

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3266
ANSWERED ON:13.08.2010
CONSTRAINTS FACED BY MSME SECTOR
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Will the Minister of FINANCE be pleased to state:

- (a) whether according to a report of the Small Industries Development Bank of India (SIDBI) the growth of the Micro, Small and Medium Enterprises Sector has been impeded due to lack of infrastructural support;
- (b) if so, the details thereof and the reaction of the Government thereto;
- (c) whether the Naik Committee has looked into the financial issues concerning the MSME sector including the Small Scale Industries;
- (d) if so, the details thereof alongwith the salient features of the recommendations made by the said Committee; and
- (e) the details of the steps taken by the Government ensure growth of the MSME sector and save said enterprises from closure?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b): The report brought out by Small Industries Development Bank of India (SIDBI) on Micro, Small and Medium Enterprises Sector, 2010 provides a systemic coverage of various aspects pertaining to the MSME sector, such as, status, structure, policy initiatives, institutional support, credit dispensation etc. The Report, while discussing various issues concerning the MSME sector, has mentioned one such issue being the inadequate infrastructure facilities, including power, water, roads.etc.

(c) & (d): A 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 related to the matter of SSI (now MSE) finance. The Committee submitted its report in 1992. All the major recommendations of the Committee have been accepted and the banks 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 (now MSE) sector;
- (ii) grant working capital credit limits to SSI (now MSE) 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 (now MSE) 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 (now MSE);
- (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 (now MSE) bank branches or convert those branches which have a fairly large number of SSI (now MSE) borrowal accounts, into specialised SSI (now MSE) branches;
- (viii) identify sick SSI (now MSE) units and take urgent action to put them on nursing programmes;
- (ix) standardise loan application forms for SSI (now MSE) borrowers; and
- (X) impart training to staff working at specialised branches to bring about attitudinal change in them.

A circular was issued by Reserve Bank of India (RBI) to all scheduled commercial banks on March 2, 2001 advising implementation of the Naik Committee Recommendations.

(e): The Prime Minister had constituted a High Level Task Force on MSME Sector to address the problems of the Sector. In light of

recommendations of High Level Task Force on MSME Sector, it has been decided that the share of Micro Enterprises in MSE lending needs to be increased to 60% in a phased manner viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13. It would be mandatory for the Public Sector Banks to achieve this target. Further, the banks should achieve an annual growth in the number of micro enterprise accounts of 10% every year.