

An ACCESS Publication



STATE OF MICRO ENTERPRISE FINANCING IN INDIA-2021



Dr R Bhaskaran

In Partnership with
EQUIFAX

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ABBREVIATIONS

Abbreviations	Full form
MSME	Medium, Small and Micro Enterprises
SCB	Scheduled Commercial Banks
SIDBI	S Industrial Development Bank of India
BL Agri	Business Loan Agriculture
PS	Priority Sector
GNPA	
CL	Commercial Loans
NPA	Non Performing Account
IRAC	
NBFC	Non Banking Finance Company
IFC	Industry Finance Company
RBI	Reserve Bank of India
CIBIL	
ECLGS	Emergency Credit Line Guarantee Scheme
PSLC	Public Sector Limited Company
PSU	Public Sector Undertaking
GST	Goods & Services Tax
MCA	
IT	
TReDS	
PMJDY	Prime Minister's Jan-Dhan Yojna
JAM	Jan-dhan-Adhaar Mobile
EPOS	
CIB	
CIC	Credit Information Companies
NIBM	
MFI	Micro Finance Institution
LTV	Long Term Value
WCTL	Working Capital Term Loan
EMI	Early Monthly Instalments
O/s	Outstanding
YOY	Year on year
MFIN	Microfinance Industry
CGTMSE	Credit Guarantee Trust Fund for Micro and Small Enterprises
NCGTC	
GoI	Government of India
RRB	Regional Rural Bank
CGFMU	Credit Guarantee Fund for Micro Units
HUF	

NER	North Eastern Region
DPD	
RP	Resolution Plan
UCBs	Urban Co-operative Banks
PVB	
PSBs	Private Sector Banks
SFBs	
LPTS	Loan Proposal Tracking Systems.
SMA	Small & Micro Account
CAB Pune	
SHPI	
BC	
ADB	
OCEN	Open Credit Enablement Network
PSLC	Priority Sector Lending Certificate
NABARD	
NAFIS	
RUDSETI	
SETI	
MEDP	Micro Enterprise Development Programme
LEDP	Livelihood and Enterprise Development Programme
REDP	Rural Entrepreneurship Development Programme
SDP	Skills Development Programme
NSDC	
FPOs	Farm Producer Organisations
OFPOs	Off Farm Producer Organisations
SHGs	
NABSKILL	
GI	Geographical Indications
ABICs	Agri Business Incubation Centres
MABIF	
	Madurai Agri Business Incubation Forum
TNAU	Tamil Nadu Agriculture University
SLF	Special Liquidity Facility
OCEN	Open Credit Enablement Network
PACS	
LAPs	
LLPs	Limited Liability Partnership
MCLR	

FOREWORD



KM Nanaiah
Managing Director,
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The Micro, Small and Medium Enterprises (MSME) sector is the backbone of India's economy, contributing as much of 30% of India's GDP. In addition to the economic impact, the MSMEs have significant social impact in terms of creating employment and propagating entrepreneurship.

Due to Covid-19 and resultant lockdowns, 2020-21 has been a tough year for most of the enterprises and MSMEs have faced the brunt of it. For the recovery process to pick up, access to capital is very important to sustain the working capital requirement. During the pandemic and lockdown, there have been various initiatives by the Government to address the credit crunch faced by the MSMEs.

Over the years, Equifax has worked with the Indian lenders to help them maintain high levels of underwriting standards. Now, in partnership with Access Assist, Equifax brings an annual report "State of Micro Enterprise Financing", to provide insights on credit trends in Indian MSME industry – from disbursements to delinquencies, from type of credit to ticket sizes, with focus on how the sector fared in a challenging year. In this report, we have covered the overview of the sector from Access to Credit perspective.

We earnestly believe that this report will provide insights to industry and policymakers as we navigate through crests and troughs of the lending cycle, thus enabling much needed access to capital to the MSME sector.

I would like to thank Equifax and ACCESS Development Services teams for their efforts in launching this report.

1 Introduction

There are about 64 million 'Micro, Small and Medium' Enterprises' (MSMEs) in India, contributing about 30% of its gross domestic product and employing about 110 million people. IFC¹ in its report has indicated that the fund requirement of these MSMEs could be ₹87.7 trillion, including bank/financial institution credit of ₹69.3 trillion. As against this, the Commercial Banks had 38.4 million accounts with a credit outstanding of ₹16.13² Trillion as on March 2020 i.e. about 23% of the demand. Apparently nearly 60% of the MSMEs have been financially included (it should be borne in mind that number of accounts is not always equal to the number of MSMEs included) but the % of amount financed to the estimated requirement would show that the inclusion is very low. Obviously, the remaining fund requirement is met by own funds of MSMEs and other sources.

In this background it is said that the financial exclusion is high in MSME sector particularly in the case of Micro Enterprises. Yet the number of accounts (Table 1.1) – even if some of the medium MSMEs are big and have multiple accounts - would show that due to the efforts taken by authorities more MSMEs have been included in the recent years.

EXTENT OF MSME CREDIT

One of the challenges faced by every MSME is resource gap. In this background and to propel the sector's growth, the government and banking authorities have, in the recent years, more particularly after 2016, taken a number of measures to augment credit flow and hasten financial inclusion of the sector. On account of this, without doubt there has been noticeable progress in credit flow to the sector and it is seen that between 2015-16 and 2019-20 nearly 17.9 Million MSME accounts have been added by banks. Also NBFCs have been, in the recent years, active in this space. In this regard it should be noticed that RBI has indicated that nearly 15.01 million MSME accounts have been added by banks and NBFCs between 2016-17 and 2019-20 and the credit outstanding during the period (Table 1.1) has increased by nearly 25%³. MSME credit extended by banks is reckoned for priority sector achievement. In this regard RBI publications show that MSME credit under PSU was about 11.10 lakh Cr. Apparently the total MSME credit is higher than what is reported as MSME credit under Priority Sector.

A perusal of data as of Dec 2019 and Dec 2020 given in RBI Annual Report (Table 1.2) also confirms that credit outstanding was about ₹16 lakh cr.

