

Sub- Group on Flow of Private Sector Investments for MSME Sector

Executive Summary

The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly.

Despite the significant contributions of the MSME sector, the sector continues to face certain constraints like, as pointed out in PM's Task Force Report, 2010, availability of adequate and timely credit, high cost of credit, collateral requirements, access to equity capital and rehabilitation of sick enterprises, etc. It thus emerges that adequate, timely and affordable credit is one of the bigger issues for the MSME sector.

At present, a literature survey indicates that no study for the estimation of credit gap for the MSME sector is available in India. However, the National Commission on Enterprises in the Unorganised Sector (NCEUS) had estimated the credit gap only for the micro enterprises at 73% as at end March 2012-the terminal year of the 11th Five Year Plan, with the caveat that the number of such unorganized micro enterprises was estimated at 70 million with an average credit off take of ₹ 1.23 lakh per enterprise. This is in contrast to the MSME sector, which is estimated to have 32.2 million enterprises with an average credit off take of ₹ 7.16 lakh as at end March, 2012, based on scheduled commercial banks data on number of MSME accounts.

Against the backdrop of non-availability of data on the demand for credit from MSME sector and the credit gap, the Sub-Group has made an attempt to estimate the supply of, demand for and gap of credit for the MSME sector for the 12th Plan.

At the beginning of the 12th Plan period, the outstanding credit gap for the MSME sector is estimated at 62%, which is estimated to reduce to 43% in March, 2017 with the

assumption of minimum 20% Y-o-Y credit growth to MSME sector and 10% Y-o-Y credit growth to medium enterprises by Scheduled Commercial Banks (SCBs). However, if SCBs are directed to maintain minimum 22% in their outstanding credit growth to MSE sector and Medium Enterprises during the first two years of the 12th Five Year Plan (i.e. FY 2012-13 and FY 2013-14) and further minimum 25% during the remaining three years of the 12th Five Year Plan (i.e. FY 2014-15, FY 2015-16 and FY 2016-17), the MSME credit gap will further reduce to 32% by the terminal year of 12th Five Year Plan.

To achieve the above reduction in credit gap and for creating the enabling credit environment for the MSME sector, the Sub- Group has made various recommendations, viz. 22% Y-o-Y credit growth by SCBs for MSE sector and Medium Enterprises for FY 2012-14 and thereafter 25% YoY credit growth for FY 2014-17, 3% interest subvention for Micro Enterprises, uniform application form by banks, enhanced refinance fund to SIDBI to reach to ₹ 10,000 crore for FY 2017, capacity building of MSME loan officers, innovative ways for offering branchless banking, etc.

Section 1: MSME Sector Overview

The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. This sector even assumes greater importance now as the country moves towards a faster and inclusive growth agenda. Moreover, it is the MSME sector which can help realize the target of proposed National Manufacturing Policy of raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022.

Features of MSME Sector

Office of the Development Commissioner, M/o Micro, Small & Medium Enterprises, has conducted 4th Census on MSMEs with reference period 2006-07. Some of the socio-economic features of MSME sector in India are given in Table 1 below.

Table 1: MSMEs AT A GLANCE

S.No	2006-07				2009-10*
	Economic Parameters	Regd.	Unregd.	Total	
1.	No. of Enterprises (lakh)	15.5 (6%)	245.5 (94%)	261 (100%)	298
(i)	Manufacturing	10.3 (67%)	64.2 (26%)	74.5 (29%)	-
(ii)	Services	5.2 (33%)	181.3 (74%)	186.5 (71%)	-
	Socially backward classes (SC/ST/OBCs)	7.7 (50%)	126.1 (51%)	133.8 (51%)	-
	Others	7.8 (50%)	119.4 (49%)	127.2 (49%)	-
2.	Employment (lakh)	92	502.6	594.6	695

		(17%)	(83%)	(100%)	
	Manufacturing	79.8 (87%)	224.2 (45%)	304.1 (51%)	-
	Services	12.2 (13%)	278.4 (55%)	290.5 (49%)	-
	Male	73.4 (80%)	412.8 (82%)	486.1 (82%)	-
	Female	18.6 (20%)	89.8 (18%)	108.5 (18%)	
3.	Average Employment per unit (Number)	5.93	2.04	2.27	2.33
	Manufacturing	7.75	3.5	4.08	-
	Service	2.35	1.53	1.56	-
4.	Share in GDP (%)			7.44	8.72 (08-09)
5.	Share in Exports (%)				40%
6.	Fixed Investment (₹ crore)			5,00,758	6,93,835
7.	Employment per ₹ 1 lakh investment in Fixed investment			0.19	-
8.	Source of Finance (No. in Lakh)	15.5 (6%)	245.5 (94%)	261 (100%)	-
	No Finance/Self Finance	13.6 (88%)	228.5 (93%)	242.1 (93%)	-
	Institutional Sources	1.7 (11%)	11.8 (5%)	13.5 (5%)	-
	Non-Institutional Sources	0.2 (1%)	5.2 (2%)	5.4 (2%)	-

Source: Quick Results of 4th All India Census of MSMEs, 2006-07

* Annual Report of Ministry of MSME 2010-11

Although MSMEs contribute significantly to overall economy of the country, they face certain disadvantages, some of the credit related issues being:

- Availability of adequate and timely credit;
- High cost of credit;
- Collateral requirements;
- Access to equity capital; and
- Rehabilitation of sick enterprises.

The Government of India/Reserve Bank of India had set up many committees to improve the performance of MSME sector, the latest one being the Prime Minister's Task Force on MSMEs, which provided a comprehensive framework for long term development of MSMEs, covering crucial issues and concerns relating to credit, marketing, infrastructure, technology, skill development, exit policy, labour, taxation, matter related to North Eastern Region and Jammu & Kashmir. The Task Force recommended a number of time-bound action plan which are being implemented by different ministries of Government of India. The action taken so far is given in Annexure 1.

Section 2: Status of Credit flow to MSME sector

Credit to MSE sector has always been the priority area for the policy makers in the country, which is evident from the recent announcements in the stimulus package during global economic slowdown and also recent Union Budgets, Monetary and Credit policies. The Government of India has shown strong commitment to double the credit flow to this sector in the next five years. Accordingly Prime Minister's Task Force has recommended and RBI has mandated scheduled commercial banks to achieve, among others, 20% year- on- year credit growth to MSE sector.

Among the formal financial institutions, commercial banks constitute the largest source of financial assistance to MSME sector at about 87% as at end March 2011. The growth of outstanding MSE credit by SCBs recorded strong growth of 34% in FY 2011 on a

strong base of ₹ 3, 62,291 crore as at end March 2010. However, the number of accounts showed only 10% growth in FY 2011. The details of number of accounts and amount outstanding for MSE sector, Medium and MSME sector by Scheduled Commercial Banks are given in Table 2A, 2 B & 2C, respectively.

