

# **SUGGESTIONS WITH REGARD TO PRIORITY SECTOR LENDING**

# AGRICULTURE LOAN

## Present Guidelines

- Loans sanctioned to corporate/ private companies/ sugar companies for financing of receivables of farmers/ vendors/traders against their supplies of agriculture produce to such corporate/private companies/sugar companies are not eligible for classification as direct/ indirect finance to agriculture.

## Suggestions by CIMSME

- We propose that the loans to corporate/ private companies/ sugar companies for financing of receivables of farmers/ vendors/traders against their supplies of agriculture produce to such corporate/private companies/sugar companies should be eligible for classification as direct/ indirect finance to Agriculture.

# AGRICULTURE LOAN

However, Strict guidelines may be provided to control the Misuse which may include Compulsory Photograph, KYC compliance of the individual farmer / vendor / trader as well as monthly/ quarterly reporting by corporate/ private companies/ sugar companies to banks.

# AGRICULTURE LOAN

## Present Guidelines

- ❑ Advance to individual farmer up to Rs. 10 lakh against pledge/hypothecation of agriculture produce (including warehouse receipts) for a period not exceeding 12 months irrespective of whether farmer were given crop loan for raising the produce or not.

## Suggestions by CIM SME

- ❑ We propose that the loans up to Rs. 25 lakh should be covered under Priority Sector lending under this category.

# AGRICULTURE LOAN

## Present Guidelines

- Finance to other than individuals up to an aggregate amount of Rs. 1 crore per borrower for the purposes listed at 1.1.1, 1.1.2, 1.1.3 and 1.2.1 is covered under Priority Sector Lending

## Suggestions by CIMSME

- We propose that the loans up to Rs. 1 crore for Partnership firm and LLP should be covered under Priority Sector lending under this category.
- Loans up to Rs. 3 crore to Corporates should be covered. This will give incentive to Corporatization of Agri-business.

# AGRICULTURE LOAN

## Present Guidelines

- Loans to MFIs for on-lending to agriculture as per conditions specified in paragraph 3.3 are covered under INDIRECT Finance.

## Suggestions by CIMSME

- We propose that the loans to MFIs for on-lending to agriculture as per conditions specified in paragraph 3.3 are covered under DIRECT Finance.

# AGRICULTURE LOAN

POSSIBILITY OF TAKEOVER OF DEBT FROM MONEY LENDERS TO FARMERS, SHOULD BE EXPLORED.

Sub target of 5% of Total Agriculture advance should be fixed up under Takeover of debt from money lenders to the farmers.

Separate guidelines need to be framed for the takeover.

# MICRO AND SMALL ENTERPRISES

## Present Guidelines

- Only Micro and Small Enterprises under Manufacturing Enterprises as per MSMED Act 2006, are covered for Direct Financing.

## Suggestions by CIMSME

- We propose that the loans to Medium Enterprises as per definition of MSMED Act 2006, should also be eligible for classification as direct finance.



# MICRO AND SMALL ENTERPRISES

## Present Guidelines

- Loans granted by banks to MFIs on or after April 1, 2011 for on-lending to micro and small enterprises (manufacturing as well as service) are eligible for priority sector status subject to compliance of guidelines specified in Para 3.2, under **INDIRECT** finance.

## Suggestions by CIMSME

- We propose that the loans granted by banks to MFIs for on-lending to micro and small enterprises (manufacturing as well as service) are eligible for priority sector status subject to compliance of guidelines specified in Para 3.2, under **DIRECT** finance.

# MICRO AND SMALL ENTERPRISES

- Bank credit to NBFCs for on-lending to Micro, Small and Medium Enterprises should be covered under Direct/ Indirect Priority Sector Lending subject to compliance of certain guidelines.
- If agreed by the committee, CIMSME can draft the guidelines for consideration of the Committee.

# MICRO AND SMALL ENTERPRISES

- There should be cap on the turnover of the MSME unit to be eligible to be covered under priority sector lending.
- We propose that MSME with turnover of more than Rs. 50 crore should not be covered under PSL.

# EDUCATION

## Present Guidelines

- Loans granted to individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad.

## Suggestions by CIMSME

- We propose that educational loans for studies in India should be up to Rs. 15 lakh and abroad should be up to \$ 50,000.

# EDUCATION

## Present Guidelines

- Loans granted to Educational Institutions are eligible to be classified as priority sector advance under micro and small (service) enterprises, provided they satisfy the provision of MSME Act 2006.

## Suggestions by CIMSME

- We propose that Loans granted to Educational Institutions are eligible to be classified as priority sector advance under micro, small and MEDIUM (service) enterprises, provided they satisfy the provision of MSME Act 2006.

# HOUSING

## Present Guidelines

- Loans up to Rs. 25 lakh, irrespective of location to individuals for purchase / construction of dwelling unit per family, excluding loans granted by banks to their own employees.

## Suggestions by CIMSME

We propose that the loans up to Rs. 20 lakh in rural and semi-urban area, up to Rs. 35 lakh in urban areas and Rs. 50 lakh in metropolitan areas should be covered.

# HOUSING

## Present Guidelines

- Loans given for repair to the damaged dwelling units of families up to Rs. 1 lakh in rural and semi-urban area and up to Rs. 2 lakh in urban and metropolitan areas.