Table 1.1. Credit outstanding for MSME sector by SCBs (account and amount Cr)

	2015-16		2016-17		2017-18		2018-19		2019-20	
	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt
PSU	1.07	8,20,548	1.12	8,28,933	1.11	8,64,598	1.13	8,80,033	1.11	8,93,315
Private	0.96	3,59,085	1.20	4,30,963	1.48	4,10,760	2.05	5,63,678	2.71	6,46,988
All SCBs	2.05	12,16,007	2.34	12,96,399	2.62	13,24,239	3.21	15,10,651	3.84	16,13,582

Table 1.2 Bank Credit to MSMEs (Number in lakh, Amount in ₹Crore)

Year	Micro Enterprises		Small Enterprises		Medium Enterprises		MSMEs	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
Dec-19	328.93	7,04,278	23.81	6,35,933	3.07	2,08,134	355.82	15,48,344
Dec-20	394.48	7,63,109	23.2	6,52,292	5.32	2,70,924	423	16,86,325

In this regard, given the annual growth and repayments to be made, it can be said that new loans could be around a fourth of the previous year outstanding and as such, sanctions/ disbursement including new accounts in MSME could be around ₹4 lakh crore in the recent years. However, the reported over all credit flow during this period (disbursements)⁴ ranged from 3.21 Cr in 2018-19, ₹3.37 Cr in 2019-20 and ₹3.21 Cr in 2020-21 (Table 1.3). Within this the share of loans of less than ₹25 lakh (the focus of this report) could be about 40% of total outstanding credit to MSMEs. Yet the number of accounts up to ₹25 lakh may account for 90% of outstanding and new sanctions indicating the possibility that majority of the accounts were of small value credits.

Table 1.3 MSME Disbursements (₹Lakh Cr)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Amount Disbursed	1.39	1.8	2.53	3.21	3.37	3.21

It is reported that during 2019-20 there was a growth of 17% and that during the current year (2020-21) the growth rate, is reportedly negative due to Covid. In this regard, based on information reported to it by lending agencies, a credit bureau⁵ in its report, states that 'In FY 2021, ₹9.5 lakh crore was disbursed in MSME segment as against ₹6.8 lakh Cr in FY 2020. This report on MSME credit indicates that disbursements during 2019-20 were ₹1.61 Lakh Cr for micro enterprises and ₹2.64 Lakh Cr for small enterprises and ₹2.51 lakh Cr for medium enterprises. It further states that disbursements were ₹2.05 crore, ₹3.86 crore and ₹3.56 crore for micro and small and medium enterprises during 20-21. Obviously Micro enterprises received the lowest amount of credit despite being larger in number.

The report 'How India lends 2021' has indicated that Loans to MSME represent a major share in the overall commercial loans (i.e. loans given to non-individuals and other than sole proprietors) by volume and adds that 'overall Commercial Loans witnessed 17.6 percent year-on-year growth as of March 2021 in terms of active loans and 2.3 per cent by portfolio outstanding'. It is worth noting here that the share of bank credit to MSME under

priority sector (₹11.07 Cr) in India's gross bank credit (₹109.5⁶ lakh Cr) stood at 10.10% as of March 2021.

It is learnt that, thanks to the Emergency Credit Line Guarantee Scheme³ (ECLGS) the flow of credit to MSME has not reduced during the pandemic period despite lock down and impact of pandemic on asset quality. Also, over the past few years, the MSME lending landscape which was historically dominated by PSU banks has seen the entry of private banks, NBFCs and of new innovative, alternative lending platforms.

CHALLENGES FACED BY MSMES

Despite such progress and good numbers it is evident that MSM entrepreneurs continue to face challenges such as non-availability of credit facilities and if available, the amount of credit and limits being low. These challenges are discussed in detail in a later chapter. But it is worth mentioning here that the credit gap challenge i.e. the amount of credit being low could be because banks are possibly keener on including more MSMEs and achieving priority sector norms to the extent mandated and may not be seeing MSME as a business opportunity.

Box1.1. What is a micro or small enterprise? How much credit does it need?

Officially, a micro enterprise is defined in terms of investment in business (fixed assets) and turnover. In terms of business it could be a very small scale shop or a manufacturing unit. It could be a grocer, readymade dress maker, 'mobile' repair shop, custom hire tractor, dealers in dairy or poultry products or something similar. These enterprises could be of varying sizes and could be situated in a village or a semiurban or urban locale. Most of these units are run by individuals on a sole proprietary basis and need credit support to start, run/maintain or expand their business. They need credit support for (a) purchasing machinery and equipment or raw materials (b) investment in other fixed assets (c) meeting working capital requirements for business including meeting recurring expenses such as rent, salaries and other business expenses (d) managing cash flows and (e) any other operational purpose.

It is normally expected that the extent of credit as a percentage of requirement should be high in case of Micro enterprises in comparison to medium and large industries as these are very small, mostly cash oriented, with very low capital base and may not enjoy any buyer credit facility. At the same time, it is seen that bank credit may not be high with the Micro enterprises due to many reasons. In view of this Micro Enterprises resort to other borrowings (from friends and informal sources). It is seen that as a micro enterprise grows to become a small and from Small to Medium, the percentage % of bank credit increases.

Evidently the size of credit to micro enterprises is small. This raises the question is the bank or institutional credit adequate. A specific study should be conducted to prove the same.

CEOSpeak 1: SIDBI

Qn: Overall bank credit/loans 'up to `25 lakh' accounts for nearly 98% of the total number of accounts but the loan outstanding against these were only 32% pointing out to a very low average loan amounts in these cases. As of March 2020, there were 27.25 crore loan accounts involving outstanding credit of `105.18 lakh crore (`105 trillion). In this, the share of MSME was 3.84 Crore accounts and `16.13 lakh Crore i.e., 14% of accounts and 15% of outstanding. It appears that even if many Micro or Small Industry/enterprise borrowers were to conduct satisfactory business with a bank for more than three/four years, not many of them would graduate to medium size. This could be because banks are in compliant mode towards Priority Sector Norms and lend the lowest possible amount due to information asymmetry. As a development banker and with a focus on MSME sector what steps would you suggest for augmenting credit flow and ensuring adequate finance to MSME units?

Ans: The Micro or Small Industry/Enterprises remaining in the same category for years has more to do with incentives available to them when they are in micro and small category and the regulatory compliance they need to follow when they grow big. Economic survey 2019 presented a well-researched document regarding lag/ drag effect of small firms on the economy and the need to address the dwarfism in MSMEs in India. Incentives available to Small Scale firms (irrespective of age) like Priority Sector lending, Credit Guarantee schemes, Purchase preference, GST composition scheme, Marketing Assistance, Benefits under tendering & Raw material assistance etc., contribute to the tendency of the firms to remain small. Further, the characteristics of traditional MSMEs like one man show, low resourcefulness, lack of resilience, low risk appetite and consequent saturation of size at the level of sustainability and factors like ancillary status to a large corporate and constraint of catering to local demand & geography; also add up.

