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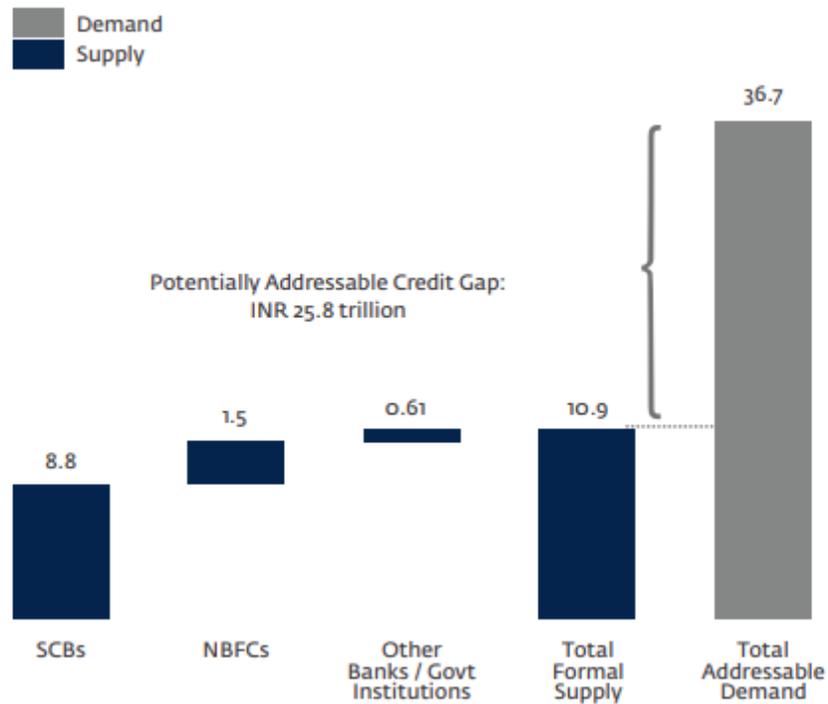
India's Efforts and Challenges on MSME Access to Finance

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Challenges in financing MSME sector

Potentially Addressable Credit Gap in the MSME Sector (INR, trillion)



Source: MSME AR 16-17, Primary Research, Intellicap Analysis

Source : IFC, Financing India's MSMEs, November 2018

Lack of Scale

Absence of formalisation

Lack of Access to Technology & Inertia

Capacity building

Access to markets and supply chain

Lack of access to credit and risk capital

Problem of delayed payments

Some Measures Taken by the Govt.

- New Definition of MSME – Addressing issue of Scale
 - raising the investment limit and introduction of new turnover criteria
- Registration on Udyam Registration Portal - Step towards formalisation
 - Registration process is fully online, paperless and based on self-declaration
 - Linked with GST & Income tax portal
- Technology Centres (Tool Rooms and Tech Dev Centres)
 - 18 autonomous centres under the MoMSMEs
- National Small Industries Corporation (NSIC)
 - Integrated support – Marketing, Finance, Technology etc
- National Institute for MSMEs (NI-MSMEs)
 - Train the trainers
 - Consultancy, Research and Extension Services

RBI measures for MSME Sector

Priority Sector Guidelines	Lending to MSMEs part of priority sector lending obligation of banks (40% of Adjusted Net bank Credit, ANBC, or Credit Equivalent of Off-Balance sheet Exposure (CEOBE) whichever is higher) Sub-Target of 7.5% of ANBC/CEOBE for Micro Enterprises.
Trade Receivables Discounting System (TReDS)	Facilitates electronic acceptance & settlement of invoices & bills of exchange MSMEs to solve the problem of delayed payments. Factoring transactions taking place through TReDS are eligible for classification under priority sector.
Collateral free loans	Banks mandated not to accept collateral security in the case of loans up to ₹1 million extended to MSEs.
Credit Guarantee Scheme	Banks can avail credit guarantee cover for loans up to ₹20 million – CGTMSE Differential Rate of interest for CGTMSE covered loans.
Working capital requirements	Computation on the basis of simplified method of minimum 20% of the projected annual turnover of the MSE unit for borrowal limits up to ₹5 crore (50 million).
Framework for Revival and Rehabilitation of MSMEs	To provide a simpler and faster mechanism to address the stress in the accounts of MSMEs (upto ₹ 25 crore) and to facilitate the promotion and development of MSMEs

