

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3445

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Credit to MSMEs

Gupta Shri Shyama Charan;Jena Shri Rabindra Kumar;Rai Shri Prem Das;Shekhawat Shri Gajendra Singh;Yadav, Shri,Tejpratap Singh

Will the Minister of FINANCE be pleased to state:

- a) whether the Micro, Small and Medium Enterprises (MSMEs) have been facing constraints in accessing credit facilities from institutional sources;
- b) if so, the details thereof along with the credit disbursed to MSMEs during the last three years;
- c) whether the banks are charging higher interest rates to MSMEs, if so, the details thereof and the reasons therefor;
- d) whether the Government has noticed that certain banks are not transmitting the interest rate cuts to the MSME sector, if so, the details thereof and the action taken against such banks;
- e) whether there is urgent need to provide incentives to private equity/venture capital investors to encourage capital infusion in the MSME sector; and
- f) if so, the details thereof along with the steps being taken by the Government to ensure easy and adequate availability of credit for sustainable growth of the MSME sector?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(a) & (b) : Government have received complaints/representations from time to time from Micro, Small and Medium Enterprises (MSMEs) regarding constraints in accessing credit from institutional sources. These inter-alia, indicate, insistence on collateral, delayed sanctioning of credit, sanction of lower loan amount as against the required amount, charging of higher rate of interest, etc. Details of outstanding credit to MSMEs during the last three years are given at Annex.

(c) & (d) : Reserve Bank of India(RBI) has deregulated the interest rate on advances and these interest rates are determined by banks with the approval of their respective Board of Directors subject to extant guidelines. Loans to MSMEs are provided as per the interest rate structure of the bank. The interest rate is finalized based on various factors which inter-alia include, cost of funds to the institution, credit rating of the unit, tenure of loan, purpose of loan etc.

(e) To encourage capital infusion in the MSME sector, Small Industries Development Bank of India (SIDBI) operates the India Aspiration Fund (IAF) for contribution to the corpus of MSME focused Venture Capital Funds (VCFs)/Alternative Investment Funds (AIFs). Under the Start up India Action Plan, Government have also operationalized a Fund of Funds for Start Ups (FFS) to contribute to Start Up focused AIFs. Both the initiatives enable VCFs/AIFs Managers to raise resources for investment from other investors.

(f) Government has taken several steps to extend easy loans to MSMEs, which inter-alia include, advise to all Scheduled Commercial Banks (SCBs) to achieve a 20% year-on-year growth in credit to Micro and Small Enterprises (MSEs) to ensure enhanced credit flow; allocation of 60% of MSE advances to Micro Enterprises accounts; a 10% annual growth in number of micro enterprise accounts; adoption of one cluster; operationalizing at least one specialized MSME Branch in every district etc. In addition, a target of 7.5% of Adjusted Net Bank Credit (ANBC) has been prescribed for Micro Enterprises; SCBs have been mandated not to accept collateral security in the case of loans up to Rs.10 lakh extended to units in the MSE sector and computation of working capital requirements of MSE units has been simplified.
