PART 'A'
Recommendations which can be accepted/
Implemented immediately

Recommendation	Action proposed to be taken
2.3.1 Lending to SME Clusters A full-service approach to cater to the diverse needs of the SME 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.**	We agree. Banks are being advised to implement this.
2.3.4 Linking with Large Industry. There is strong evidence that SSIs which are linked as suppliers, service providers, etc. to successful large industries are usually successful ventures, in India as well as in many other countries. Such successful SSI/large industry linkages provide examples of best practices which can be aggressively extended. There are a number of corporates in India who adopt Corporate-linked SME cluster models to gain competitive advantage in local as well as global markets and derive mutual benefits. **Corporate-linked SME cluster models need to be actively promoted bybanks and FIs**. Banks linked to large corporate houses can play a catalytic role in promoting this model.	We agree. Banks are being advised to implement this.
2.3.5 Financing SMEs linked to large corporates, covering suppliers, ancillary units, dealers etc. would also enhance competitiveness of the corporates as well as the SME participants.	We agree. Banks are being advised to implement this.
5.4 There are 25-30 very active and successful NGOs in South India and some other states, who have an outstanding record of successful micro credit management. They provide ideal role models for training and development of groups and individuals in other parts of the country. Besides NGOs, there are other successful micro-credit institutions who service small, tiny and individual entrepreneurs in Tamilnadu, Andhra Pradesh and Karnataka. **SIDBI and Lead Banks should make use of these successful models to encourage the adoption of their work practices in other states, by sponsoring specific projects as well widely publicizing the successful working models.**	We agree with the recommendation. Lead Bank convenors are being advised to take necessary action.
6.1.5 Growth of rural industry would be the key to significant growth in GDP as well as in creating employment over time. While the traditional means of financing rural sector has been on decline, banks have not reached adequately in rural areas. Micro-finance partially addresses this issue, but not adequately. New instruments need to be explored for promoting rural industry and to improve the flow of credit to rural artisans, industries and rural entrepreneurs.	We agree. Banks are being advised to implement this.
6.1.4 Hilly terrain and frequent flood causes hindrance in the transportation system in these areas, and as a result supply chain gets frequently disrupted. Because of this **the SMEs have to maintain high levels of inventory requiring high working capital. Higher working capital limits need to be taken into account while extending credit to such units.**	We agree. Banks are being advised to implement this.

PART 'B'

Recommendations which need further examination in consultation with other departments of the Bank

Recommendations	Action proposed to be taken
4.2 Venture Financing Recognizing the catalytic role of venture finance in the advancement of the SME sector, the Working Group strongly recommends that a dedicated National level SME Development Fund should be established. SIDBI may promote a NBFC (non–public deposit taking) exclusively for undertaking venture and other development financing activities for SMEs. Banks could also contribute to the corpus created by SIDBI (on risk sharing basis) or alternatively, set up their own venture financing instruments**.**	Under examination in consultation with other departments (Department of Banking Operations & Development and Department of Non-Banking Supervision).
5.1 **The traditional sources of credit flow to the SME sectors (through public sector banks, Specialised SSI Branches, etc.) are unlikely to improve their services, at least, in the short and medium term. While public sector banks have inherent problems in extending credit to many SMEs, due to historical reasons, it is necessary to explore ways to overcome such traditional problems,** by the banks, promoting and financing Special Purpose Vehicles (SPVs) in the form of micro credit agencies dedicated to servicing SME clusters. Banks should extend wholesale financial assistance to NGOs/MFI and work out innovative models for securitisation of the MFI receivable portfolio on the pattern of models in vogue in USA and other countries. Such SPVs may be extended necessary support through various fiscal/taxation measures by the Government.	Under examination in consultation with other departments (Department of Banking Operations & Development and Department of Non-Banking Supervision).
5.2 Such micro credit intermediaries, say, in the form of NBFCs (funded by individual or a group of banks but not permitted to accept public deposits) could credit-rate and risk assess and serve as instruments for extending quick credit to SME clusters, accredited to them.	Under examination in consultation with other departments (Department of Banking Operations & Development and Department of Non-Banking Supervision).
5.3 Finally, in the scheme envisaged by the Working Group, **large banks can directly extend credit and banking services to (i) SMEs linked to large corporates and (ii) to identified SME clusters which are credit rated.** The **micro credit intermediary** (SME-specific **NBFC**) funded by banks (individually or in groups) could be an alternate source to speed up credit access to stand alone clusters of product/service specific SMEs. The Working Group recognizes the acute problems faced by SMEs, tiny and village industry sectors, particularly in the North East region of the country. Special instruments, besides NBFCs, etc. need to be tailored, dedicated and funded for these regions in order to generate economic activity and employment	Under examination in consultation with other departments (Department of Banking Operations & Development and Department of Non-Banking Supervision).
2.2 Priority Sector Lending Targets. In an environment of high economic growth, the priority sector lending is an attractive growth opportunity for banks and FIs. Slowing down of off-take of credit by the large corporates due to opening up of new sources for accessing finance by them and stagnation of credit demand by retail business, makes financing the priority sector an opportunity to expand banks' business profitably. An uniform target in priority sector lending (including SSI) at 40% of Net Bank credit (NBC) for all domestic and foreign banks is recommended. This would provide a level playing field for all the banks and ensure active participation in the faster development of the priority sector.	An 'Internal Group' comprising officers from Monetary Policy Department and Rural Planning & Credit Department has been constituted to look into these recommendations.
3.1 the tenure of the deposits representing shortfall in lending to the priority sector by foreign banks with SIDBI, be increased to a period of three years in order to enable SIDBI to better manage disbursal to SME sector ; 3.2 risk sharing mechanisms between foreign banks and SIDBI needs to be worked out, on credit extended to the SME sector by SIDBI and 3.3 interest rate payable by SIDBI to foreign banks on priority sector lending shortfall deposits, may be pegged at a rate which does not act as an incentive for the foreign banks to keep the deposit with SIDBI, rather than directly meeting the credit needs of the SME sector.	An 'Internal Group' comprising officers from Monetary Policy Department and Rural Planning & Credit Department has been constituted to look into these recommendations.

Annexure 'C'

Recommendations pertaining to Ministry of Small Scale Industries (MoSSI), Government of India and other agencies such as Small Industries Development Bank of India (SIDBI), Credit Guarantee Fund Trust for Small Industry (CGTSI), Credit Information Bureau (India) Ltd. and Indian Banks' Association.

- **The recommendations contained in the following paragraphs needs examination by the Govt. of India and other agencies:**

  Para Nos.: 2.1, 2.3.6, 4.4, 6.1.1, 6.1.2, 6.1.3, 6.2.1 to 6.2.6 :
  Ministry of SSI, Govt. of India.
  Para. Nos.: 2.3.2, 2.3.3, 4.3, 4.4, 6.1.1,6.1.2, 6.1.3, 6.2.1 to 6.2.6:
  SIDBI.
  Para. Nos. 4.4, 6.1.1,6.1.2, 6.1.3 : CGTSI.
  Para. Nos.: 2.3.2, 2.3.7, 4.1 : IBA.
  Para. No.: 4.1: CIBIL.