

**RBI/2006-07/02**

RPCD.PLNFS. BC. No.02/ 06.02.31/ 2006-07

July 1, 2006

**The Chairman/Managing Director/  
Chief Executive Officer**

***All Scheduled Commercial Banks  
(including Regional Rural Banks/Local Area Banks)***

Dear Sir,

**MASTER CIRCULAR -  
LENDING TO SMALL & MEDIUM ENTERPRISES SECTOR (SMEs)**

As you are aware, the Reserve Bank of India has, from time to time, issued a number of guidelines/instructions/directives to banks in regard to matters relating to lending to Small Scale Industries Sector as well as Small & Medium Enterprises Sector. To enable the banks to have current instructions at one place, a Master Circular incorporating the existing guidelines/instructions/directives on the subject has been prepared and is appended. This Master Circular consolidates the instructions issued by the RBI up to June 30, 2006, which are listed in the *Appendix*, to the extent they deal with the SSI and SME sector lending by commercial banks.

Please acknowledge receipt.

Yours faithfully,

**(G.Srinivasan)  
Chief General Manager**

## LENDING TO SME SECTOR

### SECTION-I

#### 1 SMALL SCALE INDUSTRIES

##### 1.1. Small Scale and Ancillary Industries

Small scale industrial units are those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs. 1 crore. These would, *inter alia*, include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units, the investment in plant and machinery (original cost) should also not exceed Rs. 1 crore to be classified under small-scale industry.

The investment limit of Rs.1 crore for classification as SSI has been enhanced to Rs.5 crore in respect of certain specified items under hosiery, hand tools, drugs pharmaceuticals and stationery items & sports goods by the Government of India.

##### 1.2 Small and Medium Enterprises Sector

As per the “Policy Package for Stepping up Credit to the SME Sector”, announced by the Union Finance Minister in the Parliament on August 10, 2005, Small and Medium Enterprises (SMEs) sector is defined as under:

Small and Medium Enterprise (SME) is an undertaking in which investment in plant and machinery exceeds *investment limit of SSI sector* (Rs.1 crore or Rs.5 crore, as the case may be) and up to Rs.10 crore.

**However, financing to Medium Enterprises (ME) is not included under Priority sector (*only SSI financing is included under Priority Sector*).**

##### 1.3 Tiny Enterprises

The status of ‘Tiny Enterprises’ may be given to all small scale units whose investment in plant & machinery is up to Rs. 25 lakh, irrespective of the location of the unit.

##### 1.4 Small Scale Service & Business Enterprises (SSSBs)

1.4.1 Industry related service and business enterprises with investment up to Rs. 10 lakh in fixed assets, excluding land and building will be given benefits of small scale sector. For computation of value of fixed assets, the original price paid by the original owner will be considered irrespective of the price paid by subsequent owners.

1.4.2 An illustrative list of eligible activities as SSSBs and the illustrative list of activities that will not qualify as SSSBE is given in *Annexures 1 & II* respectively

##### 1.5 Indirect finance in the small-scale industrial sector will include credit to:

1.5.1 Agencies involved in assisting the decentralised sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.

1.5.2 Government sponsored Corporation/organisations providing funds to the

weaker sections in the priority sector.

**1.5.3** Advances to handloom co-operatives.

**1.5.4** Term finance/loans in the form of lines of credit made available to State Industrial Development Corporation/State Financial Corporations for financing SSIs.

**1.5.5** Credit provided by banks to KVIC under the scheme for provision of credit to KVIC by consortium of banks for lending to viable Khadi and Village Industrial Units.

**1.5.6** Funds provided by commercial banks to SIDBI/SFCs by way of rediscounting of bills of SSIs which are originally discounted by a commercial bank and rediscounted by SIDBI/SFCs will be eligible for inclusion under the priority sector as indirect finance to SSI.

**1.5.7** Subscription to bonds issued by NABARD with the objective of financing exclusively non-farm sector. However, the investments made by banks on or after April 1, 2007 in such bonds issued by NABARD, shall not be eligible for classification under priority sector lending.

**1.5.8** (i) Financing of NBFCs or other intermediaries for on-lending to the tiny sector.  
(ii) All new loans granted by banks to NBFCs and other intermediaries for on-lending to SSI sector with effect from November 11, 2003.

**1.5.9** Deposits placed with SIDBI by Foreign Banks in fulfilment of shortfall in attaining priority sector targets.

## **1.6 Industrial Estates**

Loans for setting up industrial estates.

## **1.7 KVI Sector**

All advances to KVI sector, irrespective of their size of operations, location and investment in plant and machinery, will be covered under priority sector advances and will also be eligible for consideration under the sub-target (60 percent) of the SSI segment within the priority sector.

**1.8** Manufacture of common salt through any process including manual operation (involving solar evaporation) may be considered as an industrial activity and credit provided by banks to units engaged in the manufacture of common salt which satisfy the norms of SSI unit may be classified under advances to SSI.

**1.9** Units engaged in ship breaking/dismantling are composite ones which also undertake the processing of scrap thus obtained and hence the entire activity can be covered under processing. Therefore, all small scale industrial units with original cost of plant and machinery not exceeding Rs. 1 crore and engaged in ship breaking/dismantling activity may be considered as small scale industrial undertaking and bank advances to such units reckoned as priority sector advances.

**1.10** Bank loans to bought leaf factories manufacturing tea are to be reckoned as priority sector lending to small scale industry, provided the investment in plant and machinery (original cost) does not exceed the prescribed limits.

**1.11** Water mills (Gharat) has been recognised as an industrial activity and shall be eligible for registration as small scale industry.

## **2. FOOD AND AGRO-BASED PROCESSING SECTOR**

The following items within the food and agro-based processing sector would be eligible for classification as priority sector for lending by banks:

- Fruit and vegetable processing industry
- Food grain milling industry
- Dairy products
- Processing of poultry and eggs, meat products
- Fish processing
- Bread, oilseeds, meals (edible), breakfast foods, biscuits, confectionery (including cocoa processing and chocolate), malt extract, protein isolate, high protein food, weaning food and extruded/ other ready to eat food products
- Aerated water/ soft drinks and other processed foods
- Special packaging for food processing industries
- Technical assistance and advice to food processing industry

With regard to the size of the units within this sector, it is clarified that food and agro-based processing units of small and medium size with investment in plant and machinery up to Rs 5 crore would be included under priority sector lending. While loans to units satisfying SSI definition may be shown under advances to SSI, loans to other units should be shown separately in the half-yearly statements on priority sector lending.

## **SECTION II**

### **CERTAIN TYPES OF FUNDS DEPLOYMENT ELIGIBLE AS PRIORITY SECTOR ADVANCES**

#### **1. INVESTMENTS IN SPECIAL BONDS**

**1.1** Investments made by the banks in special bonds issued by the specified institution(s) could be reckoned as part of priority sector advances, subject to the following conditions:

#### ***NABARD***

Subscription to bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities and the non-farm sector will be eligible for inclusion under the priority sector as **indirect finance to SSI**, as the case may be.

The investments in the special bonds issued by NABARD shall not be eligible for classification under priority sector lending with effect from April 1, 2007.

- 1.1.1 The issue of bonds should be accompanied by a declaration from the issuing institution that the proceeds would be utilised for financing of borrowers under the priority sector as detailed above and no refinance would be availed of against such loans to the ultimate borrowers from any other agency.
- 1.1.2 The rate of interest and maturity period of bonds may be settled by banks with the respective institutions.
- 1.1.3 While reporting to the RBI, the quantum of investment in bonds (as they would appear under investments in the Balance Sheet) should be shown separately under the appropriate sub-head in the priority sector returns.

## **2. INVESTMENTS IN SECURITIZED ASSETS**

Investments made by banks in securitized assets representing direct lending to the SSI sector would be treated as their direct lending to SSI sector under priority sector, provided it satisfies the following conditions:

- i) The pooled assets represent direct loans to SSI sector which are reckoned under priority sector; and
- ii) The securitized loans are originated by banks/financial institutions

## **3. LINES OF CREDIT**

- 3.1 Banks may consider on merit, proposals received from State Industrial Development Corporations (SIDCs) and State Financial Corporations (SFCs) for sanction of term finance/loans in the form of lines of credit.
- 3.2 Such term finance/loans to the extent granted for/to the Small Scale Industrial (SSI) units, will be treated as priority sector lending, subject to the observance of following conditions:
  - (i) SFC/SIDC should maintain separate and distinct accounts of fresh disbursements made to SSI units and outstanding amounts there against.
  - (ii) Periodical statements to be obtained from SFC/SIDC to monitor the position.
  - (iii) Annually, a certificate issued by SFC/SIDC statutory auditors certifying that the outstanding borrowings from banks were fully covered by the non-overdue loans outstanding in respect of fresh disbursements made to SSI units from out of term finance/lines of credit granted by banks.

- (iv) The rate of interest to be charged by banks on such term finance/ loans/ lines of credit will be in conformity with the directives on interest rates issued by the Reserve Bank from time to time.