The recent change in MSME definition and inclusion of retail and wholesale trade under MSME ambit for priority sector lending can be a game changer in augmenting credit flow to MSMEs. Further, with implementation of GST and aligning of definition with turnover, the lenders are devising many products with turnover as the key criteria for credit appraisal. This would address the issues of loan ticket size in the long run. Also, the dwarfism in micro and small units could be addressed by enabling market access, incentivizing the stock exchange listing, developing appropriate corporate governance for MSMEs and creating awareness about the benefits and opportunities available to them as they grow. More importantly, formalisation of the MSMEs through Udyam platform would provide a big boost to lending to these entities.

Going forward, Technology is expected to disrupt the MSME market. The way banks/institutions extend credit to MSMEs will change because most of the information regarding MSMEs and their promoters will be available online through GST portal, IT portal, MCA, Account aggregator, Information Utilities/Information Companies, etc. Hence digital / online/ app-based lending to MSMEs shall gather pace. Stakeholders may have to focus towards orderly growth of fintech/online/app-based lending. TReDS platform is another idea whose time has come. In view of this in the coming days all payments by large corporates to MSMEs may be routed through TReDS platform so as to facilitate timely credit to MSMEs which will improve their liquidity and hence their long-term viability.

As such, in view of the large number of MSMEs, even if banks were to extend only small amounts of loan, the Priority Sector (PS) target will be easily achieved. Also they could take resort to PSLC should there be a shortfall in achieving the PS target. In this regard, analysis of data leads to a one to conclude conclusion that though banks have financed many 'micro and small' enterprises in the past and a number of these enterprises have good track record, banks have not taken steps to encourage the growth of such enterprises by extending higher amount of credit. Some of the reasons for this could be that a large number of MSMEs tend to be informal in nature, cash oriented, not particular about maintaining proper books of account and publicly available information about them is very limited. This is also because a large number of micro and small enterprises revolve around individuals and are sole proprietorship concerns. In this regard, the Annual Report of the Ministry of MSME says that "out of 633.88 MSMEs, there were 608.41 lakh (95.98%) which were proprietary concerns". As such, formal documents like Balance Sheet, Profit and Loss account, Cash Flow statement etc. – which are essential and important for credit appraisal – may not be available with them. In view of this due to which a large number of MSMEs could be facing constraints in accessing finance, let alone timely and adequate finance. In addition, it is reported, that, these MSMEs also face issues such as non-availability of skilled man-power, low, if not complete lack of access to latest technology and poor marketing infrastructure. This sector is yet to benefit from the advances in digitization, which should eventually ease access to finance as also reduce cost of operation.

RECENT INITIATIVES IN THE SECTOR

Since the year 2006 when the GOI passed the Act, MSME's have been receiving focused attention from banks and others. Recently the Government of India has launched, the Pradhan Mantri Jan Dhan Yojana (PMJDY) which aims to provide universal banking services for every unbanked household in August, 2014. The main emphasis of the program was (i) banking the unbanked, (ii) securing the unsecured; (iii) funding the unfunded and (iv) serving the un-served and under-served areas. A digital initiative known as JAM (Jan Dhan-Aadhaar-Mobile) has been added to make the financial inclusion happen faster. In addition, three Social Security Schemes namely (a) Pradhan Mantri Suraksha Bima Yojana, (b) Pradhan Mantri Jeevan Jyoti Yojana and (c) Atal Pension Yojana as well as Pradhan Mantri Vaya Vandana Yojana in Insurance and Pension Sector were announced by the Government in the Budget for 2015-16.

Further, very recently, the contours of what constitutes a micro, small and medium enterprise have been redefined. Apparently the main objective of this exercise is to increase flow of credit to these enterprises. As per current definition, a micro enterprise is one which has up to ₹1 crore investment and ₹5 crore turnover. A small unit is one which has up to ₹10 crore in investment and ₹50 crore turnover and a medium enterprise is one which has up to ₹50 crore in investment and ₹250 crore turn over.

CEOSpeak 2: SIDBI

Qn: Recently the definition of MSME sector has been modified and unlike the past where the definition was based on investment, the current definition is based on both investment and turn over. It appears that the revised definition is a message to the banking industry that more credit flow should be directed to MSME sector and units should be encouraged to grow. Given this, what should be done to increase the credit flow to micro and small enterprises? Should the regulator stipulate minimum LTV ratio for the investment and w/c to T/O ratio for working capital such that arbitrary loan amounts are avoided?

Ans: The revised definition would definitely improve the credit flow to MSMEs, as lenders will have more authentic and structured data for credit decision making. Further, with the easing of registration norms for MSMEs, ushering formalization and digital data points available, due to implementation of GST, to the lenders, the credit flow will further improve.

With regard to stipulating lending norms, the lenders have been devising products based on the risk ratings, loan tenures, data availability etc., while adhering to RBI guidelines in this regard. Going forward, the decision to decide these benchmarks should vest with the lenders and RBI revisiting the same, based on the changing lending landscape.

Qn: Will the revised definition lead to more inclusion?

Ans: The revised definition will certainly help in streamlining the eligibility of units in various categories while easing the registration norms would lead to inclusion and formalisation of the units in the long run. The revised definition will also lead to inclusion of some larger enterprises within new MSME definition which will be able to avail credit under MSME lending as they were earlier out of MSME lending definition.

HOW MUCH WILL BE ADEQUATE CREDIT?

Given the revision in the MSME definition and basis the normal banking norms it can be said reasonable credit for micro unit at the upper end i.e. which has 1 crore investment and ₹5 crore turnover would be about ₹80 lakh term loan on a margin of 20% (for investments) and ₹1 crore to ₹1.25 crore working capital credit (a fifth or a fourth of turnover) or a combined credit of about ₹2 crore. However, it is seen that a very large number of loan accounts for micro units are in the size limit of ₹2 lakh to ₹25 lakh and the average credit is about ₹2 lakh as against overall average of ₹4.19 lakh in MSME Sector. It is too early to expect any increase in the loan amounts as it is only recently that the definition has been changed and there is a need to collect the investment and turnover data in respect of existing MSMEs. In view of this, the average credit outstanding across various credit limit

sizes (which includes MSME as well) is very low as could be seen in the table (1.4) below. Given the large number of MSME accounts that have been financed (28.81 crore bank loans have been sanctioned till March 31), the information in the table clearly indicates that a substantial number of these institutions could fall in the “Micro” definition.

