be availed till 31st October, 2020.
 - This is going to benefit 45 lac MSME units.

2. Support to stressed MSMEs with infusion of Rs. 20,000 Crores equity support through Subordinate Debt. Some important points with regard to this scheme is as under:
 - Stressed MSMEs or MSMEs with NPA loans will be eligible.
 - More than two lacs MSMEs likely to be benefitted.
 - Government to infuse Rs. 4,000 Crore in Credit Guarantee Trust Fund for MSMEs.
 - CGTMSE will provide partial Credit Guarantee support Banks.
 - Promoters of the MSME will be given debt by banks, which will then be infused by promoter as equity in the unit.

3. Funds of fund created to infuse equity worth Rs. 50,000 Crores in the MSME Sector:
 - MSMEs face severe shortage of Equity.
 - Rs. 10,000 Crores Corpus Fund created.
 - Will provide equity funding for MSMEs with growth potential and viability.

- Fund of Funds will be operated through a Mother Fund and few Daughter funds.
 - Fund structure will help leverage Rs. 50000 Crores of funds at daughter funds level.
 - This will help potential MSMEs in expansion in size as well in capacity.
 - Will encourage MSMEs to get listed on main board of Stock Exchanges
4. To ensure growth leaps and bounds with new defined MSMEs. (details mentioned above) Distinction between manufacturing and services MSMEs removed. Investment limits revised upwardly. Criterion of turnover added. Low threshold in MSME definition have created a fear among MSMEs of graduating out of the benefits and killing the urge to grow.
 5. In a major initiative, Global tenders to be disallowed for Government tenders up-to Rs.200 crore to enable MSMEs to participate in the Government procurement process thus marching towards LOCAL TO GLOBAL. Indian MSMEs have often faced unfair competition from foreign companies. This step will be towards SELF – RELIANT INDIA (ATMNIRBHAR BHARAT) and will support MAKE IN INDIA INTIATIVE of Government of India. This will also help MSMEs to increase their business.
 6. Government of India and CPSEs to clear all receivables of MSMEs in the next 45 days
 7. E-market linkages for MSMEs across the board to provide marketing opportunities. Social Media Posts relating to other Announcements having positive impact on MSMEs.
 8. Rs.2,500 crores EPF support for businesses and workers for three more months till August,2020. This will benefit more than 3.5 lakh units and 72 lakh employees.
 9. EPF Contribution reduced for Business and Workers for 3 months- Rs 6750 crores Liquidity Support.
 - Businesses need support to ramp up production over the next quarter.
 - It is necessary to provide more take home salary to employees and also to give relief to employers in payment of Provident Fund dues,
 - Therefore, statutory PF contribution of both employer and employee will be reduced to 10% each from existing 12% each for all establishments covered by EPFO for next 3 months.
 - CPSEs and State PSUs will however continue to contribute 12% as employer contribution.
 - This scheme will be applicable for workers who are not eligible for 24% EPF support under PM Garib Kalyan Package and its extension.

- This will provide relief to about 6.5 lakh establishments covered under EPFO and about 4.3 crore such employees.
 - This will provide liquidity of Rs 6750 Crore to employers and employees over 3 months.
10. Special Liquidity Scheme for Non-Banking Financial Companies, Micro-Finance Institutions, Housing Finance Companies worth Rs.30,000 crore
 11. To cater to liquidity needs of MSMEs, Partial Credit Guarantee Scheme 2.0 for NBFCs worth Rs.45000 crore introduced. Government of India to bear the first 20% of loss.
 12. All Central Agencies like Railways, Ministry of Road Transport & Highways, Central Public Works Dept, etc. to grant extensions of contracts up to 6 months without costs to contractor.
 13. Expediting refunds to partnerships, proprietorship & LLPs will help the MSMEs immensely.
 14. In the present circumstances, physical trade fairs and exhibitions would be difficult. The announcement to promote e marketing linkage would go a long way in helping the MSME Sector.
 15. The announcements that TDS and TCS will be reduced by 25% and that all refunds to entities including Proprietorship, Partnership firms LLP etc. would be issued immediately, will also help the liquidity situation of MSMEs.
 16. Similarly, the extension in the compliance date of various income-tax related deadlines is also very satisfying. The small units will now have a peace of mind and will focus on work and productivity for next few month.
 17. Launch of CHAMPIONS, a Technology Platform to empower MSMEs with regard to grievance redressal, capture new opportunities and to identify and encourage the sparks.