**3.3** In order to ensure adequate credit to this sector, the credit requirements of village industries, tiny industries and other SSI units having aggregate fund-based working capital limits upto Rs. 5 crores from the banking system, will be computed on the basis of a minimum of 20 percent of their projected annual turnover for new as well as existing units.

#### **4. BILLS REDISCOUNTING**

**4.1** Funds provided by commercial banks to SIDBI by way of rediscounting of bills of SSIs which are originally discounted by a commercial bank and rediscounted by SIDBI will be eligible for inclusion under the priority sector as indirect finance to SSI.

**4.2** Funds provided by commercial banks to State Financial Corporations (SFCs) by way of rediscounting of bills of SSIs earlier discounted by the SFCs will be eligible for inclusion under the priority sector as indirect finance to SSI.

#### **5. LEASING AND HIRE PURCHASE**

Para-banking activities such as leasing and hire purchase financing undertaken departmentally by banks will be classified as priority sector advances, provided the ultimate beneficiary satisfies the criteria laid down by RBI for treating such advances as advances to priority sector.

#### **6. SCHEME OF SMALL ENTERPRISES FINANCIAL CENTRES (SEFCs):**

As per announcement made by the Governor in the Annual Policy Statement 2005-06, a scheme for strategic alliance between branches of banks and SIDBI located in clusters, named as "Small Enterprises Financial Centres" has been formulated in consultation with the Ministry of SSI and Banking Division, Ministry of Finance, Government of India, SIDBI, IBA and select banks and circulated to all scheduled commercial banks on May 20, 2005 for implementation. Initially, SIDBI had decided to start 149 such centres. SIDBI has executed MoU with 13 banks so far (Bank of India, UCO Bank, YES Bank, Bank of Baroda, Oriental Bank of Commerce, Punjab National Bank, Dena Bank, Andhra Bank, Indian Bank, Corporation Bank, IDBI Bank, Indian Overseas Bank and State Bank of India). List of SME clusters covered by existing SIDBI branches is furnished in *Annexure IV*.

### **SECTION III**

#### **TARGETS FOR PRIORITY SECTOR LENDING BY SCHEDULED COMMERCIAL BANKS (EXCLUDING RRBS)**

##### **1. MAIN TARGETS FOR ALL SCHEDULED COMMERCIAL BANKS EXCLUDING FOREIGN BANKS**

- 1.1 The scheduled commercial banks are expected to enlarge credit to priority sector and ensure that priority sector advances (which includes the SSI sector) constitute 40 per cent of net bank credit.
- 1.2 While there is no sub-target fixed for lending to SSI sector, as per the policy package announced by the Government of India for stepping up credit to SME sector, banks may fix self set target for growth in advances to SME sector in order to achieve a minimum 20% year on year growth in credit to SMEs with the objective to double the flow of credit to the SME sector within a period of 5 years i.e. from 2005-06 to 2009-10.
- 1.3 In order to ensure that credit is available to all segments of the SSI sector, banks should ensure that -
  - (a) 40 per cent of the total credit to small scale industry goes to the cottage industries, khadi & village industries, artisans and tiny industries with investment in plant and machinery up to Rs. 5 lakh;
  - (b) 20 per cent of the total credit to small scale industry goes to SSI units with investment in plant and machinery between Rs. 5 lakh and Rs. 25 lakh; and
  - (c) The remaining 40 per cent goes to other SSI units with investment exceeding Rs. 25 lakh.

## **2. TARGETS FOR FOREIGN BANKS**

- 2.1.1 Within the overall target of 32 per cent to be achieved by foreign banks, the advances to small scale industries sector should not be less than 10 per cent of the net bank credit and the export credit should not be less than 12 per cent of the net bank credit.

[The net bank credit should tally with the figures reported in the fortnightly return submitted under section 42(2) of the Reserve Bank of India Act, 1934. Outstanding deposits under the FCNR (B) and NRNR Schemes are excluded from net bank credit for computation of priority sector lending target/ sub-targets. However, as the NRNR scheme has been discontinued, the existing accounts under NRNR account scheme may be continued only up to the date of maturity as advised vide circular DBOD. DIR. BC. 93/13.01.09/2001-02 dated April 29, 2002.]

## **3. DEPOSIT BY FOREIGN BANKS WITH SIDBI TOWARDS SHORTFALL IN PRIORITY SECTOR LENDING**

- 3.1 In the event of failure to attain the stipulated targets and sub-targets, the foreign banks will be required to make good the shortfall in the achievement of the targets / sub-targets by depositing, an amount equivalent to the shortfall with the Small Industries Development Bank of India (SIDBI).

**a)** The shortfall will be placed with SIDBI by foreign banks for a period for a tenor of 3 (three) years.

**b)** The funds placed with SIDBI will have a graded interest rate structure linked to the Bank Rate as in the case of RIDF scheme for Public Sector Banks.

Sr. No.

Shortfall in lending to Priority Sector Target (32%)/ Sub-Targets for SSI-(10%)and Export credit(12%) to Net Bank Credit whichever is higher.

Rate of interest on the entire deposit to be made with SIDBI

(Per cent per annum)

1

Less than 2 percentage points

Bank Rate (6% at present)

2

2 and above, but less than 5 percentage points

Bank Rate minus 1 percentage point

3

5 and above, but less than 9 percentage points

Bank Rate minus 2 percentage points

4

9 percentage points and above

Bank Rate minus 3 percentage points

c) SIDBI will pass on the lower interest rates to the borrowers.

**N.B.** Above instructions would be made effective from the financial year 2005-06.

**3.2** The shortfall in achieving the priority sector lending target and the sub-targets should be computed as on the last reporting Friday of March every year and made good by placing a deposit with SIDBI as stated above. The deposits should be placed before the end of April of that year.



- 3.3** In regard to the above, it is to be clarified that in the event of failure on the part of foreign banks to achieve any of the stipulated sub-targets in respect of advances to SSI sector and export credit, even if they achieve the overall target of 32 per cent, the shortfall should be made good by placing with SIDBI a deposit of an amount equivalent to the shortfall in each of the sub-targets. Also, in the event of failure on the part of banks to achieve one of the sub-targets or both the sub-targets, and also the overall target of 32 per cent, the shortfall in achieving the sub-targets and the overall target should be made good by placing with SIDBI a deposit of an amount equivalent to (i) aggregate shortfall in the sub-targets, or (ii) the shortfall in the overall target, whichever shortfall is higher. In case the shortfall is in achievement of the overall target only and not in the sub-target, banks should make good the shortfall in achieving the overall target.
- 3.4** The outstanding balances of these deposits placed with SIDBI may be reckoned as part of their priority sector advances during the currency of the deposits, as indirect finance to SSI. The amount of deposits should, however, be shown separately in the returns on priority sector advances submitted to RBI.

## **SECTION IV**

### **COMMON GUIDELINES/ INSTRUCTIONS FOR LENDING TO SSI/SME SECTOR**

1. Based on the recommendations made by the Working Groups and High Powered Committees, appointed by the Government of India and the Reserve Bank of India from time to time, a set of comprehensive guidelines to be followed for advances to all categories of borrowers in the SME sector were evolved.
2. **PROCESSING OF APPLICATIONS**
  - 2.1 **Issue of Acknowledgement of Loan Applications**

Banks should give acknowledgement for loan applications received from the borrowers towards this purpose, while getting fresh stocks of application forms printed, it may be ensured that these forms have perforated portion for acknowledgement to be completed and issued by the receiving branch. Each branch may affix on the main application form as well as the corresponding portion for acknowledgement, a running serial number. While using the existing stock of application forms till then, an acknowledgement (separately prepared) should be given for each application, care being taken to ensure that the serial number given on the acknowledgement is also recorded on the main application.
  - 2.2 **Disposal of Applications**

All loan applications for SSI up to a credit limit of Rs. 25,000/- should be disposed of within 2 weeks and those up to Rs. 5 lakh within 4 weeks provided the loan applications are complete in all respects and accompanied by a 'check list'.
  - 2.3 **Register of Rejected Applications**

A register should be maintained at branch wherein the date of receipt, sanction/rejection/disbursement with reasons therefor etc., should be recorded. The register should be made available to all inspecting agencies.

- 2.3.1** i) Rejection of applications for fresh limits/enhancement of existing limits should not be done without the approval of the next higher authority.
- ii) Sanction of reduced limits should be reported to the next higher authority immediately with full details for review and confirmation.

## **2.4 Collaterals**

The limit for all SSI borrowal accounts for obtention of collateral security is Rs 5 lakh. Banks may on the basis of good track record and financial position of the SSI units, increase the limit of dispensation of collateral requirement for loans up to Rs.25 lakh (with the approval of the appropriate authority).

## **2.5 Composite loan**

A composite loan limit of Rs.1crore can be sanctioned by banks to enable the SSI entrepreneurs to avail of their working capital and term loan requirement through Single Window.