Table 2A: MSE Credit by SCBs

(No. of A/cs in lakh) (Amount ₹ crore)

Year Last Friday of	Public Sector Banks		Private Sector Banks		Foreign Banks		All Scheduled Commercial banks	
	No: of A/cs	Amt. O/s	No: of A/cs	Amt.O/s	No: of A/cs	Amt O/s	No: of A/cs	Amt O/s
March 2008*	39.67	151137.48	8.19	46911.87	0.65	15489.25	48.51	213538.61
March 2009	41.15 (3.73%)	191408.32 (26.64%)	6.78 (-17.21%)	46656.33 (0.54%)	0.58 (-10.78%)	18063.42 (16.61%)	48.51 (No change)	256128.07 (19.94%)
March 2010#	72.17 (75.38%)	276318.97 (44.36%)	11.31 (66.81%)	64824.72 (38.94%)	1.57 (170.69%)	21147.05 (17.07%)	85.05 (75.32%)	362290.74 (41.44%)
March 2011 (Provisional)	74.61 (3.38%)	376625.18 (36.30%)	17.08 (51.01%)	87856.74 (35.52%)	1.91 (21.65%)	21460.66 (1.48%)	93.60 (10.05%)	485942.58 (34.13%)

* Change in definition of the sector as per the MSMED Act 2006 advised to banks in 2007

Retail trade included in service sector

Source: Reserve Bank of India

Note: Figs. In parentheses indicates Y-o-Y % growth/decline

The outstanding credit by Scheduled Commercial Banks to the Medium enterprises sector as at end of March 2011 is shown below:

Table 2B: Outstanding Credit to Medium Enterprises by SCBs

(No. of A/cs in lakh) (Amount ₹ in crore)

As at end of	Public Sector Banks		Private Sector Banks		Foreign Banks		All Scheduled Commercial banks	
	No. of A/c	Amt. O/s	No. of A/c	Amt. O/s	No. of A/c	Amt O/s	No. of A/c	Amt O/s
March 2011*	0.46	109145.61	1.40	48308.13	0.01	616.06	1.87	158069.80

* provisional data

The outstanding credit by Scheduled Commercial Banks to the MSME sector as at end of March 2011 is shown below:

Table 2C: Outstanding Credit to MSME sector by SCBs

(No. of A/cs in lakh) (Amount ₹ in crore)

As at end of	Public Sector Banks		Private Sector Banks		Foreign Banks		All Scheduled Commercial banks	
	No. of A/c	Amt. O/s	No. of A/c	Amt. O/s	No. of A/c	Amt O/s	No. of A/c	Amt O/s
March 2011*	75.07	4,85,770.79	18.48	1,36,164.87	1.92	22076.72	95.47	644012.38

* provisional data

The Outstanding credit to MSMEs by SCBs as at end of March 2011 stood at ₹ 6,44,012 crore for 95.47 lakh MSME accounts, which results in average credit off take per account of ₹ 6.75 lakh.

MSME Credit – Data Limitations

While the commercial banks provides mostly working capital, the MSME sector generally requires funds of two types viz. long term fund for investment in fixed assets for setting up new unit or expansion/modernization of existing unit and secondly, working capital or short term funds to manage day-to-day operations of their businesses. The long term credit funds are mainly provided by the institutions like Small Industries Development Bank of India (SIDBI), Commercial Banks, State Financial Corporations (SFCs), Non-Banking Financial Companies (NBFCs), NEDFi, etc. and in a limited measure, from other sources like Foreign Direct Investment, VC/PE funds, etc. Similarly, the working capital needs of the sector are largely met by the banking sector, including Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Urban Co-

operative Banks (UCBs), National Small Industries Corporation (NSIC), factoring companies, etc. It is important to note that data on credit from all these sources to MSME sector are not available in consistent and time-series manner. The limitation of availability of MSME credit data is enumerated in Table 3.

Table 3: Limitation of MSME Credit Data Availability

	Data type	Status of availability with sources
1	Working Capital	<ul style="list-style-type: none"> ▪ Credit O/S to MSE sector from banks – Available from 2008 ▪ Credit O/s to medium enterprises - available from 2010 ▪ Factoring data for MSMEs – Not available ▪ Data on NBFCs support to MSMEs – Available for total, not for SMEs
2	Term loans	<ul style="list-style-type: none"> ▪ Data from banks – Available from 2008 ▪ Data on VC funds for SMEs - not available ▪ Long term support to MSMEs through FDI, securitization, NBFCs are not available.
3	Credit outstanding in Break- up of term loans and working capital	Not available
4	Share of MSMEs in GDP	Not available in absolute terms

As per the available literature, data on estimation of credit gap for the MSME sector are not available in India. However, the National Commission on Enterprises in the Unorganised Sector (NCEUS) had estimated the credit gap only for the micro enterprises in the unorganised sector at ₹ 6.31 lakh crore (73%) as at end March 2012, with the caveat that the number of such unorganized micro enterprises was estimated at 70 million with an average credit off take of ₹ 1.23 lakh per enterprise. This is in contrast to the MSME sector, which is estimated to have 32.2 million enterprises with an average credit off take of ₹ 7.16 lakh as at end March, 2012, based on scheduled commercial banks data on number of MSME accounts.

Some data of the credit linkage of MSME sector are given by 4th Census on MSMEs in 2006-07. According to the census, based on available data for 1.5 million MSMEs,

formal financial institutions contributed 11.2% of the total credit outstanding to only 5.2% of total enterprises.

Against the backdrop of non-availability of estimated demand for the credit from MSME sector and the credit gap, the Sub-Group has made an attempt to estimate the supply of, demand for and gap of credit for the MSME sector for the 12th Plan.

Section 3: Estimation of Supply of Working Capital to MSME sector

In India, working capital is largely provided by Scheduled Commercial Banks, RRBs and Urban Cooperative Banks (UCBs) and to some extent by factoring companies. For the estimation of working capital to MSME sector from all possible sources, the Sub-group has made the following assumptions:

Assumptions for Supply of Working Capital to MSME sector

- i. Since the direct credit from NABARD, NSIC, KVIC, and NEDFi is very small amount, it has not been included for the estimation.
- ii. Credit to MSE sector is published by Reserve Bank of India from FY 2008 onwards as per latest MSMED Act. Since RBI has mandated scheduled commercial banks to achieve 20% Y-o-Y credit growth to MSE sector, the projected credit to MSE sector from scheduled commercial banks for the FY 2012 and 12th plan period (FY 2013-17) has been estimated on the assumption that SCBs would adhere to this target of minimum 20% Y-o-Y credit growth.
- iii. As regard the medium enterprises, data are available for 2 years only, i.e. FY 2010 and FY 2011. As per the RBI data, credit outstanding to medium enterprises constituted 35% of MSE credit for FY 2011. Hence credit to MSMEs has been estimated by multiplying 1.35 to credit flow to MSEs. On this assumption, the credit to MSME sector has been calculated for the FY 2008 and FY 2009.
- iv. Since the credit to medium enterprises has shown 10% growth in FY 2011 in case of Public Sector Banks, we have assumed this credit growth would continue for the 12th Five Year Plan period.

- v. The 11th plan has estimated that banks provide almost 70% of their total loans to MSE sector as working capital and 30% for term loans. Accordingly, the projected credit flow from SCBs to MSMEs sector during 12th plan period has been divided in projected working capital and projected term loan in the ratio of 70:30.
- vi. Credit flow by RRBs, UCBs and factoring has been added in the projected working capital.
- vii. Projected credit flow from RRBs has been estimated by way of Y-o-Y credit growth of 20% during the 12th plan period as the last three year average growth rate achieved by RRBs in respect of MSME credit is 18%.
- viii. Projected credit flow from UCBs has been estimated by way of Y-o-Y credit growth of 35% during the 12th plan period as the last three year average growth rate achieved by UCBs in respect of MSME credit is 35%.
- ix. As regarding factoring data, based on select samples, it is assumed that 25% of total factoring turnover is being flowing to MSME sector.

