

## AGENDA POINTS FOR CONSIDERATION AT THE STATE LEVEL ADVISORY BOARD MEETING (SLAB)

The Micro, Small & Medium Enterprises (MSME) sector plays a pivotal role in India's economic development making significant contributions to GDP, employment and exports. It is estimated that in terms of value the sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country. Lately, the MSME sector is suffering due to sluggish demand, job losses, difficulties in bank finances, etc. Following are some of the points for consideration at the forthcoming SVAl meeting.

1. **Loan against property** - Today, a common practice for MSMEs is to take loan-against property (LAP). LAP has witnessed a compounded annual growth rate of 25% between 2012 and 2016. International rating agency Moody's has pointed that Growth in LAP loans has outpaced overall retail credit growth in recent years. However, relatively loose underwriting practices and a tightening in credit following the demonetisation would translate into higher asset quality risks. Disruptions in the borrowers' cash flows may further trigger delinquencies, while tightening underwriting practices will make it more difficult for them to take new debt. This may ultimately result in higher NPAs.

**Suggestions:** Our study post interaction with several MSMEs indicate that nearly 52% of the cases filed for recovery under Rs. 1 cr lending is under SARFASAI Act, i.e. loans are availed under security. Government must therefore direct all banks to return the securities collected from SME sector for loans given under Rs. 2 crores.

2. **Lowering interest rate** - While the enhancement in credit guarantee scheme from Rs 1 crore to Rs 2 crore including NBFCs will give much needed credit liquidity. It would help MSMEs to access more funds to fulfill their growth potential. However, we strongly feel that these measures are not enough to brace MSMEs.

**Suggestions:** Government must take additional measures to support them in terms of making additional funds available by realigning interest rates for fund raising. The Government must ask banks to bring transparency in the Marginal Cost of Funds Based Lending Rate (MCLR) system used while providing loans to different sectors. Today, home loans are available at ~8.5%, from the level of ~10.5% two years back, wherein SME loans are still high hovering around 11-15%. This creates huge disparity. The access to cheaper loans will help MSMEs to sustain their businesses. These are necessary to revive that sluggish demand and improve the consumption and thereby help accelerate the economy.

3. **Adoption of global standards** – Adoption of global standards are imperative for the success of Make in India. Indian manufacturing needs to improve in terms of productivity and efficiency to compete in a globalized market. MSMEs will play a big role in achieving this.

**Suggestions:** Adoption of global standards will help MSMEs to reach a level playing field and get their share of economic success. Government should promote Skill India, Startup India and Digital India in partnership with global vocational training institutes from countries such as Germany and Switzerland that have proved effective in imparting competitive vocational training.

4. **Credit Guarantee Trust Fund for Micro and small Enterprises (CGTMSE):** CGTMSE is a good step towards the growth of this sector as the scheme aims to provide credit to Micro and Small enterprises for loans up to Rs. 100 lacs without collateral or third party guarantees.

**Suggestion:**

- a) The government should consider sanctioning loans to startups to meet their individual needs and can be categorize as follows
  - b) Production Purchase Fund up to Rs. 100 lacs
  - c) Market Promotional Fund up to Rs. 100 lacs
  - d) Expansion Fund up to Rs. 100 lacs
  - e) Upgradation Fund up to Rs. 100 lacs
  - f) Research Fund up to Rs. 10 lacs - A common research center can be initiative in clusters that will offer research data on market, customer and competitors. As well as conduct market surveys on customer demand, needs and wants of the market.
  - g) Start-up Fund up to Rs. 200 lacs - The government should consider sanctioning of loan on the PPP Model (Public Private Partnership Model) for setting up the enterprise, purchase machineries and setting up the plants. The concern authorities should monitor the progress of the startups.
5. **Erroneous Sickness Data:** In reporting the data on lending to small firms banks include loans made out under many sop programs of the Planning Commission. Most of these are giveaways at best. Naturally, this magnifies the scenario of overall sickness of and loans outstanding against small firms. In reality, the nonperforming loans outstanding against small firms are much smaller than in lending to medium and large firms.

**Suggestions:** Government and RBI should adopt appropriate mechanism and a nodal agency to track progress.

6. **Timely /Adequate Availability of Credit:** The adequate /timely availability of credit has been a long standing issue confronting the vibrant sector of economy. Various committees were set up in 90s by RBI/Govt. such as P.J. Nayak Committee, S.L. Kapoor Committee to address the issue. P.J. Nayak Committee had recommended that 20% of sales achieved should be provided bare minimum & banks were liberty to justify/verify, if additional working capital is required. It is an admitted fact that since Nationalization in 1969, banks were conservative in sanctioning the working capital limits. Banks were reluctant to provide 20% of sales achieved. The recommendations were not implemented in letter & spirits. The Task Force was constituted in Sept., 2009, which has recommended 60% of MSE credit to Micro Enterprises, which is to be achieved in stages. The fact that 50% was to be achieved in 2010-2011 (both manufacturing & Service sector).Needless to mention that the focus of Nationalized banks is on SMEs & not on Micro Enterprises/service enterprises.