Auditing Course Material

Part 14 of 61 (Chapters 1301-1400)

7. Difference between Creativity and Innovation

The key difference between creativity and innovation is that the creativity refers to generate a fresh and new idea or plan, whereas the innovation implies initiating new service, product or invention to the market, which is not introduced before.

The other key differences between Creativity and Innovation are as follows:

1. Creativity is related to ‘imagination’, but innovation is related to ‘productivity and implementation’.
2. Creativity can never be measurable, but innovation can be measurable.
3. The thinking state of new and unusual things and concepts is termed as creativity, whereas innovation is the process of converting these thoughts into practical usage.
4. There is no risk involved in creativity, whereas the risk is always attached to innovation.
5. Innovation requires creativity, and not vice-versa. Creativity is born on its own and the creative idea when you get out of someone’s head, that is an innovation.

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8. Innovation Fostering Techniques

Some of the important techniques which foster Innovation are as follows.

- Gordon Technique
- Synectics
- Strategic Enablers Attribute Listing
- Checkerboard Method
- Retroduction

These are explained next.

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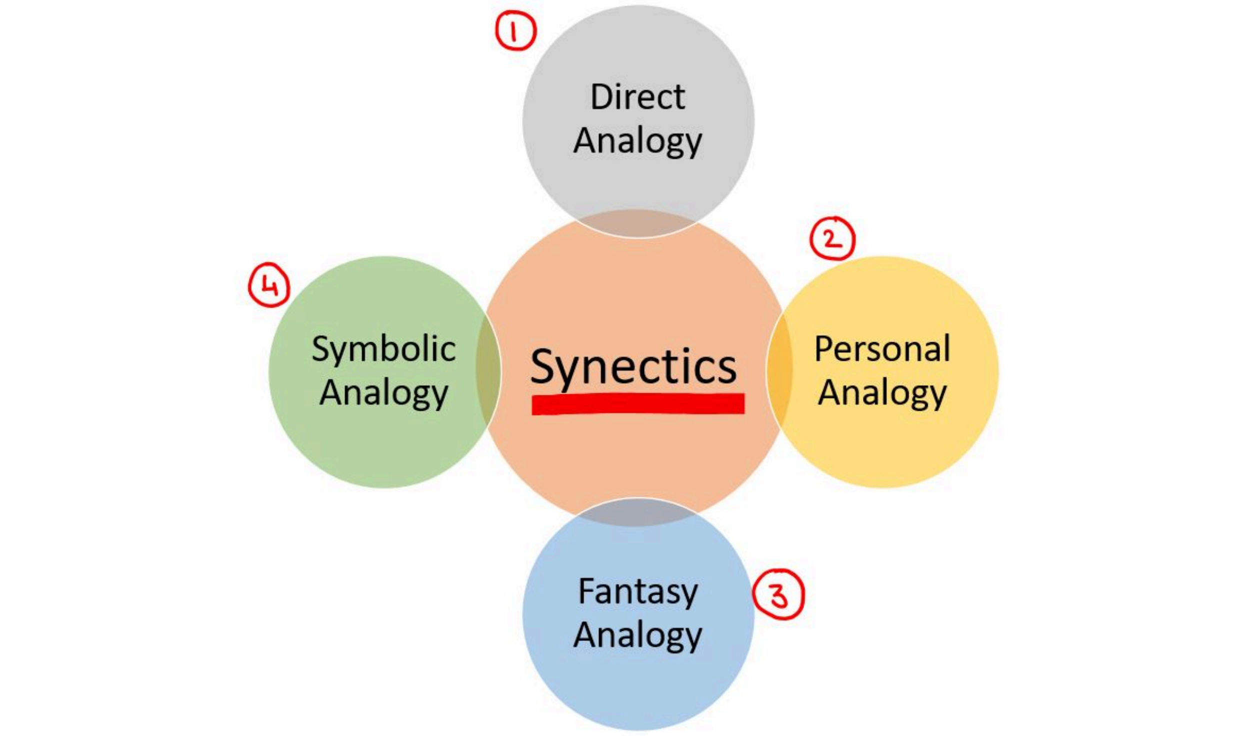
8. Innovation Fostering Techniques

William J.J. Gordon worked with creative-thinking groups and had a creative variety of other pursuits. He was concerned that people, when asked to come up with a creative new idea, would instead incrementalize. That is, they would take an available alternative and improve it bit by bit. While this might lead to marginally better alternatives, the alternatives probably would not be real breakthroughs. Gordon decided that one way to avoid this problem would be simply not to tell people what they were inventing. Thus, the Gordon technique uses an initial focus on function. Rather than being told to build a better mousetrap, the group might first be told that the focus was capturing. Instead of the group being instructed to design an improved knife, the function could be given as severing. It is also known as *Little Group Technique*.

Consider another example, rather than asking the group to design a better pen, the function is defined as "marking." This prompts the group to think broadly about tools for marking or writing, potentially resulting in unique solutions beyond the traditional concept of a pen.

8. Innovation Fostering Techniques



Synectics was developed by George Price and William Gordon. Synectics means, "the joining of apparently unrelated elements." First, very different sorts of people are put together in synectics groups in order to get a real diversity of perspectives. Second, synectics relies heavily on the use of analogies. Synectics techniques have been widely adopted by both businesses and educational institutions.

There are 4 synectics tools, which are given below.

1. Direct Analogy

This involves looking for parallel facts, knowledge, or technology in a different domain from the one being worked on. For instance, can we think of anything similar that occurs in nature?

Considering an example, when trying to improve customer service in a tech company, the team might draw a direct analogy to the hospitality industry, exploring how hotels or restaurants manage and exceed customer expectations.

2. Personal Analogy

When using the personal analogy tool in synectics, group members try to connect with the problem emotionally or mentally. For instance, if the group needs to create a machine with a spinning part, they might imagine themselves as part of that machine. In one case, they had to design a shaft spinning at different speeds, and the group pretended to be inside the machine, figuring out how to make it work smoothly without any problems.

Considering another example, when designing a user-friendly interface for a software application, team members might engage in personal analogy by imagining themselves as end-users and considering what features would enhance their experience.

3. Fantasy Analogy

Fantasy analogy asks how in many wildest dreams can I make this happen? Gordon gives the example of a synectics group with the task of inventing a vapour proof closure for space suits. Their solution was a spring mechanism based on the fantasy analogy of rows of trained insects clasping claws to hold shut the closure.

Considering another example, in the context of creating a new educational curriculum, a team could use fantasy analogy to envision an ideal learning environment, incorporating elements like virtual reality or gamified lessons.

4. Symbolic Analogy

It involves making use of objective and personal images to describe a problem. It can be compressed conflict, essential contradictory and paradox or oxymoron such as: thunderous silence, open secret, cruel kindness.

Considering an example, when addressing a complex business challenge, a team might use symbolic analogy by describing the situation as a "jigsaw puzzle," emphasizing the need to find the right pieces to create a complete picture.

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8. Innovation Fostering Techniques

According to the developer of attribute listing, Robert Crawford, “Each time we take a step, we do it by changing an attribute or a quality of something, or else by applying that same quality or attribute to some other things."

There are 2 forms of attribute listing:

1. attribute modifying and
2. attribute transferring.

With *attribute modifying,* the main attribute of the problem object is listed. Then ways to improve each attribute are listed. For instance, the technique might be used to concentrate on ways to improve the running shoe attributes of weight, stability, cushioning, and durability. *Attribute transferring* is similar to direct analogy in synectics. Attributes from one thing are transferred to another.

To illustrate more, in the context of **attribute modifying** for designing a desk chair, the main attribute of "ergonomics" is identified. To improve this attribute, the design team explores various modifications, including the use of adjustable lumbar support to enhance lower back comfort. They also experiment with materials that offer better breathability to address issues related to prolonged sitting. Additionally, the chair's adjustability is optimized, allowing users to customize the height, tilt, and armrest positions for improved overall ergonomics.

In the context of **attribute transferrring**, inspired by smartphone touchscreens, the thermostat may incorporate a user-friendly touch interface that allows homeowners to easily adjust temperature settings. The attribute of "connectivity" is also transferred, enabling remote control and monitoring via a smartphone app. Furthermore, features such as voice recognition, reminiscent of smartphone virtual assistants, are integrated to enhance the thermostat's overall usability.

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8. Innovation Fostering Techniques

The checkerboard method, also called **morphological analysis**, is an extension of attribute modifying. It was given by Fritz Zwicky. Specific ideas for one attribute or problem dimension are listed along one axis of a matrix. Ideas for a second attribute are listed along the other axis. If desired, a third axis (another attribute) can be added.

Consider designing a new smartphone. The two attributes are "Battery Life" and "Processing Speed."

	Long Battery Life	Average Battery Life	Short Battery Life
High Speed	Smartphone A	Smartphone B	Smartphone C
Medium Speed	Smartphone D	Smartphone E	Smartphone F
Low Speed	Smartphone G	Smartphone H	Smartphone I

A checkerboard table with 3 axes (attributes) for designing a new car is given below.

	Fuel Efficiency	Safety Rating	Entertainment Features
High	Car A	Car B	Car C
Medium	Car D	Car E	Car F
Low	Car G	Car H	Car I

8. Innovation Fostering Techniques

Retroduction involves changing an assumption. It is also known as **Abductive Reasoning**. This may serve two purposes. First, our assumptions may be wrong. Second, even if our assumptions are correct, we may gain valuable new perspectives from looking at things from a different angle. Albert Einstein, for instance, revised Isaac Newton’s assumption that space is flat to the assumption that space is curved and developed a new perspective on time and space.

Take another example, in examining a persistent issue of declining customer satisfaction in a retail store, the management initially assumed that the problem stemmed from slow service. However, through retroduction, they reconsidered the assumption and explored the possibility that employee engagement could be a contributing factor. This change in perspective prompted them to conduct surveys and interviews with staff, uncovering insights about low morale and communication gaps.

1. Introduction

Before you decide to start a particular business, you need to see if there is a demand for your product or service. This requires doing market research. If your market research shows that your business has the potential to succeed, then develop a business plan.

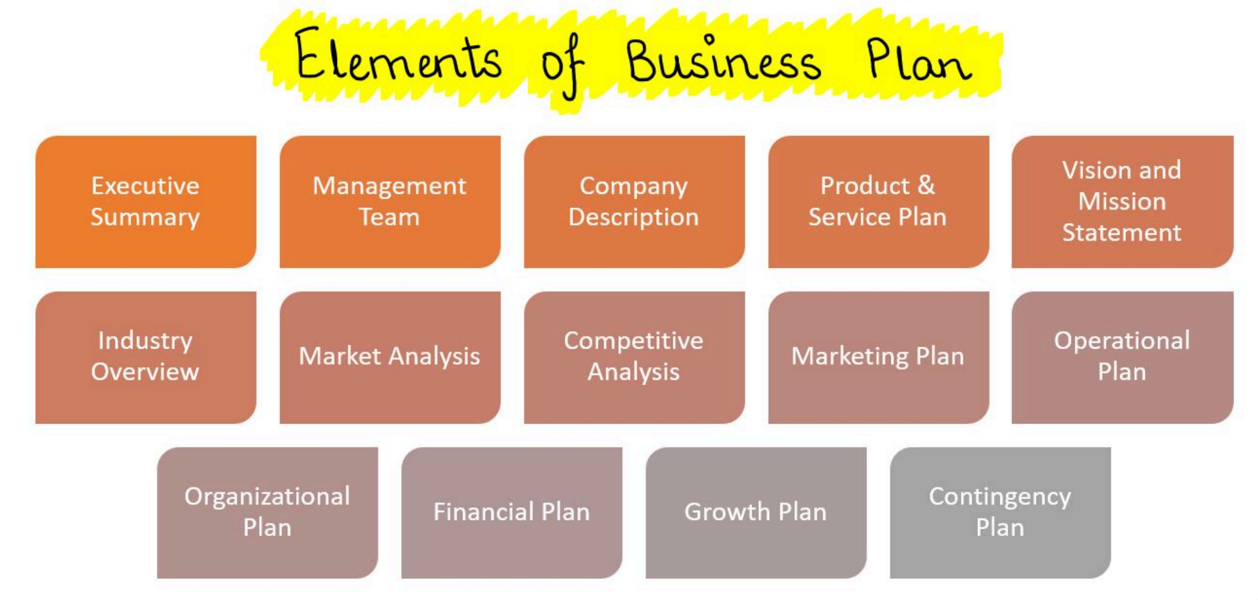
What is a Business Plan?

A business plan is a written description of a new business venture that describes all aspects of the business. It helps entrepreneurs focus on what they want to do, how they will do it, and what they expect to accomplish.

The business plan is a blue-print of activities that an organization proposes to engage in. Besides, being a guide for activities, it is an essential exercise required for the purposes of developing cost and profit estimates, resource planning and feasibility testing. The project report is one of the important documents needed for the purposes of obtaining external financing from commercial banks and other financial institutions.

For example, a business plan for a coffee shop startup outlines the entrepreneur's vision of creating a cozy neighborhood coffee hub. It details the concept, target market, and unique selling points, emphasizing a warm atmosphere, quality coffee blends, and personalized customer service. The plan includes financial projections, start-up costs, and revenue forecasts. Additionally, it outlines the marketing strategy, highlighting social media engagement and local partnerships to attract customers. The business plan serves as a roadmap for the entrepreneur, providing clarity on business goals and facilitating discussions with potential investors or financial institutions for funding.

2. Elements of Business Plan



A business plan usually has following sections.

Executive Summary

The executive summary is a brief account of the key points contained in a business plan. It should be no more than two pages and should include the most important information from each section of the plan. It should open with a compelling story to persuade the reader that the business is going to succeed. Then it should support that statement with evidence gathered through market research.

Management Team

This section presents your qualifications and those of any partners you might have. You must describe your team's capabilities to execute your business concept. You should discuss how you will fill gaps in expertise. You may need to hire consultants, or form partnerships or advisory boards.

Company Description

The description of the firm provides an outline of the business. It helps investors understand the size, scope, and type of business you plan to start. It describes the business opportunity and explains why the venture will succeed.

Product and Service Plan

Describe the product or service you want to offer. The nature of your business should be clear. You should note the unique features of the product or service and possible spin-offs. Spin-offs are additional products and services that you might offer when the business is more established. They show that the venture has growth potential.

Vision and Mission Statements

The vision and mission statements section states the guiding principles by which a business functions.

Industry Overview

This section presents your research of the industry. Every business operates within an industry. Think of your industry as companies that provide similar, complementary, or different products and services. Discuss trends and growth within the industry.

Market Analysis

This section presents research about your customer profile. The results help you determine your overall marketing and sales strategies. In addition, this section analyzes your customers and the competition. Include geographic, economic, and demographic data about the target market and business location.

Competitive Analysis

Indicate how the proposed business has an advantage over its competitors. You can gather information on competitors by viewing their Web sites; talking to their customers, vendors, suppliers, and employees; and attending trade shows. See if any articles have been written about them.

Marketing Plan

A marketing plan discusses how a company makes its customers aware of its products or services. It includes features such as the market niche, pricing, company image, marketing tactics, a media plan, and a marketing budget.

Operational Plan

The operational plan includes the business processes that result in production and delivery of the product or service.

Organizational Plan

This part looks at the people who will run the firm as well as management's philosophy. The form of business organization that is chosen, such as a sole proprietorship, is also discussed.

Financial Plan

This section presents forecasts for the business. Data are usually shown in financial statements. The plan provides proof that the new business will be financially healthy.

Growth Plan

The growth plan looks at how the business will expand in the future. Investors and lenders like to know that a business has plans to grow and deal with growth.

Contingency Plan

The contingency plan looks at likely risks to the business, such as lower-than-expected sales and emergencies that might affect it. It then suggests a way to minimize risk.

Cover Page, Title Page, Table of Contents, and Supporting Documents

The cover page should include the company's name, address, phone number, Web site and e-mail addresses, and logo. The title page follows the cover page. It includes the company name; the names, titles, and addresses of the owners; the date the plan was submitted; and the name of its preparer. The table of contents details the components of the business plan. Supporting documents include exhibits and other information relevant to the business.

3. Stages of Small Business Growth

There are various different ways of conceptualizing the phases of a business's growth, such as this five-stage model, devised by academics Neil C. Churchill and Virginia L. Lewis in a 1983 Harvard Business Review article.

The 5 stages are given below.

Stage 1 – Existence
A small business at this stage is challenging, especially since the owner is doing most of the work. One of the largest pain point is obtaining customers and delivering on the product or service. In order to remain alive, a new business must seek customers.

Stage 2 – Survival
A business in this stage, is now a more efficient working entity with some profit. The next step here is to ensure that profit remains. Therefore, again, businesses in this stage also need to seek customers as well as start looking at the return on investment (ROI). In essence, merely staying open is not sufficient anymore. The businesses in survival stage must be establishing systems and processes to consistently ensure that ROI maintains and grows.

Stage 3 – Success
Once systems are established and profits are consistent, the small business is now successful. The choice becomes continue to grow or maintain the success created until this point. Having systems in place is a vital difference between Survival and Success stages. At the success stage, the owner is no longer doing the bulk of the work. The reason for waning the owner from major tasks is for continued growth as well as the opportunity to sell. And, everyone deserves a vacation once in a while.

Stage 4 - Take-Off (Growth)
In this stage, the small business now requires increase in capital in order to accommodate the higher volumes of customers. This means more staff, more equipment and materials and better processes. At this stage, a small business has the chance to be a big company. However, if mismanaged, the small business could fail because of poor cost management of expenses over revenue.

Stage 5 - Resource Maturity
A small business reaches maturity once it is ready for diversification. The company is now big and runs at a slower pace. This does not mean that a mature company will be unable to react to market changes. Hence, there is a need for diversification and finding other, related products and markets to tap and to expand the existing customer base beyond the reaches of the original business model. This will keep the company in flux, as parts of the company will now be in stages of growth.

4. Project Classification

Project classification is a systematic process that articulates and emphasizes the fundamental characteristics of a project. The categorization of projects serves to provide clarity and insights into their nature.

The following are some of the important classifications of projects.

Quantifiable and Non-Quantifiable Projects

Quantifiable projects are those in which possible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such assessment is not possible. Projects concerned with industrial development, power generation, mineral development fall in the first category, while projects involving health, education and defense fall in the second category.

Sectional Projects

Here the classification is based on various sectors like:

- Agriculture and allied sector
- Irrigation and power sector
- Industry and mining sector
- Transport and communication sector.

Techno-Economic Projects

Classification of projects based on techno-economic characteristic fall in this category:

1. Factor intensity-oriented classification

Based on this, projects may be classified as capital intensive or labor intensive. If large investment is made in plant and preparation of Project machinery, the project will be termed as ‘capital intensive’. On the other hand, project involving large number of human resources will be termed as ‘labor intensive’.