Table 1.4 Average Loan outstanding Rs⁸

	2015-16	2016-17	2017-18	2018-19	2019-20
PSU	768303	740119	778917	778790	806241
Private	372495	360337	276979	274563	239094
All SCBs	592885	554965	506401	471048	419985

A study of loan sizes shows (Table 1.4) that the average loan amount has reduced from ₹5.92 lakh in the year 2015-16 to ₹4.19 lakh in the year 2019-20. The average loan size of around ₹5 lakhs (which could support an investment of around ₹6 lakh or an annual turnover of say ₹20 lakh) clearly shows that banks are, possibly, financing MSMEs more due to the mandate under priority sector credit and not as a business proposition. The low average loan size makes one conclude that in the case of most of the micro and small enterprises the system of detailed appraisal, based on investment and turnover, may not be in place.

In this regard it may be recalled MSMEs faced certain difficulties on account of demonetization that in the year 2015 -2016 and due to the introduction of GST in the year 2017. In those years RBI had permitted banks to (a) adopt a longer period for declaring the accounts as NPA and (b) restructure some the accounts in difficulty. Recently similar relaxations in the IRAC guidelines have been extended due to Covid induced lock down. It is hoped that these changes in the regulatory sphere and changes in the definition of what constitutes a MSME will lead to increased credit to the MSME sector.

The change in definition is welcome. At the same time it is apprehended that opportunity to offer higher amount of credit to micro and small units which are at the upper end of the definition could lead to exclusion of some new micro enterprises and micro enterprises which are currently included despite them having a very low investment and turnover.

Table 1.5 Growth rates⁹ in overall credit

Year	Loans ₹2 l to 25 l		All Loans	
	Accounts	Amount	Accounts	Amount
2017	11.85	13.08	5.88	5.20
2018	14.17	16.16	12.71	10.52
2019	14.37	13.54	18.74	12.77
2020	17.97	13.98	20.47	7.59
CAGR	14.59	14.19	14.45	9.02

IMPACT OF RECENT INITIATIVES

It is evident that the emphasis given by authorities on MSME in the recent years has ensured growth. This can be inferred from the fact that in the recent years the volume of loans for MSME has recorded a higher growth rate than other loans. The sector has reportedly recorded a growth rate of 6.6% during 2020-21 whereas the overall credit growth rate was less than 1%. The growth rates in 'credit outstanding' up to March 2020 are given in the table below. It is seen that the MSMEs and among them enterprises which are extended loans up to ₹25 lakh have recorded a higher growth rate than other loans.

Chart 1.1 Size wise share (%) of number of Accounts March 20

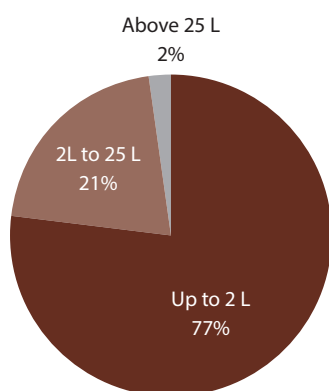
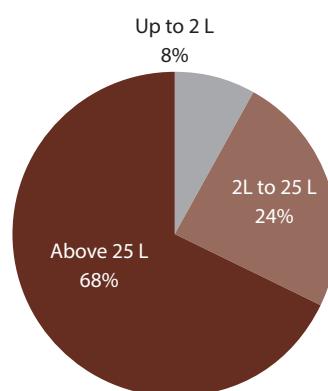


Chart 1.1 A Amount outstanding wise share (%) of accounts March 20



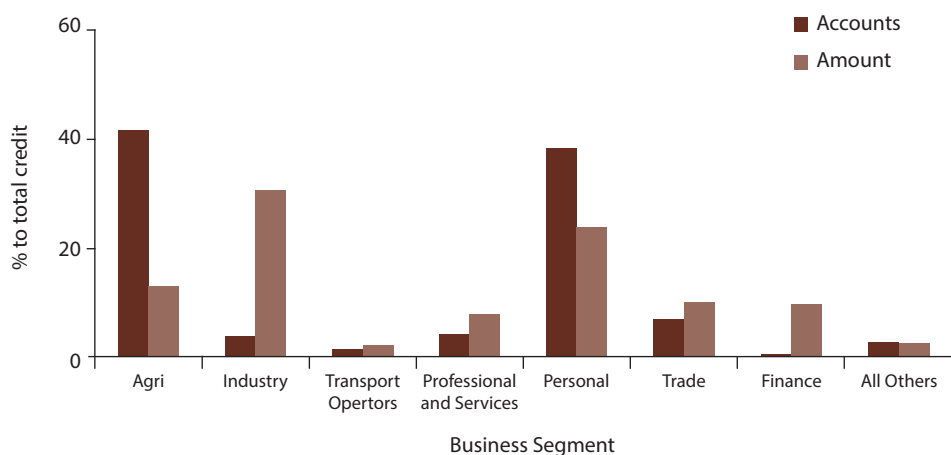
ANALYSIS OF OVERALL BANKING CREDIT AND SHARE OF MSME CREDIT¹⁰

As of March 20 there were 27.25 Crore loan accounts involving outstanding credit of ₹105.18 lakh crore (₹105 trillion). In this the share of MSME was 3.84 crore accounts and credit of ₹16.13 lakh crore¹¹ i.e. 14% of accounts and 15% of outstanding. (Priority Sector MSME Credit as of March 20 was ₹10.80 lakh Crore). However given that there are 633 Lakh MSMEs¹² the outstanding accounts as estimated above would show that about 50% of the MSMEs are financed, though official estimates say that only 15% of the MSMEs are financed. It is important to note that the average outstanding against these loans at about ₹5 lakh show a very low level of financing given the size and turnover reckoned in the recent definition of MSME given above.

In the overall reckoning (chart 1.1 and 1.2) it is seen that loans in 'up to ₹2 Lakh' category¹³ were 77% of the number of accounts and together with '₹2 lakh to 25 lakh' i.e. loans up to ₹25 lakh accounted for nearly 98% of the total accounts. However the amounts outstanding against these accounts were only 32% pointing out to the fact that the size of loans will be small and the average loan amounts in these cases will be very small. Evidently majority of micro enterprises that have been included will fall within ₹25 lakh credit range.