## Suggestions by CIM SME

- We propose that Loans given for repair to the damaged dwelling units of families up to Rs. 2.50 lakh in rural and semi-urban area and up to Rs. 5 lakh in urban and metropolitan areas should be covered.

# HOUSING

- Loans granted to bank's own employees should also be covered under Priority sector lending.
- Only first dwelling unit per family should be considered under Priority sector lending.



# ADDITION IN THE DEFINITION

- Financial assistance to enterprises engaged in the business of providing Infrastructure facilities viz Hospitals, Power, Health centers, Roads, Bridges, Educational Institute without any ceiling in rural areas should be covered under Priority Sector lending.

# CAPPING OF INTEREST RATES

- We propose that simplified Credit Rating Module should be implemented for borrowers under Priority Sector Lending.
- Instead of capping, relaxation of two layer below the applicable rate should be granted linked to the Credit Rating.

# SUGGESTIONS FOR TIMELY AND ADEQUATE FINANCE

- The Loan Application form should be re-designed having the complete list of documents for sanction, Legal documentation and Disbursement separately.
- There should be a central Loan Application Centre at all the Regional/ Zonal offices of all the banks. A pre-numbered computerized receipt should be issued to the applicant with date and time.
- The applicant should be given a Login and Password to track its loan application online to know what is the status of the application and at which desk it is parked? It will also be clear to the applicant if it is pending due to the non-submission of reply by the applicant.

# SUGGESTIONS FOR TIMELY AND ADEQUATE FINANCE

- ❑ A comprehensive check list for the balance documents should be issued to the applicant within next 7 days.
- ❑ Possibility of in-house Legal and Valuation should be explored, as the outsourcing takes lot of time.
- ❑ At the time of sanction, a Travel Sheet of the Flow of the application as per Annexure should invariably be a part of Sanction Letter.

# CREDIT RATING

- In today's scenario, where the Credit Rating Agencies are very conservative and are downgrading even the banks, the investible criteria for MSME should be slightly relaxed.
- There should be different credit rating module for MSMEs and Large Corporates under Basel II.

# CAPITAL AND RATIOS FOR MSME

- All banks and Financial Institutions require the Debt Equity ratio at 3:1, TOL/TNW at 4:1 and Current ratio of 1.33 to be able to provide financial assistance to SMEs. There is no source of capital to MSME, particularly during expansion and growth.

# CAPITAL AND RATIOS FOR MSME

We Propose that:-

- There should be more relaxation in the major ratios like TOL/TNW and Current Ratio to be eligible for getting financial assistance from bank. More so, at the time of expansion.
- Possibility of investing in good MSMEs as equity by bankers should also be explored.

# PARTICIPATION OF ASSOCIATIONS

- ❑ Agri Helpline and MSME Helplines should be started at Business Associations with the help of concerned Ministries.
- ❑ A representative of Business Associations should be a member of Regional/ Zonal MSME Review Committee of all the banks. This committee should hold meeting every month at all the Regional/ Zonal offices of all the banks to review the progress of Priority sector loan proposals.
- ❑ A representative from MSME Associations should also be a member on the Board of the banks.



# UPGRADATION OF DIC OFFICES

- Like MCA model, DIC offices should also be online and MSMEs should not be at all required to visit the offices of DIC for Registration of their units.
- As has been pointed out by Task force of the Prime Minister that many units are working in un-organized sectors, a special drive should be initiated like UID/ADHAR to get them registered for Inclusive Growth.

# RE- APPRAISAL OF PROPOSALS

It has been the practice at the banks that the proposals recommended by branches/ Regional offices are re-appraised by a junior officer at the Regional/ Head office respectively. Different queries are thus raised at different levels.

□ We recommend that:-

At the higher office which may be Regional office/ Zonal office/ Head office, the queries should be raised only by an officer above or at-least of the same rank officer, who has recommended the proposal from Branch / Regional/ Zonal level.

# DEFINITION OF MSME - MANUFACTURING

## Present Guidelines

- Micro – Investment in P&M up to Rs. 25 Lakhs
- Small - Investment in P&M above Rs. 25 Lakhs and up to Rs. 5 Crores
- Medium – Investment in P&M above Rs. 5 Crores and up to Rs. 10 Crores

## Suggestions by CIMSME

- Micro – Investment in P&M up to Rs. 25 Lakhs
- Small - Investment in P&M above Rs. 25 Lakhs and up to Rs. 10 Crores
- Medium – Investment in P&M above Rs. 10 Crores and up to Rs. 20 Crores

# DEFINITION OF MSME - SERVICES

## Present Guidelines

- Micro – Investment in P&M up to Rs. 10 Lakhs
- Small - Investment in P&M above Rs. 10 Lakhs and up to Rs. 2 Crores
- Medium – Investment in P&M above Rs. 2 Crores and up to Rs. 5 Crores

## Suggestions by CIMSME

- Micro – Investment in P&M up to Rs. 25 Lakhs
- Small - Investment in P&M above Rs. 25 Lakhs and up to Rs. 5 Crores
- Medium – Investment in P&M above Rs. 5 Crores and up to Rs. 10 Crores

# THANK YOU

Mukesh Mohan Gupta

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