2. Causation-oriented classification

On the basis of causation, projects can be classified as demand based and raw material based projects. The availability of certain raw materials, skills or other inputs makes the project raw-material based and the very existence of demand for certain goods or services make the project demand-based.

3. Magnitude-oriented classification

This is based on the size of investment involved in the projects, accordingly, project are classified into large scale, medium-scale or small-scale projects.

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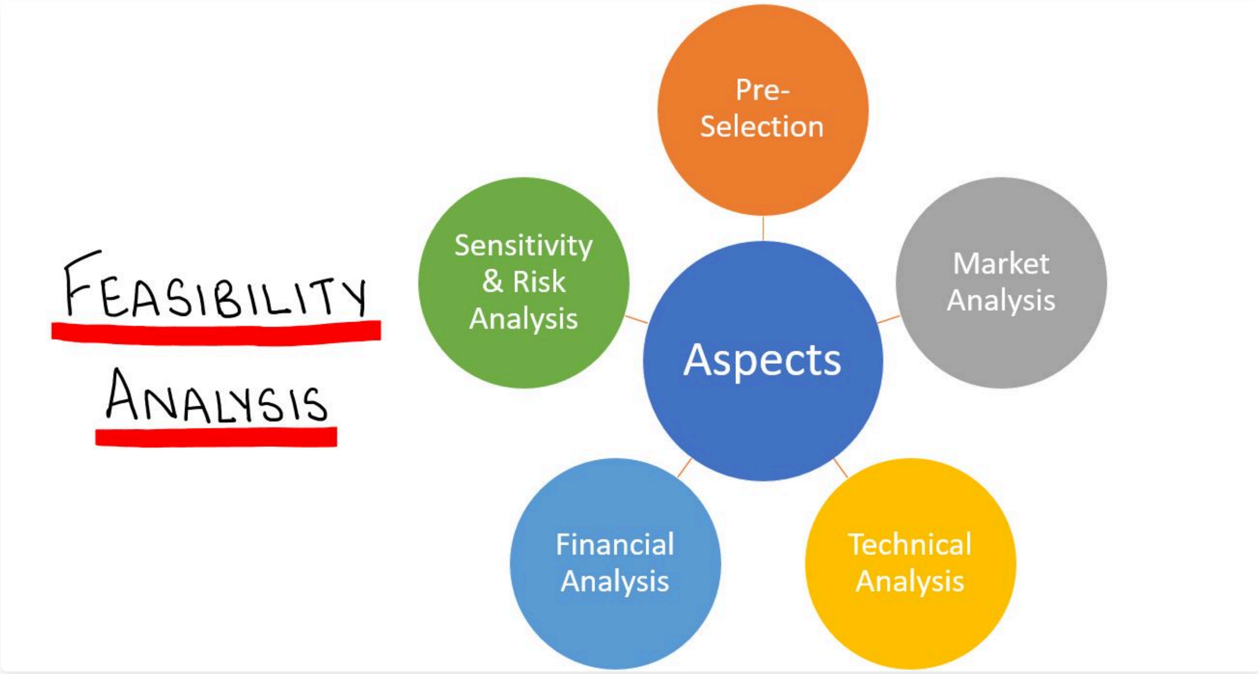
5. Feasibility Analysis

A feasibility study is a process in which an idea is studied to see if it is “feasible”, that is, if and how it will work. A comprehensive feasibility study looks at the entire structure, needs, and operations of a business.



A feasibility study looks at both sides, considering advantages and disadvantages, and troubleshoots potential problems. It is not a business plan, but serves as a foundation for developing a business plan.

The various aspects of Feasibility Analysis are given below.

- Pre selection/Pre-feasibility stage
- Market analysis/study
- Technical analysis
- Financial analysis
- Sensitivity and Risk analysis.

These are discussed next.

5. Feasibility Analysis

The various aspects of feasibility analysis are given below.

Pre selection/Pre-feasibility stage

The preliminary screening may have several ideas which appear to be worthy of further study. Since a complete feasibility study is time consuming and expensive, it may be desirable to perform a pre-feasibility analysis, in order to further screen the possible ideas. The purpose of a pre-feasibility study is to determine:

- whether the project seems to justify detailed study
- what matters deserve special attention in the detailed study (e.g. market analysis, technical feasibility, investment costs)
- an estimate of cost for the detailed study.

Thus, pre-feasibility study can be viewed as a series of steps culminating in a document which permits determination of whether or not a complete detailed feasibility study should be made. It does not possess the depth the detailed study is expected to have, and the data usually are gathered in an informal manner.

Market analysis/study

A market feasibility study is not a marketing plan, but studies markets and market potential, and can be used to support or develop a marketing plan. It can serve as a tool for screening venture ideas and also as a means of evaluating the feasibility of a venture idea in terms of the market.

Market analysis involves systematic collection, recording, analysis, and interpretation of information on:

- existing and potential markets,
- marketing strategies and tactics,
- interaction between market and product,
- marketing methods,
- current or potential products.

Technical analysis

The technical analysis must establish whether or not the identified venture is technically feasible and, if so, make tentative choices among technical alternatives and provide cost estimates in respect of:

- fixed investment
- manufacturing costs and expenses and
- start-up costs and expenses

In order to provide cost estimates, tentative choices must be made among technical alternatives such as:

1. level of product / manufacturing technology,
2. raw material inputs,
3. equipments,
4. methods,
5. organization, and
6. facilities location and design.

Financial analysis

The financial analysis emphasizes on the preparation of financial statement, so that the venture idea can be evaluated in terms of commercial profitability and magnitude of financing required. It requires the assembly of the market and the technical cost estimates into various proforma statements. If more information on which to base an investment decision is needed, a sensitivity analysis or, possibly, a risk analysis can be conducted. The depth of analysis would depend, to a certain extent, on the venture idea and the overall objectives of the feasibility analysis.

The financial analysis should include:

- For existing companies-audited financial statements, such as balance sheets, income statements and cash flow statements
- For new companies-statements of total project costs, initial capital requirements and cash flows relative to the project time table
- For all projects-financial projections for future time periods, including income statements, cash flows and balance sheets

- Supporting schedules for financial projections, stating assumptions used as to collection period of sales, inventory levels, payment period of purchases and expenses, elements of product costs, selling, administrative and financial expenses
- Financial analysis showing return on investment, return on equity, break-even volume and price analysis
- Sensitivity analysis to identify items that have a large impact on profitability or possibility of risk analysis
- Profitability measures, which consider the time value of money, that is, discounted cash flow methods, are net present value (NPV), internal rate of return (IRR), and the discounted benefit / cost ratio.

Sensitivity and Risk analysis

Recognizing that the venture profitability forecast hinges on future developments whose occurrence cannot be predicted with certainty, the decision-maker may want to probe further. The analyst may want to determine the impact of changes in variables such as product price, raw material costs, and operating costs on the overall results. Sensitivity analysis and risk analysis are the techniques that allow the analyst to deal with such problems.

The purpose of sensitivity analysis is to identify the variables that most affect the outcome of a venture. Sensitivity analysis is useful for determining consequences of a stated percentage change in a variable such as product price. It involves specifying the possible range for the variable, such as price, and calculating the effect of changes in this variable to profitability. With such a calculation, the analyst can determine the relative importance of each of the variables to profitability. However, only risk analysis can provide any indication of the likelihood that such events (change in product price) will actually occur.

Risk analysis takes into account the recognized fact that variables, such as product price, depend on future events whose occurrence cannot be predicted with certainty. Hence, investment decision situations can be characterized with respect to certainty, risk and uncertainty.

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1. Micro and Small Industries

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

These small economic engines, which are more than 6.5 crores, have a huge impact on the country's GDP-making a contribution of approximately 30% for the last 5 years. The contribution of MSMEs in country's exports is around 48%. Additionally, more than 11 crore people are employed in the MSME sector.

2. Background of MSME

The **Micro, Small and Medium Enterprises – Development Organisation (MSME-DO)**, established in 1954, serves as the apex body for formulating and implementing policies related to MSMEs in India. Over the years, several committees and initiatives have shaped the growth of this sector.

In 1997, the **Abid Hussain Committee** was set up to conduct a comprehensive analysis of the small-scale industries sector, with a special focus on the Indian context. Later, in 2004, a **Working Group on Flow of Credit to Small Scale Industries (SSI)** was constituted under the chairmanship of Dr. A. S. Ganguly, Director, Central Board of the RBI, to address credit flow challenges.

To strengthen data collection, the **Fourth All India Census of MSMEs** (including Khadi, Village, and Coir industries) was launched in 2007-08 with reference year 2006-07. Covering both registered and unregistered sectors, it was completed in 2010-11.

A major step came in 2012 when the government introduced the **Public Procurement Policy for Micro and Small Enterprises (MSEs)** under the MSMED Act, 2006. This mandated that 25% of annual procurement by Central Ministries, Departments, and CPSEs should be from MSEs, with sub-targets of 4% for SC/ST entrepreneurs and 3% for women entrepreneurs.

In 2014, the Finance Ministry appointed a **15-member committee chaired by K. V. Kamath**, then ICICI Bank Chairman, to examine the financial architecture of the MSME sector. Two years later, in August 2016, the **Government e-Marketplace (GeM)** was launched as a digital procurement platform to promote transparent and efficient purchases by ministries, departments, and CPSEs.

Further momentum was provided in **November 2018**, when the government launched a nationwide support and outreach programme for MSMEs. This introduced 12 major initiatives, including:

- Loans up to ₹1 crore within 59 minutes through an online portal.
- 2% interest subvention for GST-registered MSMEs on fresh or incremental loans.
- Mandatory onboarding of companies with turnover above ₹500 crore on the **TReDS platform**.
- PSU procurement from MSMEs increased from 20% to 25%, with 3% earmarked for women entrepreneurs.
- Compulsory procurement through the GeM portal.
- Establishment of 100 Technology Centres with ₹6,000 crore investment.
- 70% government funding for setting up Pharma clusters.
- Simplified compliance under labour and environmental laws.
- Randomized computer-based inspection system.
- Self-certification for returns with limited inspections.
- Decriminalization of minor violations under the Companies Act.

In 2019, the **RBI set up a committee under U. K. Sinha** to review the MSME framework and recommend long-term solutions for financial sustainability. Among its key suggestions was the creation of a **₹5,000 crore stressed asset fund** to support domestic MSMEs.

3. Administration

The implementation of policies and various programmes/schemes for providing infrastructure and support services to MSMEs' is undertaken through **attached office** of Ministry of Micro, Small and Medium Enterprises, namely:

- Office of the Development Commissioner (O/o DC (MSME)),
- National Small Industries Corporation (NSIC), New Delhi
- Khadi and Village Industries Commission (KVIC), Mumbai
- Coir Board,

and **training institutes**, some of which are:

- National Institute for Micro, Small and Medium Enterprises (NI-MSME); Hyderabad
- Mahatma Gandhi Institute for Rural Industrialization (MGIRI), Wardha, a society registered under Societies Registration Act, 1860,
- Central Footwear Training Institute, Chennai,
- Micro, Small & medium Enterprises Training Institute (MSMEIT), Tiruvalla (Formerly SEPTI).

Institutes such as Indian Institute of Entrepreneurship (IIE), Guwahati and National Institute for Entrepreneurship and Small Business Development (NIESBUD), Noida are under the Ministry of Skill Development & Entrepreneurship.

The **Micro, Small and Medium Enterprises – Development Organisation (MSME-DO)** [earlier known as Small Industries Development Organisation (SIDO)], is an apex body for formulating and overseeing the implementation of the policies for the development of MSME in the country, is playing a very positive and constructive role for strengthening this vital sector. The SIDO was formed in 1954.

The **Small Industries Service Institutes** (SISI's) are set-up one in each state to provide consultancy and training to small and prospective entrepreneurs.

The MSME Act 2006 also seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the 3 tiers of these enterprises, namely, micro, small and medium.

4. Definition of MSMEs

The **Micro, Small and Medium Enterprises (MSMEs)** form the backbone of the Indian economy. Their classification has evolved over time to reflect changing economic needs and growth opportunities.

Classification under MSME Act, 2006

Enterprises	Investment in Plant & Machinery (Manufacturing)	Investment in Equipment (Services)
Micro	Up to ₹25 lakhs	Up to ₹10 lakhs
Small	Above ₹25 lakhs and up to ₹5 crore	Above ₹10 lakhs and up to ₹2 crore
Medium	Above ₹5 crore and up to ₹10 crore	Above ₹2 crore and up to ₹5 crore

Revision in May 2020 (AtmaNirbhar Bharat Abhiyan)

In **May 2020**, the MSME definition was revised to overcome the problem of low thresholds. Two major changes were introduced:

- **Turnover** was added as an additional criterion.
- The **distinction between manufacturing and services** was removed.

Enterprises	Manufacturing and Services
Micro	Investment < ₹1 crore & Turnover < ₹5 crore
Small	Investment < ₹10 crore & Turnover < ₹50 crore
Medium	Investment < ₹50 crore & Turnover < ₹250 crore

Union Budget 2025–26 Revision

In **Budget 2025–26**, the Government revised the thresholds again, increasing **investment limits (2.5 times)** and **turnover limits (2 times)** to encourage growth and expansion.

Enterprises	Investment (Current)	Investment (Revised)	Turnover (Current)	Turnover (Revised)
Micro	₹1 crore	₹2.5 crore	₹5 crore	₹10 crore
Small	₹10 crore	₹25 crore	₹50 crore	₹100 crore
Medium	₹50 crore	₹125 crore	₹250 crore	₹500 crore

5. Initiatives in Budget 2025–26

The Union Budget 2025–26 introduced several measures to strengthen the **MSME ecosystem** through credit support, entrepreneurship schemes, and sectoral focus.

Enhanced Credit Availability

- **Credit guarantee cover** for micro and small enterprises doubled from ₹5 crore to **₹10 crore**, unlocking additional credit worth **₹1.5 lakh crore** over five years.
- For **startups**, guarantee cover doubled from ₹10 crore to **₹20 crore**, with a reduced **1% fee** for loans in 27 priority sectors.
- **Exporter MSMEs** eligible for **term loans up to ₹20 crore** with enhanced guarantee cover.

Credit Cards for Micro Enterprises

- Launch of a **customised Credit Card scheme** with up to **₹5 lakh** in credit for micro enterprises registered on the **Udyam portal**.
- **10 lakh cards** to be issued in the first year.

Support for Startups & First-Time Entrepreneurs

- Creation of a **₹10,000 crore Fund of Funds** to support startups.
- A scheme for **5 lakh first-time women, SC, and ST entrepreneurs** offering **term loans up to ₹2 crore** over five years.

Focus on Labour-Intensive Sectors

- **Footwear & leather sector**: Focus Product Scheme expected to create **22 lakh jobs** and generate **₹4 lakh crore turnover**.
- **Toy sector**: New scheme for **cluster development and skill-building**, boosting India's position as a **global toy hub**.
- **Food processing sector**: Establishment of **National Institute of Food Technology, Entrepreneurship and Management** in Bihar.

Manufacturing & Clean Tech Initiatives

- Launch of a **National Manufacturing Mission** to provide policy roadmaps under **Make in India**.
- Promotion of **clean tech manufacturing** in areas like **solar PV cells, EV batteries, wind turbines, and high-voltage transmission equipment**.

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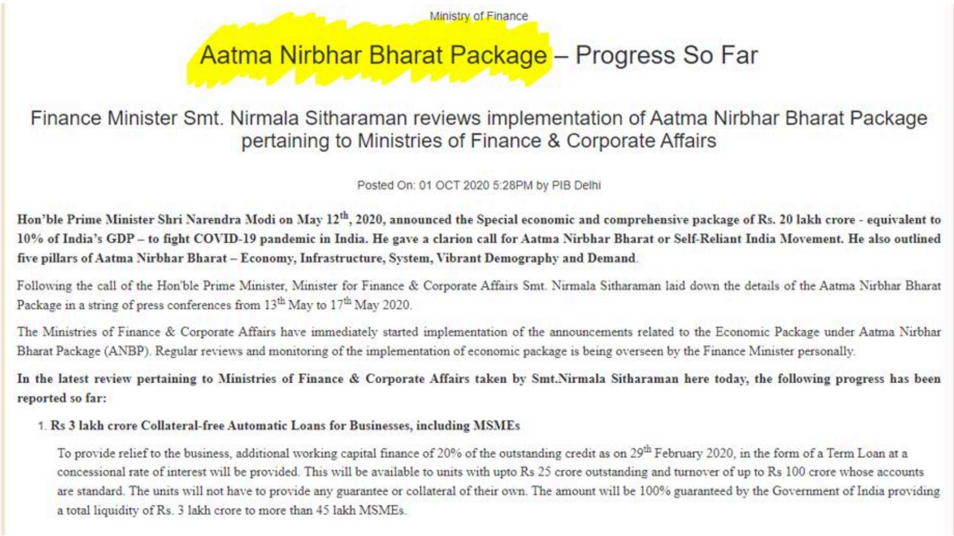
6. MSME initiatives under ANBP



Ministry of Finance

Aatma Nirbhar Bharat Package – Progress So Far

Finance Minister Smt. Nirmala Sitharaman reviews implementation of Aatma Nirbhar Bharat Package pertaining to Ministries of Finance & Corporate Affairs

Posted On: 01 OCT 2020 5:28PM by PIB Delhi

Hon'ble Prime Minister Shri Narendra Modi on May 12th, 2020, announced the Special economic and comprehensive package of Rs. 20 lakh crore - equivalent to 10% of India's GDP – to fight COVID-19 pandemic in India. He gave a clarion call for Aatma Nirbhar Bharat or Self-Reliant India Movement. He also outlined five pillars of Aatma Nirbhar Bharat – Economy, Infrastructure, System, Vibrant Demography and Demand.

Following the call of the Hon'ble Prime Minister, Minister for Finance & Corporate Affairs Smt. Nirmala Sitharaman laid down the details of the Aatma Nirbhar Bharat Package in a string of press conferences from 13th May to 17th May 2020.

The Ministries of Finance & Corporate Affairs have immediately started implementation of the announcements related to the Economic Package under Aatma Nirbhar Bharat Package (ANBP). Regular reviews and monitoring of the implementation of economic package is being overseen by the Finance Minister personally.

In the latest review pertaining to Ministries of Finance & Corporate Affairs taken by Smt.Nirmala Sitharaman here today, the following progress has been reported so far:

1. **Rs 3 lakh crore Collateral-free Automatic Loans for Businesses, including MSMEs**

   To provide relief to the business, additional working capital finance of 20% of the outstanding credit as on 29th February 2020, in the form of a Term Loan at a concessional rate of interest will be provided. This will be available to units with upto Rs 25 crore outstanding and turnover of up to Rs 100 crore whose accounts are standard. The units will not have to provide any guarantee or collateral of their own. The amount will be 100% guaranteed by the Government of India providing a total liquidity of Rs. 3 lakh crore to more than 45 lakh MSMEs.

