

FAQs on Micro, Small and Medium Enterprises

Q.1. What is the definition of MSME?

A.1. The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

(i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

(ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

(iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification [No.S.O.1722\(E\) dated October 5, 2006](#).

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006 are specified below.

(i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

(ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and

(iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

Q.2. What is the status of lending by banks to this sector?

A.2. Bank's lending to the Micro and Small enterprises engaged in the manufacture or production of goods specified in the first schedule to the Industries (Development and regulation) Act, 1951 and notified by the Government from time to time is reckoned for priority sector advances. However, bank loans up to Rs.5 crore per borrower / unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006 are eligible to be reckoned for priority sector advances. Lending to Medium enterprises is not eligible to be included for the purpose of computation of priority sector lending. Detailed guidelines on lending to the Micro, Small and Medium enterprises sector are available in our [Master Circular no. RPCD.MSME & NFS.BC.No.5/06.02.31/2013-14 dated July 1, 2013](#). The Master circulars

issued by RBI, to banks, on various matters are available on our website www.rbi.org.in and updated in July each year.

Q.3. What is meant by Priority Sector Lending?

A.3. Priority sector lending include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and Micro and Small enterprises. Detailed guidelines on Priority sector lending are available in our Master Circular on Priority sector lending no. [RPCD.CO.Plan.BC 9 /04.09.01/2013-14 dated July 1, 2013](#). The Master circulars issued by RBI, to banks, on various matters are available on our website www.rbi.org.in and updated in July each year.

Q.4. Are there any targets prescribed for lending by banks to MSMEs?

A.4. As per extant policy, certain targets have been prescribed for banks for lending to the Micro and Small enterprise (MSE) sector. In terms of the recommendations of the Prime Minister's Task Force on MSMEs (Chairman: Shri T.K.A. Nair, Principal Secretary), banks have been advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises, a 10 per cent annual growth in the number of micro enterprise accounts and 60% of total lending to MSE sector as on preceding March 31st to Micro enterprises.

In order to ensure that sufficient credit is available to micro enterprises within the MSE sector, banks should ensure that:

(a) 40 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs. 10 lakh and micro (service) enterprises having investment in equipment up to Rs. 4 lakh ;

(b) 20 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs. 10 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 4 lakh and up to Rs. 10 lakh. Thus, 60 per cent of MSE advances should go to the micro enterprises.

For details, the Master Circular [RPCD.MSME & NFS.BC.No.5/06.02.31/2013-14 dated July 1, 2013](#) on 'Lending to Micro, Small and Medium Enterprises (MSME) Sector, may please be seen.

Q.5. Are there specialized bank branches for lending to the MSMEs?

A.5. Public sector banks have been advised to open at least one specialized branch in each district. The banks have been permitted to categorize their MSME general banking branches having 60% or more of their advances to MSME sector, as specialized 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 will 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.

Q.6. How many such specialized branches for lending to MSMEs are there?

A.6. As on March 2013 there are 2032 specialized MSME branches.

Q.7. How do banks assess the working capital requirements of borrowers?

A.7. The banks have been advised to put in place loan policies governing extension of credit facilities for the MSE sector duly approved by their Board of Directors (Refer circular [RPCD.SME & NFS.BC.No.102/06.04.01/2008-09 dated May 4, 2009](#)). Banks have, however, been advised to sanction limits after proper appraisal of the genuine working capital requirements of the borrowers keeping in mind their business cycle and short term credit requirement. As per Nayak Committee Report, working capital limits to SSI units is computed on the basis of minimum 20% of their estimated turnover up to credit limit of Rs.5crore. For more details paragraph 4.12.2 of the Master Circular on lending to the MSME sector dated July 1, 2010 may please be seen.

Q.8. Is there any provision for grant of composite loans by banks?

A.8. A composite loan limit of Rs.1crore can be sanctioned by banks to enable the MSME entrepreneurs to avail of their working capital and term loan requirement through Single Window in terms of our Master Circular on lending to the MSME sector dated July 1, 2010. All scheduled commercial banks were advised by our circular RPCD.SME&NFS. BC.No.102/06.04.01/2008-09 on May 4, 2009 that the banks which have sanctioned term loan singly or jointly must also sanction working capital (WC) limit singly (or jointly, in the ratio of term loan) to avoid delay in commencement of commercial production thereby ensuring that there are no cases where term loan has been sanctioned and working capital facilities are yet to be sanctioned. These instructions have been reiterated to scheduled commercial banks on March 11, 2010.

Q.9. What is Cluster financing?

A.9. Cluster based approach to lending is intended to provide a full-service approach to cater to the diverse needs of the MSE sector which may be achieved through extending banking services to recognized MSE clusters. A cluster based approach may be more beneficial (a)in dealing with well-defined and recognized groups (b) availability of appropriate information for risk assessment (c) monitoring by the lending institutions and (d) reduction in costs.