The above credit information covers various business segments (Chart 2)¹⁴. Within this, agriculture and personal loans (including home loans) account for almost 80% of the accounts and 37% of the loans outstanding.

Chart 1.2: Occupation wise credit outstanding % to total credit



Barring personal loans all other segments/occupations could have some MSME units in them. Even in Agriculture, marketing of agri products, green houses, agri processing, selling agri, dairy and poultry products, FPOs etc. will come under MSME. MSME, as such, is not an occupation but denotes an enterprise in industry or service in every occupation or business segment. That, traditionally, banking data has been collected on occupation basis and that MSME is not an occupation by itself is a reason for the differences in various sets of data on MSME.

'UP TO ₹25 LAKH LOANS' AND UNDERSTANDING MICRO ENTERPRISE CREDIT

It was mentioned previously that the definition for MSME has been revised recently. Prior to this the micro enterprises were defined as those with ₹25 lakh investment in case of manufacturing units and ₹10 Lakh in the case of service units. As such these units will not be entitled to more than ₹20 lakh as turnover was not a mandated criterion for lending though nothing stopped banks from financing based on turnover. In view of this, the focus of the last year's State of Micro Enterprise Financing Report 2020 was loans in the range ₹2 lakh to 25 lakh. This year Equifax have given data up to ₹25 lakhs. It has been ensured that the data does not include loans classified as microfinance.

In this background, the data given below leads to a conclusion that majority of micro enterprise loans fall within the range of loans up to ₹25 lakh (as of March 2020). Their share in terms of number of accounts and amount in this size group in the overall credit can be seen in the chart below.

Chart 1.3: Share of loans 2 lakh to 25 lakh in occupation wise overall credit. March 2020



Personal loans and transport loans have larger number of loans in this range i.e. loans up to ₹25 lakh. Evidently a larger number of retail loans to individuals and businesses carried out on sole proprietorship also seem to be in the loan range up to ₹25 lakh¹⁵.

Chart 1.4: Size-wise distribution of loans % to total loans

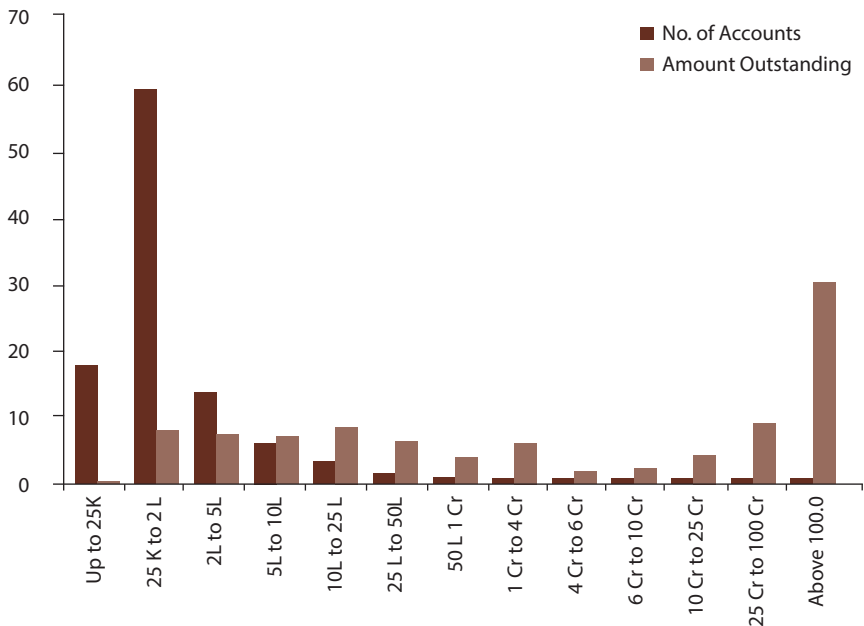


Table 1.6 Loan Size-wise o/s details

	No of Accounts in lakh	Amount O/S '000 Crore	No. of Accounts to total Accounts %	% Amount O/S to total O/S
Up to 25K	472	46	17.3	0.4
25 K to 2 L	1624	878	59.6	8.3
2L to 5L	359	813	13.2	7.7
5L to 10L	152	778	5.6	7.4
10L to 25 L	77	940	2.8	8.9
25 L to 50L	26	707	1.0	6.7
50 L 1 Cr	8	451	0.3	4.3
Above 1 Cr	7	5907	0.3	56.2
Total	2725	10519		

INFERENCE FOR MSME SECTOR FROM OVERALL CREDIT SCENARIO

This report on micro enterprises is based on data shared by Equifax the sponsoring CIC. Before analyzing and inferring the said data, it will be informative to get some insight on MSME issues by analysing data on credit extended by banks.

It can be seen that of the total number of loan accounts (27.25 Crore) about 26.84 Crore accounts were in the range of up to ₹25 lakh. Loans in the range of above ₹25 lakh but less than ₹1 Crore (Table 1.5) formed only 1.3 % of number of accounts and 11% of the amount outstanding. Loan accounts with amounts above ₹1 Core were a mere 0.3% of the number of accounts but involved a whopping 56.2% of the amount outstanding. In view of the above it is evident that if data on MSME loans up to ₹25 lakh is analysed and studied it will bring out all issues being faced by MSMEs and banks and hence the focus of this study on MSME loans up to ₹25 lakh.

It clearly emerges that banks are issuing loans for priority sector more particularly agriculture and the micro, small and medium enterprises including MUDRA loans only to the extent of and up to the limits specified by the authorities. Prima facie analysis shows that within this loan amounts are very small, possibly due to the oft-repeated reason that banks lend minimum/low amounts to a large number of MSME units such that they are able to fulfil priority sector norms while achieving more inclusion. RBI has also extended some investment instruments to compensate the shortfall, if any in achieving priority sector targets. It would also appear, given the constraints in information availability and eligibility issues with the MSME entrepreneur's, banks may be extending some sort of standard or fixed amount to the borrowers not necessarily based on the borrower's need.