MEASURES ANNOUNCED BY THE RBI IMPACTING MSMEs:

1. REDUCTION OF CRR: RBI reduced CRR by 100 basis points to 3% of net demand and time liabilities effective from March 28, 2020 which would inject Rs. 137000 Crores across the banking system. Besides, it has also been decided to reduce minimum daily CRR balance from 90% to 80% effective from March 28,2020 which will be available till June 26,2020.

2. **RESCHEDULING OF PAYMENTS:** A moratorium of three months which was further extended up to August 31, 2020, of all instalments of terms loans falling due between March 1 – May 31, 2020. The accumulated accrued interest shall be recovered immediately after completion of this period.
3. **EASE OF WORKING CAPITAL FINANCING:** In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress, the lending institutions may recalculate drawing power by reducing margins and /or by reassessing the working capital cycle. Skuch relief is available up to 31st August, 2020.
4. **CLASSIFICATION AS SPECIAL MENTION ACCOUNT (SMA) AND NON – PERFORMING ASSET(NPA):** As the moratorium/deferement/recalculation of the drawing power is being provided to the borrowers it will not be treated as concession or change in terms and conditions of loan agreements under para 2 of Annex to RBI (Prudent Framework for Resolution of Stressed Assets) Direction , 2019.
5. The rescheduling of payments, including interest, will not qualify as a default for supervisory reporting and reporting to Credit Information Companies (CICs) by the lending institutions.
6. **EXTENSION OF REALIZATION PERIOD OF EXPORT PROCEEDS:** The time period for realization and repatriation of export proceeds for exports made up to or on July 21, 2020 has been extended to 15 months from the date of export which is presently 9 months from the date of exports.
7. **TLRO 2.0 :** RBI has decided to conduct Targeted Long Term Repo Operations (TLRO 2.0) for an aggregate amount of Rs. 50000 Crores with at least 50 % of the total amount availed going to Small and Mid Sized NBFCs and MFIs. This move will help in refinancing NBFCs and MFIs to maintain healthy cash flow to the Small and Medium Enterprises.
8. **REFINANCING FACILITIES FOR ALL INDIA FINANCIAL INSTITUTIONS (AIFIS):** All India Institutions such as NABARD, SIDBI and NHB play an important role in meeting the long term funding requirements of agriculture and the rural sector, small industries, housing finance companies, NBFCs and MFIs. RBI has decided to provide special refinance facilities for an amount of Rs. 50000 crores to these institutions to enable them to meet sectoral credit needs.
9. **LIQUIDITY ADJUSTMENT FACILITY: FIXED RATE REVERSE REPO RATE:** In order to encourage banks to deploy surplus funds in investments and loans in productive sectors of the economy, it has been decided to reduce the fixed rate reverse repo rate under Liquidity Adjustment Facility (LAF) by 25 basis points from 4.0 percent to 3.75 percent with immediate effect.

SME Clusters in Gujarat

No.	Type of Cluster	Location
1	Agro Chemicals	Nandesari
2	Auto Components & Light Engineering	Halol
3	Book Publishing	Ahmedabad
4	Brass Parts	Jamnagar
5	Ceramics	Morvi, Thangadh, Himatnagar, Ahmedabad
6	Chalk Industry	Porbandar
7	Chemicals	Vapi/ Ankleshwar/ Vatva
8	Data Processing	Ahmedabad, Surat
9	Detergent Powder & Cake	Ahmedabad
10	Diamond Processing	Ahmedabad, Surat
11	Drugs & Pharmaceuticals	Ahmedabad, Vadodara
12	Dyes & Intermediates	Ahmedabad
13	Electronic Hardware	Gandhinagar
14	Fabrication	Ahmedabad, Vadodara
15	Fish Processing	Veraval
16	Foundry, Casting & Forgings	Ahmedabad, Bhavnagar, Jamnagar, Rajkot, Vadodara, Anand
17	IT & BPO	Ahmedabad, Gandhinagar
18	Machine Tools	Rajkot
19	Oil Engines	Rajkot
20	Plastic Industry	Ahmedabad/ Dhoraji/ Jamnagar/ Vadodara
21	Powder Driven Pumps	Ahmedabad, Mehsana
22	Powerlooms	Chhatral / Surendranagar
23	Precision & Light Engineering	Sanand

