

Micro, Small and Medium Enterprises

(Updated as on October 1, 2021)

Q.1. What is the definition of MSME?

In terms of Government of India [Gazette Notification S.O. 2119 \(E\) dated June 26, 2020](#) the definition of micro, small and medium enterprises is as under:

- (i) A micro enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not exceed ₹5 crore;
- (ii) A small enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed ₹10 crore and turnover does not exceed ₹50 crore; and
- (iii) A medium enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed ₹50 crore and turnover does not exceed ₹250 crore.

All enterprises are required to register online on Udyam Registration Portal and obtain 'Udyam Registration Certificate'. (Refer [circulars FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020](#), [FIDD.MSME & NFS. BC. No.4/06.02.31/2020-21 dated August 21, 2020](#) [FIDD.MSME & NFS.BC.No.13/06.02.31/2021-22 dated July 07, 2021](#))

Q.2. What is the status of lending by banks to this sector?

Bank's lending to the Micro, Small and Medium enterprises as under is eligible to be reckoned for priority sector advances:

- (i) The definition of MSMEs will be as per Government of India, [Gazette Notification S.O. 2119 \(E\) dated June 26, 2020](#) read with [circulars FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020](#), [FIDD.MSME & NFS. BC. No.4/06.02.31/2020-21 dated August 21, 2020](#), [FIDD.MSME & NFS.BC.No.13/06.02.31/2021-22 dated July 07, 2021](#) and updated from time to time.
- (ii) Further, such MSMEs should be engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services. All bank loans to MSMEs conforming to the above guidelines qualify for classification under priority sector lending.

Detailed guidelines on lending to the Micro, Small and Medium enterprises are available in our [Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017](#). The instructions issued by RBI, to banks, on various matters are available on our website [www.rbi.org.in](#).

Q.3. Whether retail and wholesale trade can be classified under MSME?

The Ministry of Micro, Small and Medium Enterprises vide [Office Memorandum\(OM\) No. 5/2\(2\)/2021-E/P & G/Policy dated July 2, 2021](#) has allowed Udyam registration for retail and wholesale trade. Detailed guidelines are available in our [circular FIDD.MSME & NFS.BC.No.13/06.02.31/2021-22 dated July 07, 2021](#).

Q.4. What is meant by Priority Sector Lending?

Priority sector lending includes only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and Micro and Small enterprises. Detailed guidelines on Priority Sector Lending are available in our [Master Direction on Priority Sector Lending FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated September 04, 2020](#) and updated from time to time.

Q.5. Are there any targets prescribed for lending by banks to MSMEs?

A sub-target of 7.5% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher, towards lending to the Micro-enterprises under overall Priority Sector Lending has been prescribed for Domestic commercial banks, Foreign banks with 20 branches and above, Regional Rural Banks and Small Finance Banks.

Q.6. How do banks assess the working capital requirements of borrowers?

Banks have been advised to put in place loan policies governing extension of credit facilities for the MSE sector duly approved by their Board of Directors (Refer [circular RPCD.SME & NFS.BC.No.102/06.04.01/2008-09 dated May 4, 2009](#)). Banks have, however, been advised to sanction limits after proper appraisal of the genuine working capital requirements of the borrowers keeping in mind their business cycle and short-term credit requirement. As per Nayak Committee Report, working capital limits to SSI units is computed on the basis of minimum 20% of their estimated turnover up to credit limit of ₹5 crore.

Q.7. Is there any provision for grant of composite loans by banks?

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

separate sub-limits, within the overall limits, specifically for meeting payment obligations in respect of purchases from MSEs either on cash basis or on bill basis.

Banks were also advised to closely monitor the operations in the sub-limits, particularly with reference to their corporate borrowers' dues to MSE units by ascertaining periodically from their corporate borrowers, the extent of their dues to MSE suppliers and ensuring that the corporates pay off such dues before the 'appointed day' /agreed date by using the balance available in the sub-limit so created. (Refer [circular IECD/5/08.12.01/2000-01 dated October 16, 2000](#) reiterated on May 30, 2003, vide [circular No. IECD.No.20/08.12.01/2002-03](#)).

Q.14. How can a bank or creditor identify incipient stress in MSME account?

Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Table below:

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

Q.15. What are the salient features of the guidelines on 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)'?

The salient features of the Framework are as under:

- (i) Before a loan account of an MSME turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Framework.
- (ii) Any MSME borrower may also voluntarily initiate proceedings under this Framework.
- (iii) Committee approach to be adopted for deciding corrective action plan.
- (iv) Time lines have been fixed for taking various decisions under the Framework.

