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Module-B Unit-18

JAIIB PAPER-2

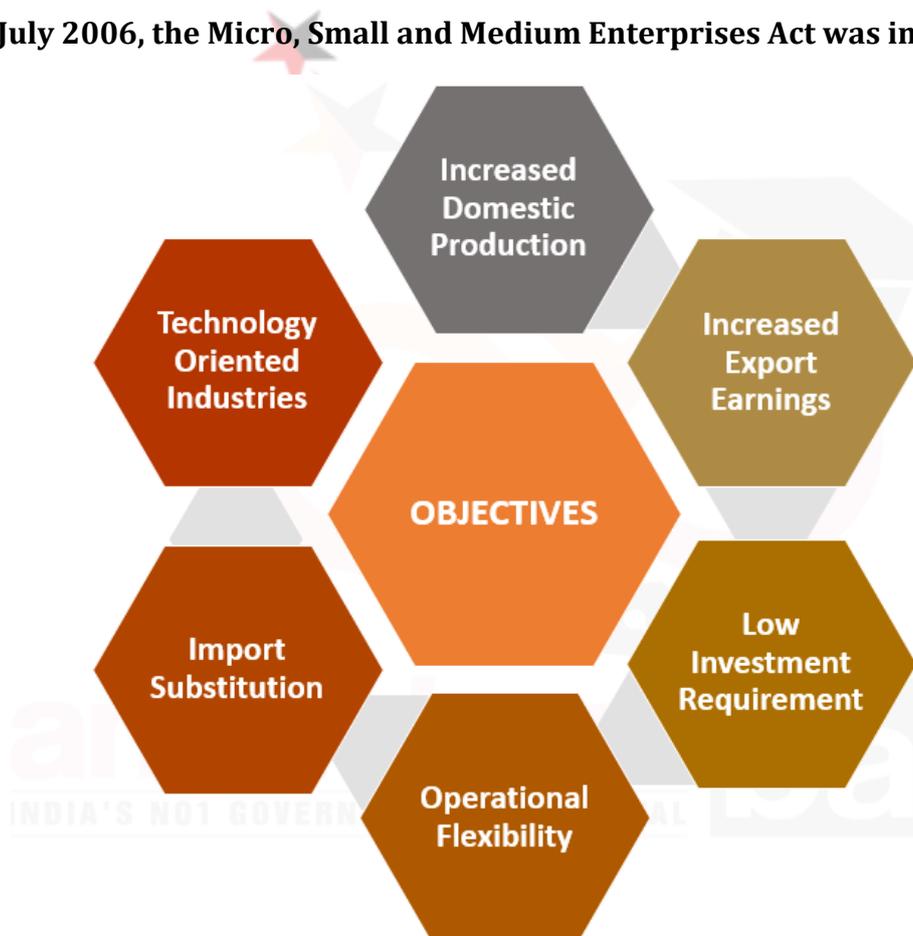
Principles and Practices of Banking (PPB)



JAIIB PPB Module B Unit- 18: Micro Small and Medium Enterprises In India

MSMEs

- **The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund (TDMF) were created to accelerate finance and technical services to the sector.** The Delayed Payment Act, 1993 was enacted to facilitate prompt payment of dues to MSMEs.
- **The Ministry of MSME came into being from 1999** to provide focused attention to the development and promotion of this sector.
- **A credit Linked Capital Subsidy Scheme** was launched to encourage technology upgradation in the MSME sector and a **Credit Guarantee Scheme** was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs.
- **In July 2006, the Micro, Small and Medium Enterprises Act was in place.**



Difference Between Micro, Small & Medium Enterprises

<u>MICRO ENTERPRISES</u>	<u>SMALL ENTERPRISES</u>	<u>MEDIUM ENTERPRISES</u>
The investment in plant and machinery or equipment does not exceed one crore rupees	The investment in plant and machinery or equipment does not exceed ten crore rupees	The investment in plant and machinery or equipment does not exceed fifty crore rupees
Turnover does not exceed five crore rupees	Turnover does not exceed fifty crore rupees	Turnover does not exceed two hundred and fifty crore rupees.