24	Re-Rolling Mills	Bhavnagar
25	Salt	Anjar, Gandhidham, Dasada / Bhavnagar
26	Textile Machinery Parts	Ahmedabad
27	Textile Processing	Jetpur
28	Textile and Readymade Garments	Ahmedabad/ Surat/ Dholka
29	Textiles-Finishing	Bhuj
30	Textiles-Ginning	Ahmedabad, Manavadar
31	Textiles- Jari Printing	Surat, Jetpur
32	Textiles- Khadi	Wadhvan
33	Textiles- Powerloom	Ahmedabad, Surat
34	Textiles- Synthetic	Surat, Mangrol
35	Utensils	Ahmedabad, Vadodara
36	Wall Clocks	Morbi
37	Weights & Measures	Savarkundla
38	Wood Based	Nadiad

Source: Gujarat Chamber of Commerce & Industries

In addition to above Gujarat Government has recently announces eight new MSME clusters at Ahmedabad (Diamond cutting and polishing), Surat (Diamond cutting and polishing and Engineering), Anand (Stone Industry), Navsari (Food Processing), Surendra Nagar(Plastic Products), Mehsana(Packaging), Sabar kantha (Food Processing).

PRESENT STATUS AND TREND IN MSME FINANCING IN GUJARAT

The MSME enterprises have emerged into one of the vibrant and dynamic sectors of Gujarat. MSME Gujarat is playing an essential role in providing opportunities and employment in the areas of Engineering, Textile, Chemical products, Plastic, Food Processing, Ceramic, Pharmaceutical, etc. MSMEs aims to contribute towards the development of backward & rural areas to reduce regional imbalances and provide equitable distribution of national wealth and income. MSMEs of Gujarat contribute enormously to the socio-economic growth of the country. Gujarat is becoming a significant Multi-Product MSME cluster in the country.

Providing adequate and timely Bank finance is key to sustained growth of MSMEs. In Gujarat with excellent infrastructure such as roads, ports, air and rail connectivity and huge network of Bank Branches with deep penetration even in remote villages, availability of Bank credit is

not an issue, most of the time, however timely disposal of application is a cause of concern. Most of the big players such as SBI, HDFC, BoB, Kotak Mahindra focus a lot on MSME financing. During FY 16 and FY 19 the YOY growth in outstanding MSME was pretty good at 29.65% and 34% respectively but YOY growth was below 10% in FY 17 and FY 18 and recent trend shows that YTD growth was paltry at 3.96 % for 9 month over 31.03.19 during FY 20, which is a cause of concern.

There are huge credit disbursement potential available in various pockets of Gujarat state. Gujarat has 38 identified cluster for various industries as mentioned in table below. There is a urgent need to map units of these clusters with the branches of various banks to address the financial requirement of these units whether they are Micro, Small or Medium. This will pave a way for huge MSME revolution and help in realising the dream of Rs.5 Trillion Economy and laid a solid foundation for ATMA NIRBHAR BHARAT. A similar exercise is required to be done for various GIDCs and INDUSTRIAL PARKS located at various places of Gujarat State.

TREND IN MSME FINANCING SINCE FY 16 TO Q3 FY 20 IN GUJARAT STATE(Rs.inCr)

MSME	31.03.16	31.03.17	31.03.18	31.03.19	31.12.19
Outstanding	83084	87272	94871	127174	132210
% Growth YOY/YTD	29.65	5.04	8.71	34.00	3.96
% to Total Advance	21.43	20.22	20.62	23.58	22.38
Total Advance	431541	460030	539392	590664	625414

Source SLBC, Gujarat

TREND IN DISBURSEMENT IN MSME FINANCING IN GUJARAT (Rs. In Cr)

Period	No. of Accounts Disbursed	Amount
01.04.2018 to 31.03.2019	550745	50521
01.04.2019 to 31.12.2019	584593	75413

Rs. 50421 Crores were disbursed towards MSME loans during FY 19 whereas in nine month of FY 20 i.e. from 01.04.2019 to 31.12.19 Rs. 75413 was disbursed with a YTD growth of 49.27% however YTD growth during the same period in outstanding MSME advance is just 3.96%. This may be because of huge amount of recovery/closure and shifting of accounts to Corporate account category.