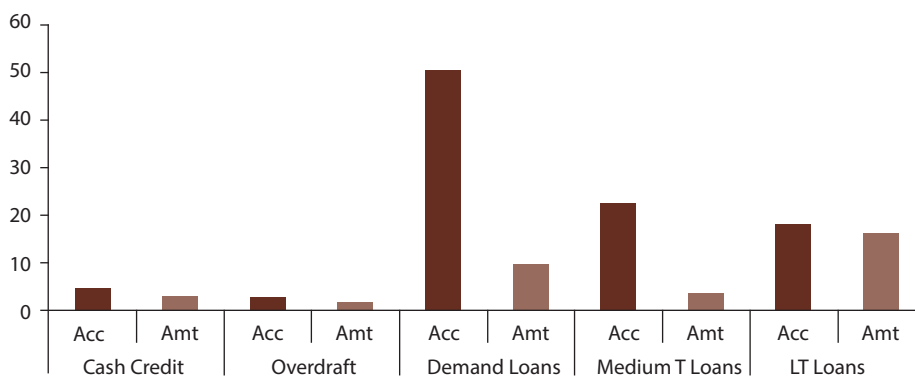
That the loan amounts may not meet with the full funds requirement of MSME units can be inferred by the average loan outstanding (Table 1.7) which is a sub set of amount sanctioned. It is seen that the average loan amount was a very low ₹9813 for loans up to ₹25

K, ₹54021 for Loans between ₹25K to ₹2 lakh, ₹2.27 lakh for loans in the range of ₹2 lakh to ₹5 lakh, ₹5.13 Lakh for loans with limits between ₹5 Lakh to ₹10 Lakh and ₹12.2 Lakh in the case of loans above ₹10 lakh but below ₹25 lakh. Not all the loans in the range of ₹2 lakh to ₹25 lakh are for micro and small enterprises. As such the above comments may be appropriate to other loans priority sector loans as well.

WHAT TYPE OF LOANS FOR MSME?

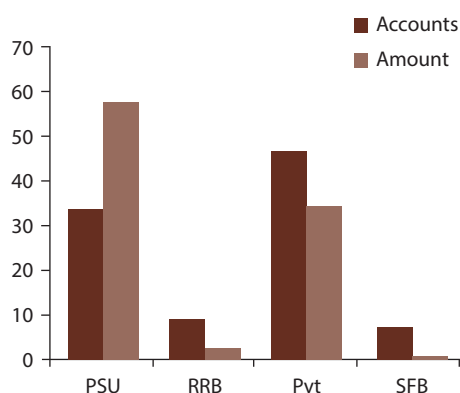
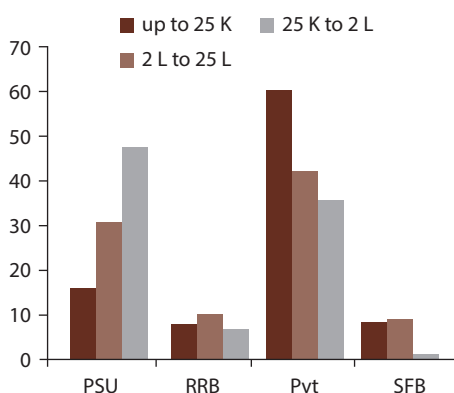
Banks sanction working capital limit and term loans for larger advances based on investments in fixed assets and turnover. It is possible to appraise and sanction various facilities to big firms and companies as the entrepreneurs can give necessary and adequate information for appraisal. In this connection (Chart¹⁶ No.1.6) it could be seen that in the case of loans up to ₹25 lakh nearly 90% of the loans issued by commercial banks were repayable in instalments (could be EMI, quarterly repayment etc.) i.e. these are term or demand loans repayable on instalments. As most micro and small units fall in this range it is likely that most of them are also sanctioned only term loans and not cash credits.

Chart 1.5 Type of credit (%) granted in loans upto 25 L



Possibly a very small number of micro entrepreneurs that too under commercial credit get access to cash credit or over draft. Evidently financing is not based on turnover in which case the share of Cash Credit loans in loans up to ₹25 lakh should have been higher than what it is currently. In view of this it should no surprise that micro and small enterprises often face liquidity issues. In this connection in a recent study on Guaranteed Emergency Credit Line Scheme, the study team of NIBM, based on data accessed by them, has observed that (a) 80% of the borrowers get only 30% of the required credit and (b) 66% of the loans are of size less than ₹10 Lakh and that (c) these units face liquidity issues.

Overall PSU banks account¹⁷ for more than 57% of the credit outstanding. Their share in loan size up to ₹25 Lakh is similar. Given this their share in MSME credit will could be similar or higher. It is observed that in up to 25 K loans banks in private sector have a higher share. This could be due to their financing MFI's on a portfolio basis but reporting data on individual loan basis.

Chart 1.6. Share (%) of banks in outstanding loan - March 20**Chart 1.6 A Share (%) of banks in number of accounts March 20**

AVERAGE LOAN SIZE

In the preceding pages a view about overall finance, possible share of MSMEs in overall finance and some analysis about the spread etc., have been made. We must also see the extent of bank finance and whether it is adequate. The following table (1.7) gives the information on average loan outstanding in the commercial banking space.

Table 1.7. Average size of loans. (₹)

Range/Size of Loans	PSU	RRB	Private	SFB	All SCBs
Up to 25K	13801	18038	7652	11326	9814
25 K to 2L	80760	79459	36120	26145	54021
2L to 25 L	485319	346482	399771	485089	430962
25L to 100 L	3339134	3143672	3282385	3618006	3313134
Above 1 Cr	137053088	31716345	53418524	38690075	86991960
Overall	654529	118399	284300	46168	385983

That the average loans were very low was pointed out earlier. An analysis of size wise banking sector wise average loans outstanding shows that the average tends to be closer to the lower limit in the case of lower range of loans where most of micro and small loans reside. As the loan size increases the average moves towards the upper limit clearly pointing out that in case of commercial credit and where information available is closer to the requirement of banks, credit size seems more appropriate. For example in the size group ₹2 lakh to 25 lakh the average size of the loan is ₹4.30 lakh, about twice the lower limit, whereas in the size above ₹1 Cr it is more than 8 times the lower limit. The amount of ₹4.30 lakh can support up to ₹5 lakh investment or ₹20-₹25 lakh turnover.