On the basis of the above assumptions, the outstanding working capital as at end of 12th Plan i.e. March 2017 is estimated at ₹ 14,93,278 crore (Table 4).

Table 4: Estimation of O/s projected Working Capital Supply to MSME sector

₹ crore

As at end of	Credit to MSEs by SCBs	Credit to Medium Enterprises By SCBs	Total Credit to MSMEs by SCBs	Projected Working Capital by SCBs	Projected WC limit by RRBs	Projected WC limit by UCBs	Projected financial support by Factoring companies factoring	Projected supply of working capital to MSMEs
2010-11	485942	158069	644012	450808	2033	39527	12125	504492
2011-12	583130	173876	757006	529904	2439	53361	14550	600255
2012-13	699756	191263	891020	623714	2927	72037	17460	716139
2013-14	839708	210390	1050098	735068	3513	97250	20952	856783
2014-15	1007649	231429	1239078	867355	4215	131288	25142	1028000
2015-16	1209179	254572	1463751	1024626	5058	177239	30171	1237094
2016-17	1451015	280029	1731044	1211731	6070	239272	36205	1493278

Section 4: Estimation of Demand for Working Capital during the 12th Plan period

The demand for MSME credit depends upon a number of factors, such as, prevailing and expected economic scenario, both at the domestic and international level, business expectations, leading to setting up of new units and fresh investment, expansion/modernisation of existing units, Government policies, etc.

Considering the above, the Sub-group employed five methodologies to estimate five series of MSME credit demand data for the 12th Plan, based on the following assumptions:

Common Assumptions

- i. Gross Domestic Product (GDP) growth for FY 2011-12 has been taken as 8% as projected by RBI.
- ii. As indicated by RBI to the Sub-Group, three scenarios of GDP growth have been considered i.e. at 8.5%, 9.0%, 9.5% growth during the 12th Five Year Plan period.
- iii. Nominal GDP is estimated by formula

$$\text{Nominal GDP} = [(1 + \text{Real GDP}) * (1 + \text{inflation rate as per WPI}) - 1]$$
- iv. Inflation rate during the 12th plan has been assumed at 6%.
- v. The historic data for credit to MSE sector is available from 2007-08 and credit to medium enterprises is available only for FY 2010 and 2011. It has been observed that credit to medium enterprises is around 35% of credit to MSEs and hence it is assumed that for the previous years, this assumption will hold good and credit to MSMEs has been calculated by multiplying 1.35 to credit to MSEs.

Methodology One - Regression Analysis of Manufacturing GDP projected based on NMCP targets and O/s Working Capital Demand

As per the Union Budget 2011-12, Government would come out with a Manufacturing Policy, which expects to increase the share of manufacturing in GDP from about 16% to 25% over a period of ten years, i.e. by 2022. Accordingly, the Sub- Group has assumed that the share of manufacturing to GDP to increase from 16% in 2010-11 to 20% by the end of 12th Five Year Plan i.e. March 2017 as given below:

FY	Share of manufacturing in GDP (%)
2010-11	16.00
2011-12	16.50
2012-13	17.00
2013-14	17.50
2014-15	18.00
2015-16	19.00
2016-17	20.00

The manufacturing GDP has been worked out by way of calculating the above share in projected nominal GDP for the 12th Five Year Plan period.

The working capital demand of MSME sector for 12th plan period has been estimated on the basis of regression as given below:

$$\text{MSMEWC} = a + b * \text{NMGDP}$$

Where MSMEWC= Working capital demand from MSMEs

NMGDP = Nominal manufacturing GDP

a= intercept of past data of above variants

b= slope of past data of above variants

Based on the above equation result, three series of working capital estimates have been arrived corresponding to GDP growth of 8.0%, 8.5% and 9.0% during the 12th Plan. (Table 5 A)

Table 5.A :- Estimation of O/s Working Capital demand of MSMEs

₹ crore

As at end	Assumption 8.5% growth Inflation 6%	Assumption 9% growth, Inflation - 6%	Assumption - 9.5% growth - Inflation 6%
2012-13	847907	853205	858502
2013-14	982296	994156	1006071
2014-15	1131225	1151125	1171208
2015-16	1339379	1369837	1400717
2016-17	1572568	1616150	1660540

Methodology 2: Regression Analysis on Nominal MSME production and O/s Working Capital Demand

Nominal GDP of manufacturing and select services (construction, trade, hotels, transport and communication), has been calculated based on CSO data. The share of construction and trade, hotels, transport and communication in total GDP at current prices during 2010-11 was 31.7%. Thus, the figure of manufacturing and select services GDP for the period 2013-17 is calculated on the basis of the formula placed below:-

GDP- manf & select services = manufacturing GDP based on increasing share of manufacturing in GDP + 31.7% of nominal GDP projected in three GDP scenarios i.e. 8.5%, 9% and 9.5% growth

Now, the following regression equation has been run to calculate nominal value of MSME production based on GDP of manufacturing and select services sector.

$$NMSMEP = a + b \text{ NGDP M\&S}$$

Where NMSMEP= Nominal Production of MSME sector

NGDP M&S = Nominal GDP from manufacturing and services sector

a= intercept of past data of above variants

b= slope of past data of above variants

The working capital demand of MSME sector for 12th plan period has been done on the basis of regression analysis between two variants i.e. Nominal MSME production and MSMEs working capital demand. The regression equation followed for this calculation is

$$\text{MSMEWC} = a+b* \text{NMSMEP}$$

Where MSMEWC= working capital demand from MSME s

NMSMEP = Nominal MSME production

a= intercept of past data of above variants

b= slope of past data of above variants

This methodology provides the following data of MSMEs working capital in the three GDP growth scenarios as given in Table 5 B:

Table 5 B: - Estimation of Outstanding Working Capital demand of MSMEs

₹ crore

As at end	Assumption 8.5% growth Inflation 6%	Assumption 9% growth, Inflation - 6%	Assumption - 9.5% growth - Inflation 6%
2012-13	707091	711552	716014
2013-14	800167	809971	819819
2014-15	902072	918227	934530
2015-16	1026330	1050225	1074451
2016-17	1163307	1196431	1230167

Methodology 3: Regression Analysis between Nominal Manufacturing and select services GDP and O/s working capital demand

GDP of manufacturing and select services (construction, trade, hotels, transport and communication, has been calculated. The share of construction and trade, hotels, transport and communication in total GDP at current prices during 2010-11 was 31.7%.

Thus, the figure of manufacturing and select services GDP for the period 2013-17 is calculated on the formula placed below:-

GDP- manf & select services = manufacturing GDP based on increasing share of manufacturing in GDP + 31.7% of nominal GDP projected in three scenarios i.e. 8.5%, 9% and 9.5% growth

The working capital demand of MSME sector for 12th plan period has been done on the basis of regression analysis between two variants i.e. Nominal GDP of manufacturing and select services and MSMEs working capital demand. The regression equation followed for this calculation is

$$\text{MSMEWC} = a + b * \text{NGDPM\&S}$$

Where MSMEWC= working capital demand from MSME s
 NGDP M&S = Nominal GDP from manufacturing and services sector
 a= intercept of past data of above variants
 b= slope of past data of above variants

This provides the following data of working capital of MSMEs in the three GDP growth scenarios:

Table 5 C:- Estimation of Outstanding Working Capital demand of MSMEs

₹ crore

As at end	Assumption 8.5% growth Inflation 6%	Assumption 9% growth, Inflation - 6%	Assumption - 9.5% growth - Inflation 6%
2012-13	705015	709441	713867
2013-14	808054	817879	827749
2014-15	944888	961560	978384
2015-16	1109896	1135238	1160932
2016-17	1294282	1330321	1367027

Methodology 4: Estimation of O/S Working Capital based on Nayak Committee Recommendations of 20% of MSME production

As per the Annual Report of 2010-11 of Ministry of MSME, the MSME production during the FY 2009-10 was ₹ 9,82,919 crore, which is showing around 12% growth in the last three years. Assuming the same growth of 12% to continue during 2011-17, the MSME production data series were estimated for the 12th Plan and then working capital demand is estimated on the basis of Nayak Committee Recommendations, i.e. 20% of estimated MSME turnover and the results are shown below in Table 5 D.