NPA IN MSME SECTOR IN GUJARAT

As on 31.03.18	MSME outstanding	NPA	% of MSME Loan O/s
	94871	6726	7.09
	Total Advance	NPA	% of total Advance
	539392	35220	6.53
As on 31.12.2019	MSME outstanding	NPA	% of MSME Loan O/s
	132214	9927	7.50
	Total Advance	NPA	% of total Advance
	625414	42079	6.73

It is evident from above table that as of 31.03.18 MSME NPA was Rs.6726 Crores which was 7.09% of Gross NPA of Rs.35220 Crores (6.53% of Total Advance) and in nine months of FY 20 MSME NPA increased by Rs.3201 Crores, a 41 basis point increase impacting the Gross NPA% to 6.73%.

POTENTIAL AVAILABLE IN GUJARAT FOR MSME FINANCING:

Gujarat is one of the most industrial state of our country. Good infrastructure, availability of skilled and unskilled labour, high ranking for ease of doing business, entrepreneurship spirit and investor friendly business environment make Gujarat most appropriate destination for a robust MSME development through financing. Gujarat is known for its industries in Pharmaceuticals, Chemicals, Ceramics, Textiles, Diamond cutting and polishing, Engineering Goods, Petrochemicals, Fertilizers and Food Processing etc. It has more than 250 + GIDCs, 20 functional SEZ (and many in pipeline), plenty number of industrial parks, developed by Government and private entities, more than 30 clusters, all this provides huge potential for MSME financing. Banks and other financial institutions in collaboration with the Government agencies can play vital role in MSME financing. There is no dearth of potential in Gujarat for MSME financing. MSMEs are very important link (forward and backward) of supply chain to large industries. There is a urgent need to harness this potential to map each and every GIDCs, Industrial Parks, SEZs and Cluster Zones with Banks and Government Authorities to ensure availability of timely and adequate finance at competitive rates to MSMEs. More focus to be given to finance Micro and Small Enterprise. A lot can be done by popularising Government schemes like PMMY and Stand up India.

Due to un precedented current situation, MSMEs need immediate and focussed resolution of their issues and financing is at forefront. All stake holders must ensure that this support is

available to MSMEs through recently announced measures by Government of India and Reserve Bank of India. Schemes like ECLGS, Rs. 20000 Crores fund for stressed MSMEs and Rs. 50000 Crores Fund of fund schemes must be implemented in letter and spirit and Banks can play a very vital role in execution of these schemes with the support of stakeholders at Government.

Further, in addition to traditional sectors like Chemicals, Textiles, Diamond Industry etc, there are emerging opportunities for financing MSMEs in sectors like Healthcare, Pharmaceuticals, Food processing, Forest and environment, Energy, Transport and Start ups which can be explored to help to grow this sector. New definition of MSME has opened a host of opportunities for banks and financial institutions to finance existing and new MSME units.

Another unique initiative by government is **psbloanin59minutes.com** which is designed to ease access of credit to MSMEs and ensures seamless In-principle approval of In-principle approval of loans from Rs.1.00 lac to Rs. 5.00 Crores with/without collaterals at competitive pricing. Under this initiative System also check the eligibility under CGTMSE. Mudra Loans for Rs.10000 to Rs.10 Lacs can also be provided under this platform.

Trade Receivables Discounting System (TReDS)

This is a mechanism for facilitating the financing of trade receivables of MSMEs from Corporates and other buyers including Government Departments and Public Sector Undertakings. Basically it is a unified platform for sellers, buyers and financiers which eliminates paper work, transact online, provide easy access to funds at a very competitive discount rates. MSMEs must be encouraged to utilise this platform to address their liquidity issues.