## **2.6 Specialised SSI/SME branches**

Public sector banks have been advised to open at least one Specialised SSI branch in each district. Further banks have been permitted to categorise their general banking branches having 60% or more of their advances to SSI sector as specialised SSI branches in order to encourage them to open more specialised SSI 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 SME sector, the public sector banks will ensure specialized SME 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. The existing specialised SSI branches may be also be redesignated as SME branches. Though their core competence will be utilized for extending finance and other services to SME sector, they will have operational flexibility to extend finance/render other services to other sectors/borrowers.

## **2.7 Delayed Payment**

Under the Amendment Act, 1998 of Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings, penal provisions have been incorporated to take care of delayed payments to SSI units which inter-alia stipulates a) agreement between seller and buyer shall not exceed more than 120 days b) payment of interest by the buyers at the rate of one and a half times the prime lending rate (PLR) of SBI for any delay beyond the agreed period not exceeding 120 days. Further, banks have been 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 SSI.

## 2.8 Guidelines on rehabilitation of sick SSI units (based on Kohli Working Group recommendations)

As per the definition, a unit is considered as sick when any of the borrowal account of the unit remains substandard for more than 6 months or there is erosion in the net worth due to accumulated cash losses to the extent of 50% of its net worth during the previous accounting year and the unit has been in commercial production for at least two years. The criteria will enable banks to detect sickness at an early stage and facilitate corrective action for revival of the unit. As per the guidelines, the rehabilitation package should be fully implemented 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.

Following are broad parameters for grant of relief and concessions for revival of potentially viable sick SSI units:

- |                                 |   |
|---------------------------------|---|
| (i) Interest on Working Capital | Interest 1.5% below the prevailing fixed / prime lending rate, wherever applicable  |
| (ii) Funded Interest Term Loan  | Interest Free   |
| (iii) Working Capital Term Loan | Interest to be charged 1.5% below the prevailing fixed / prime lending rate, wherever applicable  |
| (iv) Term Loan                  | Concessions in the interest to be given not more than 2 % (not more than 3 % in the case of tiny / decentralised sector units) below the document rate. |
| (v) Contingency Loan Assistance | The Concessional rate allowed for Working Capital Assistance.   |

### **2.8.1 State Level Inter Institutional Committee**

In order to deal with the problems of co-ordination for rehabilitation of sick small scale units, State Level Inter-Institutional Committees (SLIICs) have been set up in all the States. The meetings of these Committees are convened by Regional Offices of RBI and presided over by the Secretary, Industry of the concerned State Government. It provides a useful forum for adequate interfacing between the State Government Officials and State Level Institutions on the one side and the term lending institutions and banks on the other. It closely monitors timely sanction of working capital to units which have been provided term loans by SFCs, implementation of special schemes such as Margin Money Scheme of State Government, National Equity Fund Scheme of SIDBI, and reviews general problems faced by industries and sickness in SSI sector based on the data furnished by banks. Among others, the representatives of the local state level SSI associations are invited to the meetings of SLIIC which are held quarterly. A sub-committee of SLIIC looks into the problems of individual sick SSI unit and submits its recommendations to the forum of SLIIC for consideration.

### **2.8.2 Empowered Committee on SMEs**

As part of the announcement made by the Union Finance Minister, at the Regional Offices of Reserve Bank of India, Empowered Committees on SMEs have been constituted under the Chairmanship of the Regional Directors with the representatives of SLBC Convenor, senior level officers from two banks having predominant share in SME financing in the state, representative of SIDBI Regional Office, the Director of Industries of the State Government, one or two senior level representatives from the SME/SSI Associations in the state, and a senior level officer from SFC/SIDC as members. The Committee will meet periodically and review the progress in SME financing as also rehabilitation of sick SSI/ME units. It will 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.

### 2.8.3 Debt Restructuring Mechanism for SMEs

As part of announcement made by the Hon'ble Finance Minister for stepping up credit to small and medium enterprises, a debt restructuring mechanism for units in SME sector has been formulated by Department of Banking Operations & Development of Reserve Bank of India and advised all commercial banks vide circular DBOD. BP. BC. No. 34 / 21.04.132/ 2005-06 dated September 8, 2005. These detailed guidelines have been issued to ensure restructuring of debt of all eligible small and medium enterprises. These guidelines would be applicable to the following entities, which are viable or potentially viable:

- a) All non-corporate SMEs irrespective of the level of dues to banks.
- b) All corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
- c) All corporate SMEs, which have funded and non-funded outstanding up to Rs.10 crore under multiple/ consortium banking arrangement.
- (d) Accounts involving wilful default, fraud and malfeasance will not be eligible for restructuring under these guidelines.
- (e) Accounts classified by banks as “Loss Assets” will not be eligible for restructuring.

For all corporate SMEs, which have funded and non-funded outstanding of Rs.10 crore and above, Department of Banking Operations & Development has issued separate guidelines vide circular [DBOD. No.BP. BC.45/ 21.04. 132/2005-06 dated November 10, 2005](#).

## **2.8.4 One-Time Settlement Scheme for SME Accounts**

As part of the policy package announced by the Union Finance Minister for stepping up credit to SME sector, Rural Planning & Credit Department of Reserve Bank of India had formulated a simplified, non-discretionary and non-discriminatory guidelines on One-Time Settlement Scheme for chronic NPAs of SME Accounts up to Rs. 10 crore and advised all public sector banks vide circular RPCD.PLNFS. BC.No.39 / 06.02.31/ 2005-06 dated September 3, 2005 for implementation.

Salient features of the scheme are as under:

- a) The revised guidelines will cover all NPAs in SME sector which have become doubtful or loss as on March 31, 2004 with outstanding balance of Rs.10 crore and below on the date on which the account was classified as doubtful.
- b) The guidelines will also cover NPAs classified as sub-standard as on March 31, 2004, which have subsequently become doubtful or loss where the outstanding balance was Rs.10 crore and below on the date on which the account was classified as doubtful.
- c) These guidelines will cover cases on which the banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR.
- d) Cases of wilful default, fraud and malfeasance will not be covered.
- e) The last date for receipt of applications from borrowers will be as at the close of business on March 31, 2006. The processing under the revised guidelines shall be completed by June 30, 2006.
- f) The amount of settlement arrived at shall preferably be paid in one lump sum. In cases where the borrowers are unable to pay the entire amount in one lump sum, at least 25% of the amount of settlement shall be paid upfront and the balance amount of 75% should be recovered in instalments within a period of one year together with interest at the existing Prime Lending Rate from the date of settlement up to the date of final payment.

## **2.9 Technology upgradation**

Banks have been advised to develop schemes to encourage investment by SSI units in technology up-gradation. Ministry of SSI, Government of India has introduced the scheme of Credit Linked Capital Subsidy for the up-gradation of the Small Scale Industries. Recently the Ministry of SSI, Government of India had made following modification in the Credit Linked Capital Subsidy scheme for up-gradation of the Small Scale Industries in respect of following parameters:

- Ceiling on the loan amount under the scheme is raised from Rs.40 lakh to Rs. 1 crore.
- The rate of subsidy is raised from existing 12% to 15% for SSI units.

## **2.10 Cluster Approach**

60 clusters have been identified by the Ministry of SSI, Government of India for focused development of SSIs. All SLBC Convenor banks have been advised to incorporate in their Annual Credit Plans, the credit requirement in the clusters identified by the Ministry of SSI, Government of India.

As per Ganguly Committee recommendations banks have been advised that a full-service approach to cater to the diverse needs of the SSI sector may be achieved through extending banking services to recognized SME 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:

- (i) in dealing with well-defined and recognized groups;
- (ii) availability of appropriate information for risk assessment and
- (iii) 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.

Since the cluster based approach for financing SME sector offers possibilities of reduction in transaction costs, mitigation of risk and also provide an appropriate scale for improvement in infrastructure, as part of the policy package announced by the Union Finance Minister for stepping up credit to SME sector, banks have been advised to treat it as a thrust area and increasingly adopt the same for SME financing. SIDBI in association with Indian Banks' Association will initiate necessary steps to collect and pool common data on risks in each identified clusters and develop an IT-enabled application, appraisal and monitoring system for small (including tiny) enterprises. It is expected that this measure will help in reducing transaction costs as well as improve credit flow to the small and tiny enterprises in the clusters. To broaden the financing options for infrastructure development in clusters through public private partnership, SIDBI will formulate a scheme in consultation with the stakeholders.

## **3. MODE OF DISBURSEMENT OF LOAN**

As far as possible, disbursement of loan amounts sanctioned should be made directly to the suppliers of inputs such as raw materials, implements, machinery, etc. However, banks may continue the practice of obtaining receipts from borrowers.

## **4. REPAYMENT SCHEDULE**

- 4.1** Repayment programme should be fixed taking into account the sustenance requirements, surplus generating capacity, the break-even point, the life of the asset, etc., and not in an "ad hoc" manner. In respect of composite loan up to Rs. 50,000/- to artisans, village and cottage industries, repayment schedule may be fixed for term loan component only (subject to SIDBI's requirements being fulfilled).

- 4.2** In the case of other borrowers affected by natural calamities, banks may convert drawings in excess of the value of security into a term loan repayable over a reasonable period of time and provide further working capital and extend/re-phase the instalments due under term loans.