Table 5 D: Estimation of Outstanding Working Capital Demand of MSMEs

₹ crore

As at end	MSME Production	Working Demand	Capital
2012-13	1380930		276186
2013-14	1546642		309328
2014-15	1732239		346448
2015-16	1940108		388022
2016-17	2172921		434584

Methodology 5: Estimation of O/S Working Capital based National Commission for Enterprises in Unorganised Sector (NCEUS) Method

This method is based on Reports on Financing of enterprises in the unorganized sector and creation of a National Fund for the Unorganized sector, which is based on following assumption:-

No. of MSMEs has been estimated to grow at 4% for 2011-17

The average credit off take per MSME account= Credit to MSMEs by Scheduled Commercial Banks /No. of MSME accounts for end March 2011 = ₹ 6, 44,011 crore/95.47 lakh accounts= ₹ 6, 74,569

It has been estimated that this per enterprise credit demand would grow at least by inflation level and hence 1.06 has been multiplied to previous year demand to compute the current year requirement.

The credit demand of MSME Sector has been calculated by simple multiplication of projected No. of MSMEs and average credit requirement.

Table 5 E: - Estimation of O/S Working Capital demand of MSMEs

₹ crore

As at end	No. of MSMEs in Lakh	Average Credit Off take (₹ Lakh)	Total Credit demands by MSMEs	Working Capital Demand by MSMEs
2010-11	310.00	6.75	2092500	1464750
2011-12	322.40	7.16	2308384	1615869
2012-13	335.30	7.58	2541574	1779102
2013-14	348.71	8.04	2803628	1962540
2014-15	362.66	8.52	3089863	2162904
2015-16	377.17	9.03	3405845	2384092
2016-17	392.25	9.58	3757755	2630429

Comparative Scenarios of O/S Working Capital Demand for the MSME sector

The estimated O/s working capital demand based on above five methods are indicated below, for comparison the estimated working capital demand in 9.5% GDP growth has been taken for all methodologies, wherein the working capital has been estimated in 3 different GDP growth scenarios (Table 6).

Table 6: Comparison of Estimated O/s Working Capital Demand and Supply

₹ crore

As at end	Estimated Demand					Estimated Supply
	Methodology 1	Methodology 2	Methodology 3	Methodology 4	Methodology 5	
2012-13	858502	716014	713867	276186	1779102	716139
2013-14	1006071	819819	827749	309328	1962540	856783
2014-15	1171208	934530	978384	346448	2162904	1028000
2015-16	1400717	1074451	1160932	388022	2384092	1237094
2016-17	1660540	1230167	1367027	434584	2630429	1493278

It is observed from the above table that Methodology 1 for estimating demand for working capital yield the results slightly higher than projected supply and Methodology 2, 3 and 4 yield estimated working capital demand lower than supply, whereas Methodology 5 yield the estimated working capital demand higher than the supply. Hence, the Sub-Group has accepted the Methodology 5 of estimation of demand of O/s working capital for the MSME sector.

Section 5: Outstanding Credit Gap of Working Capital to MSME sector

The Sub- Group has also estimated the credit gap for the 12th plan period for the outstanding Working Capital to MSME sector, which is estimated to increase from ₹ 10,15,614 crore at the beginning of the 12th Plan to ₹ 11,37,151 crore as at end 12th Plan i.e. March 2017 (Table 7).

Table 7: O/s Working Capital gap for MSME sector during the 12th Plan

₹ crore

As at end	Total Working Capital Demand	Total Working Capital Supply	Credit Gap for working capital
2012-13	1779102	716139	1062963
2013-14	1962540	856783	1105757
2014-15	2162904	1028000	1134904
2015-16	2384092	1237094	1146997
2016-17	2630429	1493278	1137151

Section 6: Estimation of Supply of Outstanding Term Loan to MSME sector

In India, term loan to MSMEs is largely provided by banks, SIDBI, SFCs, venture capital/PE funds, etc. In order to estimate outstanding term loan to MSME sector, the Sub-Group has made following assumptions:-

Assumptions for estimation of supply of the O/S term loan to MSME sector

- i. As regard credit data by SCBs to MSME sector, the same is published by Reserve Bank of India from FY 2008 onwards as per latest MSMED Act. Since RBI has mandated SCBs to achieve 20% Y-o-Y credit growth to MSE sector, the projected credit to MSE sector from scheduled commercial banks for the FY 2012 and 12th plan period (FY 2013-17) has been estimated on the assumption that SCBs would adhere to this target of minimum 20% Y-o-Y credit growth.
- ii. As regard credit to medium enterprises, data are available for 2 years only, i.e. FY 2010 and FY 2011. As per the RBI data, credit outstanding to medium enterprises constituted 35% of MSE credit. Hence credit to MSMEs has been estimated by multiplying 1.35 to credit flow to MSEs. On this assumption, the credit to MSME sector has been calculated for the FY 2008 and FY 2009 for regression purposes.
- iii. Since the credit to medium enterprises has shown 10% growth in FY 2011 in case of Public Sector Banks, we have assumed this credit growth would continue for the 12th Five Year Plan period for the SCBs.
- iv. The 11th plan has estimated that banks provide almost 30% of their total credit to MSE sector as term loans. Accordingly, the projected credit flow from SCBs to MSMEs sector during 12th plan period has been divided in projected working capital and projected term loan in the ratio of 70:30.
- v. Considering the past three years performance, the direct credit outstanding of SIDBI has been assumed to grow by 25%. For the SFCs, the average credit outstanding for the last 3 years has been taken for the 12th Five Year Plan projection.

- vi. Since the share of MSMEs in the venture capital availability in the country is nominal, the same has not been taken into consideration, while estimating the supply of term loan to the MSME sector.
- vii. As regard the NBFC data, select samples indicate that NBFCs credit to MSME sector ranges from 22-28%. For this study, it is assumed that the share of MSME sector in the total credit of NBFC is approx 25%.

On the basis of the above assumptions, the outstanding supply of term loans to MSME sector is estimated at ₹ 6, 31,365 crore as at end of 12th Plan, viz. March 2017 (Table 8).