In light of COVID-19 situation, in May 2020, the Government announced the **AatmaNirbhar Bharat Package (ANBP)**, a special economic and comprehensive package of Rs. 20 lakh crores.

Under the ANBP, the Government has implemented several measures for MSME sector as listed below.

- Scheme for interest subvention of 2% for a period of 12 months, to all Shishu loan accounts under Pradhan Mantri Mudra Yojana (PMMY) to eligible borrowers.
- Approval for provisioning of Rs. 20,000 crore as subordinate debt to provide equity support to the stressed MSMEs. Accordingly, a scheme named 'Credit Guarantee Scheme for Subordinate Debt' was launched in June 2020.
- Rs. 3 lakh crore collateral-free automatic loans for MSMEs to meet operational liabilities, buy raw material and restart businesses.
- Approval for equity infusion of Rs. 50,000 Crore for MSMEs through Fund of Funds (FoFs). This aimed to establish a framework to help MSMEs in capacity augmentation. For anchoring the Mother Fund, NSIC Venture Capital Fund Ltd. (NVCL), subsidiary company of NSIC has been incorporated under 'the Companies Act, 2013'. This fund is also named Self-Reliant India (SRI) Fund. This will also provide an opportunity to get listed in Stock Exchanges.
- New revised criteria for classification of MSMEs (as given in the definition of MSMEs).
- New Process of MSME Registration through 'Udyam Registration'.
- Disallowing global tenders in procurements upto Rs. 200 crores in order to create more opportunities for domestic players.
- Launching of an online Portal "Champions", for grievance redressal and handholding of MSMEs.
- Clearing of MSME dues by the Government and Public Sector Units within 45 days.

7. MSME Schemes

The schemes/programmes undertaken by the Ministry and its organizations seek to facilitate/provide:

- adequate flow of credit from financial institutions/banks.
- support for technology upgradation and modernization.
- integrated infrastructural facilities.
- modern testing facilities and quality certification.
- access to modern management practices.
- entrepreneurship development and skill upgradation through appropriate training facilities.
- support for product development, design intervention and packaging.
- welfare of artisans and workers.
- assistance for better access to domestic and export markets.
- cluster-wise measures to promote capacity building and empowerment of the units.

Various MSME schemes and programmes undertaken by Government of India are discussed next.

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7. MSME Schemes

The scheme was approved by the Government of India in 2025. Under the scheme, the National Credit Guarantee Trustee Company Limited (NCGTC) will provide 60% guarantee coverage to eligible Member Lending Institutions (MLIs) for loans to MSMEs for purchase of equipment/machinery. The scheme is specifically targeted at the manufacturing sector of MSMEs, focusing on equipment/machinery purchase. Eligible borrowers are MSMEs with valid Udyam Registration Number with minimum 75% of project cost must be for equipment/machinery.

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7. MSME Schemes

In 2023, the Government launched 'PM Vishwakarma Scheme' for traditional artisans and craftspeople on occasion of Vishwakarma Jayanti. It envisages to provide end-to-end holistic support to the traditional artisans and craftspeople in scaling up of their conventional products and services. It is Central Sector scheme for from FY 2023-24 to FY 2027-28 through nodal ministry as Ministry of Micro, Small & Medium Enterprise. Although scheme will be co-jointly implemented by the Union Ministry of MSME, Skill Development and Finance.

An artisan or craftsperson working with hands and tools and engaged in one of the recognized family based traditional trades with minimum age of 18 years, will be eligible. The scheme will provide Marketing Support, Credit support and Skill Upgradation with a minimal stipend.

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7. MSME Schemes

The Prime Minister Employment Generation Programme (PMEGP) is credit-linked subsidy programme aimed at generating self-employment opportunities through establishment of micro-enterprises in the non-farm sector by helping traditional artisans and unemployed youth (in rural as well as urban areas). The scheme was launched by merging the 2 schemes namely Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP). Any individual above 18 years of age is eligible to seek assistance.

Features

Key features of PMEGP are as follows:

- It has been implemented as a central sector scheme by the Ministry of MSME since 2008-09.
- The scheme is implemented by Khadi and Village Industries Commission (KVIC) functioning as the nodal agency at the national level.
- Credit linked subsidy program for setting up new micro-enterprise in non-farm sector.
- Margin Money subsidy ranges from 15% to 35% of project cost for projects up to Rs. 50 Lakh in Manufacturing sector and Rs. 20 Lakh in the Service sector.
- For beneficiaries belonging to Special categories such as SC/ ST/ Women/ Minorities/ Ex-Servicemen/ Transgenders/ Aspirational districts/ NER, the margin money subsidy is 35% in rural areas and 25% in urban areas.
- The own contribution of the beneficiary is 10% of the project cost in the case of General category and 5% of the project cost in case of Special category.

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7. MSME Schemes

The Pradhan Mantri MUDRA Yojana (PMMY) was launched in April 2015 for providing loans upto Rs 10 lakh to the non-corporate, non-farm small/micro enterprises. The limit was increased to Rs 20 lakh in 2024. These loans are classified as MUDRA loans under PMMY. These loans are given by Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs.

Micro Units Development & Refinance Agency Ltd. (MUDRA) has been set up as a wholly owned subsidiary of SIDBI for "funding the unfunded" micro enterprises in the country. MUDRA is a refinancing institution hence does not lend directly to borrowers but provides loans to micro-finance institutions and NBFCs.

Under the aegis of PMMY, MUDRA has created 3 products namely:

1. **Shishu:** covering loans up to Rs. 50,000.
2. **Kishor:** covering loans above Rs. 50,000 and up to Rs. 5 lakhs.
3. **Tarun:** covering loans above Rs. 5 lakhs and up to Rs. 10 lakhs
4. **Tarun plus:** covering loans above Rs. 10 lakhs and up to Rs. 20 lakhs

The loans under Mudra Scheme are guaranteed by Credit Guarantee Fund for Micro Units (CGFMU) and the same is provided through National Credit Guarantee Trustee Company (NCGTC) Ltd (a private Company under Department of Financial Services, Ministry of Finance, set up in 2014).

Loan for up-gradation of the existing PMEGP/REGP/ MUDRA units

With an objective to assist existing units for expansion and upgradation, the scheme provides financial assistance to successful/well performing units. The scheme also caters to the need of the entrepreneurs for bringing new technology/ automation so as to modernize the existing unit. The scheme is applicable for existing PMEGP/ REGP/ MUDRA units which have been making profit for the last 3 years.

Features

Following are its key features:

- Maximum subsidy would be 15% of the project cost (20% for NER and Hill States). The balance amount of the total project cost is provided by Banks as a term loan.
- The maximum cost of the project under manufacturing sector for up-gradation is Rs. 1.00 crore and Rs. 25.00 lakhs under Service/ Trading sector.
- Registration of Udyog Aadhar Memorandum (UAM)/ Udyam Registration is mandatory.

7. MSME Schemes

The Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE) scheme, launched in 2000, facilitates credit to the MSE units, including Service Enterprises, by covering collateral free credit facility (term loan and /or working capital) extended by eligible lending institutions to new as well as existing Micro and Small Enterprises. For this purpose, the Ministry of MSME and SIDBI jointly established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). The Scheme is applicable to existing entrepreneurs as well as aspiring entrepreneurs. The maximum loans limit has been enhanced from Rs. 100 lakh to Rs. 200 lakh. The corpus of this fund has been enhanced from Rs 2500 crore to Rs 7500 crore.

Features

Following are the key features of the scheme:

- Credit guarantee for loans up to Rs. 2 crores, without collateral and third-party guarantee.
- Guarantee coverage ranges from 85% (Micro Enterprise up to Rs 5 lakhs) to 75% (others).
- 50% of the coverage is for retail activity.
- Guarantee coverage made it eligible to select NBFCs and Small Finance banks.

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7. MSME Schemes

In March 2020, the Government announced Rs. 1.70 Lakh Crore relief package under Pradhan Mantri Garib Kalyan Yojana (PMGKY) for the poor to help them fight the battle against Corona Virus Pandemic. As part of the said package, the Central Government announced Subordinate Debt for Stressed MSMEs scheme.

This scheme aims to support to stressed MSMEs which have Non-Performing Assets (NPAs). Under the scheme, promoters of MSMEs will be given debt from banks, which will be infused into the MSMEs as equity. The government will facilitate Rs 20,000 crore of subordinate debt to MSMEs. For this purpose, it will provide Rs 4,000 crore to the Credit Guarantee Fund Trust for Micro and Small Enterprises, which will provide partial credit guarantee support to banks providing credit under the scheme.

Under PMGKY only, the Government also announced the scheme named Equity infusion for MSMEs through Fund of Funds. The scheme aims to create a fund of funds with a corpus of Rs. 10,000 crore for long-term equity infusion in MSMEs. The scheme will help to expand MSME size as well as capacity and it may also encourage MSMEs to get listed on Stock Exchanges.

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7. MSME Schemes

Credit Guarantee Scheme for Subordinate Debt was launched by the Government of India to support stressed MSMEs by providing a substantial help in sustaining and reviving the MSMEs which have either become NPA or are on the brink of becoming NPA. Promoter(s) may infuse this amount in MSME unit as equity and thereby enhance the liquidity and maintain debt-equity ratio.

This Scheme seeks to extend support to the promoter(s) of the operational MSMEs which are stressed and have become NPA as on 30th April 2020 and standard as on 01st November 2016.

Features

The key features of the Scheme are as follows:

- Promoter(s) of the MSMEs are given credit equal to 50% of their stake (equity plus debt) or Rs. 75 lakh whichever is lower.
- The maximum tenor for repayment is 10 years. There is a moratorium of 7 years on payment of principal.
- Guarantee for the sub-debt: 90% guarantee coverage comes from the scheme / trust and remaining 10% from the promoter(s) concerned.

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7. MSME Schemes

Self-Reliant India (SRI) Fund is part of the AatmaNirbhar Bharat initiative, and it's a fund with 50,000 crore rupees. This money is meant to help small and medium-sized businesses (MSMEs) that have the potential to grow and become bigger.

Features

The key features of the Fund are as follows:

- The fund has 50,000 crore rupees, with 10,000 crores from the Government of India and 40,000 crores from private equity and venture capital funds.
- The SRI fund works like a mother-daughter fund. It gives money to these daughter funds, and they, in turn, give it to MSMEs for growth.
- The SRI Fund is managed by NSIC Venture Capital Fund Limited (NVCFL), which operates as Mother Fund in SRI Fund implementation, was registered as a Category-II Alternative Investment Fund (AIF) with SEBI, on 1st September 2021.
- This fund is meant to help MSMEs not only grow but also consider becoming publicly traded companies by listing on stock exchanges. It's a way to encourage them to become bigger than just small and medium-sized businesses.

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7. MSME Schemes

The objective of the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) scheme is to organize traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability, sustained employment, to enhance marketability of products of such clusters. It was launched in 2005-06 by the Ministry of MSME. The Nodal Agencies include KVIC, Coir Board, IIE Guwahati, NIMSME Hyderabad, NIESBUD Noida, all MSME DIs and all DICs of State Governments.

The Scheme would cover 3 types of interventions namely ‘Soft Interventions’, ‘Hard Interventions’ and ‘Thematic Interventions’.

The project outlay for various clusters is as follows:

- Heritage cluster (1000-2500 artisans): Rs 8 crore
- Major cluster (500-1000 artisans): Rs 3 crore
- Mini cluster (Up to 500 artisans): Rs 1.5 crore.

Features

The key features of the Scheme are as follows.

- The scheme applies to existing artisans from traditional industries in sectors such as Handicraft, Textile, Agro-Processing, Bamboo, Honey, Coir, Khadi, etc.
- Artisans are constituted into Special Purpose Vehicles (SPVs) by Implementing Agencies (State/ Central Govt. organizations, NGOs) who need to provide land and 10% (5% in NER, J&K and Hill Areas) of Hard Intervention. This organization is for setting up production facilities with the latest machineries.
- Financial assistance of up to 90% (95% in NER, J&K and Hill Areas) of Hard Intervention cost, entire cost of Soft Intervention (upto 25 lakhs), Technical Agency fee and Implementing Agency fee is given by Government of India.
- The financial assistance provided for any specific project shall be subject to a maximum of Rs 8 crore.

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7. MSME Schemes

A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE) was launched in 2015 by Ministry of MSME to set up a network of technology centres and to set up incubation centres to accelerate entrepreneurship and also to promote startups for innovation in agro industry. The scheme has provisions of setting up of Livelihood Business Incubators (LBIs), Technology Business Incubators (TBIs) and Fund of Funds.

The Scheme is applicable for:

- Any agency/ institution of Government of India/ State Government or existing training centres under Government of India or State Government, Industry Associations, Academic Institutions.
- Any not-for-profit private institution with experience in successfully executing incubation and/or skill development programs may be eligible to set up an LBI.

Features

The key features of the Scheme are as follows:

- Livelihood Business Incubator (LBI) will be an entity set up for imparting skill development & incubation programmes for promoting entrepreneurship and employment generation in agro-rural sector with special focus on rural and underserved areas.
- Maximum of Rs. 1 crore to Government agencies & Rs. 75 lakhs to Private agencies for procuring plant and machinery.
- Maximum of Rs. 1 crore. to Government and Private agencies as operational expenditure support towards manpower cost, running incubation and skill development programmers, etc.
- In the case of private organizations, 25% of the Capital Expenditure has to be borne by the Applicant Organization.

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7. MSME Schemes

Ministry of MSME has been implementing Credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS) for promoting competitiveness amongst Micro, Small and Medium Enterprises (MSMEs) by the way of its 6 components - wastage reduction through Lean Manufacturing, support for Design improvement, building awareness on Intellectual Property Rights, Zero Defect Zero Effect (ZED) Scheme, digital empowerment of MSME through Digital MSME and to promote & support untapped creativity of individual and to promote adoption of latest technologies in manufacturing as well as knowledge based innovation MSMEs through Incubation across India.

Now the Ministry has formulated the MSME Champions scheme by merging all the above 6 components of erstwhile Technology Upgradation Scheme (TUS) for a period of 5 years i.e., 2021-22 to 2025-26. It is a holistic approach to unify, synergize and converge various schemes and Interventions with a single purpose. The end objective is to pick up clusters and enterprises and modernize their processes, reduce wastages, sharpen business competitiveness and facilitate their National and Global reach and excellence.

There are 3 components under the new MSME Champions scheme, the details of which are as below:

1. MSME-Sustainable (ZED)
2. MSME-Competitive (Lean)
3. MSME-Innovative (for Incubation, IPR, Design)

The Digital MSME will be interlinked with all the other components of the MSME Champions Scheme.

1. MSME Sustainable (ZED) Certification

It is an initiative to help MSMEs understand and adopt Zero Defect Zero Effect (ZED) practices. It encourages and rewards MSMEs for getting ZED Certified and becoming champions in the MSME sector. The ZED Certification journey helps MSMEs reduce waste, improve productivity, be more environmentally friendly, save energy, use natural resources wisely, and expand their markets. This certification is not just about getting a certificate; it's about assessing, improving, and supporting MSMEs through guidance, management, and technology to make them more competitive.

Cost of Certification

MSMEs are charged as follows.

- Certification Level 1: BRONZE: Rs. 10,000
- Certification Level 2: SILVER: Rs. 40,000
- Certification Level 3: GOLD: Rs. 90,000

The certificate is valid for 3 years and MSMEs have to re-apply for the certificate as per the validity of the scheme.

Subsidy on cost of ZED certification

- Joining Reward of Rs. 10,000 (Bronze will become free if availed)
- 80%-60%-50% for Micro, Small & Medium Enterprises, respectively
- 10% for Women/SC/ST owned MSMEs OR MSMEs in NER/Himalayan/LWE/Island territories/ aspirational districts.
- 5% for MSMEs which are also a part of the SFURTI OR Micro & Small Enterprises - Cluster Development Programme (MSE-CDP) of the Ministry

2. MSME-Competitive (Lean)

This Scheme is an extensive drive to create awareness amongst MSMEs about LEAN Manufacturing practices and motivate and incentivize them to attain LEAN levels while also encouraging them to become MSME Champions.

Key Features

The key features are as follows:

- Under the scheme, MSMEs will implement LEAN manufacturing tools like 5S, Kaizen, KANBAN, Visual workplace, Poka Yoka etc under the guidance of trained and competent LEAN Consultants to attain LEAN levels like Basic, Intermediate and Advanced.
- To support MSMEs, the Government of India will contribute 90% of implementation cost for handholding and consultancy fees.
- There will be an additional contribution of 5% for the MSMEs which are part of SFURTI clusters, owned by Women/SC/ST and located in NER.

- There will be an additional contribution of 5% for MSMEs which are registering through Industry Associations/ Overall Equipment Manufacturing (OEM) organizations after completing all levels.
- There is a unique feature to encourage Industry Associations and OEMs for motivating their supply chain vendors to participate in this scheme.

3. MSME Innovation (Incubation, IPR and Design)

MSME Innovative Champions is a comprehensive program that brings together three sub-schemes to support small and medium-sized businesses (MSMEs). It focuses on promoting innovation in MSMEs by providing financial assistance through a combination of incubation, design improvements, and safeguarding intellectual property rights (IPR) in one streamlined approach.

Applicability

Applicability for Incubation, Design and IPR is given below.

- *Incubation:* MSMEs, Individuals, Students who want to develop their innovative ideas can apply through registered Host Institutes.
- *Design:* The beneficiary unit(s) must typically be a registered MSME as per the definition in MSMED Act and should have a valid UAM or Udyam Registration.
- *IPR:* For Manufacturing MSMEs with UAM/UDYAM Registration.

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7. MSME Schemes

Cluster Development Programme (MSE CDP) is one of the important schemes of the Office of DC (MSME). A cluster is a group of enterprises located within an identifiable and as far as practicable, contiguous area and producing same / similar products / services which can be linked together by common physical infrastructure facilities that help address their common challenges. It is done by development of Common Facility Centres and Infrastructure Development Projects.

Cluster Development approach has been adopted as a key strategy for enhancing productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collective in the country. Infrastructure support has been provided in the form of common facility centres (for testing, training centre, raw material depot, effluent treatment, complementing production processes, etc.) and infrastructural facilities in the new, existing industrial areas. Special emphasis has been given to micro, village-based enterprises, women owned enterprises and SC, ST units in the form of higher assistance.

Financial Assistance

Common Facility Centres

Creation of "tangible assets" such as Common Production / Processing Centre, Design Centers, Testing Facilities including Plug & Play Facilities. *GoI Assistance:* up to 80% of the maximum Project cost of Rs. 30 crores.

Infrastructure Development

Development of land, roads, drainage, power distribution etc. in new/ existing industrial (multi-product) areas/ estates/ Flatted Factory Complex. *GoI Assistance:* up to 70% of the maximum Project cost of Rs. 15 crores.