## **5 RATES OF INTEREST**

As per extant guidelines the banks are required to fix their own prime lending rates (PLRs) and the maximum band over the PLR. The interest rates on loans up to Rs.2 lakh should not exceed the PLR and that beyond Rs.2 lakh is left to the discretion of the banks subject to PLR and the maximum bands. The banks have been advised to accord SSI units with a good track record the benefit of lower spreads over the PLR. Banks have been advised to set the interest rate on advances keeping in view prevailing general southward movement in interest rates. The banks have been further advised to fix at least 3 slabs for advances to SSI sector.

## **6. PENAL INTEREST**

**6.1.1** The issue of charging penal interests that should be levied for reasons such as default in repayment, non-submission of financial statements etc. has been left to the Board of each bank. Banks have been advised to formulate policy for charging such penal interest with the approval of their Boards, to be governed by well accepted principles of transparency, fairness, incentive to service the debt and due regard to difficulties of customers.

**6.1.2** No penal interest should be charged by banks for loans under priority sector up to Rs 25,000 as hitherto. However, banks will be free to levy penal interest for loans exceeding Rs 25,000, in terms of the above guidelines.

## **7. SERVICE CHARGES / INSPECTION CHARGES**

**7.1.1** No service charges/inspection charges should be levied on priority sector loans up to Rs. 25,000/-.

**7.1.2** For loans above Rs. 25,000/- banks will be free to prescribe service charges with the prior approval of their Boards in terms of circular No. DBOD.Dir.BC.86/03.01.00/99-2000 dated September 7, 1999.

## **8. INSURANCE AGAINST FIRE AND OTHER RISKS**

**8.1** Banks may waive insurance of assets financed by bank credit in the following cases:

<b>No.</b>	<b>Category</b>	<b>Type of Risk</b>	<b>Type of Assets</b>
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(a)	All categories of priority sector advances upto and inclusive of Rs. 10,000/-	Fire & other risks	Equipment and current assets
(b)	Advances to SSI sector upto and inclusive of Rs. 25,000/- by way of - <ul style="list-style-type: none"> <li>• Composite loans to artisans, village and cottage industries</li> <li>• All term loans</li> <li>• Working capital where these are against non-hazardous goods</li> </ul>	Fire  Fire Fire	Equipment and current assets  Equipment Current Assets

## 9. PHOTOGRAPHS OF BORROWERS

While there is no objection to taking photographs of the borrowers, for purposes of identification, banks themselves should make arrangements for the photographs and also bear the cost of photographs of borrowers falling in the category of Weaker Sections. It should also be ensured that the procedure does not involve any delay in loan disbursement.

## 10. DISCRETIONARY POWERS

All Branch Managers of banks should be vested with discretionary powers to sanction proposals from weaker sections without reference to any higher authority. If there are difficulties in extending such discretionary powers to all the Branch Managers, such powers should exist at least at the district level and arrangements be ensured that credit proposals on weaker sections are cleared promptly.

## 11. MACHINERY TO LOOK INTO COMPLAINTS

11.1. There should be a machinery at the regional offices to entertain complaints from the borrowers if the branches do not follow these guidelines, and to verify periodically that these guidelines are implemented by the branches in actual practice.

11.1. The names and addresses of the officer with whom complaints can be lodged should be displayed on the notice board of every branch.

## 12. AMENDMENTS

These guidelines are subject to any instructions that may be issued by the RBI from time to time.

## 13. Committees on flow of Credit to SSI/SME sector

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

The Committee was constituted by Reserve Bank of India in December 1991 under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor to examine the

issues confronting SSIs in the matter of obtaining finance. The Committee submitted its report in 1992. All the major recommendations of the Committee have been accepted and the banks have been inter-alia advised to:

i) give preference to village industries, tiny industries and other small scale units in that order, while meeting the credit requirements of the small scale sector;

ii) grant working capital credit limits to SSI units computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is upto Rs.2 crore [ since raised to Rs.5 crore ];

iii) prepare annual credit budget on the 'bottom-up' basis to ensure that the legitimate requirements of SSI sector are met in full;

iv) extend 'Single Window Scheme' of SIDBI to all districts to meet the financial requirements (both working capital and term loan) of SSIs;

v) ensure that there should not be any delay in sanctioning and disbursement of credit. In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities should be made;

vi) not to insist on compulsory deposit as a 'quid pro-quo' for sanctioning the credit;

vii) open specialised SSI bank branches or convert those branches which have a fairly large number of SSI borrowal accounts, into specialised SSI branches;

viii) identify sick SSI units and take urgent action to put them on nursing programmes;

ix) standardise loan application forms for SSI borrowers; and

x) impart training to staff working at specialised branches to bring about attitudinal change in them..

### **13.2 Report of the High Level Committee on Credit to SSI (Kapur Committee)**

Reserve Bank of India had appointed a one-man High Level Committee headed by Shri S.L. Kapur, (IAS, Retd.), Former Secretary, Government of India, Ministry of Industry to suggest measures for improving the delivery system and simplification of procedures for credit to SSI sector. The Committee made 126 recommendations covering wide range of areas pertaining to financing of SSI sector. These recommendations have been examined by the RBI and it has been decided to accept 88 recommendations which include the following important recommendations:

i) Delegation of more powers to branch managers to grant ad-hoc limits;

ii) Simplification of application forms;

iii) Freedom to banks to decide their own norms for assessment of credit requirements;

- iv) Opening of more specialised SSI branches;
- v) Enhancement in the limit for composite loans to Rs. 5 lakh. (*since enhanced to Rs. 1 crore*);
- vi) Strengthening the recovery mechanism;
- vi) Banks to pay more attention to the backward states;
- viii) Special programmes for training branch managers for appraising small projects;
- ix) Banks to make customers grievance machinery more transparent and simplify the procedures for handling complaints and monitoring thereof.

### **13.3 Report of the Working Group on Flow of Credit to SSI Sector (Ganguly Committee)**

As per the announcement made by the Governor, Reserve Bank of India, in the Mid-Term Review of the Monetary and Credit Policy 2003-2004, a "Working Group on Flow of Credit to SSI sector" was constituted under the Chairmanship of Dr.A.S.Ganguly

The Committee made 31 recommendations covering wide range of areas pertaining to financing of SSI sector. The recommendations pertaining to RBI and banks have been examined and has accepted 8 recommendations so far and commended to banks for implementation which are as under:

- i) adoption of cluster based approach for financing SME sector;
- ii) sponsoring specific projects as well as widely publicising successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs;
- iii) sanctioning of higher working capital limits by banks operating in the North East region to SSIs, based on their commercial judgement due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system;
- iv) exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs, and
- v) revision of tenure as also interest rate structure of deposits kept by foreign banks with SIDBI for their shortfall in priority sector lending.

### **13.4 Internal Group to Review Guidelines on Credit Flow to SME Sector**

An Internal Group was constituted under the Chairmanship of Shri C.S.Murthy, CGM-in-Charge, RPCD, Central Office, Reserve Bank of India, to inter-alia review all circulars and guidelines issued by Reserve Bank in the past regarding financing of SSIs, to suggest appropriate terms for restructuring of the borrowal accounts of SSI/Medium Enterprises and also to examine the guidelines issued by Reserve Bank

for nursing sick SSIs and suggest suitable relaxation and liberalization of these norms. The Group has submitted its report on June 6, 2005

The internal group has recommended:

- (i) Constitution of empowered committees at the regional office of Reserve Bank to periodically review the progress in SSI and Medium Enterprises financing and also to coordinate with other banks/financial institutions and the state government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector.
- (ii) Opening of specialised SME branches in identified clusters/centres with preponderance of SSI and ME units to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop the requisite expertise.
- (iii) The group has proposed to empower the boards of banks to formulate policies relating to restructuring of accounts of SME units subject to certain guidelines. Restructuring of accounts of corporate SSI/ME borrowers having credit limits aggregating Rs.10 crore or more under multiple banking arrangements will be covered under the revised CDR mechanism.
- (iv) While recommending continuation of the extant guidelines on definition of a sick SSI unit, the group has recommended that all other instructions relating to viability and parameters for relief and concessions to be provided to sick SSI units, as prescribed by the Reserve Bank be withdrawn and banks be given freedom to lay down their own guidelines with the approval of their Board of Directors.

Majority of the recommendations of the Group have been accepted by the Government of India and incorporated as part of policy package announced by the Union Finance Minister for stepping up credit to SME sector.