Table 8: Estimation of O/s term loans to MSME sector

₹ crore

As at end	Projected Term Loan by SCBs	Projected Term Loan by SIDBI	Projected Term Loan by SFCs	Projected term loan by NBFCs	Projected total term loan to MSMEs
2010-11	193203	10768	7807	20891	232669
2011-12	227102	13460	8596	25069	274227
2012-13	267306	16825	8596	30083	322810
2013-14	315029	21031	8596	36099	380756
2014-15	371723	26289	8596	43319	449928
2015-16	439125	32861	8596	51983	532566
2016-17	519313	41077	8596	62380	631365

Section 7: Estimation of Demand of O/S Term Loans during the 12th Plan period

The demand for MSME credit depends upon a number of factors, such as, prevailing and expected economic scenario, both at the domestic and international level, business expectations, business optimism leading to setting up of new units, expansion/modernisation of existing units, Government policies, etc.

Considering the above, the Sub-group employed five methodologies to estimate five series of MSME credit demand data for the 12th Plan, based on the following assumptions:

Common Assumptions

- i. Gross Domestic Product (GDP) growth for FY 2011-12 has been taken as 8% as projected by RBI.
- ii. As indicated by RBI to the Sub-Group, three scenarios of GDP growth have been considered i.e. at 8.5%, 9.0%, 9.5% growth during the 12th Five Year Plan period.
- iii. Nominal GDP is estimated by formula $\text{Nominal GDP} = [(1 + \text{Real GDP}) * (1 + \text{inflation rate as per WPI}) - 1]$
- iv. Inflation rate during the 12th plan has been assumed at 6%.
- v. The historic data for credit to MSE sector is available from 2007-08 and credit to medium enterprises is available only for FY 2010 and 2011. It has been observed that credit to medium enterprises is around 35% of credit to MSEs and hence it is assumed that for the previous years, this assumption will hold good and credit to MSMEs has been calculated by multiplying 1.35 to credit to MSEs.
- vi. Term Loans are being utilized by MSMEs for setting up of new enterprises or modernization/ expansion of existing enterprises, which requires the fixed investment and hence the co-relation of MSME production with term loan will not hold good. Therefore, the Sub-Group has attempted the regression analysis of fixed investment by MSMEs and demand for the term loans.

- vii. The Data on Fixed investment by the MSMEs are available for FY 2007-10 in the MoMSME annual report 2010-11. Since this fixed investment is showing a growth of 11-12% in the last three years, the Sub-Group assumes that the same growth will continue for the 2010-11 and 2011-12, accordingly the 12% growth has been applied to calculate the fixed investment figures of FY 2010-11 & 2011-12.

The following regression analysis has been attempted for the estimation of demand of term loans for the MSMEs:-

Methodology 1: Regression Analysis of Nominal MSME Fixed Investments and Estimated Term Loan

GDP of manufacturing and select services (construction, trade, hotels, transport and communication) has been calculated based on CSO data. The share of construction and trade, hotels, transport and communication in total GDP at current prices during 2010-11 was 31.7%.

Thus, the figure of manufacturing and select services GDP for the period 2013-17 is calculated on the formula placed below:-

GDP- manf & select services = manufacturing GDP based on increasing share of manufacturing in GDP + 31.7% of nominal GDP projected in three GDP scenarios i.e. 8.5%, 9% and 9.5% growth

Now, the following regression equation has been run to calculate nominal value of fixed investment by MSMEs based on GDP of manufacturing and select services sector.

$$NMSMEFI = a + b \text{ NGDP M\&S}$$

Where NMSMEFI= Nominal Fixed Investment of MSME sector

NGDP M&S = Nominal GDP from manufacturing and services sector

a= intercept of past data of above variants

b= slope of past data of above variants

The term loan demand of MSME sector for 12th plan period has been done on the basis of regression analysis between two variants i.e. Nominal MSME fixed investment and MSMEs term loan demand. The regression equation followed for this calculation is

$$\text{MSMETL} = a + b * \text{NMSMEFI}$$

Where MSMETL= Term Loan demand from MSME s
 NMSMEFI = Nominal MSME fixed investment
 a= intercept of past data of above variants
 b= slope of past data of above variants

This Methodology provides the following data of MSMEs term loans in the three GDP growth scenario as given in Table 9 A:

Table 9. A:- Estimation of Total Term Loans demand of MSMEs

₹ crore

As at end	Assumption 8.5% growth Inflation 6%	Assumption 9% growth, Inflation - 6%	Assumption - 9.5% growth - Inflation 6%
2012-13	297374	299165	300955
2013-14	334728	338662	342614
2014-15	375624	382107	388650
2015-16	425491	435081	444803
2016-17	480463	493756	507295

Methodology 2: Regression Analysis of Nominal GDP of Manufacturing and Select Services and Estimated Term Loan

GDP of manufacturing and select services (construction, trade, hotels, transport and communication) has been calculated. The share of construction and trade, hotels, transport and communication in total GDP at current prices during 2010-11 was 31.7%.

Thus, the figure of manufacturing and select services GDP for the period 2013-17 is calculated on the formula placed below:-

GDP- manf & select services = manufacturing GDP based on increasing share of manufacturing in GDP + 31.7% of nominal GDP projected in three GDP scenarios i.e. 8.5%, 9% and 9.5% growth

The term loan demand of MSME sector for 12th plan period has been done on the basis of regression analysis between two variants i.e. Nominal GDP of manufacturing and select services and MSMEs term loan demand. The regression equation followed for this calculation is

$$\text{MSMETL} = a + b * \text{NGDPM\&S}$$

Where MSMETL= Term loan demand from MSME s
 NGDP M&S = Nominal GDP from manufacturing and services sector
 a= intercept of past data of above variants
 b= slope of past data of above variants

This Methodology provides the following data of term loan of MSMEs in the three GDP growth scenarios as given in Table 9 B:

Table 9.B.- Estimation of Outstanding Term Loans demand of MSMEs

₹ Crore

As at end	Assumption 8.5% growth Inflation 6%	Assumption 9% growth, Inflation - 6%	Assumption - 9.5% growth - Inflation 6%
2012-13	297182	298968	300755
2013-14	334459	338386	342330
2014-15	375273	381743	388272
2015-16	425039	434609	444312
2016-17	479899	493165	506677

Methodology 3: Estimation of Term Loan based on average enterprise demand for MSME Credit

This method is based on Reports on Financing of enterprises in the unorganized sector and creation of a National Fund for the Unorganized sector, which is based on following assumption:-

No. of MSMEs has been estimated to grow at 4% for 2011-17

The average credit off take per MSME account= Credit to MSMEs by Scheduled Commercial Banks /No. of MSME accounts for end March 2011 = ₹ 6, 44,012 crore/95.47 lakh accounts= ₹ 6, 74,569

It has been estimated that this per enterprise credit demand would grow at least by inflation level and hence 1.06 has been multiplied to previous year demand to compute the current year requirement.

The credit demand of MSME Sector has been calculated by simple multiplication of projected No. of MSMEs and average credit requirement.

Table 9.C.- Estimation of Total Term Loans demand of MSMEs

₹ crore

As at end	No. of MSMEs in Lakh	Average Credit Off take (₹ lakh)	Total Credit demands by MSMEs	Term Loan Demand by MSMEs
2010-11	310.00	6.75	2092500	627750
2011-12	322.40	7.16	2308384	692515
2012-13	335.30	7.58	2541574	762472
2013-14	348.71	8.04	2803628	841088
2014-15	362.66	8.52	3089863	926959
2015-16	377.17	9.03	3405845	1021754
2016-17	392.25	9.58	3757755	1127327

Comparative Scenarios of Term Loan Demand and Supply

The estimated O/s term loan demand based on above three methods are indicated below, for comparison the estimated term loan demand in 9.5% GDP growth has been taken for all methodologies, wherein the term loan has been estimated in 3 different GDP growth scenarios.