CHALLENGES FACED BY MSMEs

The MSME sector is faced by a number of challenges :

- . • Availability of Finance: This is most crucial barrier undermining the potential of MSMEs. They have inadequate access to finance due to a lack of financial information, risk perception and non availability of collaterals. Banks show reluctance to finance MSMEs due to these reasons. MSMEs also lack access to private equity, venture capital and have a very limited access to secondary market instruments.
- . • Cost of funds: High cost of working capital and term loan facility weigh heavily on MSMEs. This makes them in competitive in export market vis a vis their counter parts in Asia where cost of funds is cheaper. MSMEs can borrow funds in foreign currency at rates linked to international benchmark rates but hedging cost and availability of expertise is again a limiting factor.
- Market orientation: MSMEs face fragmented markets in respect of their inputs as well as products and are vulnerable to market fluctuations.
- Access to market and technology: MSMEs lack access to local and international markets. The access of MSMEs to technology and products -innovations is limited. There is also a lack of awareness of global best practices among MSMEs. This causes their product less competitive in local and international market.
- Payments Delays: MSMEs face a lot of delays in payment of their dues from large corporates and even from public sector undertakings, this give rise to liquidity issues.

- **Higher cost of operations:** Rising cost of inputs and rising inflation adversely impact cost of operation of MSMEs. Trained staff of MSME units are generally fished out by the large corporates this gives rise to higher cost and high attrition rate impacting the operations of the MSMEs.

- **Availability of Capital:** Availability of capital is another limitation for MSMEs. If they want to go for expansion neither Banks nor Venture Funds invest in them so easily. It is not easier to raise money from capital market. Ultimately they raise money through informal sources at a higher cost.

- **Expertise in Forex Business:** Although MSMEs contribute significantly towards exports, but still lack knowledge of forex market and its instruments which are required to hedge exchange risks, market risk and interest rate risk and many a time they suffer due to this lack of knowledge.

There is urgent need to address the above challenges to make this sector dynamic and robust.

STRATEGIES FOR GOVERNMENT AND BANKS:

If India intend to grow with double digit growth rate and realise the dream of Rs.5 Trillion economy and Atma Nirbhar Bharat, we shall have to promote MSME in a big way and address various challenges faced by this sector with all seriousness. Initiation of Land and Labour Reforms, improvement in ease of doing business, making available timely and adequate credit and establishment of an eco system which is MSME friendly, are some of the areas which require immediate attention. In the current scenario state should attract large FDI to facilitate MSME to grow, being a very import link of supply chain and distribution.

MSMEs are already under severe pressure on account of demonetisation, GST and now due to current pandemic so it becomes all the more important to initiate measures and execute them with close monitoring. Each District must have a MSME Development Office to look after the interest and development of MSME in its jurisdiction. All stakeholders must work towards kindling an animal spirit among MSME Entrepreneurs to make this sector dynamic and globally competitive.

Banks play a very vital role in MSMEs financing. Providing adequate and timely credit, execution of RBI directions for MSMEs with regard to financing and assistance to stressed MSMEs, guiding them to manage various kind of risks etc are key components of overall development of MSMEs. Banks should also have senior officer posted in each district to look after the interest of MSMEs. Senior Management to ensure that bona-fide commercial decisions taken by officers/executives are not questioned, to avoid aversion to lending MSMEs. Banks must keep a close eye on end use of the funds and ensure that lent money is channelized into productive section of economy. Recently announced schemes by Government of India and RBI must be implemented in transparent manner and executed in letter and spirit. Banks must also ensure that at least 20% growth must happen in outstanding level on YOY basis. This will happen only when growth in disbursement will be in the range of 35 to 40% on YOY basis owing to substantial recovery and closure of accounts. Banks should give focussed attention towards disbursement in addition to sanctions

CONCLUSION

There is no doubt that MSME sector has huge potential to realise the dream of Atma Nirbhar Bharat and Rs. 5 Trillion economy by 2025 but to unleash their growth potential, issues and challenges faced by them must be resolved. There is an urgent need for continuous technology innovation, quality control, easy access to finance, diversification towards new markets, substitution of imports for inputs, better infrastructure facilities and skill upgradation. MSMEs, Governments and Financial Intermediaries must come more close to resolve the issues with effective and persistent efforts.

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