### **13.5 Policy Package for Stepping up Credit to Small and Medium Enterprises- Announced by the Union Finance Minister**

One of the important development for SME sector is the policy package announced by the Union Finance Minister for stepping up credit to small and medium enterprises. Based on the above policy announcement, we have issued two circulars separately, advising public sector banks (RPCD.PLNFS.BC.No.31/06.02.31/200506 dated August 19, 2005) and private, foreign banks and RRBs (RPCD.PLNFS.BC.No.35/06.02.31/200506 dated August 25, 2005) to implement the above policy measures. Some of the salient features of the policy package are:

- Definition of Small and Medium Enterprises (SMEs)
- Fixing of self-targets for financing to SME sector by banks
- Measures to rationalize the cost of loans to SME sector
- Measures to increase the outreach of formal credit to the SME sector

- Cluster based approach for financing SME sector
- Constitution of Empowered Committees for SMEs in the Regional Offices of Reserve Bank
- Steps to rationalize the cost of loans to SME sector by adopting a transparent rating system with cost of credit being linked to the credit rating of enterprise
- Banks to consider taking advantage of Credit Appraisal & Rating Tool (CART), Risk Assessment Model (RAM) and the comprehensive rating model for risk assessment of SME proposals, developed by SIDBI for reduction of their transaction costs.
- Banks to consider the ratings of SSI units carried out through reputed credit rating agencies under the Credit Rating Scheme introduced by National Small Industries Corporation
- Wider dissemination and easy accessibility of the policy guidelines formulated by Boards of banks as well as instructions/guidelines issued by Reserve Bank by displaying them on the respective banks' web sites as well as web site of SIDBI and also prominently displaying them at the bank branches.

As part of the "Policy Package for Stepping up Credit to SME Sector", fresh guidelines for debt restructuring mechanism for nursing of sick units and a one-time settlement scheme for SME sector have also been issued. Policy measures have been incorporated at appropriate places under different paragraphs of the Master Circular.

Further, as part of the "Policy Package for Stepping up Credit to SME Sector", revised reporting format on Credit flow to SME sector on quarterly basis has been advised to all scheduled commercial banks showing the break up separately for tiny, small and medium enterprises.

A copy of the "Policy Package for stepping up Credit to SME Sector", announced by the Union Finance Minister in the Parliament on August 10, 2005 is furnished in *Annexure V*.

### **13.6 Micro, Small & Medium Enterprises Development (MSMED) Bill, 2006**

The Micro, Small & Medium Enterprises Development (MSMED) Bill, 2006 was passed by the Lok Sabha on May 18, 2006 and by the Rajya Sabha on May 22, 2006. The President of India has also accorded his assent to the above legislation on June 16, 2006. Necessary Rule is under formulation and will be issued by the Ministry of SSI, Government of India shortly. Some of the salient features of the Act are as under:

- **Classification of enterprises** broadly into (i) manufacture/production of goods and (ii) providing/rendering of services which are defined as:
  - (i) **Manufacturing enterprises** in terms of investment limit in plant and machinery (excluding land & building) which are further classified into

**Micro enterprises**-investment upto Rs.25 lakh

**Small enterprises**-investment above Rs.25 lakh & upto Rs.5 crore

**Medium enterprises**- investment above Rs. 5 crore & upto Rs.10 crore.

(ii) **Services enterprises** in terms of investment in equipment (excluding land & building) which are further classified into

**Micro enterprises**-investment upto Rs.10 lakh

**Small enterprises**-investment above Rs.10 lakh & upto Rs.2 crore

**Medium enterprises**- investment above Rs. 2 crore & upto Rs.5 crore.

- **Constitution of Apex Consultative body (National Board) with wide representation of stakeholders under the Chairmanship of the Union Minister for SSI.**
- **Procedure for filing of memoranda by Micro & Small Enterprises (MSES)**
- **Constitution of Advisory Committee under the Chairmanship of Secretary (SSI), Government of India**
- **Strengthening the provisions of Delayed Payment Act.**







**Master Circular**  
**GENERAL GUIDELINES ON**  
**SME SECTOR LENDING**  
**Illustrative List of Small Scale**  
**Service Business (Industry Related) Enterprises (SSSBEs)**

*(Vide paragraph 2.3.2 of Section I)*

[As per circular issued by the Ministry of SSI, Government of India]

1. Advertising Agencies
2. Marketing Consultancy
3. Industrial Consultancy
4. Equipment Rental & Leasing
5. Typing Centres
6. Photocopying centres (Xeroxing)
7. Industrial Photography
8. Industrial R&D Labs
9. Industrial Testing Labs
10. Desk Top Publishing
11. Internet Browsing/ Setting up of Cyber Cafes
12. Auto Repair, Services and Garages
13. Documentary Films on themes like family planning, social forestry, energy conservation and commercial advertising
14. Laboratories engaged in testing of raw materials, finished products
15. 'Servicing Industry' Undertakings engaged in maintenance, repair, testing or servicing of all types of vehicles & machinery of any description including electronic/electrical equipment/instruments, i.e., measuring/control instruments, televisions, tape recorders, VCRs, radios, transformers, motors, watches, etc.
16. Laundry & Dry-cleaning
17. X-Ray Clinic
18. Tailoring
19. Servicing of Agricultural Farm equipment, e.g., Tractor, Pump, Rig, Boring Machines, etc.
20. Weigh Bridge
21. Photographic Lab
22. Blue printing and enlargement of drawing/designs facilities
23. ISD/STD Booths
24. Teleprinter/FAX services
25. Sub-contracting Exchanges (SCXs) established by Industry Associations
26. EDP Institutes established by Voluntary Associations/ Non-Government Organisations
27. Coloured, and Black and White Studios equipped with processing laboratory
28. Ropeways in hilly areas
29. Installation and operation of Cable TV Network
30. Operating EPABX under franchises
31. Beauty Parlours and Creches

*[Computerised Design and Drafting, Creation of Databases suitable for foreign/ Indian markets and Computer Software Development which were hitherto being registered as SSSBE, have since been deleted from the list as Computer Software Development and Software Services (including computer graphics, engineering design,*

*computerised design and drafting) have since been recognised as industrial activity eligible for registration as Small Scale Industries]*

**Annexure II**

**Master Circular**  
**GENERAL GUIDELINES ON**  
**SME SECTOR LENDING**  
**Illustrative List of Activities which**  
**are not Recognised as SSSBE's**

*(Vide paragraph 2.3.2 of the Chapter 1)*

[As per circular issued by the Ministry of SSI, Government of India]

Illustrative List of Activities which are **not** recognised as Small Scale Industry/Business (Industry Related) Enterprises i.e. SSSBEs

1. Transportation
1. Storage (except cold storage which is recognised as SSI)
2. Retail/Wholesale Trade Establishments
3. General Merchandise Stores
4. Sales Outlets for Industrial Components
5. Health Services including Pathological Laboratories
6. Legal Services
7. Educational Services
8. Social Services
9. Hotels

**Master Circular**  
**SME SECTOR LENDING**

**List of Notified Financial Institutions under IDBI Act (SIDCs)**

*[Vide paragraph 1.1 (i) (b of Chapter II)]*

1. Assam Industrial Development Corporation Ltd., R.G. Baruah Road, Guwahati 731 024.	7. Meghalaya Industrial Development Corpn. Ltd., Kismat, Upland Road, Laitumkhrah, Post Box 9, Shillong - 793 003.
2. Bihar State Credit & Investment Corpn. Ltd., Udyog Vikas Bhavan, 4th flr., Ram Charitra Path, Near Railway Crossing on Baily Road, Patna 800 001.	8. Pondicherry Industrial Promotion Development & Investment Corp. Ltd., 38, Romain Rolland Street, Pondicherry - 605 001.
3. Gujarat Industrial Investment Corporation Ltd., Chunibhai Chambers, Behind Deepali Cinema, Ashram Road, P. B. No. 4003/4004, Ahmedabad 390 009.	9. Punjab State Industrial Development Corpn. Ltd., SCO 54, 55 6:56, Sector 17 A, Chandigarh – 160 017.
4. Himachal Pradesh State Industrial Development Corporation Ltd., New Himrus Bldg., 3rd & 4th flr, Cart Road, Shimla - 171 001.	10. Rajasthan State Industrial Development and Investment Corporation Ltd., Udyog Bhawan, Tilak Marg, Jaipur – 372 005.
5. Jammu & Kashmir State Industrial Development Corporation Ltd., Drabu House, Ram Bagh, Post Box No. 26, Srinagar, Kashmir.	11. State Industrial Promotion Corporation of Tamil Nadu Ltd., No. 19 - A, Marshalls Road, Egmore, P. B. No. 7223, Madras – 600 000.
6. Kerala State Industrial Development Corpn. Ltd., Keston Rd., T. C. 10/402, Kawdiar, Thiruvananthapuram 695 003.	12. Arunachal Pradesh Industrial Development Financial Corporation Ltd., Itanagar, Naharlagun, Arunachal Pradesh 791 110.
13. Mizoram Industrial Development Corpn. Ltd., Upper Khatla, Aizawal, Mizoram - 796 007.	21. Nagaland Industrial Development Corporation Ltd., IDC House, P.B.No. 5, Dimapur – 797 112.