In case of home loans, banks adopt a LTV ratio, which they do not practice in MSME loan which have been so far defined on investment basis. In this connection expert

committee on MSME credit has observed that “within the banking sector, one concern is that origination (new accounts) approaches often tend to be homogenous and create correlated credit behaviour and outcomes”. It is generally expected that banks extend adequate finance. It is also stipulated that in case of loans up to ₹10 lakhs no collateral be obtained. In this connection it is expected that the loan policies of the banks are approved by Boards with a definite objective that adequacy of loan is ensured. This is important because under-financing can lead to viability and liquidity issues which can destabilize micro and small enterprises. Under-financing will make it difficult for MSMEs to manage event risks like the pandemic. Yet in case of micro and small enterprises banks seem to go by some predetermined (standard amount across units) amount which is given to all clients. To overcome this and ensure adequate finance, now that the MSME definition is investment and turnover-based, it may be necessary to stipulate amount of loans on (a) LTV basis for the investment and (b) a fourth or fifth of the turnover on a CC or (c) a working capital term loan basis, combining both amounts. In the case of bigger units it is better to offer a working capital loan and a term loan and in case of smaller units a combined loan (WCTL).

ESTIMATING MSME LOANS SANCTIONS AND OUTSTANDING

It is reported that in the year 2020-21 MSME¹⁸ loans of ₹9.5 lakh crore were disbursed as against ₹6.8 lakh crore disbursed in the year 2019-20. This jump in sanction is possibly due to new originations and also restructuring of existing accounts due to pandemic.

Box1.2. How many MSMEs have been financed and how much is the flow of credit to MSME?

One of the issues that came up while analyzing the data and arriving at the flow of credit for MSMEs is divergence in data among Credit Information Companies (CICs) and between CICs and RBI. This has been noted by the Expert Committee on MSME Credit which has observed ‘that traditionally the RBI has been the primary source of data of formal credit to MSMEs. In recent years, however, CICs are also providing similar data. But there exist some difference in the data published by various CICs and RBI’. It is also seen that there are noticeable differences in the data published by CICs as well.

Information/ data to CIC are reported online by banks. In this regard, it is apprehended that there could be classification error at the data entry level as there exists no checking or verification of data at any level.

In this background it is difficult to say the exact amount of credit flow to this sector. As such the following are worth noting:

1. Data received for this book from Equifax shows (Table 2.4) MSME loans up to ₹25 lakh was ₹5.80 lakh Cr. While analyzing the overall credit by commercial banks,

it was seen earlier that loans up to ₹25 lakh accounted for about 98% of accounts and about 32% of the amount outstanding. MSME loans being mostly micro and small loans, it is likely that a somewhat higher % of loans could be in loans up to ₹25 lakh. Applying this criterion it could be said that the sanction/origination during 2020-21 could be more than ₹10 lakh crore. Possibly the efforts taken by authorities have resulted in increased sanctions during the year.

2. A periodical report by another credit bureau indicates that credit amounting to ₹9.47 lakh crore was disbursed during 20-21 (i.e. ₹2.05 lakh Crore for Micro enterprises, ₹3.86 lakh crore for Small enterprises, and ₹3.56 lakh crore for Medium enterprises) as against ₹6.8 lakh crore in the year 2019-20. The report places the credit outstanding against MSME at ₹20.21 lakh crore. The YOY growth was 6.6% (Micro 7.8 %, Small 6.8% and Medium 5.8%)
3. The report 'How India Lends', indicates that the flow of credit to MSME was ₹7.18 lakh crore in 2019-20 and 8.68 lakh crore in 2020-21 for 11.68 lakh borrowers and 18.96 lakh borrowers respectively.
4. MSME Ministry has reported that disbursement for MSME segment was ₹3.21 lakh crore in 2020-21 as against ₹3.37 crore in 2019-20.
5. As per data published by RBI, the o/s loans to the MSME sector as of March 2021 were ₹1107266 lakh (₹11 Trillion) crore and as of March 2020 it was ₹1074132 lakh crore.
6. A credit rating firm says the o/s credit under the head 'industry' was ₹29.2 lakh crore (March 21) of which ₹5.2 lakh crore was for Micro, small and medium industry.
7. Statista Research has reported that in the financial year 2019 the MSME credit o/s in India was about ₹15 trillion (₹15 lakh crore).
8. A credit bureau has reported that the total lending (outstanding) by SCBs in India was ₹74.36 lakh crore as of March 2021, (growth rate 0.6 %.) of which MSME credit was ₹20.21 lakh crore.

Credit bureau records exist for two types of borrowers namely (a) institutions such as companies proprietorships, partnerships and private firms within the norms stipulated are classified as commercial credit, (b) individual customers who get business loans. In addition, credit bureaus have exclusive information on micro-finance borrowers some of whom could be micro entrepreneurs. RBI data shows that individuals are the largest number of borrowers in the system and therefore under MSME as well.

In the recently published handbook of statistics (RBI) it is seen that the total outstanding (Priority Sector) for Micro and Small units under MSME were ₹11.07

lakh crore. Another report states that, there were as of March 2021, 9 million commercial borrowers and about 14-16 million borrowers with commercial-vehicle and business loans. These are MSMEs. Analysts say that of the 58.3 million micro-finance (MFIN data) borrowers, 25% could be micro units and will fall under MSMEs. If all this is added up it would show that nearly half the MSME in the country have access to credit. We have previously seen that there are 63.3 million MSMEs. These include companies, partnerships etc. with a turnover of more than ₹100 Crore, a small % of MSMEs. On the other hand there are a large number of MSMEs run by individuals or sole proprietors who could be grocers, tailors, repair shops, taxis, village craftsmen etc. Given this and the difficulty in identifying a loan applicant as MSME at the application stage points out that MSME credit, is possibly more than what is reported in official publications.

Evidently there are different sets of data about credit flow and stock of credit for MSME. This could be because classifying the credit at the sanction/disbursement level is purpose-wise¹⁹ or borrower-wise and not based on MSME definition. It must be added here that the information collected by authorities on credit to agriculture, priority sector, MSME are not audited. As such there could be errors in classification and reporting. Actually, how many have been financed and what is the amount outstanding is relatively unimportant. But how to increase access to credit is more important and in the meantime the numbers reported will find a way to stabilize.

It is reported that ECLGS has played a very important role in improving MSME credit during Pandemic. The YOY growth of MSME as of March 2021 is placed at 6.6% with micro section recording a growth rate of 7.4%.

ASSET QUALITY IN OVERALL CREDIT

Data about asset quality of MSME loans as of March 2021 is not available. The impact of various initiatives including the non-application of NPA norms on certain accounts for some period, restructuring of accounts due to pandemic etc. on the asset quality of MSME is also not yet known. It will be another 6 months before data on these items will be made available. The NPA information up to March 2020 is given below.