Policy Packages for MSMEs: Credit/ Finance

- Credit to the MSMEs is part of the **Priority Sector Lending with sub-target of 7.5% of ANBC or CEOBE** (whichever is higher) for lending to Micro enterprises. As per the recommendations of the Prime Minister's Task Force on MSMEs, banks need to achieve:

i) 20% year-on-year growth in credit to micro and small enterprises.

ii) 10% annual growth in the number of micro enterprise accounts

iii) 60% of total lending to MSE sector (corresponding quarter previous year) to Micro enterprises.

- The SIDBI is the principal financial institution for promotion, financing and development of the MSME sector.
- Commercial banks are important channel and provide both working capital and term loans.
- State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs) are major sources of long-term funds.
- MSMEs are moving to other specialized financial services and options- primary/secondary securities market, factoring services etc.

Certified Credit Counsellors (CCC) Scheme

- The scheme was launched by SIDBI in July 2017.
- As per the scheme, Certified Credit Counsellors (CCC) are institutions or individuals registered with SIDBI who shall assist MSMEs in preparing project reports in a professional manner which would, in turn, help banks make more informed credit decisions.
- To ensure professional competence in terms of knowledge, the CCC aspirants are required to complete the MSME Certification programme offered by IIBF.

Delayed Payments

- As per **MSMED Act 2006**, the **payments in respect** of supplies made by **MSE units** should be received on or before the agreed date, subject to **maximum 45 days from delivery**.
- On failure to effect the payment, the buyer has to pay compound interest with monthly rests to the supplier on the amount for the period from the appointed day/the date agreed on, at three times of the Bank Rate notified by RBI.
- **MSME SAMADHAAN**: It is a Portal created by Office of DC (MSME), Ministry of Micro, Small and Medium Enterprises (MSME) where MSEs can file their applications online about delayed payments.

Trade Receivables Discounting System (TReDS)

- TReDS is an electronic platform for facilitating the financing/ discounting of trade receivables of MSMEs through multiple financiers.
- Sellers, buyers and financiers are the participants on a TReDS platform. Only MSMEs can participate as sellers. Banks, NBFC – Factors and other financial institutions as permitted by the RBI, can participate as financiers.
- Each Factoring Unit (FU) represents a confirmed obligation of the buyers. FU can be created either by the MSME seller or the buyer. If MSME seller creates, it is factoring; if created by the buyer, it is reverse factoring.

Performance And Credit Rating Scheme

- It has been formulated in consultation with IBA and Rating Agencies. **NSIC is the nodal agency for implementation of this scheme** through empaneled agencies.
- Availability of an independent evaluation of the strength and weaknesses of MSE unit seeking credit and thereby enabling banks and financial institutions manage their credit risk. Uniform Rating Scale for all empaneled rating agencies is there.

Credit Guarantee Fund Scheme for Banks (CGS-I)

- The credit facilities extended by commercial banks, RRBs, SFIs, SFBs, NBFCs, FinTech NBFCs, SIDBI, NSIC, and NEDFC are eligible to be covered under CGS-I.
- It covers credit facilities (both fund and non fund based) extended by Member Lending Institutions, without any collateral security and third party guarantees, **to a single eligible borrower not exceeding Rs.50 lakh (RRBs/FIs/SFBs); and Rs.200 lakh (SCBs, select FIs, NBFCs).**
- MLIs can apply for guarantee cover anytime during the tenure of loan provided it was not restructured/ remained in SMA2 status in last 1 year before the application. The credit facility should be standard and regular and the activity of the borrower should not have ceased. The loan amount has not been used for adjusting debt bad or doubtful of recovery, without prior consent of the Trust.
- **Guarantee Period**: From the date of payment of guarantee fee; for the tenure of the loan (for term/ composite loans); 5 years (if only working capital facilities).

- **Credit facility exceeding Rs. 200 lakh:** Can be covered; maximum guarantee cover Rs. 150 lakh; Pari-passu charge of CGTMSE on both primary and collateral security.
- **Interest rate on the credit facilities:** Maximum 14% per annum including cost of guarantee cover, for RRBs Average Base Rate decided by CGTMSE.