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7. MSME Schemes

The Ministry of MSME launched the Mission Solar Charkha in 2018-19 for implementation of 50 Solar Charkha Clusters across the country. The objective is to ensure inclusive growth by generation of employment, especially for women and youth and sustainable development through solar charkha cluster in the rural areas. Khadi and Village Industries Commission (KVIC) is the implementing agency.

It is an enterprise driven scheme and envisages the setting up of 'Solar Charkha Clusters' which will have spinners, weavers, stitchers and other skilled artisans. Each spinner will be given 2 charkhas of 10 spindles each. These solar charkhas are to be operated using solar power which is a renewable energy source. It will help in the development of Green Economy as it is an environmentally friendly programme. It will also generate sustainable employment for the artisans.

7. MSME Schemes

In February 2019, 8 different schemes of Khadi & Village Industries were merged under 2 schemes, i.e., 'Khadi Vikas Yojana' and 'Gramodyog Vikas Yojana'. The Scheme is applicable to Khadi Institutions (KIs) registered with KVIC or State Khadi and Village Industries Boards (KVIBs) and Khadi artisans between the age group of 18 to 55 years preferable for the people belonging to SCs/ STs/ Women/ Unemployed Youth/ BPL category etc.

Khadi Vikas Yojana

Khadi Vikas Yojana includes Market Promotion & Development Assistance (MPDA), Interest Subsidy Eligibility Certificate (ISEC), Khadi Reforms Development Programme (KRDP), Design House (DH), Artisan's Workshed Scheme, Strengthening Weak Infra, Aam Aadmi Bima Yojana, Khadi Grant and Khadi & VI S&T (Village Industries Science & Technology).

The **Market Promotion and Development Assistance (MPDA) Scheme** was launched as a unified scheme by merging different schemes implemented by the Khadi sector including publicity, marketing, market promotion, and marketing development assistance. Grant/subsidy was also provided for construction of Khadi plazas. The overall objective of the scheme is to ensure increased earnings for artisans.

The **Interest Subsidy Eligibility Certificate (ISEC) Scheme** is an important mechanism of funding khadi programmes undertaken by khadi institutions. It was introduced to mobilise funds from banking institutions for filling the gap between the actual fund requirements and availability of funds from budgetary sources. Under the ISEC Scheme, credit at a concessional rate of interest of 4% per annum for working capital is made available as per the requirement of the institutions. The difference between the actual lending rate and 4% is paid by the Central Government through KVIC to the lending banks.

The **Artisan's Workshed Scheme** envisages providing sufficient space and congenial environment to artisans for smooth and fatigue free working leading to enhanced production and increased earnings.

A new component **Rozgar Yukt Gaon** has also been launched under Khadi Vikas Yojana to introduce enterprise-based operation (in place of subsidy-led-model) in the Khadi sector and to create employment opportunities for thousands of new artisans.

Gramodyog Vikas Yojana

Gramodyog Vikas Yojana (GVY) focuses on promotion and development of the village industries through common facilities, Technological modernization, training etc. other support and services for promotion of village Industries.

The MSME approved a programme for the benefit of artisans involved in manufacturing of Agarbatti under the 'Gramodyog Vikas Yojana'. The programme aims to enhance the production of 'Agarbatti' in the country and create sustainable employment for the traditional Artisans. Scheme is designed by Khadi and Village Industries Commission (KVIC) on PPP mode.

7. MSME Schemes

The National SC-ST Hub, launched in 2016, provides professional support to SC, ST entrepreneurs to fulfill the obligations under the Central Government Public Procurement Policy for Micro and Small Enterprises Order 2012, adopt applicable business practices and leverage the Stand-up India initiatives. The Scheme is being implemented through National Small Industries Corporation Ltd. (NSIC). The functions of Hub include collection, collation and dissemination of information regarding SC, ST enterprises and entrepreneurs, capacity building among existing and prospective SC, ST entrepreneurs through skill training and EDPs, vendor development.

Features and Functions

The key features and functions of Hub are as follows:

- 25% subsidy on purchase of plant & machinery/ equipments or Rs. 25 lakhs whichever is less.
- Marketing and mentoring support through participation in exhibitions and vendor development programmes.
- Reimbursement of fees charged for bank loan processing, testing services, membership of Export Promotion Council, membership in Govt. promoted e-Commerce Portals, Single Point Registration Scheme of NSI.
- Collection, collation and dissemination of information regarding SC/ST enterprises and entrepreneurs to CPSEs.
- Free skill training and distribution of trade specific tool kits to trained candidates under the Skill Development programmes.

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7. MSME Schemes

Coir Vikas Yojana (CVY) is an umbrella scheme being implemented by the Coir Board for the Development of Coir Industry all over the country. The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promoting overall development of the coir industry and improving the living condition of the workers.

The sub-scheme/programmes under Coir Vikas Yojana are related to Science & Technology, Mahila Coir Yojana, Skill Upgradation, Export Market Promotion, Domestic Market Promotion, Trade and Industry related functional support services and welfare measures. This is being done to attract more entrepreneurs to the core sector by organizing workshops, seminars, exposure tour etc.

Mahila Coir Yojana

Mahila Coir Yojana is a women oriented, self-employment scheme being implemented by the Coir Board. The scheme is intended to provide training with stipend facilities and creation of self-employment opportunities to rural women artisans in regions producing coconut.

Coir Udyami Yojana (CUY)

It is a credit-linked subsidy scheme for setting up of coir units with project cost up to Rs 10 lakh plus one cycle of working capital, which shall not exceed 25% of the project cost. Working capital will not be considered for the purpose of subsidy. The scheme is implemented by the Coir Board, which has its head office at Kochi.

7. MSME Schemes

Interest Subvention Scheme for Incremental Credit to MSMEs 2018 offers 2% interest subvention on fresh or incremental loans maximum up to Rs. 1 crore to MSMEs, who have valid GSTN Number and Udhyog Aadhaar Number. SIDBI is the Nodal Agency for the implementation of the Scheme.

The Scheme aims at encouraging both manufacturing and service enterprises to increase their productivity. MSMEs already availing interest subvention under any of the Scheme of the Government are not eligible under the Scheme.

7. MSME Schemes

The Scheme for Formalization of Micro Food Processing Enterprises (FME) was launched as a part of AtmaNirbhar Bharat Abhiyan for providing financial, technical and business support for upgradation of existing micro food processing enterprises. The scheme will be implemented over a period of 5 years from 2020-21 to 2024-25 with an outlay of Rs 10,000 crore. It is a centrally sponsored scheme.

Features

The key features of the Scheme are as follows:

- About 2 lakh FME will be given direct financial assistance in the form of a credit linked subsidy.
- Existing Individual micro food processing units desirous of upgradation of their unit can avail credit-linked capital subsidy @35% of the eligible project cost with a maximum ceiling of Rs.10 lakh per unit.
- Seed capital @ Rs. 40,000 per SHG member would be provided for working capital and purchase of small tools.
- FPOs/ SHGs/ producer cooperatives would be provided credit linked grant of 35% for capital investment along the value chain.
- Support would be provided through credit linked grant @ 35% for development of common infrastructure including common processing facility, lab, warehouses etc.
- The Scheme adopts 'One District One Product'(ODOP) approach to be identified by the States.
- This scheme is implemented by Ministry of Food Processing Industries.

7. MSME Schemes

Rajiv Gandhi Udyami Mitra Yojana was implemented in 2008 with the objective of providing handholding support and assistance to potential first-generation entrepreneurs. However, in 2015, the scheme of RGUMY was modified and the handholding support component (Udyami Mitra) was discontinued.

7. MSME Schemes

Trade Related Entrepreneurship Development Assistance Scheme (TREAD) envisages economic empowerment of women by providing credit (through NGOs), training, development and counseling extension activities related to trades, products, services etc. The focus of the scheme is to promote self-employment and income generation activities for women mostly from SHG groups in the non-farm sector. There is a provision of the Government's grant upto 30% of Loan/credit sanctioned subject to maximum ceiling of Rs 30 Lakhs to NGOs as appraised by Lending Institutes/Banks for undertaking capacity building activities such as training, counselling, participation in exhibitions, establishment of new SHGs etc. and other components as approved by Bank/Steering Committee. It is being implemented by the Ministry of MSME.

MSME Samadhaan

This Portal empowers Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.

MSME Sambandh

The Portal helps in monitoring the implementation of the Public Procurement from MSEs by Central Public Sector Enterprises (CPSEs).

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7. MSME Schemes

The Government announced formulation of a National Manufacturing Competitiveness Programme (NMCP) in 2014 with an aim to support the Micro, Small and Medium Enterprises (MSMEs) in their endeavor to become competitive.

Some of the sub-schemes are given below.

Credit Linked Capital Subsidy for Technology Upgradation

CLCSS provides 15% subsidy for additional investment up to Rs 1 Cr for technology upgradation by MSMEs. Technology upgradation would ordinarily mean induction of state-of-the-art or near state-of-the- art technology. In the varying mosaic of technology covering more than 7,500 products in the Indian small-scale sector. Office of the Development Commissioner (MSME) is implementing the scheme through 12 Nodal Banks / Agencies.

ISO 9000/ISO 14001 Certification Reimbursement

In order to enhance the competitive strength of SMEs, the scheme provides incentives to those SMEs/ancillary undertakings that have acquired ISO 9000/ISO 14001/HACCP certification. The scheme envisages reimbursement of charges incurred for acquisition of ISO-9000/ISO-14001/HACCP certification to the extent of 75% of expenditure, subject to a maximum of ₹75,000 in each case.

Marketing Support/Assistance to MSMEs (Bar Code)

Under this scheme, the Ministry conducts seminars and reimburses registration fees for bar coding in order to encourage MSEs to use bar-codes. The nature of assistance include:

- Reimbursement of registration fee (one time and recurring for 3 years) for bar coding.
- Financial assistance for reimbursement of 75% of one-time registration fee (Under MSE-MDA) and 75% of annual recurring fee for first three years (Under NMCP) paid by MSEs to GS1 India for the use of bar coding.

Lean Manufacturing Competitiveness for MSMEs

The objective of the scheme is to enhance the manufacturing competitiveness of MSMEs through the application of various Lean Manufacturing (LM) techniques. Financial assistance is provided for implementation of lean manufacturing techniques, primarily the cost of lean manufacturing consultant (80% by GoI and 20% by beneficiaries). Lean Manufacturing Consultants (LMCs) will raise bills for services provided to Special Purpose Vehicle (SPV). SPV will, in turn, pay the first installment of 20% to the LMC and will obtain reimbursement from the NMIU. Thereafter, Ministry of MSME will transfer funds to the NMIU. SPV payments to LMC will be on a milestone basis in 5 tranches, each of 20% of the amount fixed.

Design Clinic for Design Expertise to MSMEs

The scheme is for increasing competitiveness of MSMEs through adoption of design and its learning. The nature of assistance include:

- Funding support of Rs 60,000 per seminar and 75% subject to a maximum of Rs 3.75 lakhs per workshop,
- To facilitate MSMEs to develop new Design strategies and or design related products and services through project interventions and consultancy.
- Government of India contribution @ 75% for micro, 60% for SMEs for the project range 15 lakhs to Rs 40 lakhs.

Technology and Quality Upgradation Support to MSMEs

The scheme advocates the use of energy efficient technologies (EETs) in manufacturing units so as to reduce the cost of production and adopt clean development mechanisms.

- Capacity building of MSME clusters for energy efficiency/clean development and related technologies. Funding support of up to 75% for awareness programmes, subject to a maximum of Rs 75,000 per programme.
- Implementation of energy efficient technologies in MSME units 75% of actual expenditure for cluster level energy audit and preparation of model DPR.
- Setting up of Carbon Credit Aggregation Centres. 50% of actual expenditure subject to maximum Rs 1.5 lakh per DPR towards preparation of subsequent detailed project reports for individual MSMEs on EET projects.
- Encouraging MSMEs to acquire product certification / licenses from National / International bodies. 75% of the actual expenditure, subject to a maximum of Rs 15.
- 25% of the project cost as subsidy by Government of India, balance amount to be funded through loan from SIDBI/banks/ financial Institutions. MSMEs are required to make the minimum contribution as required by the funding agency.

- 75% subsidy towards licensing of products to national/ international standards; ceiling Rs 1.5 lakh for obtaining product licensing/marking to National standards and Rs 2 lakhs for international standards.

Entrepreneurial and Managerial Development of SMEs through Incubators

The objective of the scheme is to provide early-stage funding to nurture innovative business ideas (new indigenous technology, processes, products, procedures, etc.) that could be commercialized in a year. The scheme provides financial assistance for setting up business incubators.

Enabling Manufacturing Sector to be Competitive through QMS&QTT

The scheme endeavours to sensitize and encourage MSEs to understand and adopt the latest Quality Management Standards (QMS) and Quality Technology Tools (QTT).

Building Awareness on Intellectual Property Rights (IPR)

The purpose of the scheme is to enhance awareness among the MSMEs about Intellectual Property Rights, to take measures for protecting their ideas and business strategies. Effective utilisation of IPR tools by MSMEs would also assist them in technology upgradation and enhancement of their competitiveness.

7. MSME Schemes

Some of the prominent Marketing promotion schemes are given below.

International Cooperation Scheme

The scheme provides for financial assistance to organizations with a view to facilitate visit/participation of MSMEs in international exhibitions/ trade fairs/ buyers-seller meets etc abroad and also for holding international conferences/ seminars/ workshops in India, for technology infusion, exploring business opportunities, joint ventures, export promotion etc.

The Scheme covers the following sub-components:

- **Sub-Component-I:** Market Development Assistance of MSMEs (MDA).
- **Sub-Component-II:** Capacity Building of First Time MSE Exporters (CBFTE).
- **Sub-Component-III:** Framework for International Market Intelligence Dissemination (IMID).

Marketing Assistance Scheme

The Marketing Assistance Scheme is being implemented through National Small Industries Corporation (NSIC), a PSU under the ministry of MSME. Under this scheme, MSMEs are provided support to market their products in the domestic as well as international markets by way of organizing/participating in various domestic & international exhibitions/trade fairs, buyer seller meets, intensive campaigns and other marketing events.

Marketing Assistance & Technology Upgradation (MATU)

The scheme assists in providing marketing platform to manufacturing MSMEs through participation in state/district level exhibitions/trade fairs organized by State/District Authorities/Associations.

Procurement and Marketing Support Scheme (P&MS)

This Scheme objective is to promote new market access initiatives, create awareness and educate MSMEs about various marketing relevant topics and development of marketability. The Scheme is implemented through DC(MSME), along with the network of its field offices, NSIC. The Scheme Components are: (a) Participation of individual MSMEs in domestic trade fairs/exhibitions across the country, (b) Organizing /participation in trade fairs/exhibitions by the Ministry, (c) Capacity Building of MSMEs in modern packing technique, (d) Development of Marketing Haats, (e) International/National Workshops/Seminars, (f) Vendor Development Programmes, (g) Awareness Programmes.

Market Development Assistance (MDA)

As part of a comprehensive policy package for MSMEs, MDA scheme was announced with a view to increasing the participation of unternat6iona & domestic fair and adoption of bar coding. MDA is offered in 3 forms as mentioned below:

(a) Participation in international exhibitions for registered small & micro manufacturing enterprises,

(b) Financial assistance for using Global Standards (GS1) in bar-coding; and,

(c) Recognize importance of barcoding and avail financial assistance through Office of the Development Commissioner Micro, Small and Medium Enterprises (DC-MSME).

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7. MSME Schemes

The assistance is provided to National level training institutions operating under the Ministry of MSME, namely, NIMSME, KVIC, Coir Board, Tool Rooms, NSIC & MGIRI in the form of capital grant for the purpose of creation and strengthening of infrastructure and support for entrepreneurship development and skill development training programmes.

Assistance is also provided to those State level EDIs (maximum assistance to Rs.3.00 crores) that enter into partnership with NIMSME for capacity development for undertaking studies & research on MSME issues. The scheme also provides a research grant up to Rs 15 lakhs on MSME issues. MSME Chair are also sanctioned in premier National academic institutions.

7. MSME Schemes

Entrepreneurship Development Programmes are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required for setting up MSEs. These EDPs are generally conducted in ITIs, Polytechnics, and other technical institutions, where skill is available to motivate them towards self-employment.

These programmes usually include workshops on skill development, management lessons, awareness-related and training programmes. Also note that, 20 % of the total targeted of ESDPs are conducted exclusively for weaker sections of the society i.e. (SC/ST/women and PH) with a stipend of Rs.500 per month per candidate under the Promotional Package for (Micro, Small Enterprises) MSEs.

7. MSME Schemes

The Honey Mission programme was launched by Khadi & Village Industries Commission (KVIC) as a part of **Sweet Revolution**, under the Ministry of MSME, during 2017-18 and is being implemented to promote Beekeeping activities and provide self-sustaining employment opportunities among farmers, Adivasis and unemployed youth in rural India, especially in economically backward and remote areas. Under the programme, beneficiaries are provided with bee boxes, live bee colonies, tool kits and training.

National Beekeeping & Honey Mission (NBHM) was announced as part of the AtmaNirbhar Bharat scheme. NBHM aims for the overall promotion & development of scientific beekeeping in the country to achieve the goal of ‘Sweet Revolution’ which is being implemented through National Bee Board (NBB).

7. MSME Schemes

The scheme was launched as part of the AatmaNirbhar Bharat Abhiyan package announced in May 2020 to mitigate the distress caused by coronavirus-induced lockdown, by providing credit to different sectors, especially Micro, Small and Medium Enterprises (MSMEs). The credit is provided in the form of a Guaranteed Emergency Credit Line (GECL) facility. It aims to provide 100% guarantee coverage to Banks and NBFCs to enable them to extend emergency credit facilities to Business Enterprises/ MSMEs in view of COVID-19 to meet their additional term loan/additional working capital requirements. 100% guarantee coverage is being provided by the National Credit Guarantee Trustee Company, whereas Banks and Non-Banking Financial Companies (NBFCs) provide loans. Interest rates under the Scheme are capped at 9.25% for banks and FIs, and at 14% for NBFCs. Borrowers with credit outstanding up to Rs. 50 crores as on 29th February 2020, and with an annual turnover of up to Rs. 250 crores (the turnover cap was removed post amendment to ECLGS 2.0 in November 2020) are eligible under the Scheme. In October 2021, the scheme was extended till March 2022.

ECLGS-1.0

ECLGS-1.0 refers to the scheme for providing 100% Guarantee to member lending institutions in respect of eligible credit facility extended by them to its borrowers whose total credit outstanding (fund based only) across all lending institutions and days past due as on 29th February 2020 was upto Rs.50 crore and upto 60 days respectively.

ECLGS-2.0

ECLGS-2.0 refers to the scheme for providing 100% Guarantee to member lending institutions in respect of eligible credit facility extended by them to its borrowers in the 26 sectors identified by the Kamath Committee on Resolution Framework (Report submitted in September 2020) and the Healthcare sector whose total credit outstanding (fund based only) across all lending institutions and days past due as on February 29, 2020 was above Rs.50 crore and not exceeding Rs.500 crore and upto 60 days respectively.

