

MSME min seeks easier bank credit

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BUSY writing off farm loans, the finance ministry seems to have overlooked a key goal that would benefit the aam admi — making credit available to the small scale sector faster and cheaper. The ministry of micro, small and medium enterprises (MSME) has written to the finance ministry and the RBI saying that banks are insisting on personal guarantee from borrowers despite the apex bank's guidelines against such a demand.

Loan applications from small units should be cleared within a specified time-frame, the MSME ministry feels. Fixing time limits for deciding loan proposals would cut down transaction time and cost.

There should be no demand for collateral in the case of loans up to Rs 25 lakh, officials of the ministry

have conveyed to their counterparts in the finance ministry. As of now, banks provide loans without collateral only in the case of loans which are not higher than Rs 5 lakh.

The MSME ministry now wants effective action from the finance ministry on this front and is upset that the reminders sent so far have fallen on deaf ears. Making loans available to small units faster and easier is one of the goals listed in the national common minimum programme (NCMP).

The MSME ministry wants banks to provide loans to small units at rates cheaper than their prime lending rate (PLR). Loans to this segment should be 1% or 2% cheaper than PLR, ministry officials feel.

The ministry has also stressed on a sub-target within priority sector lending for micro, small and medium enterprises. The ministry of finance had empha-

sised that credit for services including small road and water transport operators, professional and self-employed persons are already included in the MSE sector and disbursements to the segment stand at 12.96% of net bank credit (NBC). However, the MSME ministry is now compiling data to show that these figures do not reflect ground realities.

According to data compiled by the MSME ministry, total credit to MSEs from scheduled commercial banks stood at 12.96% of NBC as on March 2007 against the RBI's recommendation of 16%. At the end of the March 2007, the NBC stood at Rs 13,17,705 crore. The quantum of advances during the year stood at Rs 1,04,703 crore.

Though there has been an increase in the quantum of advances to MSEs, there has been a dip in percentage terms. The share of this segment declined to 8% of NBC in 2007 as compared to 8.1% the previous year. To keep enterprises located in North East out of non-performing assets (NPA) ambit, the MSME ministry has proposed bridge loans by banks, particularly for sanctioned receivable amounts.

NOT LOANLY

The ministry wants banks to give loans to small units at rates 1-2% lower than prime lending rate. It also wants applications to be cleared within a specified time-frame