Extent of Guarantee Cover (w.e.f April 1, 2018)

Category	Maximum extent of Guarantee		
	Where credit facility is		
	Upto ₹5 lakh	Above ₹5 lakh & upto ₹50 lakh	Above ₹50 lakh & upto ₹200 lakh
Micro Enterprises	85% of the amount in default subject to a maximum of ₹ 4.25 lakh	75% of the amount in default subject to a maximum of ₹ 37.50 lakh	75% of the amount in default subject to a maximum of ₹ 150 lakh
Women entrepreneurs/ Units located in North East Region (incl. Sikkim) (other than credit facility up to ₹5 lakh to micro enterprises)	80% of the amount in default subject to a maximum of ₹ 40 lakh		
MSE Retail Trade (from ₹10 lakh up to ₹100 lakh)	50% of the amount in default subject to a maximum of ₹ 50 lakh		
All other eligible category of borrowers	75% of the amount in default subject to a maximum of ₹ 150 lakh.		

Credit Guarantee Fund Scheme for NBFCs (CGS-II)

- This Scheme is open to NBFCs registered with RBI and meeting the criteria specified by the Trust.
- Credit facilities (both fund and non -fund based) extended by MLIs to a **single eligible borrower in the MSME sector up to Rs. 200 lakh, with/without any collateral security are covered. For MSE Retail Trade credit facility up to Rs. 100 lakh is covered.**
- Guarantee fee at specified rate on each batch of the Portfolio shall be paid within 30 days of submission of each batch or from the date of Demand Advice (CGDAN) of guarantee fee whichever is earlier.

Distressed Assets Fund (Credit Guarantee Scheme for Subordinate Debt)

- The Scheme was for those MSMEs whose accounts were standard as on 01.01.2016 and have been in regular operations, as standard or NPA during 2018-19 and financial year 2019-20, and were stressed as on 30th April, 2020.

PM SVANidhi 2.0

- Ministry of Housing and Urban Affairs is implementing **PM Street Vendor's Atma Nirbhar Nidhi** (PM SVANidhi) Scheme since June 01, 2020 to facilitate micro-credit to street vendors.
- The scheme has been extended to December 2024 with some revisions in guidelines. Credit Guarantee and interest subsidy claims will be paid till March 2028.
- New borrowers get first loan of Rs. 10,000, second Loan of Rs. 20,000 and third loan of Rs. 50,000 provided loan is repaid regularly.
- Maximum Repayment Period: 1st Loan- 12 months; 2nd Loan – 24 months and 3rd Loan- 36 months.
- **For 1st Loan, the effective guarantee cover is** enhanced from 12.57% to **31.875%**.
- **For 2nd Loan, the effective guarantee cover is** reduced from 12.57% to **8.25%**
- **For 3rd Loan, the effective guarantee cover is** reduced from 12.5% to **6%**.
- **Interest Subsidy is 7% p.a.** for all loans provided loan does not become NPA.

Credit Guarantee Scheme for Co-Lending (CGSCL)

- CGTMSE has introduced CGSCL for loans under Co-Lending Model. i. **“Option/ Model -1” – Joint Lending by Banks and NBFCs:** The guarantee cover under this Option is for individual loan/ credit facility. ii. **“Option/ Model 2” - Direct Assignment:** Only the MLIs registered with CGTMSE under CGS-I & CGS-II is eligible as a pair for CLM arrangement under CGSCL
- **Tenure of guarantee cover:** Guarantee cover is available from guarantee sanction date till the agreed loan tenure for the term loan, and for 5 years or block of 5 years where working capital facilities alone are extended or loan termination date, whichever is earlier.
- **Eligibility:** Credit facilities extended by pair of MLIs to a single eligible borrower in MSE sector for credit facility (i) not exceeding Rs. 200 lakh secured by way of Primary Security; and (ii) not exceeding Rs. 100 lakh for unsecured credit facility.
- **Annual Guarantee Fee (AGF):** Guarantee Fee will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facility as under:

Credit Facility Amount	Annual Guarantee Fee % p.a.
Upto Rs.5 lakh	1.00%
Above Rs.5 lakh and upto Rs.10 lakh	1.25%
Above Rs.10 lakh	1.50%

- **Extent of the Guarantee Coverage:** • 75% of the amount in default for credits facility secured by primary security. • 50% of the amount in default for unsecured credits facility.
- **Payout Cap:** The payout cap for any given year is calculated at 2 times of the total receipts (i.e. guarantee fee plus recoveries post 1st claim settlement paid to CGTMSE under the Scheme) of the previous financial year passed to CGTMSE.