Q.16. On which accounts are the provisions of the above Framework applicable?

The provisions made in this framework shall be applicable to MSMEs having loan limits up to ₹25 crore, including accounts under consortium or multiple banking arrangement (MBA).

Q.17. How does the committee resolve the stress in the accounts under the Framework?

The Committee may explore various options to resolve the stress in the account. The Committee shall not endeavour to encourage a particular resolution option and may decide the CAP as per the specific requirements and position of each case. The options under CAP by the Committee may include:

- (i) Rectification;
- (ii) Restructuring;
- (iii) Recovery

For more details you may refer to [circular no. FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 dated March 17, 2016](#).

Q.18. What are the salient features of Prudential framework for resolution of stressed assets?

MSME advances not covered under the Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises may be restructured by banks as per the instructions contained in the [circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019](#), on 'Prudential Framework for Resolution of Stressed Assets', as updated from time to time.

Q.19. What are the RBI guidelines on One Time Settlement Scheme (OTS) for MSEs for settlement of their NPAs?

Scheduled commercial banks have been advised in terms of our [circular RPCD.SME&NFS. BC.No.102/06.04.01/2008-09 dated May 4, 2009](#) to put in place a non-discretionary One Time Settlement scheme duly approved by their Boards. The banks have also been advised to give adequate publicity to their OTS policies.

Q.20. Apart from the loans and other banking facilities, do the banks provide any guidance to MSE entrepreneurs?

Yes, banks provide following services to the MSE entrepreneurs:

- (i) Rural Self Employment Training Institutes (RSETIs)

At the initiative of the Ministry of Rural Development (MoRD), Rural Self Employment Training Institutes (RSETIs) have been set up by various banks all over the country. These RSETIs are managed by banks with active co-operation from the Government of India and State Governments. RSETIs conduct various short duration (ranging preferably from 1 to 6 weeks) skill upgradation programmes to help the existing entrepreneurs compete in this ever-changing global market. RSETIs ensure that a list of candidates trained by them is sent to all bank branches of the area and co-ordinate with them for grant of financial assistance under any Govt. sponsored scheme or direct lending.

(ii) Financial Literacy and consultancy support:

Banks have been advised to either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centres (FLCs) set up by them, as per their comparative advantage. Through these FLCs, banks provide assistance to the MSE entrepreneurs in regard to financial literacy, operational skills, including accounting and finance, business planning etc. (Refer [circular RPCD.MSME & NFS.BC.No.20/06.02.31/2012-13 dated August 1, 2012](#)).

Also, Financial Literacy Centres operated by Scheduled commercial Banks (including RRBs) have been advised vide our [circular FIDD.FLC.BC.No.22/12.01.018/2016-17 dated March 02, 2017](#) to conduct target specific financial literacy camps wherein one of the target groups identified is MSEs.

Q.21. Is there a guideline for facilitating timely and adequate credit flow during 'Life Cycle' of MSEs?

Yes, guidelines on 'Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle' were issued to Scheduled Commercial Banks (SCBs) vide our [circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015](#).

Q.22. What are the salient features of the guidelines on 'Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle'?

In terms of the captioned guidelines, banks have been advised to review and tune their existing lending policies to the MSE sector by incorporating therein the following provisions so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances:

(i) To extend standby credit facility in case of term loans

(ii) Additional working capital to meet with emergent needs of MSE units

(iii) Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSEs, every year based on the actual sales of the previous year.

(iv) Timelines for Credit Decisions.

Q.23. What is Trade Receivables Discounting System (TReDS)?

The objective of TReDS is to create Electronic Bill Factoring Exchanges which could electronically accept and settle bills so that MSMEs could encash their receivables without delay. This will not only give them greater access to finance but will also put greater discipline on corporates to pay their dues on time. For more details you may refer to RBI guidelines for setting up and operating TReDS on https://m.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3504.

Q.24. What is the Certified Credit Counsellors (CCC) Scheme?

In terms of announcement in [para 48](#) of First Bi-monthly Monetary Policy Statement, 2016-17, Reserve Bank laid down a framework for accreditation of credit counsellors which was shared with SIDBI for laying down operational guidelines. Accordingly, the scheme was launched by SIDBI in July 2017. As per the scheme, Certified Credit Counsellors are institutions or individuals registered with SIDBI who shall assist MSMEs in preparing project reports in a professional manner which would, in turn, help banks make more informed credit decisions.