Table 10: Comparison of Estimated Term Loan Demand and Supply

₹ crore

As at end	Estimated Term Loan Demand			Estimated Supply
	Methodology 1	Methodology 2	Methodology 3	
2012-13	300955	300755	762472	322810
2013-14	342614	342330	841088	380756
2014-15	388650	388272	926959	449928
2015-16	444803	444312	1021754	532566
2016-17	507295	506677	1127327	631365

It may be observed from the Table 10 that Methodologies 1 & 2 yield the estimated term loan demand lower than the term loan supply, whereas the Methodology 3 yields estimated term loan demand higher than the supply. Hence, the Sub-Group accepted the Methodology 3 for estimation of term loan demand for the MSME sector.

Section 8: Credit Gap of Term Loan

Sub- Group has estimated the term loan gap for the MSME sector for the 12th plan period, which indicate the term loan credit gap of ₹ 4, 95,961 crore as at end 12th Plan period i.e. March 2017 (Table 11).

Table 11: Credit gap for the term loan to MSME sector during the 12th Plan

₹ crore

As at end	Total Term Loan Demand	Total Term Loan Supply	Term Loan Credit Gap
2012-13	762472	322810	439662
2013-14	841088	380756	460332
2014-15	926959	449928	477031
2015-16	1021754	532566	489188
2016-17	1127327	631365	495961

Section 9: Credit Gap between demand and supply

Estimation for MSME sector

The previous sections 3-8 have given the estimation of credit demand and supply for the MSME sector, separately for term loans and working capital through various methodologies. The results for total MSME credit demand and Supply are given in the Table 12.

Table 12: Estimated Outstanding Credit demand and Supply of MSMEs

₹ crore

As at end	Total Credit demand by MSMEs			Projected supply of credit flow to MSME sector			Credit Gap	
	Working Capital	Term Loan	Total Demand	Working Capital	Term Loan	Total Supply	Absolute terms	Credit gap as % of total demand
2010-11	1464750	627750	2092500	504492	232669	737161	1355339	65
2011-12	1615869	692515	2308384	600255	274227	874482	1433902	62
2012-13	1779102	762472	2541574	716139	322810	1038948	1502626	59
2013-14	1962540	841088	2803628	856783	380756	1237539	1566089	56
2014-15	2162904	926959	3089863	1028000	449928	1477928	1611935	52
2015-16	2384091	1021754	3405845	1237094	532566	1769659	1636186	48
2016-17	2630429	1127326	3757755	1493278	631365	2124644	1633111	43

An analysis of the above table reveals that

- At the beginning of 12th Plan period i.e. as at end FY 2011-12, the total credit supply is meeting only the 38% of the total credit demand, thereby leaving a 62% credit gap of MSME sector.
- As per the estimates made by the Sub-Group, against the scenario of minimum 20% credit growth to MSEs by SCBs, it is observed that though in absolute number, the outstanding credit gap increases from ₹ 14,33,902 crore as at end March 2012 to

₹ 16,33,111 crore as at end March 2017, the percentage credit gap reduces sizably from 62% to 43%. (Graph 1).

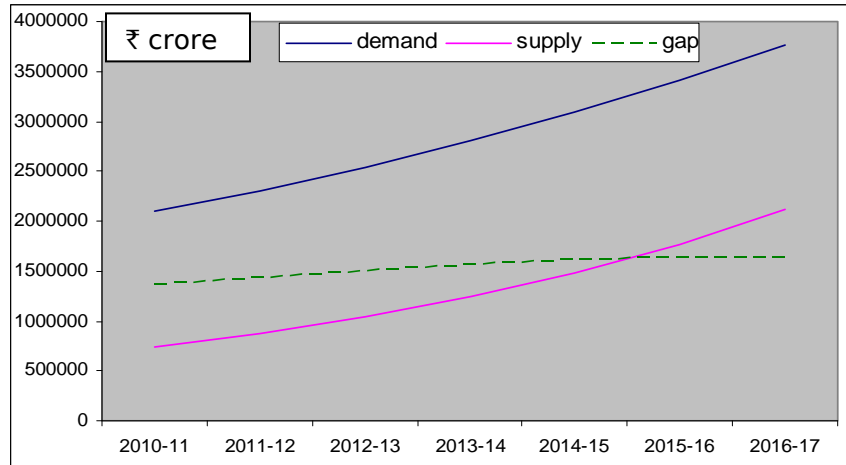
- The Sub-Group explored the possibility of further reducing the credit gap through enhancing the credit growth to MSE sector and Medium Enterprises by SCBs and all other sources by minimum 22% Y-o-Y Credit Growth for FY 2012-14 and 25% for FY 2014-17 and found that the credit gap is reduced to 32% as at end March 2017. The calculation of credit gap is placed below in Table 13 and Graph 2.

Table 13: Estimated reduction in credit gap with 22% Y-o-Y Credit Growth for FY 2012-14 and 25% for FY 2014-17

₹ crore

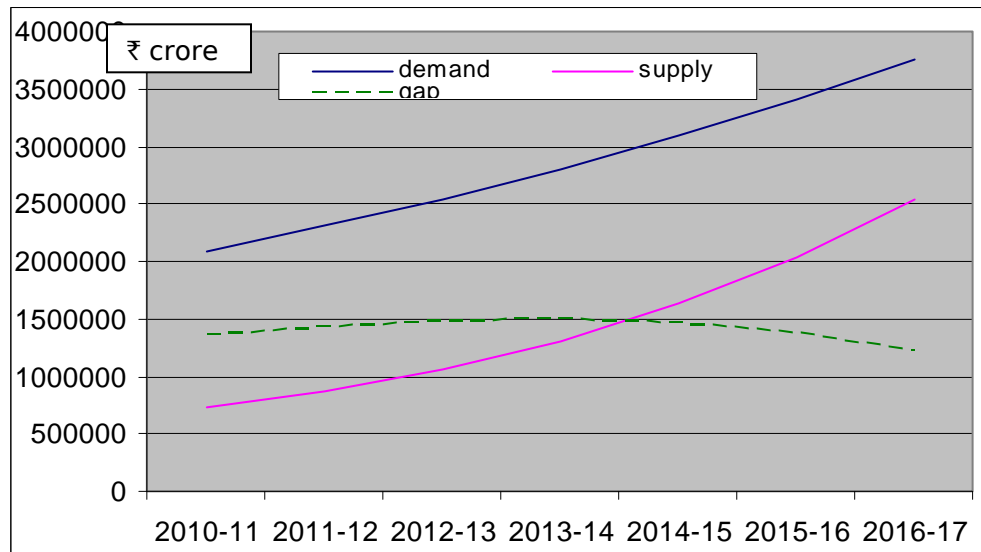
As at end	Total Credit demand by MSMEs	22% Y-o-Y Credit Growth for FY 2012-14 and 25% for FY 2014-17 (During 12 th Plan period)		
		Projected supply of credit flow to MSME sector	Credit Gap	Credit Gap as % of total Credit demand
2010-11	2092500	737161	1355339	65
2011-12	2308384	874482	1433902	62
2012-13	2541574	1066868	1474706	58
2013-14	2803628	1301578	1502050	54
2014-15	3089863	1626973	1462890	47
2015-16	3405845	2033716	1372129	40
2016-17	3757755	2542145	1215610	32

Graph 1: Estimated Credit gap for 12th Plan period with 20% credit Growth



Graph 2: Estimated Credit gap for 12th Plan period with 22% Y-o-Y Credit Growth for FY 2012-14 and 25% for FY 2014-17

(During 12th Plan period)



- It is interesting to note that in case of 20% growth scenario, the credit gap, in absolute terms, decline from FY 2017 onwards, in a growth scenario of 22% Y-o-Y Credit Growth for FY 2012-14 and 25% for FY 2014-17, the outstanding credit gap starts declining earlier i.e. FY 2015 onwards.

