

Guidelines for lending to SMEs: RBI

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Seeking financial support is still considered to be a tough task for entrepreneurs. In order to streamline the processes involved in this, and in order to bring more clarity on the subject -- the Reserve Bank of India has set up guidelines for financial banks for lending loans to Small and Medium Enterprises in the country.

1. Disposal of Applications

All loan applications for SSI up to a credit limit of Rs.. 25,000/- should be disposed of within 2 weeks and those up to Rs.. 5 lakh within 4 weeks, provided the loan applications are complete in all respects and accompanied by a 'check list'.

2 Collaterals

The limit for all SSI borrowal accounts for obtaining collateral security is Rs. 5 lakh. Banks, on the basis of good track record and financial position of the SSI units, may increase the limit of dispensation of collateral requirement for loans up to Rs..25 lakh (with the approval of the appropriate authority).

3. Composite loan

A composite loan limit of Rs..1 crore can be sanctioned by banks to enable the SSI entrepreneurs to avail of their working capital and term loan requirement through Single Window.

4. Specialised SSI/SME branches

Public sector banks have been advised to open at least one specialised branch in each district. Further, banks have been permitted to categorise their SSI general banking branches having 60 per cent or more of their advances to SSI sector as Public sector banks have been advised to open at least one specialised SSI branch, in order to encourage them to open more specialised SSI branches for providing better service to this sector as a whole.

As per the policy package announced by the Government of India for stepping up credit to SME sector, the public sector banks will ensure specialized SME branches in identified clusters/centres with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise.

The existing specialised SSI branches may be also be redesignated as SME branches. Though their core competence will be utilized for extending finance and other services to SME sector, they will have operational flexibility to extend finance/render other services to other sectors/borrowers.

Delayed Payment

Under the Amendment Act, 1998 of Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings, penal provisions have been incorporated to take care of delayed payments to SSI units which inter-alia stipulates a) agreement between seller and buyer shall not exceed more than 120 days, b) payment of interest by the buyers at the rate of one and a half times the prime lending rate (PLR) of SBI for any delay beyond the agreed period not exceeding 120 days.

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Further, banks have been advised to fix sub-limits within the overall working capital limits to the large borrowers specifically for meeting the payment obligation in respect of purchases from SSI.

After the enactment of the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, the existing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened as under:

- (i) The buyer to make payment on or before the date agreed on between him and the supplier in writing or, in case of no agreement before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.

- (ii) The buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.

- (iii) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above. (iv) In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.