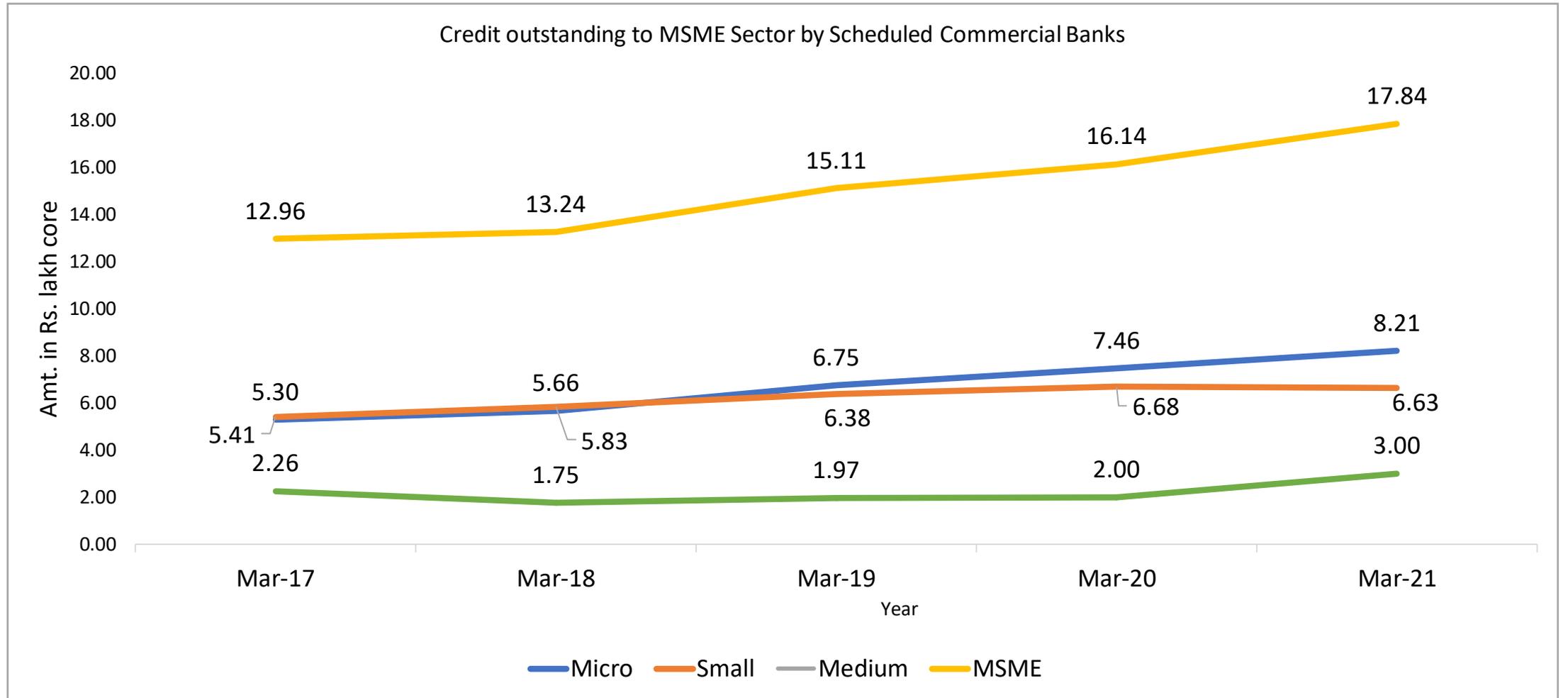
Regulatory Measures during COVID-19

Moratorium for MSME loans	Moratorium on term loan for a period of six months to tide over the impact of COVID (Aug 2020).
Resolution of stressed MSME Loans	One time restructuring of MSME loans up to ₹50 crore without asset downgrade allowed. (June 2021)
CRR exemption for Credit disbursed to new MSME borrowers	Fresh Credit disbursed to MSME borrowers up to ₹25 Lakh permitted to be deducted from NDTL for calculation of the cash reserve ratio (CRR), for credit disbursed up to December 31, 2021.
Interest rates on loans to MSMEs	Loans to MSMEs linked to external benchmark to improve the transmission of monetary policy rates.
Regulatory Retail Portfolio	Banks may assign a lower risk weight of 75% to exposure to MSME entities with counterparty exposure up to ₹7.50 crores as against ₹5 crore earlier.

Regulatory Measures during COVID-19

Co-Lending by Banks and NBFCs	To better leverage comparative advantages of the banks and NBFCs and improve flow of credit to the unserved and underserved sectors of the economy
Lending by Banks to NBFCs for On-Lending	Bank lending to NBFCs for on-lending to the Agriculture and Micro and Small Enterprises, subject to certain limits, is eligible for classification under Priority Sector Lending.
On-lending by Small Finance Banks (SFBs) to NBFC-MFIs	SFBs allowed to extend fresh credit to registered NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised 'Self-Regulatory Organisation', and have a 'gross loan portfolio' of up to ₹500 crore as on 31 March 2021, for the purpose of on-lending to individuals.
Emergency Credit Line Credit Guarantee Scheme (ECLGS):	₹4.5 lakh crores Collateral-free Automatic Loans, available till March 2022. 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.
Credit Guarantee Scheme for Subordinate Debt (CGSSD):	₹20,000 crores Subordinate Debt for Stressed MSMEs, available till Mar 2022. To provide credit facility through lending institutions to the promoters of stressed MSMEs for infusion as equity /quasi equity in the business eligible for restructuring.

Credit flow to MSME Sector in India



Source : As reported by SCBs

Way forward

- Formalisation of MSME sector
- Use of Fintech based models for enhancing credit flow to the sector
- Regulatory Sandbox for 'MSME Lending'
- Increased role of NBFCs, SFBs, Fintech, etc.
- Account Aggregator model to access potential borrower's financial information
- Tapping on factoring business through NBFCs
- Addressing delayed payment problem TReDS
- Consumer protection while ensuring digital innovation

Thank you !