The banks have, therefore, been advised to treat it as a thrust area and increasingly adopt the same for SME financing. United Nations Industrial Development Organisation (UNIDO) has identified 388 clusters spread over 21 states in various parts of the country. The Ministry of Micro, Small and Medium Enterprises has also 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, banks have been advised to take appropriate measures to improve the credit flow to the identified clusters.

Banks have also been advised that they should open more MSE focussed branch offices at different MSE clusters which can also act as counselling centres for MSEs. Each lead bank of the district may adopt at least one cluster (Refer circular [RPCD.SME & NFS.No.BC.90/06.02.31/2009-10 dated June 29, 2010](#))

Q.10. What are the RBI guidelines on interest rates for loans disbursed by the commercial banks?

A.10. As part of the financial sector liberalisation, all credit related matters of banks including charging of interest have been deregulated by RBI and are governed by the banks' own lending policies. With a view to enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy, all scheduled commercial banks had been advised in terms of our circular [DBOD.No.Dir.BC.88/13.03.00/2009-10 on April 9, 2010](#) to introduce the Base Rate system w.e.f. July 1, 2010. Accordingly, the Base Rate System has replaced the BPLR system with effect from July 1, 2010. All categories of loans should henceforth be priced only with reference to the Base Rate.

Q.11. Can the MSE borrowers get collateral free loans from banks?

A.11. In terms of our circular [RPCD.SME&NFS.BC.No.79/06.02.31/2009-10 dated May 6, 2010](#), banks are mandated not to accept collateral security in the case of loans upto Rs 10 lakh extended to units in the MSE sector. Further, in terms of our circular [RPCD/PLNFS/BC.No.39/06.02.80/2002-04 dated November 3, 2003](#), banks may, on the basis of good track record and financial position of MSE units, increase the limit of dispensation of collateral requirement for loans up to Rs.25 lakh with the approval of the appropriate authority.

Q.12. What is the Credit Guarantee Fund Trust Scheme for MSEs?

A.12. 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 a 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.

Q.13. Why is credit rating of the micro small borrowers necessary?

A.13. With a view to facilitating credit flow to the MSME sector and enhancing the comfort-level of the lending institutions, the credit rating of MSME units done by reputed credit rating agencies should be encouraged. Banks are advised to consider these ratings as per availability and wherever appropriate structure their rates of interest depending on the ratings assigned to the borrowing SME units.

Q.14. Is credit rating mandatory for the MSE borrowers?

A.14. Credit rating is not mandatory but it is in the interest of the MSE borrowers to get their credit rating done as it would help in credit pricing of the loans taken by them from banks.

Q.15. What are the guidelines for delayed payment of dues to the MSE borrowers?

A.15. With the enactment of the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, for the goods and services supplied by the MSEMSE units, payments have to be made by the buyers as under:

- (i) The buyer is to make payment on or before the date agreed on between him and the supplier in writing or, in case of no agreement, before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.
- (ii) If 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.

To take care of the payment obligations of large corporate borrowers to MSEs, banks have been advised that while sanctioning/renewing credit limits to their large corporate borrowers (i.e. borrowers enjoying working capital limits of Rs. 10 crore and above from the banking system), to fix separate sub-limits, within the overall limits, specifically for meeting payment obligations in respect of purchases from MSEs either on cash basis or on bill basis. Banks were also advised to closely monitor the operations in the sub-limits, particularly with reference to their corporate borrowers' dues to MSE units by ascertaining periodically from their corporate borrowers, the extent of their dues to MSE suppliers and ensuring that the corporates pay off such dues before the 'appointed day' /agreed date by using the balance available in the sub-limit so created. In this regard the relevant circular is [circular](#)

[IECD/5/08.12.01/2000-01 dated October 16, 2000](#) (reiterated on May 30, 2003, vide [circular No. IECD.No.20/08.12.01/2002-03](#)) available on our website.

Q.16. What is debt restructuring of advances?

A.16. A viable/potentially viable unit may apply for a debt restructuring if it shows early stage of stickiness. In such cases the banks may consider to reschedule the debt for repayment, consider additional funds etc. A debt restructuring mechanism for units in MSME sector has been formulated and advised to all commercial banks. The detailed guidelines have been issued to ensure restructuring of debt of all eligible small and medium enterprises. Prudential guidelines on restructuring of advances have also been issued which harmonises the prudential norms over all categories of debt restructuring mechanisms (other than those restructured on account of natural calamities). The relevant circulars in this regard are circular [DBOD.BP.BC.No.34/21.04.132/2005-06 dated September 8, 2005](#) and circular [DBOD.No.BP.BC.37/21.04.132/2008-09 dated August 27, 2008](#) which are available on our website www.rbi.org.in.

Q.17. What is the definition of a sick unit?

A.17. As per the extant guidelines, a Micro or Small Enterprise (as defined in the MSMED Act 2006) may be said to have become Sick, if

a. Any of the borrowal account of the enterprise remains NPA for three months or more

OR

b. There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year.

The criteria will enable banks to detect sickness at an early stage and facilitate corrective action for revival of the unit.

Q.18. Are all sick units put under rehabilitation by banks ?

