

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2711
ANSWERED ON:12.03.2010
CREDIT RATE TO MSME INDUSTRY
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has formulated any scheme for creation of a special fund and facilitating flow of credit at reasonable rate to the Micro, Small and Medium Enterprises (MSME) sector;
- (b) If so, the details thereof;
- (c) whether the MSME sector has urged for a lending rate upto 8 per cent in view of the sluggishness in this sector;
- (d) if so, the details thereof and the follow action taken by the Government thereon; and
- (e) the other steps taken / being taken by the Government for meeting the credit requirement of MSM Enterprises sector in the country including Punjab?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): In the Budget announcement for the year 2009-10, Finance Minister had provided a Special Fund of Rs. 4000 crore out of Rural Infrastructure Development Fund (RIDF) to facilitate the flow of credit at reasonable rates through Small Industrial Development Bank(SIDBI). This fund was to incentivize the banks and State Financial Corporations (SFCs) to lend to Micro & Small Enterprises (MSEs) by refinancing 50% of their incremental lending to MSEs.

(c) & (d): Credit is available for MSMEs as there is adequate liquidity in the Banking System. However, the major source of complaints of MSME Associations relates to cheaper credit to MSMEs. RBI has deregulated the interest rates on advances above Rs.2 lakh with effect from October 18, 1994 and the rates of interest on such advances are determined by the banks themselves subject to BPLR and Spread guidelines. For credit limits up to Rs.2 lakh, banks should charge interest not exceeding their BPLR.

(e): To minimize the impact of Global financial crisis, Government of India had announced two stimulus packages on 7th December, 2008 & 2nd January, 2009 under which a number of measures were announced for various industries apart from a Line of Credit of Rs.7000 crore to SIDBI to support incremental lending, either directly to MSMEs or indirectly via Banks, NBFCs and SFCs.

Further, Banks have initiated establishing SME HUB, SME HELPLINE, SME CARE Centres etc. Banks are giving composite loans to MSME through Single Window. All the Banks have adopted MSE Code. Banks have put in place Debt Restructuring Mechanism; and also introduced Non-discretionary OTS Scheme, collateral free lending etc. As most of the Banks have tie-ups with insurance companies, they are also able to provide insurance services through branch outlets.

Besides, to resolve a number of issues which affect the growth of MSME Sector, Prime Minister constituted a high level task force which held detailed discussions with all stake holders and drew up an agenda for action. A high level council on micro and small enterprises is to monitor the implementation of the recommendations and the agenda for action.