ECLGS-3.0

ECLGS-3.0 refers to the scheme for providing 100% guarantee to member lending institutions in respect of eligible credit facility extended by them to its borrowers in the Hospitality (hotels, restaurants, marriage halls, canteens etc.), Travel & Tourism, Leisure & Sporting and Civil Aviation (scheduled and non-scheduled airlines, chartered flight operators, air ambulances and airports) sectors whose days past due are upto 60 days as on 29.02.2020.

ECLGS 4.0

ECLGS 4.0 refers to the scheme for providing 100% guarantee to member lending institutions in respect of eligible credit facility extended by them to eligible hospitals/nursing homes/clinics/medical colleges / units engaged in manufacturing of liquid oxygen, oxygen cylinders etc. for setting up of on-site oxygen producing plants.

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7. MSME Schemes

The Ambedkar Hasthshilp Vikas Yojana aims at promoting Indian handicrafts by developing artisans’ clusters into professionally managed and self-reliant community enterprises on the principles of effective member participation and mutual cooperation. The scheme is run by the Ministry of Textiles.

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7. MSME Schemes

The Raising and Accelerating MSME Performance (RAMP) is a World Bank supported Central Sector Scheme aimed at improving access of MSMEs to market, finance and technology upgradation by enhancing the outreach of existing MoMSME schemes. The programme also aims at strengthening institutions at the Central and State level and enhancing Centre-State collaboration.

The scheme envisages benefiting more than 5.5 lakh MSMEs during the programme period (FY 2022-23 to 2026-27). The programme implementation will be through the State agencies.

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1. Introduction


Ministry of Science & Technology

Technology Development Board and Small Industries Development Bank of India forge strategic alliance to boost MSMEs through Technology-Focused Financing

Posted On: 17 NOV 2023 3:06PM by PIB Delhi

In a significant move to bolster the Micro, Small, and Medium Enterprise (MSME) sector in India, the Technology Development Board (TDB) and the Small Industries Development Bank of India (SIDBI) have formalized a Memorandum of Understanding (MoU) to facilitate easier access to credit for enterprises engaged in the development and commercial application of indigenous or imported technology.

Through this MoU, TDB and SIDBI have entered into a credit alliance, wherein TDB and SIDBI shall refer additional funding needs of companies they have previously funded to each other. With dedicated key contacts, both organizations will streamline coordination for seamless referral exchange. TDB and SIDBI will also provide financial support to eligible MSMEs, following their respective policy guidelines.

Institutional Finance to Small Industries plays a vital role in promoting entrepreneurship and supporting the growth of the small-scale sector in India. Since small industries often face difficulty in raising funds through traditional sources, financial institutions provide credit facilities, working capital, and long-term loans to meet their requirements. These institutions not only supply capital but also extend technical guidance, training, and support services to strengthen small industries and make them more competitive.

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2. Development Finance Institutions (DFIs)

Development Finance Institutions (DFIs) are specialized institutions aimed at fulfilling certain policy objectives of providing finance to those market segments that are unlikely to be funded by commercial financial sector.

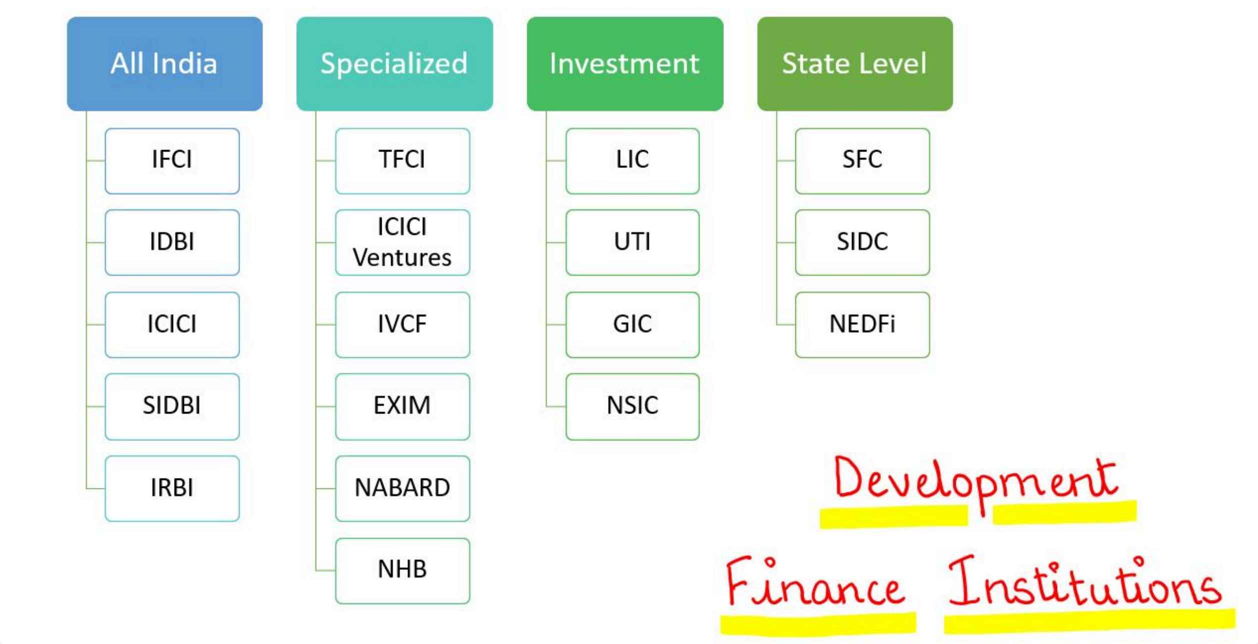
The importance of these DFIs has come to the fore due to the economic disruptions caused by COVID-19. During economic disruptions caused by COVID-19, DFIs – on a national, regional and multilateral level – have played an important role in enabling economic recovery. DFIs have emerged as a source of finance and preferred vehicles to deliver financial stimulus support provided by the governments to support struggling industries, invest in necessary infrastructure and lead the way out of a recession.

Categories of DFIs

A wide variety of Development financial institutions have been set up at the national and state levels. These institutions cater to the diverse financial requirements of small industries.

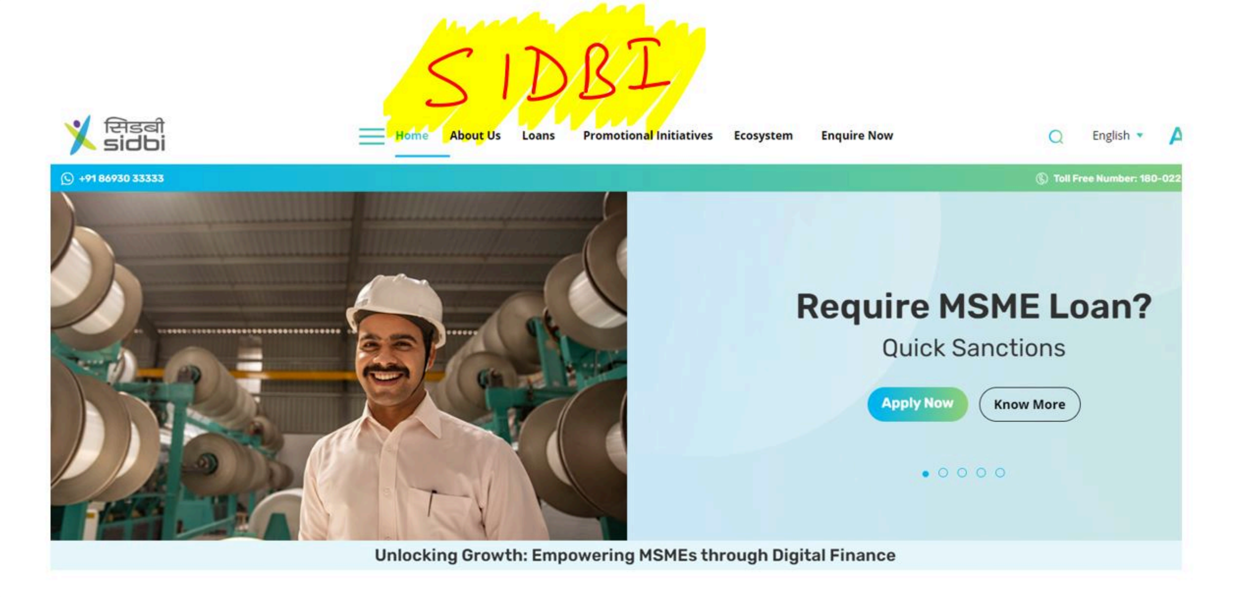
Development Finance Institutions can be categorized as follows.

- National Development Banks such as IDBI, SIDBI, ICICI, IFCI, IRBI etc.
- Sector-specific financial institutions such as TFCI, EXIM Bank, NABARD, IVCF, NHB etc.
- Investment Institutions such as LIC, GIC, UTI etc.
- State-level institutions such as State Finance Corporations, SIDC etc.



The role of some of the prominent Development Finance Institutions is discussed next.

3. Small Industries Development Bank of India



The Small Industries Development Bank of India (SIDBI) was set up by the Government of India in April 1990, as a wholly owned subsidiary of IDBI. Head office of SIDBI is in Lucknow. It is the principal financial institution for promotion, financing and development of Micro, Small and Medium Enterprises (MSME) sector. SIDBI has also floated several other entities for related activities.

Credit Guarantee Fund Trust for Micro and Small Enterprises provides guarantees to banks for collateral-free loans extended to SMEs.

The various initiatives of SIDBI concerning strengthening of MSMEs are discussed next.

3. Small Industries Development Bank of India

The various initiatives of SIDBI concerning strengthening of MSMEs are discussed below.

SIDBI Venture Capital Limited

SIDBI Venture Capital Limited (SVCL) is a venture capital company focused at SMEs. SVCL incorporated in 1999, is an investment management company and a wholly owned subsidiary of SIDBI. SVCL has managed funds focussed on different themes including Startups/ early stage technology businesses, manufacturing SMEs, service entities, agri businesses, financial inclusion companies, etc.

Technology Development & Modernisation Fund

SIDBI has set up Technology Development & Modernisation Fund (TDMF) scheme for direct assistance of small scale industries to encourage existing industrial units in the sector, to modernise their production facilities and adopt improved and updated technology so as to strengthen their export capabilities.

National Equity Fund

National Equity Fund (NEF) under SIDBI provides equity type assistance to SSI units, tiny units at 5% service charges.

Small Industries Development Fund

SIDBI also administers Small Industries Development Fund (SIDF), which provides refinance assistance for development, expansion, modernisation, rehabilitation of SSIs.

Mahila Udyam Nidhi

Another SIDBI initiative is Mahila Udyam Nidhi (MUN) Scheme that provides equity support to women entrepreneurs for setting up projects in Tiny Sector.

Pradhan Mantri MUDRA Yojana

The Pradhan Mantri MUDRA Yojana (PMMY) was launched in 2015 for providing loans upto Rs 10 lakh to the non-corporate, non-farm small/micro enterprises. These loans are classified as MUDRA loans under PMMY. These loans are given by Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs. The borrower can approach any of the lending institutions mentioned above or can apply online through Udyami Mitra Portal. Under the aegis of PMMY, MUDRA has created three products namely:

- **Shishu:** covering loans up to Rs 50,000
- **Kishor:** covering loans above Rs 50,000 and up to Rs. 5 lakh
- **Tarun:** covering loans above Rs 5 lakh and up to Rs. 10 lakh

Micro Units Development & Refinance Agency Limited (MUDRA) has been set up as a wholly owned subsidiary of SIDBI for “funding the unfunded” micro enterprises in the country.

Receivables Exchange of India Limited

The Receivables Exchange of India Limited (RXIL) was set up in 2016 as a joint venture of SIDBI and National Stock Exchange of India Limited (NSE), with an objective to operate India’s First Trade Receivables Discounting System (TReDS) - an online platform for financing of receivables of Micro, Small & Medium Enterprises. RXIL commenced operations on January 09, 2017.

India SME Asset Reconstruction Company Limited

The India SME Asset Reconstruction Company Limited (ISARC) was incorporated in 2008 by SIDBI, in association with leading Public Sector Banks as the country’s first Asset Reconstruction Company. It commenced business operations in 2009, with the principal objective to acquire non-performing assets (NPAs), primarily from MSMEs, and accelerate the restructuring of potentially viable units and liquidation of unviable units, so that productive use of the assets is maximized.

India SME Technology Services Limited

The India SME Technology Services Limited (ISTSL) was set up in November 2005 by SIDBI along with Indian Bank, Oriental Bank of Commerce, Indian Overseas Bank and State Bank of India with the primary objective to strengthen and accelerate the process of technological modernization in the MSME sector.

ISTSL is channel partner for Ministry of New and Renewable Energy (MNRE) prestigious solar roof top project "gird connected rooftop and small power plants programme" providing project management consultancy services for implementation of renewable energy (especially solar rooftop PV system projects).

Fund of Funds for Start-ups

In line with the Start-up India Action Plan, the Government established Fund of Funds for Start-ups (FFS) at SIDBI for contribution to various Alternative Investment Funds (AIFs) with a corpus of Rs 10,000 crore. Introduced with a focused objective of supporting development and growth of innovation driven enterprises, the Fund of Funds (FFS) facilitates funding needs for Start-ups through participation in capital of SEBI registered Venture Funds. Another similar initiative is India Aspiration Fund (IAF).

SIDBI Start-Up Mitra

The SIDBI Start-Up Mitra is a digital initiative that address gaps in the start-up ecosystem. The portal was launched in 2016. It acts as a virtual platform to bring together all stakeholders, start-up entrepreneurs, incubators, investors (Angel networks / Venture Capital Funds), industry bodies, mentors /advisors and banks to meet the financing and developmental needs of the early stage start-ups and enterprises.

SRIJAN Scheme

The TIFAC (Technology Information, Forecasting and Assessment Council) created a Revolving Fund in 2010 for facilitating development, demonstration and commercialization of technology innovation projects and placed it with SIDBI to provide assistance to MSMEs for development, up-scaling, demonstration and commercialization of innovative technology based projects. The scheme has been named SRIJAN. The programme supports MSMEs towards development, up-scaling, demonstration and commercialization of innovative technology based projects by providing developmental loans at flexible terms & interest rate to encourage / promote development / innovation of new technology / process / product and its commercialization. Currently, the scheme supports upto 80% of project cost, upto a maximum of Rs 100 lakhs, while offering selective assistance in case of costs above Rs 100 lakhs.

SIDBI Make in India Soft Loan Fund

The SIDBI Make in India Soft Loan Fund for Micro Small & Medium Enterprises (SMILE) was launched during the FY 2015-16 as Rs 10,000 crore fund by SIDBI, in line with the Government's ambitious 'Make in India' initiative. The target sectors under SMILE include all the identified 25 Make in India sectors as indicated by the GoI for the Make in India Programme. The objective of the scheme is to offer soft loans in the nature of quasi-equity so as to meet the required debt-equity ratio to facilitate the term loan on relatively soft terms for MSME's. Loans extended under the scheme cannot be used for repayment of earlier loans.

MSME Receivable Finance Scheme (MSME RFS)

With a strong understanding of the significance of speedy receivables for the Financial Health of a Micro Small and Medium Enterprises, SIDBI offers solutions that help mitigate the problem of delayed payments to MSME's with respect to their credit sales to large purchaser companies by offering them finance against bills of exchange/Invoices arising out of such sales. The objective is to facilitate speedy recovery of payments for MSME's through a series of thoughtful schemes that help improve their cash flow / liquidity.

SME Rating Agency

SME Rating Agency (SMERA) of India Limited provides composite ratings to SMEs. SMERA is a joint initiative of SIDBI and Credit Analysis and Research Limited (CARE).

CriSidEx

Launched in February 2018, CriSidEx, is India's first Sentiment Index for Micro and Small Enterprises (MSEs), developed jointly by CRISIL & SIDBI. It is a composite index based on a diffusion index of 8 parameters and measures MSE business sentiment on a scale of 0 (extremely negative) to 200 (extremely positive).

Other Schemes of SIDBI

Other Schemes of SIDBI are as follows.

- Working Capital Assistance to MSMEs Objective
- Secured Business Loans for MSMEs (SBL)
- Inland Letter of Credit (INLC)
- Guarantee Schemes for MSEs
- General Purpose Term Loan.

4. Other Development Finance Institutions

The Development Finance Institutions (DFIs) other than SIDBI are discussed next one by one.

4. Other Development Finance Institutions

The Industrial Finance Corporation of India Ltd (IFCI Ltd) was the first development finance institution set up in 1948 under the IFCI Act in order to pioneer long-term institutional credit to medium and large industries. It is public sector NBFC. It aims to provide financial assistance to industry by way of rupee and foreign currency loans, underwrites/subscribes the issue of stocks, shares, bonds and debentures of industrial concerns, etc.

The IFCI Group has the following subsidiaries:

- Stock Holding Corporation of India Ltd.
- IFCI Venture Capital Fund Ltd.
- IFCI Factors Ltd.
- IFCI Infrastructure Development Ltd.
- IFCI Financial Services Ltd.
- MPCON Ltd.
- Management Development Institute and Institute of Leadership Development.

4. Other Development Finance Institutions

The Industrial Development Bank of India (IDBI) was established in 1964 as an apex financial institution for industrial development in the country. It caters to the diversified needs of medium and large scale industries in the form of financial assistance, both direct and indirect. Direct assistance is provided by way of project loans, underwriting of and direct subscription to industrial securities, soft loans, technical refund loans, etc. While, indirect assistance is in the form of refinance facilities to industrial concerns.

Subsequently, in September 2004, the RBI incorporated IDBI as a Scheduled Bank.

4. Other Development Finance Institutions

The Industrial Credit and Investment Corporation of India was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a Development Financial Institution (DFI) for providing medium-term and long-term project financing to Indian businesses. In 2002, ICICI was merged with the ICICI Bank, thus converting it from DFI to a Universal Bank.

4. Other Development Finance Institutions

The Industrial Reconstruction Corporation of India Ltd., set up in 1971 for rehabilitation of sick industrial companies, was reconstituted as Industrial Reconstruction Bank of India (IRBI) in 1985 under the IRBI Act, 1984. With a view to converting the institution into a full-fledged development financial institution, IRBI was incorporated under the Companies Act 1956, as Industrial Investment Bank of India Ltd. (IIBI) in March 1997. The IIBI was closed down in 2012.

4. Other Development Finance Institutions

Shipping credit and Investment Company of India Ltd. (SCICI) was incorporated as a public limited company in 1986 under the Companies Act, was notified as a public financial institution. It was the nodal agency for assisting shipping, fishing and related industries. The SCICI was merged with ICICI in 2013.

