

A composite loan limit of ₹1 crore can be sanctioned by banks to enable the MSME entrepreneurs to avail of their working capital and term loan requirement through Single Window in terms of our [Master Direction on Lending to the MSME sector dated July 24, 2017](#). All scheduled commercial banks were advised vide our [circular RPCD.SME&NFS. BC.No.102/06.04.01/2008-09 dated May 4, 2009](#) that the banks which have sanctioned term loan singly or jointly must also sanction working capital (WC) limit singly (or jointly, in the ratio of term loan) to avoid delay in commencement of commercial production thereby ensuring that there are no cases where term loan has been sanctioned and working capital facilities are yet to be sanctioned.

Q.8. What is Cluster financing?

Cluster based approach to lending is intended to provide a full-service approach to cater to the diverse needs of the MSE sector which may be achieved through extending banking services to recognized MSE clusters. A cluster-based approach may be more beneficial (a) in dealing with well-defined and recognized groups (b) availability of appropriate information for risk assessment (c) monitoring by the lending institutions and (d) reduction in costs.

The banks have, therefore, been advised to treat it as a thrust area and increasingly adopt the same for SME financing. Banks have also been advised that they should open more MSE focussed branch offices at different MSE clusters which can also act as counselling centres for MSEs. Each lead bank of the district may adopt at least one cluster (Refer [circular RPCD.SME & NFS.No.BC.90/06.02.31/2009-10 dated June 29, 2010](#)).

Q.9. What are the RBI guidelines on interest rates for loans disbursed by the commercial banks?

As part of the financial sector liberalisation, all credit related matters of banks including charging of interest have been deregulated by RBI and are governed by the banks' own lending policies.

With a view to improve monetary policy transmission, banks have been advised to link loans to Micro and Small Enterprises to an external benchmark from October 01, 2019. (Refer [circular DBR.DIR.BC.No.14/13.03.00/2019-20 dated September 04, 2019](#)). To further improve the transmission of monetary policy rates, it has been decided that with effect from April 01, 2020, loans to Medium Enterprises shall be linked to external benchmark. (Refer [circular DOR.DIR.BC.No.39/13.03.00/2019-20 dated February 26, 2020](#)).

Q.10. Can the MSE borrowers get collateral free loans from banks?

In terms of our [circular RPCD.SME&NFS.BC.No.79/06.02.31/2009-10 dated May 6, 2010](#), banks are mandated not to accept collateral security in the case of loans upto ₹ 10 lakh extended to units in the MSE sector.

Q.11. What is the Credit Guarantee Fund Trust Scheme for MSEs?

The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to the MSE sector without the need for collaterals / third party guarantees. The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral - free credit facilities, failing to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender, as per the scheme.

The CGTMSE would provide cover for credit facility up to ₹200 lakh which have been extended by lending institutions without any collateral security and /or third-party guarantees. A guarantee and annual service fee is charged by the CGTMSE to avail of the guarantee cover. For more details you may visit www.cgtmse.in.

Q.12. Is credit rating mandatory for the MSE borrowers?

The credit rating by external rating agencies is not compulsory from regulatory capital perspective, if the maximum aggregate exposure to one counterparty does not exceed the threshold limit of ₹7.5 crore, subject to meeting certain other conditions.

Q.13. What are the guidelines for delayed payment of dues to the MSE borrowers?

With the enactment of the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, for the goods and services supplied by the MSME units, payments have to be made by the buyers as under:

- (i) The buyer is to make payment on or before the date agreed on between him and the supplier in writing or, in case of no agreement, before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.
- (ii) If the buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.
- (iii) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.
- (iv) In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

To take care of the payment obligations of large corporate borrowers to MSEs, banks have been advised that while sanctioning/renewing credit limits to their large corporate borrowers (i.e. borrowers enjoying working capital limits of ₹10 crore and above from the banking system), to fix