A.18. No. If a sick unit is found potentially viable it can be rehabilitated by the banks. The viability of the unit is decided by banks. A unit should be declared unviable only if such a status is evidenced by a viability study.

Q.19. Is there a time frame within which the banks are required to implement the rehabilitation package?

A.19. Viable / potentially viable MSE units/enterprises, which turn sick in spite of debt restructuring would need to be rehabilitated and put under nursing. It will be for the banks/financial institutions to decide whether a sick MSE unit is potentially viable or not. The rehabilitation package should be fully implemented by banks within six months from the date the unit is declared as potentially viable/viable. During this six months period of identifying and implementing rehabilitation package banks/FIs are required to do "holding operation" which will allow the sick unit to draw funds from the cash credit account at least to the extent of deposit of sale proceeds. The relevant circular on rehabilitation of sick units

is [RPCD.CO.MSME & NFS.BC.40/06.02.31/2012-2013 dated November 1, 2012](#) is available on our website.

Q.20. What is the procedure and time frame for conducting the viability study ?

A.20. The decision on viability of the unit should be taken at the earliest but not later than 3 months of the unit becoming sick under any circumstances.

The following procedure should be adopted by the banks before declaring any unit as unviable:

- a. A unit should be declared unviable only if the viability status is evidenced by a viability study. However, it may not be feasible to conduct viability study in very small units and will only increase paperwork. As such for micro (manufacturing) enterprises, having investment in plant and machinery up to Rs. 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh, the Branch Manager may take a decision on viability and record the same, along with the justification.
- b. The declaration of the unit as unviable, as evidenced by the viability study, should have the approval of the next higher authority/ present sanctioning authority for both micro and small units. In case such a unit is declared unviable, an opportunity should be given to the unit to present the case before the next higher authority. The modalities for presenting the case to the next higher authority may be worked out by the banks in terms of their Board approved policies in this regard.
- c. The next higher authority should take such decision only after giving an opportunity to the promoters of the unit to present their case.
- d. For sick units declared unviable, with credit facilities of Rs. 1 crore and above, a Committee approach may be adopted. A Committee comprising of senior officials of the bank may examine such proposals. This is expected to improve the quality of decisions as collective wisdom of the members shall be utilized, especially while taking decision on rehabilitation proposals.
- e. The final decision should be communicated to the promoters in writing. The above process should be completed in a time bound manner and should not take more than 3 months.

Q.21. What are the RBI guidelines on One Time Settlement scheme(OTS) for MSEs for settlement of their NPAs?

A.21. Scheduled commercial banks have been advised in terms of our circular RPCD.SME&NFS. BC.No.102/06.04.01/2008-09 dated May 4, 2009 to put in place a non - discretionary One time Settlement scheme duly approved by their Boards. The banks have also been advised to give adequate publicity to their OTS policies. (Refer circular RPCD.SME&NFS. BC.No.102/06.04.01/2008-09 dated May 4, 2009)

Q.22. Apart from the loans and other banking facilities, do the banks provide any guidance to MSE entrepreneurs ?

A.22. Yes. Banks provide following services to the MSE entrepreneurs:

(i) Rural Self Employment Training Institutes (RSETIs)

At the initiative of the Ministry of Rural Development (MoRD), Rural Self Employment Training Institutes (RSETIs) have been set up by various banks all over the country. These RSETIs are managed by banks with active co-operation from the Government of India and State Governments. RSETIs conduct various short duration (ranging preferably from 1 to 6 weeks) skill upgradation programmes to help the existing entrepreneurs compete in this ever-changing global market. RSETIs ensure that a list of candidates trained by them is sent to all bank branches of the area and co-ordinate with them for grant of financial assistance under any Govt. sponsored scheme or direct lending.

(ii) Financial Literacy and consultancy support:

Banks have been advised to 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. Through these FLCs, banks provide assistance to the MSE entrepreneurs in regard to financial literacy, operational skills, including accounting and finance, business planning etc. (Refer circular [RPCD.MSME & NFS.BC.No.20/06.02.31/2012-13 dated August 1, 2012](#))

Further, with a view to providing a guide for the new entrepreneurs in this sector, a booklet titled “Nurturing Dreams, Empowering Enterprises – Financing needs of Micro and Small Enterprises – A guide” has been launched on August 6, 2013 by the Reserve Bank. The booklet has been placed on our website www.rbi.org.in under the following path & URL:

RBI main page – Financial Education – Downloads – For Entrepreneurs (<http://rbi.org.in/financialeducation/FinancialEntrepreneur.aspx>)

Q.23. What is the role of Banking Codes and Standard Board of India (BCSBI) for MSEs?

A.23. The Banking Codes and Standard Board of India (BCSBI) constituted a Working Group comprising members from select banks, Indian Banks Association, Rural Planning & Credit Department of Reserve Bank of India to formulate a Banking Code for SME Customers. On the basis of discussions with Industry Associations, banks, SIDBI and Government agencies, The Banking Codes and Standard Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which 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. The Code may be accessed on the website of BCSBI www.bcsbi.org.in