These are also some specialized institutions which have been set up to serve the increasing financial needs of commerce and trade in the area of venture capital, credit rating and leasing, etc.

4. Other Development Finance Institutions

Tourism Finance Corporation of India Ltd. (TFCI) has been set-up as an All India Financial Institution, pursuant to the recommendations of “National Committee on Tourism” set-up under the aegis of Planning Commission in 1988. The main object of setting-up the specialised financial institution was to expedite the growth of tourism infrastructure in the country by providing dedicated line of credit on long term basis to tourism related projects in the country.

4. Other Development Finance Institutions

Formerly known as Technology Development & Information Company of India Limited (TDICI), it was founded in 1988 as a joint venture with the Unit Trust of India. Subsequently, it became a fully owned subsidiary of ICICI. It is a technology venture finance company, set up to sanction project finance for new technology ventures.

4. Other Development Finance Institutions

IVCF formerly known as Risk Capital & Technology Finance Corporation Ltd. (RCTC), is a subsidiary of IFCI Ltd. It was promoted with the objective of broadening entrepreneurial base in the country by facilitating funding to ventures involving innovative product/process/technology. The RCTC was set up in 1988 and was converted into IVCF in 1998. It was first venture capital fund of India. The Head office is in New Delhi.

4. Other Development Finance Institutions

The Export Import Bank of India was established in 1982. The Head office is in Mumbai. It is designed and developed as an apex institution in India for financing promotion and development of exports in the country. The EXIM Bank is a wholly-owned subsidiary of the Indian Government.

The key functions of EXIM bank are given below.

1. **Buyer's credit** – it is a credit facility programme that encourages Indian exporters to explore new regions across the globe. It also facilitates exports for SMEs by offering credit to overseas buyers to import goods from India.
2. **Corporate banking** – it offers a variety of financing programmes to augment the export-competitiveness of Indian companies.
3. **Lines of credit** – it offers extended a line of credit to Indian exporters to help them expand to new geographies and uses line of credit as an effective market-entry tool.
4. **Overseas investment finance** – it offers term loans to Indian companies for equity investments in their overseas joint ventures or wholly-owned subsidiaries.
5. **Project exports** – encourages project exports from India and helps Indian companies secure contracts abroad.

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4. Other Development Finance Institutions

National Bank for Agriculture and Rural Development (NABARD) was established on 12 July 1982 by an Act of the Parliament. NABARD, as a Development Bank, is mandated for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities. The Head office is in Mumbai. In April 2019, the control of NABARD has been handed over from the RBI to the Government.

The major functions of NABARD include promotion and development, refinancing, financing, planning and monitoring and supervision. They can be grouped into credit and non-credit functions.

Non-credit related functions

The non-credit related functions of NABARD are as follows.

- Credit Planning and Monitoring, Coordination with various agencies and institutions.
- Assist in policy formulation of Centre Government, RBI and State Governments.
- Institutional development and capacity building of Cooperatives and Regional Rural Banks (RRBs) to strengthen the rural credit delivery system.
- Statutory inspection of Regional Rural Banks (RRBs) and State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs) and voluntary inspection of State Cooperative Agriculture and Rural Development Banks (SCARDBs).
- Promotional and developmental initiatives.
- Supporting the financial inclusion efforts of Regional Rural Banks and Cooperative Banks
- Thrust on promotion of livelihood opportunities and Micro Enterprises

Credit related functions

The credit related functions of NABARD are as follows.

- Refinance to Rural Financial Institutions for investment credit (long term loan) and production and marketing credit (short term loan) purposes for farm and off-farm activities in rural areas.
- Loans to State Governments for developing rural infrastructure warehousing and strengthening of the Cooperative Credit Structure.

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4. Other Development Finance Institutions

The National Housing Policy, 1988 envisaged the setting up of National Housing Bank (NHB) as the apex level institution for housing. In pursuance of the above, the NHB was set up on July 9, 1988 under the National Housing Bank Act, 1987. The RBI contributed the entire paid-up capital. In May 2019, the RBI exited the NHB, thus making it a fully government-owned entity. The Head Office of NHB is at New Delhi.

The basic functions of the NHB are to operate as a principal agency to promote housing finance institutions both at local and regional levels.

Other Specialized financial institutions include Power Finance Corporation, Indian Railway Finance Corporation (1986), Indian Renewable Energy Development Agency (1987), etc.

These are the most popular form of financial intermediaries, which particularly cater to the needs of small savers and investors. They deploy their assets largely in marketable securities.

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4. Other Development Finance Institutions

Life Insurance Corporation of India (LIC) was established in 1956 as a wholly-owned corporation of the Government of India. It was formed by the Life Insurance Corporation Act, 1956, with the objective of spreading life insurance much more widely and in particular rural area.

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4. Other Development Finance Institutions

Unit Trust of India (UTI) was set up as a body corporate under the UTI Act, 1963, with a view to encourage savings and investment. It mobilises savings of small investors through sale of units and channelises them into corporate investments mainly by way of secondary capital market operations.

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4. Other Development Finance Institutions

General Insurance Corporation of India (GIC) was formed in pursuance of the General Insurance Business (Nationalisation) Act, 1972 (GIBNA), for the purpose of superintending, controlling and carrying on the business of general insurance or non-life insurance. Initially, GIC had 4 subsidiary, namely:

- National Insurance Company Ltd.
- New India Assurance Company Ltd.
- Oriental Insurance Company Ltd.
- United India Insurance Company Ltd.

But these branches were delinked from GIC in 2000.

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4. Other Development Finance Institutions

The National Small Industries Corporation Ltd (NSIC) was established in 1955 by the Government of India as per the recommendations of the International Planning Team of Ford Foundation, its objectives are to aid, assist, counsel, finance, protect and promote the industries in the country. The NSIC assists small scale industries through its various schemes such as hire purchase, equipment leasing, marketing, export, raw material assistance and single point registration scheme.

Several financial institutions have been set up at the State level which supplement the financial assistance provided by the All India Institutions. They act as a catalyst for promotion of investment and industrial development in the respective States.

The Government is the single largest buyer of a variety of goods. With a view to increase the share of purchases from the small-scale sector, the Government Stores Purchase Programme was launched in 1955-56. NSIC registers Micro & small Enterprises (MSEs) under Single Point Registration scheme (SPRS) for participation in Government Purchases. The units registered under **Single Point Registration Scheme** of NSIC are eligible to get the benefits under Public Procurement Policy for Micro & Small Enterprises (MSEs) Order 2012 as notified by the Government of India, Ministry of Micro Small & Medium Enterprises, New Delhi

To meet the credit requirements of MSME units, NSIC has entered into a Memorandum of Understanding with various Nationalized and Private Sector Banks. Through syndication with these banks, NSIC facilitates MSME in accessing credit support (fund based or non-fund based limits) from the banks. NSIC assists MSMEs in completion of the documentation for submitting the proposals to the banks and also does the follow up with the banks. These handholding supports are provided by NSIC without any cost to the MSMEs

The **Raw Material Assistance Scheme** aims at helping MSMEs by way of financing the purchase of Raw Material (both indigenous & imported). This gives an opportunity to MSMEs to focus better on manufacturing quality products.

Promotion of the product of Micro and Small Entrepreneurs is one of the major needs. In the present competitive scenario a need has been felt to facilitate Micro and Small Enterprises to market their goods/ services individually or collectively through 'Consortium'. Accordingly, the scheme for promoting the products of the MSEs has been reviewed in 2011 & named as **Consortia and Tender Marketing Scheme**.

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4. Other Development Finance Institutions

State Financial Corporations Act, 1951 was enacted by the Parliament to provide institutional framework for financing medium and small-scale industries, which fell outside the operational scope of the IFCI (Industrial Finance Corporation of India). After enactment of the Act, SFCs were set up in the various States over a period of time. The Act provides special role for the State Governments in the promotion and management of the affairs of the SFCs.

At present, there are 18 SFCs of which 17 were set up under the SFC Act, 1951 while the Tamil Nadu Industrial Investment Corporation Ltd. was incorporated under the Companies Act, 1956 but still functions as SFC.

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4. Other Development Finance Institutions

The State Industrial Development Corporations (SIDCs) have been established under the erstwhile Companies Act 1956, as wholly-owned undertakings of State Governments. They have been set up with the aim of promoting industrial development and providing financial assistance to small entrepreneurs.

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4. Other Development Finance Institutions

The North Eastern Development Finance Corporation Ltd (NEDFi) is a Public Limited Company registered under the Companies Act 1956. It was formed in 1995. It is notified as a Public Financial Institution under Section 4A of the said Act and was registered as an NBFC in 2002 with RBI. The shareholders of the Corporation are IDBI, SBI, LICI, SIDBI, ICICI, IFCI, SUUTI, GIC and its subsidiaries. NEDFi provides financial assistance to micro, small, medium and large enterprises for setting up industrial, infrastructure and agri-allied projects in the North Eastern Region of India and also provides microfinance through MFI/NGOs.

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4. Other Development Finance Institutions

The Entrepreneurship Development Institute of India (EDII), an autonomous body and not-for-profit institution, set up in 1983, is sponsored by apex financial institutions, namely the IDBI Bank Ltd, IFCI Ltd. ICICI Ltd and State Bank of India (SBI). EDII is located in Gandhinagar, Gujrat.

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4. Other Development Finance Institutions

The Federation of Associations of Small Industries of India (FASII) is a consequence of the visit of the Ford Foundation Team to India in 1953 which emphasised the need for a national apex body for Micro, Small, Village, Cottage and Rural Enterprises. FASII was ushered into existence in the year 1959 under the sponsorship of the Government of India. Padamshree A.R. Bhat, a Gandhian, was instrumental in the edifice of FASII. FASII’s Headquarter in New Delhi was inaugurated by the then President of India Dr. S. Radhakrishnan in the year 1963.

Since 1963, FASII has played an instrumental role by its own accord and with the help of Government of India to make contributions for advancement of the MSME Sector in India and pave the roadmap for helping India to be a Global Economic Power through following attempts:

- Reservation of products for exclusive manufacture in the Micro and Small enterprises sector.
- Reservation of products for exclusive purchase from the micro and small enterprises sector.
- Establishment of Small Industries Development Bank of India.
- Equal disbursement of scarce raw materials, term loans and working capital to Micro and Small enterprises
- Leading the Government of India to take notice of the potential of the Micro, Small and Medium Enterprises sector to form a new Ministry with the purpose of looking after the same.
- Playing a major role in helping to make the Micro, Small and Medium Enterprises Act of 2006.
- Establishment of Credit Guarantee Fund Trust for Micro and Small Enterprises.
- Making available concession for Micro and Small enterprises on the Excise and other taxation fronts.
- Helping the Government to formulate schemes on Credit, Marketing, Pollution Control, Technology Upgradation, Exports, Women Entrepreneurs, Ancillaries, Industrial Estates, Quality & Standards.

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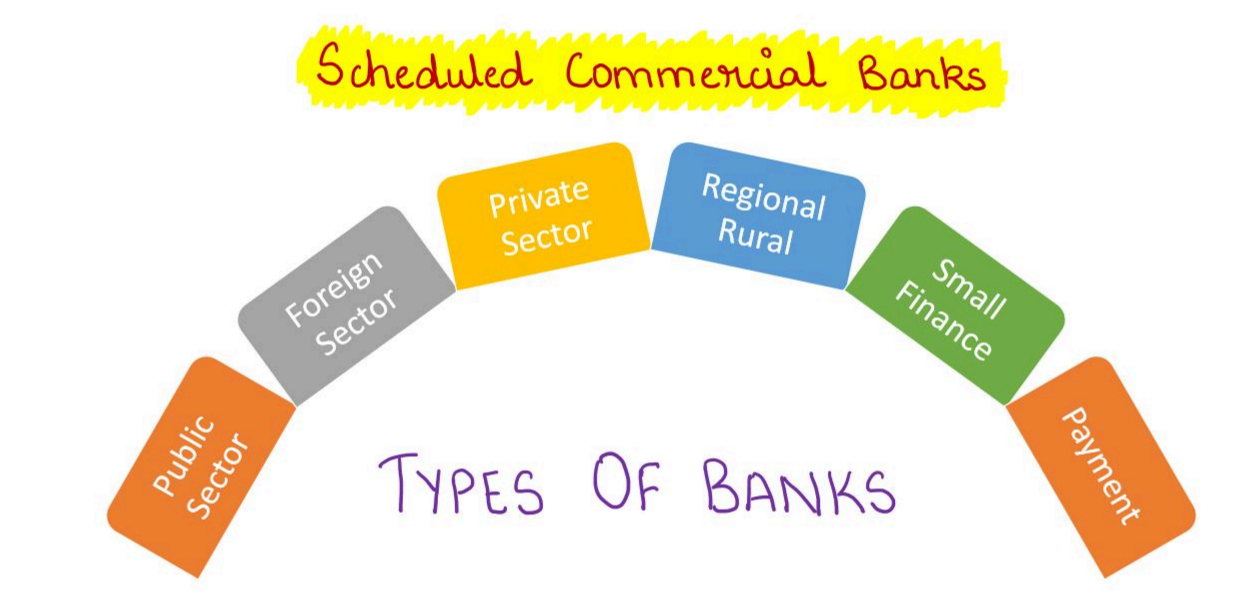
5. Scheduled Commercial Banks

Banks that are included in the Second Schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled commercial banks.



Scheduled Commercial banks includes public sector, private sector, foreign banks, Regional Rural Banks (RRB), Small Finance Banks and Payment Banks.

1. **Public Sector Banks** - Public Sector Banks are constituted under the State Bank of India Act, 1955 and Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.

2. **Foreign Banks** - Foreign Banks is a bank that has its headquarters outside India but runs its offices as a private entity at any other locations in India. Such banks are under an obligation to operate under the regulations provided by the Reserve Bank of India as well as the rule prescribed by the parent organization located outside India.

3. **Private Sector Banks** - Private Sector Banks are banking companies licensed to operate under Banking Regulation Act, 1949.

4. **Regional Rural Banks** - Regional Rural Banks (RRB) are the banks established under the Regional Rural Banks Act, 1976 with the aim of ensuring sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area notified by the Central Government. RRBs are owned jointly by the Government of India, the State Government and Sponsor Banks.

5. **Small Finance Banks** - Small Finance Banks (SFB) licensed under Banking Regulation Act, 1949 and created with an objective of furthering financial inclusion by primarily undertaking basic banking activities to un-served and underserved sections including small business units, small and marginal farmers, micro and small enterprises and other underserved sections.

6. **Payment Banks** - Payment Banks are public limited companies licensed under Banking Regulation Act, 1949, with specific licensing conditions restricting its activities mainly to acceptance of demand deposits and provision of payments and remittance services.

6. Priority sector lending

To ensure that adequate institutional credit reaches some of the vulnerable sectors of the economy, which otherwise may not be attractive for banks from the profitability point of view, the RBI mandates banks to lend a certain portion of their funds to specified sectors called priority sectors.

As per RBI guidelines, Priority sector lending include 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.

As updated by RBI in a circular published in December 2018, the Priority Sector includes the following categories:

- Agriculture,
- **Micro, Small and Medium Enterprises,**
- Export Credit,
- Education,
- Housing,
- Social Infrastructure,
- Renewable Energy, and
- Others.

The activities covered under Agriculture are classified under 3 sub-categories viz.: Farm credit, Agriculture infrastructure, and Ancillary activities.

6. Priority sector lending

The RBI has increased the mandatory Priority Sector Lending (PSL) target for all scheduled commercial banks from 40% to 40% of adjusted net bank credit (ANBC), a broader measure of bank credit. It includes loans, investments, and other advances.

The Target for Domestic commercial banks (excluding RRBs & SFBs) & foreign banks with 20 branches and above for “Total Priority Sector” is 40% of ANBC (Adjusted Net Bank Credit) or CEOBE (Credit Equivalent Amount of Off-Balance Sheet Exposure), whichever is higher. For Regional Rural Banks (RRBs) and Small Finance Banks (SFBs), this number is 75%.

Target for MSMEs is 7.5% of ANBC or CEOBE, whichever is higher.

This data is as per last update by RBI in July 2023.

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

- Loans up to Rs 50 crore to Startups, as per definition of MSME.
- Loans to entities involved in assisting the decentralized sector in the supply of inputs and marketing of output of artisans, village and cottage industries.
- Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- Loans sanctioned by banks to NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognized SRO for the sector for on-lending to MSME sector.
- Loans to registered NBFCs (other than MFIs) for on-lending to Micro & Small Enterprises.
- Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card and Weaver’s Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).
- Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time, will qualify as achievement of the target for lending to Micro Enterprises.
- Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

The overdrafts under the Pradhan Mantri Jan-Dhan Yojana (PMJDY) will also qualify as achievement of the target for lending to Micro Enterprises. It may be noted that in September 2018, Overdraft limit to PMJDY account holder has been raised to Rs 10,000 from Rs 5,000. The age limit of 18-60 years has also been revised to 18-65 years. There are no conditions attached for overdraft up to Rs. 2,000.

7. Co-operative Banks

The co-operative credit structure in India can be broadly divided into 2 types, viz., *Urban Co-operatives* that cater to the financial needs of the customers in urban and semi-urban areas and *Rural Co-operatives* that is primarily mandated to ensure flow of credit to agriculture sector in rural areas.

Cooperative banks primarily support the agricultural activities, some small-scale industries and self-employed workers.

Key Characteristics

The key Characteristics of Co-operative Institutions are as follows.

- They have restricted area of operation.
- The Board of Directors is elected by shareholders in a democratic manner.
- The borrowing from these institutions is restricted only to its members.
- There is share linking to borrowing, viz., a part of the amount borrowed will be contributed to the share capital of the institution.
- Members can caste only one vote irrespective of the number of shares held.
- The shares of these institutions cannot be listed and traded.

The **Co-operative societies** appear at Entry 32 in the State List under the 7th Schedule to the Constitution of India. Hence, Co-operative Societies in India are a State subject. The Co-operative Credit Societies which are licensed to carry out banking activities function as a **co-operative bank** and are eligible to accept deposits from the public.

Urban co-operative banks and Rural co-operative banks are discussed next.

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7. Co-operative Banks

Though the Banking Regulation Act (BR Act) came into force in 1949, the banking laws were made applicable to co-operative societies only in March 1966 through an amendment to the BR Act, 1949.

The BR Act, 1949 defines Urban Co-operative Banks as a cooperative society, other than a primary agricultural credit society and satisfying the following conditions:

- the primary object or principal business of which is the transaction of banking business;
- the paid-up share capital and reserves of which are not less than Rs 1 lakh;
- the bye-laws of which do not permit admission of any other co-operative society as a member.