Credit Facilities Not Covered Under CGTMSE Schemes

- Covered under a scheme by **DICGC or RBI**, to the extent of cover.
- Covered by any other insurance, guarantee or indemnity, to the extent of cover
- To Micro Enterprises up to **Rs. 10 lakh covered by MUDRA Guarantee Scheme (NCGTC Ltd.)**
- Not conforming to or inconsistent with any Govt. law or RBI directives.
- Effective interest rate not as per RBI/ Trust guidelines.
- Granted to any borrower, for whom the lender has invoked the guarantee of the Trust or under any other the scheme, and remains unpaid.
- Sanctioned against collateral security and/ or third party guarantee, except Hybrid Security model.

Claim Under CGTMSE Schemes

- MLIs should inform the date on which the account is classified as NPA by end of subsequent quarter.
- Guarantee can be invoked within 3 years from the NPA date or lock-in period whichever is later.
- Action for recovery has been initiated after issuing loan recall notice.
- The **Trust shall pay 75% of the guaranteed amount within 30 days**, if the claim is otherwise found in order and complete. **The balance 25% will be paid** on conclusion of recovery proceedings or till the decree gets time barred.

Cluster Based Approach In Financing MSMEs

- A cluster of MSMEs is a concentration of economic enterprises, producing a typical product/ service or a complementary range of products/services within a geographical area. **The clusters are categorized as: Artisanal Clusters, Industrial Clusters.**

- Cluster based approach to lending is intended to provide a **full-service approach to extending banking services to recognized MSE clusters.**
- United Nations Industrial Development Organisation (UNIDO) has identified 388 clusters spread over 21 states in various parts of the country. The Ministry of MSME has approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 minority concentration districts.
- Banks have also been advised that they should open more MSE focussed branch offices at different MSE clusters which can also act as counselling centres for MSEs. **Each lead bank of the district may adopt at least one cluster.**

Common Guidelines for Lending To MSMEs

- **Issue of Acknowledgement of Loan Applications to MSME borrowers:** All loan applications must be acknowledged, submitted manually or online, and allotted a running serial number.
- **Collateral:** No collateral security must be accepted for loans up to Rs.10 lakh extended to units in the MSE sector, and to all units financed under PMEGP administered by KVIC.
- **Composite loan:** A composite loan limit of **Rs.1 crore can** be sanctioned to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.
- **Credit Linked Capital Subsidy Scheme (CLSS)** Government of India, Ministry of MSME has Credit Linked Capital Subsidy Scheme (CLSS) for Technology Upgradation of MSE, subject to the following terms and conditions: **(i) Loan Amount:** Ceiling of Rs. 1 crore. **(ii) Subsidy:** 15% for all units of micro and small enterprises up to loan ceiling. **(iii) Basis of Subsidy:** Purchase price of plant and machinery (not the amount of loan) **(iv) Implementing agencies:** SIDBI and NABARD.
- **Framework for Revival and Rehabilitation of MSMEs:** In May 2015, the Ministry of MSME, GoI, had notified a 'Framework for Revival and Rehabilitation of MSME' to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs. Based on which RBI, in 2016, issued guidelines to banks. **The revival and rehabilitation of MSME units having loan limits up to Rs. 25 crore would be undertaken under this Framework.**
- **Structured Mechanism for monitoring the credit growth to the MSE sector:** Based on the recommendations of the Kamath Committee, banks are advised by RBI to:
 - strengthen systems of monitoring credit growth.
 - have a system of e-tracking of MSE loan applications.

- **Specialised MSME branches:** Public sector banks are advised to open at least one specialised branch in each district.
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