14. The Andaman and Nicobar Islands Integrated Development Corporation Ltd., New Marine Dry Dock/ Workshop Complex, P. B. No. 180, Port Blair - 744 101.	22. Pradeshiya Industrial & Investment Corpn. Of Uttar Pradesh Ltd., PICUP Bhawan, Gomti Nagar, Lucknow – 226 021.
15. Andhra Pradesh Industrial Development Corporation Ltd., Parishrama Bhavanam, 5 9 50/B, Fateh Maidan Road, Hyderabad 500 029.	23. Sikkim Industrial Development & Investment Corpn. Ltd., Bhanupath, Tashiling Gongtok, Sikkim – 737 101.
16. Economic Development Corporation of Goa, Daman & Diu Ltd., EDC House, Dr. Atmaram Borkar Road, Panaji, P.B. No. 225, Goa 403 001.	24. State Industrial & Investment Corporation of Maharashtra Ltd., Nirmal Building, 1st floor, P. B. No. 11571, Nariman Point, Bombay – 400 021.
17. Haryana State Industrial Development Corpn. Ltd., S.C.O. 40 41 Sector 17 A, Post Box No. 22, Chandigarh 160 017.	25. West Bengal Industrial Development Corpn. Ltd., 5 – Council House Street, 2nd & 3rd floor, P. B. No. 649 Calcutta – 700 001.
18. Industrial Promotion & Investment Corporation of Orissa Ltd., IPICOL House, Janpath, Bhubaneswar – 751 007.	26. Tripura Industrial Development Corpn. Ltd., Pandit Nehru Complex, Kunjaban, Agartala – 799 006. (Tripura)
19. Karnatak State Industrial Investment & Development Corporation Ltd., MSIL House, 36, Cunningham Rd., Bangalore - 560 052.	27. Manipur Industrial Development Corpn. Ltd., Type C 11, Industrial Estate, Takyelpat, P. B. No. 46, Imphal – 795 001, (Manipur)
20. Madhya Pradesh Audyogik Vikas Nigam Ltd., Panchanan, 2nd floor, Malviya Nagar, Bhopal – 462 003.	28. Delhi State Industrial Development Corpn. Ltd., 4th floor, Mohan Singh Palace, Connaught Palace, New Delhi – 110 001.

**LIST OF SME CLUSTERS COVERED BY EXISTING  
SIDBI BRANCHES**

<b>Sr. No.</b>	<b>Branch Offices</b>	<b>No.of SSI clusters</b>	<b>Product</b>
1	Hyderabad	5	Ceiling Fan, Electronic Goods, Pharmaceuticals- Bulk Drugs, Hand Pump sets & Foundry
2	Patna	1	Brass and German Utensils
3	Delhi	19	Stainless Steel Utensils & Cutlery, Chemicals, Electrical Engineering Equipment, Electronic Goods, Food Products, Leather Products, Mechanical Engineering Equipment, Packaging Material, Paper Products, Plastic Products, Wire Drawing, Metal Fabrication, Furniture, Electro Plating, Auto Components, Hosiery, Readymade Garments, Sanitary Fittings
4	Ahmedabad	17	Pharmaceuticals, Dyes & Intermediates, Moulded Plastic Products, Readymade Garments, Textile Machinery Parts, Diamond Processing, Machine Tools, Castings & Forging, Steel Utensils, Wood Product & Furniture, Paper Products, Leather Footwear, Washing Powder & Soap, Marble Slabs, Power Driven Pumps, Electronic Goods, Auto Parts
5	Surat	4	Diamond Processing, Powerloom, Wood Product & Furniture, Textile Machinery
6	Baroda	3	Pharmaceutical- Bulk drugs, Plastic processing & Wood product & furniture
7	Goa	1	Pharmaceutical
8	Faridabad	3	Auto components, Engineering Cluster, Stone Crushing
9	Gurgaon	5	Auto Components, Electronic Goods, Electrical Engineering Equipment, Readymade Garments, Mechanical Engineering Equipment

10	Parwanoo(Baddi)	1	Engineering Equipment
11	Jammu	3	Steel Re-rolling, Oil mills, Rice Mills
12	Jamshedpur	1	Engineering & Fabrication
13	Bangalore	6	Powerloom, Electronic goods, Readymade garments, Light engineering, Leather products
14	Kochi/Ernakulam	3	Rubber products, Powerlooms & Sea Food processing
15	Aurangabad	2	Auto components & Pharmaceuticals-Bulk drugs
16	Mumbai	11	Electronic Goods , Pharmaceutical-Basic drugs, Toys (plastic), Ready made garments, Hosiery, Machine Tools, Engineering equipment, Chemicals, Packaging material, Handtools, Plastic products
17	Nagpur	6	Powerlooms, Engineering & Fabrication, Steel furniture, Ready made garments, Handtools, Food processing
18	Pune	6	Auto components, Electronic goods, Food products, Ready made Garments, Pharmaceuticals –Bulk Drugs, Fibre glass
19	Thane	2	Pharmaceuticals –Bulk Drugs & Sea food
20	Bhopal	1	Engineering equipment
21	Indore	4	Pharmaceuticals- Bulk drugs, Readymade garments, food processing, Auto components
22	Ludhana	9	Auto Components, Bicycle Parts, Hosiery, Sewing M/C Components, Industrial Fastners, Handtools, Machine tools, Forging, Electroplating
23	Jaipur	7	Gems & Jewellery, Ball Bearing, Electrical Engineering Equipment, Food Products, Garments, Lime, Mechanical Engineering Equipment
24	Chennai	3	Auto components, Leather products, Electroplating

25	Coimbatore	6	Diesel Engines, Agricultural Implements, Machine Tools, Castings & Forging, Powerloom, Wet Grinding Machines
26	Tirupur	1	Hosiery
27	Noida/Gaziabad	10	Electronic goods, Toys, Chemicals, Electrical engineering equipment, Garments, Mechanical engineering equipment, Packaging material, Plastic products, Chemicals
28	Kanpur	3	Saddlery, Cotton hosiery, Leather products
29	Varanasi	4	Sheetwork (Globe Lamp), Powerloom, Agriculture implements, Electric fan
30	Dehradun	1	Miniature Vacuum bulb
31	Nashik (shortly to be opened)	1	Steel furniture
<b>Total</b>		<b>149</b>	

### **Policy Package for stepping up credit to Small and Medium Enterprises**

The small-scale industries (SSI) produce about 8000 products, contribute 40% of the industrial output and offer the largest employment after agriculture. The sector, therefore, presents an opportunity to the nation to harness local competitive advantages for achieving global dominance. In recognition of these aspects, the National Common Minimum Programme makes the following declarations for accelerating the development of small-scale sector.

*“Household and artisanal manufacturing will be given greater technological, investment and marketing support. Small-scale industry will be freed from Inspector Raj and given full credit, technological and marketing support. Infrastructure upgradation in major industrial clusters will receive urgent attention.”*

## **2. From SSI to SME: Defining the New Paradigm**

2.1 Government policy as well as credit policy has so far concentrated on manufacturing units in the small-scale sector. The lowering of trade barriers across the globe has increased the minimum viable scale of enterprises. The size of the unit and technology employed for firms to be globally competitive is now of a higher order. The definition of small-scale sector needs to be revisited and the policy should consider inclusion of services and trade sectors within its ambit. In keeping with global practice, there is also a need to broaden the current concept of the sector and include the medium enterprises in a composite sector of Small and Medium Enterprises (SMEs). A comprehensive legislation, which would enable the paradigm shift from small-scale industry to small and medium enterprises under consideration of Parliament. The Reserve Bank of India, had meanwhile set up an Internal Group which has recommended:

*“Current SSI/tiny industries definition may continue. Units with investment in plant and machinery in excess of SSI limit and up to Rs.10 crore may be treated as Medium Enterprises (ME). The definition may be reviewed after enactment of the Small and Medium Enterprises Development Bill. Only SSI financing will be included in Priority Sector.”*

2.2 It is proposed to accept the recommendation with regard to the credit facilities being offered by the banking sector and accordingly request the Reserve Bank of India to advise the banks to frame a policy for enhancing the flow of credit to both small and medium enterprises, within the overall framework of credit policy of banks to small and medium enterprises.

2.3. The challenges being faced by the small and medium scale sector may be briefly set out as follows-

a. Small and Medium Enterprises (SME), particularly the tiny segment of the small enterprises have inadequate access to finance due to lack of financial information and non-formal business practices. SMEs also lack access to private equity and venture capital and have a very limited access to secondary market instruments.

b. SMEs face fragmented markets in respect of their inputs as well as products and are vulnerable to market fluctuations.



c.SMEs lack easy access to inter-state and international markets.

d.The access of SMEs to technology and product innovations is also limited. There is lack of awareness of global best practices.

e.SMEs face considerable delays in the settlement of dues/payment of bills by the large scale buyers.

With the deregulation of the financial sector, the ability of the banks to service the credit requirements of the SME sector depends on the underlying transaction costs, efficient recovery processes and available security. There is an immediate need for the banking sector to focus on credit and finance requirements of SMEs.

### **3. Measures to increase the quantum of credit to SMEs at the right price**

3.1 Public Sector Banks will be advised to fix their own targets for funding SMEs in order to achieve a **minimum** 20% year on year growth in credit to SMEs. The objective is to **double** the flow of credit from Rs.67,600 crore in 2004-05 to Rs.135,200 crore to the SME sector by 2009-10, i.e. within a period of 5 years.