Urban Co-operative Banks (UCBs) are primarily registered as co-operative societies under the provisions of either the State Co-operative Societies Act of the State concerned or the Multi State Co-operative Societies Act, 2002 if the area of operation of the bank extends beyond the boundaries of one State. These banks are licenced by RBI to carry on banking business. Till sometime back, they were under the dual control of RBI and the Registrar of Co-operative Societies. The **Uni-State UCBs** were regulated by the Registrar of Co-operative Societies (RCS) of the respective State, whereas **Multi-State UCBs** were regulated by the Central Registrar of Co-operative Societies (CRCS).

On 27 June 2020, the President promulgated the Banking Regulation (Amendment) Ordinance, 2020. The Ordinance amended the Banking Regulation Act, 1949. As per this amendment, now the Urban Co-operative Banks (UCBs) and multi-state cooperative banks, are brought under supervisory powers of Reserve Bank of India (RBI). Note that this "duality of jurisdiction" has been abolished only for Urban Co-operative Banks (UCBs) and multi-state cooperative banks. All other types of Co-operatives are still under dual control. It means, there is no change in regulator of Rural co-operatives.

The Punjab and Maharashtra Cooperative (PMC) Bank scam in 2019 was the trigger point for the Government to amend Banking Regulation Act 1949, to bring in more efficiency in the functioning of cooperative banks in the country.

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7. Co-operative Banks

Rural credit co-operatives came into existence essentially as an institutional mechanism to provide credit to farmers at affordable cost and address the twin issues of rural indebtedness and poverty.

The **long-term co-operative credit structure** has the State Co-operative Agriculture and Rural Development Banks (SCARDBs) at the apex level and the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at the district or block level. These institutions were conceived with the objective of meeting long-term credit needs in agriculture and they are under the regulatory purview of National Bank for Agriculture and Rural Development (NABARD).

The **short term co-operative credit structure** (STCCS) of the country primarily meets the crop and working capital requirements of farmers and rural artisans. The pyramid of STCCS is primarily 3-tier and is federal in nature within a State. The apex level is the **State Co-operative Bank (StCB),** at the district level there are **District Central Co-operative banks (DCCBs)** and at the village level, there are **Primary Agricultural Credit Societies (PACS).** In some state, the structure is two-tiered.

The PACS are regulated and monitored by the respective State Registrar of Cooperative Societies. While regulation of State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) vests with Reserve Bank, their supervision is carried out by National Bank for Agriculture and Rural Development (NABARD). The regulation of StCBs and DCCBs by RBI are similar to those of UCBs.

At present, India's co-operative banking sector comprises of State Cooperative Banks (18 Scheduled and 14 Non-Scheduled State Cooperative Banks), Urban Cooperative Banks (54 Scheduled and 1528 Non-Scheduled Urban Cooperative Banks), and District Central Cooperative Banks (366).

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8. Micro Finance

The **Microfinance** refers to a banking or financial service that is offered by banks or other financial institutions to individuals who belong to the low-income or underprivileged sections of the society.

Microfinance can be in the form of loans, insurance, and savings deposits. It is very helpful to small-sized enterprise owners as well as entrepreneurs with low capital. They live in rural areas as well as in urban areas of India and do not have sufficient knowledge and access to take help from conventional sources of finance such as banks and investors.

In India, the microfinance operates through 2 channels:

1. Self Help Group – Bank Linkage Programme (SHG-BLP)
2. Micro Finance Institutions (MFI)

These are discussed next.

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8. Micro Finance

This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the Self Hlep Group (SHG) model, the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period, these SHGs are provided with bank loans generally for income generation purpose.

The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs and institutions like NABARD and SIDBI.

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8. Micro Finance

Those institutions which have microfinance as their main operation are known as Micro Finance Institutions (MFIs). A number of organizations with varied size and legal forms offer microfinance service. These institutions lend through the concept of **Joint Liability Group (JLG)**.

A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee.

The Indian microfinance sector witnessed tremendous growth over the last two decades, during which institutions were subject to little regulation. Some microfinance institutions were subject to prudential requirements; however no regulation addressed lending practices, pricing, or operations. The combination of minimal regulation and rapid sector growth led to an environment where customers were increasingly dissatisfied with microfinance services, culminating in the Andhra Pradesh crisis in the fall of 2010.

Due to low repayment rates, microfinance institutions, with exposure to Andhra Pradesh, suffered significant losses. Banks stopped lending to microfinance institutions all over India; for fear that a similar situation would occur elsewhere, resulting in a liquidity crunch for microfinance institutions, which are largely dependent on bank lending as a funding source. With the sector at a standstill, microfinance institutions, microfinance clients, banks, investors, and local governments were calling for new regulation to address the prominent issues of the sector.

The Reserve Bank of India (RBI) responded by appointing an RBI sub-committee know as the **Malegam Committee.** The Malegam Committee released their recommended regulations in January 2011.

The Reserve Bank of India issued guidelines for the lending operations of MFIs based on the Malegam Committee recommendations. A new class of financial organizations named as **NBFC–MFIs** was created subject to satisfying certain conditions regarding the capital to be employed, lending to members, cap on interest to be charged and margin to be retained, etc. As the loans extended to the MFIs by banks qualify for priority sector category subject to fulfillment of similar conditions, other MFIs also strived to follow these guidelines. RBI's upgraded regulations and guidelines on NBFC-MFIs and inclusion of loans to MFIs by banks under priority sector resulted in phenomenal growth of MFIs during the last few years.

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1. Introduction

Industrial sickness usually refers to a situation when an industrial firm performs poorly, incurs losses for several years and often defaults in its debt repayment obligations. The term encompasses a range of financial and operational challenges that threaten the overall health and survival of an industrial firm.

The **Reserve Bank of India** has defined a sick unit as one "which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as, current ratio is less than 1: 1 and there is worsening trend in debt-equity ratio."

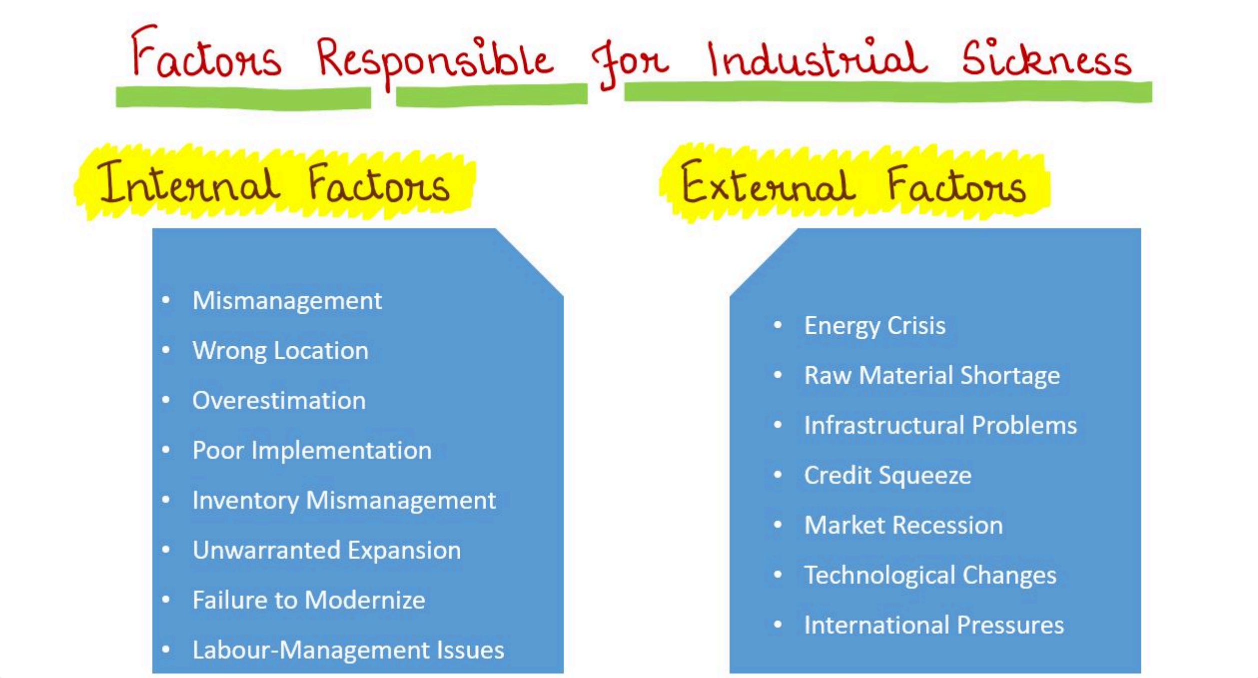
The **State Bank of India** has defined a sick unit as one "which fails to generate an internal surplus on a continuous basis and depends for its survival upon frequent infusion of funds."

Note that the enactment of the Sick Industrial Companies Act (SICA) in 1985 marked a pivotal step in addressing the prevalent issue of industrial sickness in India. The primary objective of SICA was to identify companies deemed unviable or on the verge of becoming financially distressed ("sick") and facilitate their recovery if feasible, or closure if not. This legislative initiative aimed to unlock investment tied up in unsustainable businesses, redirecting it towards more productive and viable ventures.

The **SICA 1985** defined a sick industrial unit as one that had existed for at least 5 years and had incurred accumulated losses equal to or exceeding its entire net worth at the end of any financial year.

The factors which may result in sickness of an industrial unit are given next.

2. Factors responsible for Industrial Sickness



There are 2 types of factors which may result in sickness of an industrial unit.

Internal Factors

Internal factors are those which arise within an organisation. These include:

- Mismanagement in various functional areas of a company like finance, production, marketing and personnel
- Wrong location of a unit
- Overestimation of demand and wrong dividend policy
- Poor implementation of projects which may be due to improper planning or managerial inefficiency
- Poor inventory management in respect of finished goods as well as inputs
- Unwarranted expansion and diversion of resources such as personal extravagances, excessive overheads, acquisition of unproductive fixed assets, etc.
- Failure to modernise the productive apparatus, change the product mix and other elements of marketing mix to suit the changing environment
- Poor labour-management relationship and associated low workers' morale and low productivity, strikes, lockouts, etc.

External Factors

External factors are those which take place outside an organisation. These include:

- Energy crisis arising out of power cuts or shortage of coal or oil
- Failure to achieve optimum capacity due to shortage of raw materials as a result of production set-backs in the supply industries, poor agricultural output because of natural reasons, changes in the import conditions, etc.
- Infrastructural problems like transport bottlenecks
- Credit squeeze
- Situations like market recession, changes in technology, etc.
- International pressures or circumstances, etc.

Industrial sickness may be caused by a combination of all such factors. It has several adverse consequences on the economy as a whole. Some of which may be enumerated as follows:

- It leads to loss of substantial revenue to the Government and enhances its public expenditure;
- It locks up necessary resources and funds in the sick unit. This also increases the non-performing assets (NPAs) of banks and financial institutions;
- It leads to loss of production and productivity in the economy;
- It aggravates the problem of unemployment in the economy;
- It vitiates the industrial atmosphere and leads to worker-management disputes, strikes, lock-outs, etc.;

- It undermines the public confidence in the functioning of the organised sector in the country which in turn affects the overall investment climate of the economy.

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3. Sick Industrial Companies Act 1985

In 1984, the **Tiwari Committee** submitted its report on industrial sickness in India. In its report, he identified the faulty management as the most important cause of sickness.

The most important piece of legislation dealing with industrial sickness was the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). It applies to industrial undertakings both in the public and private sectors. SICA pertains to the industries specified in the First Schedule to the Industries (Development and Regulation) Act, 1951, (IDR Act) subject to the exceptions specified in the Act.

It may be pointed out that the SICA, 1985 is largely based on the model bill submitted by the Tiwari Committee in its Report in 1983. Hence, the legal definition of sickness as given in the SICA, 1985 had the origin in the Tiwari Committee Report.

The definition of sick unit suggested by the Tiwari Committee had 3 ingredients viz.,

(i) cash loss for one financial year,

(ii) adverse current ratio and

(iii) the erosion of net worth by accumulated losses by 50%.

The basic rationale of enacting SICA was to determine sickness in the industrial units. It also aimed at expediting the revival of potentially viable units so as to make the investments in such units profitable. At the same time, to ensure the closure of unviable units so as to release the investments locked up in such units for productive use elsewhere.

Thus, the broad objectives of SICA were as follows.

- Timely detection of sick and potentially sick companies.
- Speedy determination by a body of experts of the preventive, ameliorative, remedial and other measures which need to be taken with respect to such companies.
- The expeditious enforcement of the measures so determined and for all matters connected therewith or incidental thereto.
- SICA provided for the constitution of two quasi-judicial bodies, that is, **Board for Industrial and Financial Reconstruction (BIFR)** and **Appellate Authority for Industrial and Financial Reconstruction (AAIFR)**.

The major constraint of SICA was that it was applicable only to sick industrial companies keeping away other companies which were in trading, service or other activities. The Act was modified in 1991 to include within its purview the Government companies by Industrial Companies (Special Provisions) Amendment Act, 1991.

However, the overall experience was not satisfactory because of various factors including non-applicability of SICA to non-industrial companies and small/ancillary companies, misuse of immunity provided under SICA, etc. In view of this, the **Insolvency and Bankruptcy Code, 2016** was notified on the May 28, 2016. At present, the SICA Act, 1985 is repealed and BIFR and AAIFR were dissolved.

The quasi-judicial bodies, BIFR and AAIFR are discussed briefly next.

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3. Sick Industrial Companies Act 1985

Board for Industrial and Financial Reconstruction (BIFR) was set up as an apex board to tackle industrial sickness and was entrusted with the work of taking appropriate measures for revival and rehabilitation of potentially sick undertakings and for liquidation of non-viable companies.

Appellate Authority for Industrial and Financial Reconstruction (AAIFR) was constituted for hearing the appeals against the orders of the BIFR.

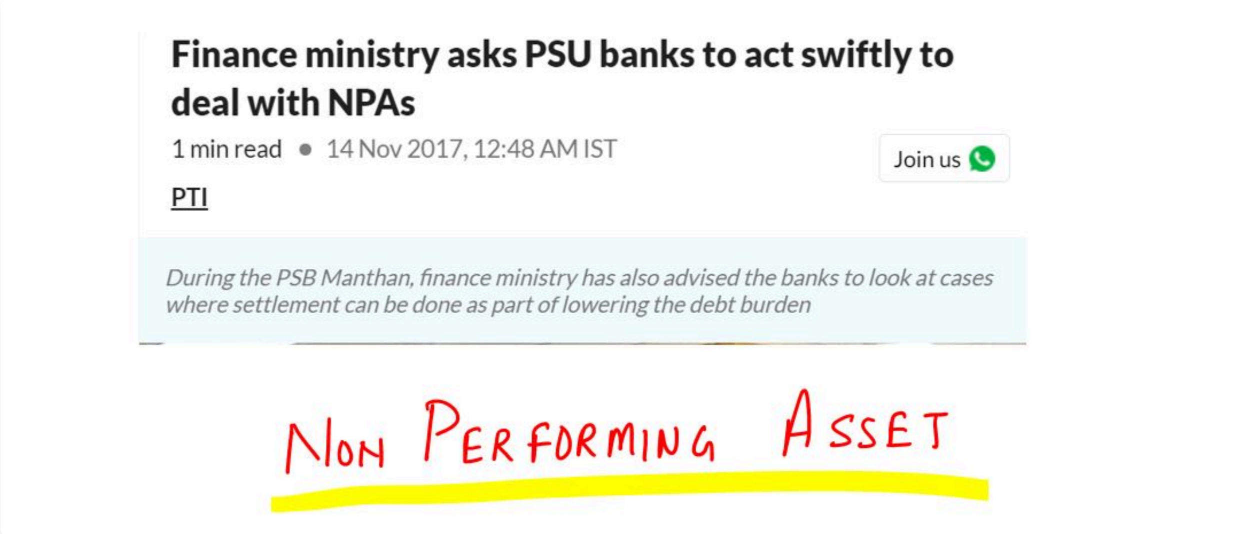
If the BIFR decides that it is not practicable for the sick company to make its net worth exceed the accumulated losses within a reasonable time and that it is necessary or expedient in the public interest to adopt all or any of the measures in relation to the said company, it may, as soon as may be, by order in writing, direct any operating agency specified in the order to prepare a scheme providing for such measures in relation to that company.

The measures may include:

- The financial reconstruction of the sick industrial company
- The proper management of the sick industrial company by change in or takeover of the management of the company
- The amalgamation of the sick industrial company with any other company (transferee company), or any other company with the sick industrial company (transferee company)
- The sale or lease of a part or whole of the sick industrial company
- Such other preventive, ameliorative and remedial measures as may be appropriate
- Such incidental, consequential or supplemental measures as may be necessary or expedient in connection with or for the purposes of the measures specified above.

On 1 December 2016, the Government dissolved BIFR and AAIFR and referred all proceedings to the National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) as per the provisions of Insolvency and Bankruptcy Code (IBC).

4. NPA Management



Finance ministry asks PSU banks to act swiftly to deal with NPAs

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During the PSB Manthan, finance ministry has also advised the banks to look at cases where settlement can be done as part of lowering the debt burden

NON PERFORMING ASSET

In the course of their business, banks lend and invest in various classes of assets, some of which may turn non-performing either due to the systemic factors such as economic downturn or idiosyncratic factors specific to the borrower. The Banks are required to objectively identify such stressed assets and take corrective action.

What is NPA

According to RBI guidelines, a *Non Performing Asset (NPA)* shall be a loan or an advance where:

- interest and/or instalment of principal remain overdue for a period of more than **90 days** in respect of a term loan,
- account remains 'out of order' for a period of more than **90 days**, in respect of an Overdraft/Cash Credit (OD/CC),
- bill remains overdue for a period of more than **90 days** in the case of bills purchased and discounted,
- interest and/or instalment of principal remains overdue for **two harvest seasons** but for a period not exceeding **two half years** in the case of an advance granted for agricultural purposes, and
- any amount to be received remains overdue for a period of more than **90 days** in respect of other accounts.

Classification of NPAs

Banks are required to classify nonperforming assets in one of the 3 categories according to how long the asset has been non-performing. A *sub-standard asset* is an asset classified as an NPA for less than 12 months. A *doubtful asset* is an asset that has been non-performing for more than 12 months. A *Loss asset* is an asset with losses identified by the bank, auditor, or inspector and have not been fully written off.

