

Guarantee limit for MSMEs raised to Rs 1 cr

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MSME



The government on Sunday raised the guarantee limit that could be availed by the fund-starved micro and small enterprises from Rs 50 lakh at present to Rs 1 crore, seeking to boost bank credit to the sector. The guarantee cover for the amount up to Rs 50 lakh would continue to be 75% of the loan. For loans of more than Rs 50 lakh and up to Rs 1 crore, the guarantee will be 50%.

In another move to encourage banks to increase their exposure to the sector, the government has reduced the lock-in period for loans under existing credit guarantee scheme from 24 months at present to 18 months. Banks cannot raise the

claim for repayment of loan amount during the lock-in period.

For loans to exporting SMEs, banks have been given an interest rate subvention of 2% up to March 31, 2009, subject to minimum rate of 7% per annum.

However, the government's announcement towards improving the augmenting credit flow to close to 10 million the small and medium enterprises (SMEs), failed to bring in any cheer to the sector. Representatives from SME sector termed the government's announcement as 'eye-wash' or 'rhetoric'. Terming that the steps as 'ornamental or of marginal consequence', the Federation of Indian Micro and Small & Medium Enterprises (FISMEs) said that the sector which employs more than 31 million people needs much more than these announced measures. On the extension of current guarantee cover under the Credit Guarantee Schemes for SMEs on loans from Rs 50 lakh to

Rs 1 crore with guarantee cover of 50%, FISMEs said that the policy of no consequence to the sector where the average size of loan is around Rs 3 lakh.

"It is simply an eye wash and rhetoric as in the present market condition, Banks are simply reluctant to extent credit to SMEs," Neeraj Kedia, owner of small scale unit from Muzafarpur, Uttar Pradesh told FE.

"Such measures would not have any impact on the credit crunch faced by the SMEs," Anil Bhardwaj, Secretary General, FISME said.

An owner from a small scale auto components unit from Meerut questioned the rationale of announcement of such a measure when the Prime Minister Manmohan Singh is meeting the representatives of SMEs on Monday. "The government could have waited till Monday prior to announcing steps which does not even address the concern of the sector," the unit owner said on the condition

of anonymity.

On Saturday, the Reserve Bank of India announced a Rs 7,000-crore refinance facility for Small Industries Development Bank of India (SIDBI) for incremental lending to micro and small units. The facility could be availed for direct lending by SIDBI or to guarantee the loans from banks, non-banking finance companies and state finance corporations.

Among other measures, the government said it will suggest to central and state public sector enterprise to make timely settlement of bills of MSMEs in the wake of easing credit situation in the economy.

"The government attaches the highest priority to supporting the micro, small and medium enterprises sector which is critical for employment generation," the finance ministry said. MSMEs contribute 8-9% of India's gross domestic product and 40% of exports.