3.2 Public Sector Banks will be advised to follow a transparent rating system with cost of credit being linked to the credit rating of the enterprise.

3.3 SIDBI in association with Credit Information Bureau(India) Ltd. (CIBIL)will expedite setting up a credit rating agency.

3.4 SIDBI in association with Indian Banks' Association (IBA) would collect and pool common data on risk in each identified cluster and develop an IT-enabled application, appraisal and monitoring system for small (including tiny) enterprises. This would help reduce transaction cost as well as improve credit flow to small (including tiny) enterprises in the clusters.

3.5 The National Small Industries Corporation has recently introduced a Credit Rating Scheme for encouraging SSI units to get themselves credit rated by reputed credit rating agencies. Public Sector Banks will be advised to consider these ratings appropriately and as per availability, and structure their rates suitably.

3.6 SIDBI has developed a Credit Appraisal & Rating Tool (CART) as well as a Risk Assessment Model (RAM) and a comprehensive rating model for risk assessment of credit proposals for SMEs. Public sector banks will be advised to take advantage of these models as appropriate and reduce their transaction costs.

### **4. Outreach of Formal Credit: Opening of New Accounts**

The commercial banks (including regional rural banks) with over 67,000 branches, **will** make concerted efforts to provide credit cover on an average to at least 5 new **tiny**,small and medium enterprises at each of their semi urban/urban branches per year.

### **5. Nursing the Sick Units Back to Health: Debt Restructuring**

Reserve Bank will issue detailed guidelines relating to debt restructuring mechanism so as to

ensure restructuring of debt of all eligible small and medium enterprises at terms which are not less favourable than the Corporate Debt Restructuring (CDR) mechanism in the banking sector. The restructuring would follow upon a request to that effect from the borrowing unit. All accounts, except those classified as 'loss assets' will be eligible for restructuring, provided the industrial units are viable or potentially viable.

Based on the Reserve Bank's guidelines, banks may formulate, with the approval of their Boards of Directors, more liberal policies relating to restructuring of accounts. Until the banks formulate their own policies, Reserve Bank's guidelines will be operative.

A one-time settlement scheme to apply to small-scale NPA accounts in the books of the banks as on March 31, 2004 will be introduced. The scheme will be in force upto March 31, 2006.

## **6. Facilitative Measures**

Reserve Bank had issued a detailed master circular on March 2005 on the time to be taken for disposing of loan applications of SSI units, the limit up to which banks are obliged to grant collateral-free and composite loans, norms for computation of working capital credit limits to SSI units, opening of atleast one specialized SSI branch in each district, etc. Taking these guidelines as indicative minimum, banks will formulate a comprehensive and more liberal policy relating to advances to SME sector. Until the banks formulate such a policy, the extant instructions of Reserve Bank will be applicable to advances granted or to be granted by banks to SME units.

## **7. Credit Guarantee Fund Trust Scheme for Small Industries(CGTSI)**

At present, Member Lending Institutions (MLIs), like banks, are provided guarantee cover of 75% of the amount of default by CGTSI, in respect of term loan and/or working capital facilities up to Rs.25 lakh extended by the MLIs to new and existing SSI units/IT/software units/small scale service business enterprises (SSSBs), without collateral security and/or third party guarantee. One-time guarantee fee of 2.5% and annual service fee of 0.75% of the credit facility sanctioned are currently charged by CGTSI from the MLIs. In order to reduce the cost of guarantee to the weaker segments of the borrowers, particularly tiny units, the CGTSI will be advised to reduce the one-time guarantee fee from 2.5% to 1.5% for all (i) loans up to Rs.2 lakh, (ii) eligible women entrepreneurs, and (iii) eligible borrowers located in the North Eastern regions (Sikkim) and Jammu & Kashmir. Further, public sector banks will be encouraged to absorb the annual service fee in excess of 0.25% in respect of guarantee for all (i) loans up to Rs.2 lakh, (ii) eligible women entrepreneurs, and (iii) eligible borrowers located in the North Eastern regions(Sikkim) and Jammu & Kashmir.

## **8. Cluster based approach**

Cluster based approach for financing SME sector offers possibilities of reduction of transaction costs and mitigation of risk. About 388 clusters have already been identified. Cluster based approach now be treated as a thrust area. Banks will increasingly adopt the cluster-based approach for SME financing. To broaden the financing options for infrastructure development in clusters through public private partnership, SIDBI will formulate a scheme in consultation with the stakeholders.

SIDBI has already initiated the process of establishing Small Enterprises Financial Centres in select clusters. Risk profile of each cluster would be studied by a professional credit rating agency and such risk profile reports would be made available to commercial banks. Each lead bank of a district will consider adoption of atleast one cluster.

## **9. Setting up of Watchdogs: Monitoring and Review**

The following supervisory arrangements will be ensured:

- a. The existing institutional arrangements for review of credit to SSI sector like the Standing Advisory Committee in Reserve Bank of India and cells at the banks' head office level as well as at important regional centres will be made more rigorous and regular. They will also review the flow of credit to small (SSI) and medium enterprises.
- b. At the Regional offices, the Reserve Bank will constitute empowered committees with the Regional Director of the Reserve Bank as the Chairman to review the progress in SME financing and rehabilitation of sick small (SSI) and medium units and to coordinate with other banks/financial institutions and the state governments in removing bottlenecks, if any, to ensure smooth flow of credit to the sector. The said Regional level committees may decide on the need to have similar committees at cluster/district levels.
- c. The banks will ensure specialized SME 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. The existing specialised SSI branches may be also be redesignated as SME branches.
- d. Boards of banks will be advised to review the progress in achieving the self-set targets as also rehabilitation and restructuring of SME accounts on a quarterly basis to ensure that the required emphasis is given to this sector.
- e. For wider dissemination and easy accessibility, the policy guidelines formulated by Boards of banks as well as instructions/guidelines issued by Reserve Bank will be displayed on the respective websites of Public Sector Banks as well as website of SIDBI. The banks would also be advised to prominently display all the facilities/schemes offered by them to the small entrepreneurs at each of their branches.

**Master Circular**  
**SME SECTOR LENDING**

**List of Circulars consolidated by the Master Circular**

No.	Circular No.	Date	Subject	Paragraph No.
1.	RPCD.PLNFS.BC.No.39/06.02.31/2005-06	3.9.2005	Guidelines on One-Time Settlement Scheme for SME Accounts	2.8.4
2.	RPCD.PLNFS.BC.No.38/06.02.31/2005-06	26-8-2005	Credit Flow to SME Sector-Reporting Format for Quarterly Review by the Government of India	13.5
3.	RPCD.PLNFS.BC.No.35/06.02.31/2005-06	25-8-2005	Policy Package for Stepping up Credit to Small and Medium Enterprises -- Announcements made by the Union Finance Minister (for private sector, foreign banks & RRBs)	13.5
4.	RPCD.PLNFS.BC.No.31/06.02.31/2005-06	19-8-2005	Policy Package for Stepping up Credit to Small and Medium Enterprises -- Announcements made by the Union Finance Minister (for public sector banks)	13.5
5.	RPCD.PLNFS.BC.No.101/06.02.31/2004-05	20.5.2005	Scheme for Small Enterprises Financial Centres (SEFCs)	II.6
6.	RPCD.PLNFS.BC.72/06.02.31/2004-05	12.01.2005	Enhancement in investment limit in respect of Sports Goods	I. 1.1
7.	RPCD. Plan. BC. 64/04.09.01/2004-05	15.12.2004	Priority Sector Lending-Investment in Special Bonds issued by Specified Institutions	I.1.47,1.48,1.4.11,II.1
8.	RPCD.PLNFS.BC.61/06.02.31(WG)/2004-05	08.12.2004	Working Group on Flow of Credit to SSI Sector-Interest rates on with SIDBI-in lieu of shortfall in priority sector obligations	III.3.1
9.	RPCD. PLNFS. BC. 43/06.02.31/2004-05	26.10.2004	Investment by banks in securitized assets pertaining to SSI sector	II 1.2
10.	RPCD. Plan. BC. 42/06.02.31/2004-05	26.10.2004	Credit Facilities to SSIs- Enhancement of Composite Loan Limits	IV. 2.5
11.	RPCD.PLNFS.BC.28/06.02.31(WG)/2004-05	04.09.2004	Working Group on Flow of Credit to SSI sector	IV. 13.3
12.	RPCD. Plan. BC. 41/04.09.01/2003-04	03.11.2003	Priority sector lending – Deposit of shortfall with SIDBI	III. 3.1