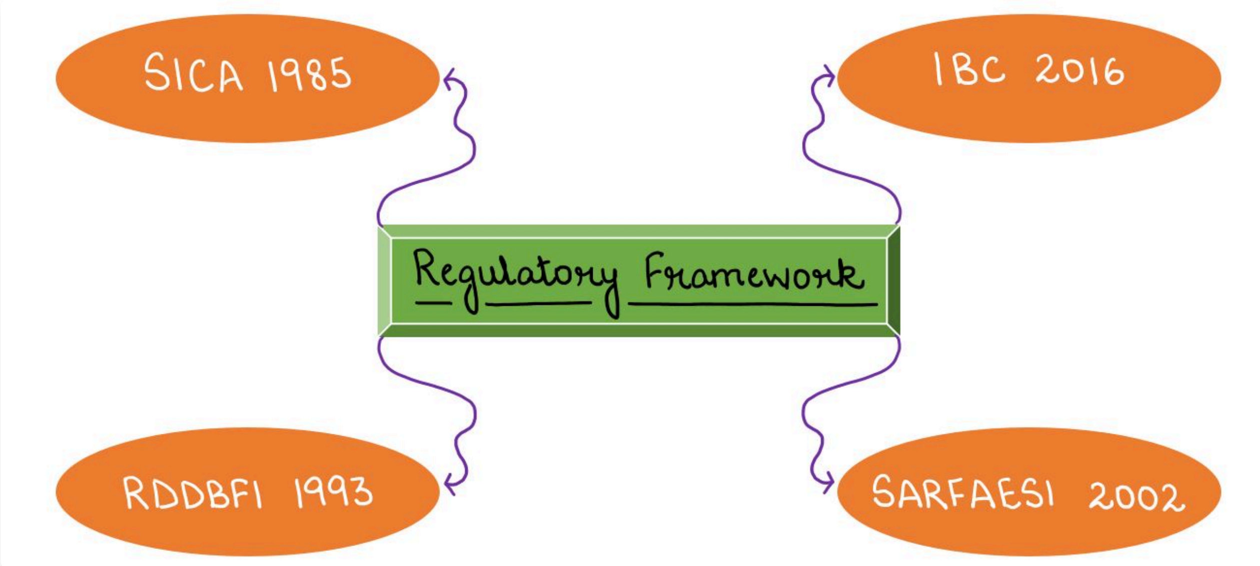
Lenders shall identify incipient stress in loan accounts, immediately on default, by classifying stressed assets as Special Mention Accounts (SMA) as per the following categories:

- Principal/Interest payment overdue between 1-30 days: **SMA-0**
- Principal/Interest payment overdue between 31-60 days: **SMA-1**
- Principal/Interest payment overdue between 61-90 days: **SMA-2**

Evergreening

When a borrower takes a new loan to pay off for older loan, it is called Evergreening.

5. Regulatory framework for handing stressed assets



There is a strong regulatory framework for handling stressed assets, which includes SICA 1985, RDDBFI Act 1993, SARFAESI Act 2002, IBC 2016 etc. along with multiple schemes framed by RBI to revitalize distressed assets.

The major elements of this framework (other than SICA) are discussed next.

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5. Regulatory framework for handing stressed assets

The banks and financial institution have experienced much difficulty in recovering their dues. The lack of efficient procedure for recovery of debts has significantly contributed towards the funds being blocked. Thus, the legislature enacted the **Recovery of Debts Due to Banks and Financial Institutions Act, 1993** (RDDBFI Act) for the purpose of establishing tribunals and appellate tribunals for expeditious adjudication and recovery of debts due to banks and financial institutions.

It must be noted that the DRT Act provides special rights to banks for the purpose of recovering debts. DRT stands for Debt Recovery Tribunal and DRAT stands for Debt Recovery Appellate Tribunal.

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5. Regulatory framework for handing stressed assets

Prior to the enactment of SARFAESI, the banks had to take recourse to the long legal route against the defaulting borrowers beginning from filling of claims in the courts. A lot of time was usually spent in getting decrees and execution thereof before the banks could make some recoveries. In the meantime, the promoters could seek the protection of BIFR and could also dilute the securities available to banks. The Debt Recovery Tribunals (DRTs) set up by the Government also did not prove to be of much help as these get gradually overburdened by the huge volume of cases referred to them. All along, the banks were feeling greatly handicapped in the absence of any powers for seizure of assets charged to them.

All these issues gave the passage for evolution of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

The SARFAESI Act was introduced to oversee the processes of securitisation, reconstruction of financial assets, and the enforcement of security interest, along with related matters. This law grants banks and financial institutions the authority to manage long-term assets, address issues like liquidity problems and asset liability mismatch, and enhance recovery by taking control of securities. It allows them to sell these securities and reduce non-performing assets through various recovery or reconstruction measures. Additionally, the Act permits the establishment of **asset reconstruction companies** with the power to possess secured assets from borrowers, including the right to transfer through lease, assignment, or sale, and manage the borrower's business.

It must be noted that enforcement of security interests depends on the nature of asset on which the security interest has been created by the lenders. For instance, security interest is created on shares of a company by means of creating a pledge on such shares; whereas, hypothecation is created on the physical assets of the company.

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5. Regulatory framework for handing stressed assets

In Jan 2014, the RBI came up with a Framework for Revitalising Distressed Assets. This framework primarily provides 3 ways of tackling the stressed assets – **Rectification, Restructuring and Recovery (3 Rs).** While the first two are meant for the purpose of revival of a stressed borrower, the last one is used when both of these fail to pass the feasibility test.

The **Strategic Debt Restructuring (SDR) scheme** was designed to deal with problem loans where promoters need to be replaced, whereas the **Scheme for Sustainable Structuring of Stressed Assets (S4A)** was an optional framework for the resolution of large stressed accounts without change of promoters.

Another Scheme was **Corporate Debt Restructuring (CDR)**, which was purely a contractual arrangement between the lender and the corporate. It thrived and met with success given the revised prudential norms on restructuring of advances. However, once prudential norms were withdrawn in 2015, the CDR mechanism also lost its purpose.

Another scheme was **5:25 scheme** i.e., "Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries". As per the 5:25 flexible structuring scheme, the banks were allowed to fix longer amortization period say 25 years, based on the economic life or concession period of the project, with periodic refinancing, say every 5 years.

The **Joint Lenders' Forums (JLFs)**, mandated that banks adopt measures for early identification to tackle stressed loans, giving them a jumpstart, especially in large and complex cases of corporate debt where creditors differed on a resolution process.

In Feb 2018, the RBI **abolished all schemes** including SDR, S4A, CDR, 5:25 scheme. The *Joint Lenders Forum, JLF* designed to resolve potential bad debts was also disbanded.

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5. Regulatory framework for handing stressed assets

The enactment of the **Insolvency and Bankruptcy Code, 2016 (IBC)** is a watershed development towards improving the credit culture. Prior to the IBC, India had multiple laws that governed various facets of a corporate rescue and/or insolvency process, without having a comprehensive legal framework that envisaged a holistic process applicable to troubled or defaulting companies.

The IBC provides for a single window, time-bound process for resolution of an asset with an explicit emphasis on promotion of entrepreneurship, maximisation of value of assets, and balancing the interests of all stakeholders. Insolvency is a situation when a company is unable to repay its debt. If a company defaults by Rs 1 lakh, a creditor (such as banks or suppliers) can initiate the insolvency resolution process.

Note that the process of insolvency and liquidation of corporate debtors under the IBC applies where the minimum default amount is Rs.1 crore only.

Being a time-bound process to resolve cases within 180 days extendable to 270 days, the IBC has received praise from the World Bank and IMF and has materially contributed to India's 30 place jump in 2018’s 'Ease of Doing Business' ranking.

IBC brings about a paradigm shift in the recovery and resolution process by introducing the concept of ‘creditor in control’ instead of ‘debtor in possession’. This encourages value enhancement of the corporate debtor as once this process starts, the board cedes control of the company, and insolvency professionals with the help of advisors start managing the company. Creditors now have guidelines that clarify details till the last mile, including distribution of recovery proceeds.

The judicial interpretation of the IBC is done by the National Company Law Tribunal (NCLT), National Company Law Appellate Tribunal (NCLAT) and finally by the Supreme Court (SC) on procedural and substantive matters.

A **Committee of Creditors** is constituted to decide regarding the insolvency resolution. The Committee consists of financial creditors of the insolvent company. **Financial creditors** include creditors who had given loans to the company. Other creditors such as suppliers and employees to whom the company owes money are called **operational creditors**. The IBC was amended in 2018 to classify *allottees of real estate projects* as financial creditors.

The Committee may consider a resolution plan which typically provides for payoff of debt by merger, acquisition, or restructuring of the company, and may require creditors to forgo some amount. If a resolution plan is not accepted by the Committee, the assets of the company are liquidated. In case of liquidation, proceeds from the sale of assets are used to settle the claims as per a specified order.

Insolvency and Bankruptcy Board of India (IBBI)

The *Insolvency and Bankruptcy Board of India, IBBI* is a regulator and was established in 2016 under the Insolvency and Bankruptcy Code, 2016. It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies, Insolvency Professional Entities and Information Utilities. It writes and enforces rules for processes, namely, corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code. The administrative control of IBBI is with the Ministry of Corporate Affairs.

The IBBI has a chairman, 1 nominated member form RBI and 8 other members nominated by the Government.

5. Regulatory framework for handing stressed assets

SASHAKT stands for strengthening and the whole objective was to strengthen the credit capacity, credit culture and portfolio of public sector banks.

Project Sashakt was proposed by a panel led by PNB chairman Sunil Mehta. It proposes a 5-pronged strategy to deal with non-performing assets (NPAs). It also proposes the Inter-Creditor Agreement (ICA) framework, which envisages effective communication among lenders and lays down some ground rules for multiple-banking arrangements and consortium lending, which now be taken to boards of all the banks. These are as follows.

- Bad loans of up to ₹ 50 crore will be managed at the bank level, with a deadline of 90 days.
- For bad loans of ₹ 50-500 crore, banks will enter an inter-creditor agreement, authorizing the lead bank to implement a resolution plan in 180 days, or refer the asset to NCLT.
- For loans above ₹ 500 crore, the panel recommended an independent asset management company (AMC), supported by institutional funding through the Alternative Investment Fund (AIF).

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5. Regulatory framework for handing stressed assets

In June 2019, the RBI issued a Prudential Framework for Resolution of Stressed Assets, which give lenders 30 days to review a borrower account before labelling it as a non-performing asset (NPA) in case of default. This framework replaces the earlier circular which mandated lenders to start resolution even if there was 1-day default. Also, as per this framework, it is voluntary of banks to go for insolvency procedures compared to the previous norm – banks have to (mandatorily) refer defaults to the NCLT, and resolution should be completed within 180 days.

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5. Regulatory framework for handing stressed assets

The RBI has initiated to set up a digital **Public Credit Registry (PCR)** to capture details of all borrowers, including willful defaulters and also the pending legal suits in order to check financial delinquencies. The PCR will also include data from entities like market regulator SEBI, the Ministry of Corporate Affairs, Goods and Service Tax Network (GSTN) and the Insolvency and Bankruptcy Board of India (IBBI) to enable the banks and financial institutions to get 360 degree profile of existing and prospective borrowers on a real-time basis.

RBI had constituted a **High Level Task Force** (Chair: Mr. Y. M. Deosthalee) to assess the need and scope of setting up a PCR in India. The task force submitted its report on April 4, 2018.

The credit information infrastructure in India currently comprises of:

- Credit Scores by the Credit Information Companies (CICs)
- Central Repository of Information on Large Credits (CRILC) housed in RBI (covers all loans over Rs 5 Crores)
- Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) under SARFAESI Act 2002.
- Information Utilities (IU) housed in National e-Governance Services Limited (NeSL) under IBC 2016
- Database maintained by the Ministry of Corporate Affairs (MCA).

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6. Government efforts for Sick MSE units

In recognition of the problems being faced by the Micro and Small Enterprises (MSE) particularly with respect to rehabilitation of potentially viable sick units, the Reserve Bank had constituted a **Working Group** under the Chairmanship of Dr. K. C. Chakrabarty, then Chairman & Managing Director, Punjab National Bank. The Working Group, among others, recommended a change in the definition of sickness and a procedure for assessing the viability of sick MSE units, with a view to hasten the process of identification of a MSE unit as sick.

The RBI published a detailed circular to banks in November 2012, which is summarized next.

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6. Government efforts for Sick MSE units

Timely and adequate assistance to MSEs and rehabilitation effort should begin on a proactive basis when early signs of sickness are detected. This stage would be termed as 'handholding stage' as defined below. This will ensure intervention by banks immediately after detecting early symptoms of sickness so that sickness can be arrested at an early stage.

An account may be treated to have reached the **handholding stage**; if any of the following events are triggered:

1. There is delay in commencement of commercial production by more than 6 months for reasons beyond the control of the promoters;
2. The company incurs losses for 2 years or cash loss for 1 year, beyond the accepted timeframe;
3. The capacity utilization is less than 50% of the projected level in terms of quantity or the sales are less than 50% of the projected level in terms of value during a year.

The bank branches should take timely remedial action which includes an enquiry into the operations of the unit and proper scrutiny of accounts, providing guidance/counselling services, timely financial assistance as per established need and also helping the unit in sorting out difficulties which are non-financial in nature or requiring assistance from other agencies.

In order to ensure timeliness for banks for taking remedial action/measures in 'handholding stage', the handholding support to such units should be undertaken within a maximum period of 2 months of identification of such units.

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6. Government efforts for Sick MSE units

A Micro or Small Enterprise (as defined in the MSMED Act 2006) may be said to have become **Sick**, if

- any of the borrowal account of the enterprise remains NPA for 3 months or more, **OR**
- there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year.

This would enable banks to take timely action in identification of sick units for their revival.

The MSE units which could not be revived after intervention by banks at the 'handholding stage' need to be classified as sick subject to complying with any one of the two conditions as laid down above and based on a viability study the viable/potentially viable units be provided rehabilitation package.

The rehabilitation package should be fully implemented within 6 months from the date the unit is declared as 'potentially viable' / 'viable'. While identifying and implementing the rehabilitation package, banks are advised to do 'holding operation' for a period of 6 months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such 'holding operation'.

Units becoming sick on account of willful mismanagement, willful default, unauthorized diversion of funds, disputes among partners / promoters, etc. should not be classified as sick units and accordingly should not be eligible for any relief and concessions. In such cases, steps should be taken for recovery of bank's dues. The declaration of a borrower as a willful defaulter should be done strictly in accordance with the extant RBI guidelines.

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6. Government efforts for Sick MSE units

The decision on viability of the unit should be taken at the earliest but not later than 3 months of becoming sick under any circumstances.

The following procedure should be adopted by the banks before declaring any unit as unviable:

1. A unit should be declared unviable only if the viability status is evidenced by a viability study. However, it may not be feasible to conduct viability study in very small units and will only increase paperwork. As such for micro (manufacturing) enterprises, having investment in plant and machinery up to Rs 5 lakh and micro (service) enterprises having investment in equipment up to Rs 2 lakh, the Branch Manager may take a decision on viability and record the same, along with the justification.
2. The declaration of the unit as unviable, as evidenced by the viability study, should have the approval of the next higher authority/ present sanctioning authority for both micro and small units. In case such a unit is declared unviable, an opportunity should be given to the unit to present the case before the next higher authority. The modalities for presenting the case to the next higher authority may be worked out by the banks in terms of their Board approved policies in this regard.
3. The next higher authority should take such decision only after giving an opportunity to the promoters of the unit to present their case.
4. For sick units declared unviable, with credit facilities of Rs 1 crore and above, a Committee approach may be adopted. A Committee comprising of senior official of the bank may examine such proposals. A Committee approach will improve the quality of decision as collective wisdom of the members shall be utilized, especially while taking decision on rehabilitation proposals.
5. Decision of the above higher authority should be informed to the promoters in writing. The above process should be completed in a time bound manner not later than 3 months.

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7. Revised framework for Revival of MSMEs

The **RBI has published a revised detailed circular** to banks in **2015** (Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs), which is summarized below.

Eligibility

The framework (published in 2015) shall be applicable to MSMEs having loan limits up to Rs 25 crore.

Identification by banks or creditors

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 3 sub-categories under the Special Mention Account (SMA) categories:

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

On the basis of the above early warning signals, the branch maintaining the account should consider forwarding the stressed accounts with aggregate loan limits above Rs 10 lakh to the "Committee" **within 5 working days** for a suitable corrective action plan (CAP).

Identification by the Borrower Enterprise

Any MSME borrower may voluntarily initiate proceedings under this Framework, if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts. When such a request is received by lender, the account with aggregate loan limits above Rs 10 lakh should be referred to the Committee. The Committee should convene its meeting at the earliest **but not later than 5 working days** from the receipt of the application, to examine the account for a suitable CAP. The accounts with aggregate loan limit up to Rs 10 lakh may be dealt with by the branch manager / designated official for a suitable CAP.

Committees for Stressed Micro, Small and Medium Enterprises

In order to enable faster resolution of stress in an MSME account, every bank shall form "District Level" Committees for Stressed Micro, Small and Medium Enterprises as per the following arrangements. These Committees will be Standing Committees. The Composition of the Committee shall be as under:

(a) The regional or zonal head of the convener bank, shall be the Chairperson of the Committee;

(b) Officer-in-charge of the Micro, Small and Medium Enterprises Credit Department of the convener bank shall be the member and convener of the Committee;

(c) One independent external expert with expertise in Micro, Small and Medium Enterprises related matters to be nominated by bank.

(d) One representative from the concerned State Government.

(e) When handling accounts under consortium or MBA, senior representatives of all banks / lenders having exposure to the borrower.

Application to the Committee for a Corrective Action Plan

The Indian Banks' Association (IBA) may prescribe suitable application formats for aggregate loan limits above Rs 10 lakh. The Indian Banks' Association (IBA) may also prescribe suitable formats for aggregate loan limits up to Rs 10 lakh.

Where an application is filed by a bank / lender and admitted by the Committee, the Committee shall notify the concerned enterprise about such application within 5 working days and require the enterprise to disclose the details of all its liabilities, including the liabilities owed to the State or Central Government and unsecured creditors, if any, within fifteen working days of receipt of such notice.

The Committee may send notice to such statutory creditors as disclosed by the enterprise as it may deem fit, informing them about the application under the Framework and permit them to make a representation regarding their claims before the Committee within **15 working days** of receipt of such notice.

Within **30 days** of convening its first meeting for a specific enterprise, the Committee shall take a decision on the option to be adopted under the corrective action plan as given in subsequent paragraphs and notify the enterprise about such a decision, within 5 **working days** from the date of such decision.

If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the detailed Techno-Economic Viability (TEV) study and finalise the terms of such a restructuring in accordance with the extant prudential norms for restructuring, within **20 working days** (for accounts having aggregate exposure up to Rs.10 crore) and within **30 working days** (for accounts having aggregate exposure above Rs.10 crore and up to Rs.25 crore) and notify the enterprise about such terms, within **5 working days**.

Corrective Action Plan by the Committee

The options under CAP by the Committee may include:

- **Rectification:** Obtaining a commitment, from the borrower to regularise the account so that the account comes out of Special Mention Account status or does not slip into the Non-Performing Asset category.
- **Restructuring:** Consider the possibility of restructuring the account, if it is prima facie viable and the borrower is not a willful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc.
- **Recovery:** Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to.

Timelines

If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package.

Review

In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of **10 working days** from the date of receipt of the decision of the Committee. A review application shall be decided by the Committee within a period of **30 days** from the date of filing.