Section 10:- Recommendations of the Sub-Group for
Meeting the projections

The sub-group has made deliberation on the credit gap studied on different scenarios and target credit growth and recommended that:

- i. The Sub-Group recommended that SCBs may be directed to maintain minimum **22% Y-o-Y Credit Growth for FY 2012-14 and 25% for FY 2014-17 (i.e. during the 12th Five Year Plan)** in their outstanding credit growth to MSE sector and Medium Enterprises sector during the 12th Five Year Plan.
- ii. The Sub-Group examined the feasibility of interest rate subvention on fresh term loans only to micro enterprises during the 12th Five Year Plan. The Sub-Group noted that the outstanding credit to micro enterprises by SCBs stood at ₹ 1, 89,990 crore as on March 31, 2011. Assuming an annual growth of 25% as recommended by the Sub-Group, the incremental credit flow to micro enterprises during 12th Plan period is estimated at ₹ 4,87,268 crore, out of which 30% (i.e. ₹ 1,46,180 crore) is estimated for the term loan. Accordingly, if an interest subvention of 3% is considered on the fresh loans to the micro enterprises, the fund requirement will be approx. ₹ 4,385 crore. The Sub-Group recommended that a budgetary allocation of ₹ 4,400 crore may be made for interest rate subvention of 3% for fresh loan to micro enterprises during the 12th Five Year Plan. It is also recommended that the banks may also be encouraged to consider extending rebate of 1% to Micro units for regular payment of interest and repayment of principal as an incentive for maintaining default free and timely repayment record. However, the micro enterprises should have the option to choose either capital subsidy scheme as available or interest rate subvention.
- iii. The Sub-Group noted that the progress of Credit Guarantee Scheme (CGS) of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been highly successful in ensuring high credit flow to this Missing Middle segment which constituted almost 74% of total accounts approved by CGTMSE under Credit Guarantee Scheme.

- iv. The Sub-Group felt that CGTMSE may look at the data with respect to credit sanctioned by Banks to MSMEs during last few years from the standpoint of coverage under various slabs / sectors, which could be helpful in devising suitable structured products / bringing about suitable amendments / changes in the Scheme structure.
- v. Keeping in view the huge potential for stepping up the coverage under CGS vis-à-vis credit facilities sanctioned by Banks to MSE Sector, the Sub-group also recommended that the banks should make efforts to further enhance the awareness of CGS amongst its branch level functionaries in different parts of the country for the coverage of MSE loans under CGS.
- vi. The Sub-Group recommended that efforts should be made to explore the possibility of bearing the guarantee fees under the Credit Guarantee Scheme (CGS) for CGTMSE for the first year by the lending banks.
- vii. The role of NBFCs in Retail Financing to MSMEs is now widely acknowledged. The credit delivery channel through NBFCs will further boost the MSMEs in getting credit. Accordingly, the Sub-Group recommended that the RBI-registered AAA and AA+ rated NBFCs be made eligible for becoming Member Lending Institution of CGTMSE to get credit guarantee coverage.
- viii. The process and systems of scheduled commercial banks for extending financial assistance to MSME sector may be simplified by way of uniform application form, scoring model, etc.
- ix. The credit appraisal process and scoring model of MFIs/NBFCs should be upscaled to suit for loans above ₹ 50,000/- and banking scoring model should be downscaled to make it suitable for 'Missing Middle' segment ₹ 50,000/- to ₹ 10 lakh.
- x. The Sub - Group noted that as per the union budget command SIDBI has received a corpus of ₹ 4000 crore each during FY 2010 and FY 2011 for enhancing SIDBI's refinance capability to the MSMEs sector. It was noted that the bank deposits in view of priority sector short fall pooled together and proportionately allocated MSE

(Refinance) Fund in SIDBI. These Funds were fully utilized to incentivise banks and SFCs to lend to micro and small enterprises (MSEs), by refinancing 50 percent of the incremental lending to MSEs by banks and SFCs during FY 2010 and FY 2011. These funds, provided to banks/SFCs at a very low cost with more than 60 % year mark for the micro enterprises and helped in almost doubling the credit flow to the SIDBI facility the Government of India has allocated a Fund of ₹ 5000 crore in Union Budget 2011-12. The Sub -Group I, while considering its recommendation to increase the outstanding credit to MSME sector by 25% per annum during the 12th Plan, as also to stimulate the sector which contribute almost 40% of total industrial manufacturing, the Sub-Group recommended that the amount as allocated may be increased gradually @ minimum ₹ 1,000 crore per year to reach allocation of ₹ 10,000 crore by the end of the 12th Five Year Plan.

- xi. The Sub-Group also recommended that credit flow to MSME sector along with number of new MSMEs added into banking sector should be reviewed at district and state level through State Level Bankers' Committee (SLBC) meetings.
- xii. The Sub-Group recommended strengthening the alternate sources of finance viz. equity capital, venture capital, factoring, foreign direct investment, etc. and also utilizes alternate credit delivery channels, viz. MSME Associations, factoring companies MFIs, etc. to enhance the credit flow to MSME sector.
- xiii. The Prime Minister's Task Force recommended that *"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 Centers for MSEs"*. The Sub-Group recommended that banks, in association with Industry Associations may adopt MSME clusters for their holistic development.
- xiv. A large section of Micro and Small Enterprises still need handholding, credit advisory services in the areas of filling up loan application, proper utilization of various Government schemes, registration process and informational efficiency. Towards this endeavor, the Sub-Group appreciated the initiative of SIDBI in setting up of a knowledge-based e-platform to provide information to MSMEs on how to set up new units, improve their operational efficiency and market competitiveness by providing hand-holding information. This website has the feature of interactive

mode to attend to various queries of MSMEs. The Sub-Group also noted the initiative of SIDBI in association with National Stock Exchange of India Ltd. in setting up of e-platform called www.msmentor.in, which endeavors to match make the expert services by Business Development Service provides, on the one hand and requirement of various services of MSMEs on the other. Keeping in view of the above, the Sub-Group recommended that the banks/FIs should develop the capacity of their MSE loan officers to provide various advisory services to the MSEs. Such advisory services may also be given on-line.

- xv. The Sub-Group recommended that banks should adopt innovative ways of offering branchless banking including operation of mobile branches to enhance the rural industrialization and widen the process of financial inclusion.