No.	Circular No.	Date	Subject	Paragraph No.
13.	RPCD. PLNFS. BC. 40/06.02.31/ 2003-04	03.11.2003	Credit facilities for SSIs – Lending by banks to NBFCs for the purpose of on-lending to SSIs	I. 1.4.9
14.	RPCD. PLNFS. BC. 39/06.02.80/ 2003-04	03.11.2003	Credit facilities for SSIs – Collateral Free Loans	IV 2.4
15.	RPCD. PLNFS No.620/06.02.28(i)/ 2002-03	11.09.2003	Sac meeting Implementation of Action Points- Interest rate- Slab basis	IV 5
16.	RPCD. PLNFS. BC. 7/06.02.31/ 2003-04	14.07.2003	Enhancement in SSI investment limit for specified items of the stationery sector and drugs & pharmaceuticals sector	I. 1.1
17.	RPCD. PLNFS.1 /06.02.28(i))/ 2003-04	01.07.2003	Sac meeting Implementation of Action Points- Identification of Clusters	IV.2.10 IV13.3
18.	RPCD. PLNFS. 2292/06.02. 28(i))/ 2003-04	13.06.2003	Sac meeting Implementation of Action Points- Self Set target for SSI	III.1.2
19.	RPCD. Plan. BC. 53/04.09.01/ 2002-03	20.10.2002	Levying of service charges and inspection charges by banks in respect of priority sector loans	IV. 7.1.1, 7.1.2
20.	RPCD. PLNFS. BC. 24/06.02.77/ 2002-03	04.10.2002	Flow of credit to SSIs – Time schedule for disposal of loan applications	IV. 2.2
21.	RPCD. PLNFS. BC. 94/ 06.02.31/ 2001-02	23.05.2002	Inclusion of leasing and hire purchase assets under priority sector	II.5
22.	RPCD. PLNFS. BC. 77/ 06.02.31/ 2001-02	15.04.2002	Credit deployment to SSI sector - Revised list of SSSBEs	I.1.3.2
23.	DBOD.No,BL.BC.74/22.01.001/ 2002	11.03.2002	Conversion of General Banking Branches to Specialised SSI Branches	IV 2.6
24.	RPCD. PLNFS. BC.58/ 06.02.80/ 2001-02	23.01.2002	Collateral free loans- SSIs	IV 2.4
25.	RPCD. PLNFS. BC.57/ 06.04.01/ 2001-02	16.01.2002	Guidelines for rehabilitation of Sick Small Scale Industrial Units	IV 2.8
26.	RPCD. PLNFS. BC. 41/ 06.02.31/ 2001-01	26.11.2001	Enhancement of SSI investment limit for specified hosiery/ hand tools items	I.1.1
27.	RPCD. Plan. BC. 16/ 04.09.01/ 2001-02	29.08.2001	Priority sector lending - Loans to food and agro based processing sector	I. 2
28.	RPCD. Plan. BC. 15/ 04.09.01/ 2001-02	17.08.2001	Charging of penal interest by banks on priority sector loans	IV.6
29.	RPCD. PLNFS. BC. 8/ 06.02.31/ 2000-01	10.07.2001	Recognition of water mills (gharat) as small scale industry	I.1.10
30.	IECD.No.5/08.12.01/2000-01	16.10.2000	Flow of Credit to SSI Sector- Decision of the Group of Ministers	IV 2.7
31.	RPCD. PLNFS. BC. 21/ 06.02.31/ 2000-01	03.10.2000	Credit Linked Capital Subsidy Scheme for Technology Upgradation of SSIs	IV.2.9
32.	RPCD. PLNFS. BC. 21/ 06.02.31/ 2000-01	03.10.2000	Priority sector advances – Credit deployment to SSI sector- Revised definition of SSSBEs	I. 1.3.1
33.	RPCD.PLNFS.BC.No.57/06.02.31/ 99-2000	02.02.2000	Priority Sector Advances – Credit Deployment to SSI Sector	I. 1.1
34.	RPCD.No.PLNFS.BC.89/06.02.31-98/99	14.06.1999	Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings Act, 1998	IV 2.7

No.	Circular No.	Date	Subject	Paragraph No.
35.	RPCD.No.Plan.BC.95/04.09.01/98-99	24.04.1999	Priority Sector Lending – Investment in Venture Capital	I. 2.2
36.	RPCD.No.Plan.BC.82/04.09.01/98-99	12.03.1999	Priority Sector Lending - Flow of Credit to Food & Agro-based Processing, Forestry and Tiny Sector	I. 2
37.	RPCD.No.PLNFS.BC.89/06.02.31-98/99	01.03.1999	Flow of Credit to SSI sector- Computation of Working Capital limits	II 3.3
38.	RPCD.No.Plan.BC.60/04.09.01/98-99	28.01.1999	Priority Sector Lending - Loans to Food and Agro-based Processing Sector	I. 2
39.	RPCD.No.Plan.BC.32/04.09.01/98-99	26.10.1998	Priority Sector Lending - Loans to Software Industry	I. 2.1
40.	RPCD.No.PLNFS.BC.22/06.02.31 (ii) -98/99	28.08.1998	High Level Committee on SSI- Kapur Committee- Implementation of recommendations	IV.13.2
41.	RPCD.No.PLNFS.BC.127/06.02.31/97/98	08.06.1998	Flow of Credit to SSI Sector	IV 5
42.	RPCD.PLNFS.No.792/06.02.31/97/98	02.03.1998	Flow of Credit to SSI Sector-Opening of Specialised SSI Branches	IV 2.6
43.	RPCD.No.PLNFS.BC.89/06.02.31-97/98	19.02.1998	Priority Sector Advances - Credit Deployment to SSI Sector	I 2.2, III 2.2
44.	RPCD.No.PLNFS.BC.66/06.02.31-97/98	05.01.1998	Priority Sector Advances - Credit Deployment to SSI Sector	III 2.2
45.	RPCD.No.Plan.1103/04.09.01/96-97	23.04.1997	Priority Sector Lending – Subscription to Special Bonds Issued by SIDCs	II 1.1 (i)
46.	RPCD.No.Plan.BC.109/04.09.01/96-97	03.03.1997	Priority Sector Lending - Investment in Special Bonds	II 1.1 (ii) to 1.3
47.	RPCD.No.Plan.BC.74/04.09.01/96-97	11.12.1996	Priority Sector Lending - Shortfall in Achievement of Target	III 4.1-4.4
48.	RPCD.No.Plan.BC.67/04.09.01/96-97	22.11.1996	Priority Sector Lending - Investment in Special Bonds	II 1.1 to 1.3
49.	RPCD.No.Plan.BC.59/04.09.09/96-97	04.11.1996	Bank Credit to Priority Sector	III 3.3
50.	RPCD.No.Plan.BC.60/04.09.01/95-96	20.11.1995	Indirect Finance to SSIs - Rediscounting of Bills	II 4.2
51.	RPCD.No.Plan.BC.112/04.09.01/94-95	21.01.1995	Indirect Finance to SSIs - Rediscounting of SIDBI Bills	II 4.1
52.	RPCD.No.PLNFS.BC.23/06.06.12/94-95	01.09.1995	Bank Credit to KVI Sector	I 1.6
53.	IECD.No.23/08.12.01/94-95	09.11.1994	Loans to SIDCs / SFCs	II 3
54.	RPCD.No.DIR.BC.51/07.38.02/94-95	17.10.1994	Interest Rates on Advances	IV 5
55.	RPCD.No.Plan.BC.38/04.09.09/94-95	22.09.1994	Lending to Priority Sector by foreign banks	III 4.1-4.3
56.	RPCD.No.PLNFS.BC.16/06.06.12/94-95	28.07.1994	Bank Credit to KVI Sector	I 1.6
57.	RPCD.No.PLNFS.BC.84/06.06.12/93-94	07.01.1994	Bank Credit to KVI Sector - Priority Sector Advances	I 1.6

<b>No.</b>	<b>Circular No.</b>	<b>Date</b>	<b>Subject</b>	<b>Paragraph No.</b>
58.	RPCD.No.Plan.BC.55/04.09.01/93-94	21.10.1993	Priority Sector Advances	III 2.1.1
59.	RPCD.No.Plan.BC.127/04.09.09/ 92-93	23.06.1993	Bank Credit to Priority Sector	III 3
60.	RPCD.No.Plan.BC.103/04.09.09/ 92-93	19.04.1993	Bank Credit to Priority Sector	III 3
61.	RPCD.No.PLNFS.BC.99/06.0231/92-93	17.04.1993	Report of the Committee to examine the adequacy of institutional credit to SSI sector and related aspects- Nayak Committee	IV 13.2
62.	RPCD.No.PLNFS.BC.65/06.03.01/92-93	21.01.1993	Small Scale Services and Business (Industry Related) Enterprises (SSSBs)	I 1.3
63.	RPCD.No.PLFS.BC.52/PS.72/88-89	09.12.1988	Inclusion of Salt Industry under Priority Sector	I 1.7
64.	RPCD.No.PLNFS.BC.45/PS.72/86	20.01.1986	Financing of Bought Leaf Factories for Manufacturing	I 1.9
65.	RPCD.No.PLNFS.BC.44/PS.72/86	17.01.1986	Bank Finance to Ship-breaking Industry	I 1.8
66.	RPCD.No.CP.NFS.BC.20/PS.72-85/86	08.10.1985	Revision in the Definition of SSI	I 1.1