Annexure: PM's Task Force recommendations and action taken

Recommendation	Action Taken
<p>Scheduled commercial banks to achieve a 20% growth in credit year-on year to micro and small enterprises</p> <p>Strict adherence to the allocation of 60% thereof to micro enterprises</p> <p>Shortfall of any bank to be put into a corpus with SIDBI.</p>	<p>The RBI has advised the scheduled commercial banks to ensure 20% growth of credit to MSE sector, achieving the share of micro enterprise in MSE lending to 60% in stages, viz., 50% in 2010-11, 55% in 2011-12 and 60% in the year 2012-13.</p> <p>As per the Union Budget announcement, the commercial banks deposits in lieu of priority sector shortfall are pooled together and then proportionately allocated to MSE (refinance) Fund in SIDBI.</p>
<p>A target of 15% annual growth in number of micro enterprise accounts.</p>	<p>The RBI has advised the banks to achieve an annual growth of 10% in number of micro enterprises accounts.</p>
<p>Extension of stimulus package upto 31st March 2011 including special refinance facility of ₹ 7000 crore provided to SIDBI.</p>	<p>In view of the improvement in overall market liquidity and calibrated exit from excessively accommodative monetary stance, it has not been possible to extend the facility beyond 31.3.2010.</p>
<p>Chairman-Member (Industry), Planning Commission, Members - Secretary, Dept. of Financial Services, Chairman, IBA and industry representatives</p> <p>Member Secretary - Secretary, Ministry of MSME Committee to (i) Monitor the overall credit flow to the MSME sector(ii) Examine the extent of replicability of existing interest subvention schemes for the MSEs;(iii) Identify institutional bottlenecks in the flow of credit to the sector(iv) Suggest</p>	<p>Standing Review Committee constituted.</p> <p>First meeting of the Group held on 20.09.2010.</p>

<p>policy measures for augmenting credit flow to the MSME sector. (Ministry of MSME/DOR/DEA – 3 months)</p>	
<p>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.</p>	
<p>SIDBI to constitute an Advisory Group comprising members from M/o MSME, D/o Financial Services and representatives of MSME Associations Group to monitor operations of Special Cell set up to provide refinance for micro enterprises. Group to meet periodically to resolve any problems relating to lending of funds earmarked for micro enterprises and review the effectiveness of this arrangement after a year to decide on the</p>	<p>Advisory Group constituted on April 2010. First meeting of the Group held on 20.09.2010.</p>

need for a separate body for this purpose.	
Securities and Exchange Board of India (SEBI) may expedite the process of setting up of SME Exchanges in consultation with all the stakeholders.	SEBI has given 'in-principle' approval to BSE for launch of SME Exchange.
Recommendations of the High Level Committee to review the Lead Bank Scheme may be implemented to facilitate banking penetration and to strengthen the monitoring systems at State/District level.	<p>Instructions issued by RBI (on 27.11.09) to banks on providing banking services in every village with population over 2000 by March 2011 & strengthening the monitoring systems at State/District level.</p> <p>The Banks have identified about 73,000 such habitations for providing banking facilities using appropriate technologies. A multi-media campaign, "Swabhimaan", has been launched to inform, educate and motivate people to open bank accounts. During this year, banks will cover 20,000 villages. Remaining will be covered during 2011-12.</p>
(a) Enhancement of the collateral-free loan limit for MSEs from Rs.5 lakh to Rs.10 lakh; and (b) 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.	<p>The Working Group released its Report on 6.3.10. The Report recommends that (i) limit for collateral free loans to the MSE Sector be increased from the present level of Rs 5 lakhs to Rs 10 Lakhs and it be made mandatory for the banks (ii) Guarantee fee for collateral free loans up to Rs 10 lakhs to micro enterprises be borne/ absorbed by the Trust.</p> <p>RBI has issued circular on May 06, 2010, in which it has mandated banks not to accept collateral security in the case of loans upto Rs 10 lakh extended to units in the MSE sector.</p>
RBI has constituted a Working Group on 'Securitization of Trade Credit Receivables' to examine various options	<p>Report of Working Group on 'Securitization of Trade Credit Receivables' was submitted on August, 2010.</p> <p>Note on 'The Regulation of Factor (Assignment of</p>

<p>for liquidating receivables before maturity.</p> <p>Process needs to be expedited.</p> <p>DoFS may look into issue of evolving a suitable legal framework for promotion of factoring services for MSMEs.</p>	<p>Receivables) Bill 2011 was considered & approved by Cabinet on 15.03.2011.</p> <p>It is now proposed to introduce the bill in Parliament in forthcoming winter session.</p>
<p>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.</p> <p>The RBI may consider making this mandatory for the banks.</p>	<p>The extant guidelines already provide for it. RBI has reiterated instructions in this regard on March 11, 2010.</p>
<p>Banks may be encouraged to use scoring model so as to have speedy disposal of loan applications of micro and small enterprises.</p>	<p>Instructions issued by RBI in May 2009.</p>
<p>IBA to devise a uniform loan application form for loans up to ₹ 25 lakh</p> <p>D/o Financial Services may bring out a model form within 3 months.</p>	<p>RBI has issued a Master circular on lending to MSME sector (updated on 01.07.2010) contains all the instructions issued by the RBI to all the scheduled Commercial Banks up to June 2010.</p> <p>Information on status awaited from IBA</p>
<p>All the banks may adopt Banking Code for MSEs to bring about uniformity in operations. DFS may examine this issue through RBI.</p>	<p>The Banking Codes and Standard Board of India (BCSBI) are monitoring the compliance of banks in this regard.</p>
<p>Banks to participate in organizing joint programmes relating to entrepreneurship and skill development. RUDSETI, which are promoted by the banks, should</p>	<p>Necessary instructions have been issued to all the lead banks on the basis of the recommendations of the High Level Committee on Lead Bank Scheme.</p>

<p>also impart entrepreneurship and skill development training for different MSME clusters.</p>	
<p>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.</p>	<p>Necessary instructions have been issued by RBI.</p>
<p>An electronic tracking system for ensuring timely approval/rejection of loan applications of MSEs MSEs to be informed about the reasons for rejection of their loan application within a definite period.</p> <p>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.</p>	<p>Necessary instructions issued by RBI.</p>
<p>Lead Bank in association with DICs to prepare a shelf of project for different viable activities</p> <p>Progress to be monitored at the District, State and Central level.</p>	<p>Instructions issued by RBI. Matter is also being taken up with the State Governments.</p>
<p>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</p>	<p>Instructions issued by RBI.</p>

act as Counseling Centers for MSEs.	
Banks may lend to pool of micro entrepreneurs who have been financed by MFIs and are now ready for borrowing at higher levels in the missing middle segment of ₹ 50, 000 to ₹ 5 lakh by covering them under the Credit Guarantee Scheme. (DFS/RBI/Banks – no time lines)	
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.	IBA has informed that banks regularly conduct programmes on SME related matters for their officials. These programmes are conducted in the banks' own training institute and also at other training institutes like NIBM, etc. Banks also encourage their officials to undergo certificate course run by IIBF and recognize their officials.
The M/o MSME may set up an 'MSME Helpline'	The M/o MSME has set up an 'MSME Helpline'

Data Sources

1. Publications of Central Statistical Organization
2. Economic Surveys of various years, Government of India
3. Prime Minister's Task Force Report, 2010
4. Previous study done for 11th Five Year Plan, Planning Commission
5. Report on Trends and Progress of Banking in India of various years, Reserve Bank of India
6. Quick Results of Fourth All India Census of Micro, Small and Medium Enterprises, 2006-07
7. Annual Reports of various years of Reserve Bank of India/Ministry of MSME, SIDBI/State Financial Corporations/Non-Banking Financial Companies, etc.
8. Reports on Financing of Enterprises in the unorganized sector and Creation of a National fund for unorganized sector (NAFUS)
9. Discussions with various experts of MSME sector, NBFCs, factoring companies, etc.