Table 1.8 GNPA trend in MSME in Priority Sector

Agency	2016		2017		2018		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
PSB	65800	13.1	75700	11.8	82094	9.7	73,381	9.7	90769	14.1
Private	4700	9.6	6400	8.7	8,013	7.8	12,796	8.2	16111	8.76
All SCBs	70800	12.5	82500	11.3	90,659	9.4	86,792	9.9	108704	12.9

It is learnt from a market reports that GNPA of micro units as of March 2020 was 10% and 10.2% as of March 2021. In the case of Small and Medium MSMEs the GNPA has been reported at 10.4% and 16.8% as of March 2021. It was earlier seen that current loan outstanding for MSME could be about 15% of overall loan outstanding. As against this, it is seen that share of GNPA of MSME is reported at 13%. Apparently NPA is low. This could be because of the moratorium and restructuring of MSME accounts allowed by RBI.

THE WAY FORWARD

Based on the definition existing before the current revision, it is expected that most of the MSME accounts in the loan range up to ₹25 lakhs will be micro enterprises. It is expected that with the inclusion of both investment and turnover in the definition of MSME credit/loan size of micro units (small and medium as well) will increase in the years to come. This will also encourage MSME units to make available more financial information to the lenders so that they get appropriate amount of finance i.e. investments are financed by banks after stipulating a margin to be met by the firm/entrepreneur and working capital loans are extended as a % of annual turnover. In this connection it is well known that in case of housing and vehicle loans, banks adopt a loan to value ratio and in the case of business loans turnover is funded by working capital support as a % of debtors or based on net working capital requirement. It is expected that in extending credit to micro and small units, banks will follow a similar method, and given the absence of buyer credit, margins will be kept low or waived. Banks can extend collateral²⁰-free loans for ₹1 Crore due to the availability of Guarantee under CGTMSE. One of the objectives of the earlier definition was to include micro units and therefore the investment levels were kept low so that banks will be forced to lend due to PS mandate. Now that the definition of MSME has been expanded it should not end up denying credit to start ups and very micro enterprises

CEOSpeak 3: SIDBI

Qn: Lack of collateral is often cited as one of the reasons for poor flow of credit to MSME sector. At the same time all schemes where collateral has been waived due to regulatory or government instructions, asset quality has been very poor. Guarantee, if available, does not fully cover the loan amount. Given this and the regulatory policies on risk management (like provisioning, risk weights etc.), which banks have to comply how can MSME credit be increased?

Ans: Risk Management requirements keep on evolving based on the changing market requirements. Therefore, SIDBI has undertaken several modifications in CGTMSE scheme such as enhancing coverage, introducing hybrid security and inclusion of MSE retail etc., to provide collateral free loans to MSEs. CGTMSE shall continue to make enhancements based on the needs of MSEs. Besides, SIDBI is also working with NCGTC, a Government of India company, for offering guarantee to small sized MUDRA loans to give fillip to MSE credit.

REFERENCES

- ¹ Report 'Financing India's MSMEs Estimation of Debt Requirement of MSMEs in India'
- ² There are extremely varying and un-reconcilable figures on credit flow and credit outstanding to the MSME sector due to issues such as vague definitions and reporting differences. In the report 'Credit landscape how India lends' it is seen that MSME loans outstanding were ₹4.74 Lakh Crore in March 20 and 5.49 Lakh Crore in March 21. MSME Loans (Entry level Credit exposure up to ₹50 Cr) contribute 85% of the Commercial loans market of Mar'21. Public Sector Banks and Private Banks dominate both overall Commercial Loans and MSME Loans.
- ³ RBI report on Trend and Progress of Banking in India
- ⁴ Source MSME Ministry report
- ⁵ Banks and lending agencies report data on sanctions, outstanding and delinquency to CICs on a quarterly basis
- ⁶ Statement 1: Deployment of Gross Bank Credit by Major Sectors. RBI
- ⁷ The Finance Ministry of India launched the Emergency Credit Line Guarantee Scheme (ECLGS) in May 2020 to help the pandemic hit economy. This scheme aimed to provide ₹3 lakh crore of unsecured loans to MSMEs and business enterprises to mitigate the distress caused by the corona virus-induced lockdown.
- ⁸ Data from Report on Trends and Progress in Banking various volumes
- ⁹ Growth over the previous year: Source RBI BSR returns
- ¹⁰ Source of data BSR Returns: RBI
- ¹¹ RBI: Report on trend and progress of banking in India
- ¹² India has approximately 6.3 crore MSMEs. As per the MSME Ministry data, as of May 16, 2021, the Udyam Registration portal registered 3000822 MSMEs. Registered micro-enterprises were ₹28 lakh (93%), followed by small enterprises at 1.78 lakh (6%) and mid-sized enterprises at 24,657 (1%). The Indian MSMEs sector contributes about 29% towards the GDP through its national and international trade.
- ¹³ Source: BSR returns
- ¹⁴ Source: RBI BSR Table No. 3.4 Size of limit wise classification of outstanding credit of SCBs according to occupation March 20.
- ¹⁵ Source: RBI BSR Table No 3.4 Outstanding credit of SCBs size of credit limit wise and occupation wise. March 20.
- ¹⁶ Source RBI BSR table no 2.6 Size of credit limit and type wise credit outstanding of SCBs March 2020
- ¹⁷ Source Table No 2.7 Bank Group-wise Credit of SCBs according to size of limits. March 2020
- ¹⁸ Data source MSME Pulse, SIDBI, RBI Trends and Progress report and MSME Annual Report
- ¹⁹ What are the loans reported by Banks as MSME could make an interesting reading. For example SBI (<https://sbi.co.in/web/business/sme/sme-loans>) lists 20 different types/names of loans under SME and within this there could be different purposes.
- ²⁰ ICICI bank for example says 'we understand that viable small businesses need loans to grow, but may not always have the requisite collateral. So, speak to us about our Collateral Free Loans'. Get Cash Credit and Term Loan under CGTMSE scheme up to ₹2 Crore. This is a Collateral free facility specially designed under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme of SIDBI and Ministry of Small and Medium Enterprises as defined under MSME Act, 2006.
- ¹⁹ What are the loans reported by Banks as MSME could make an interesting reading. For example SBI (<https://sbi.co.in/web/business/sme/sme-loans>) lists 20 different types/names of loans under SME and within this there could be different purposes.
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MSME Originations and Credit flow 2020-21

INTRODUCTION

In the previous chapter we saw the profile of MSME accounts in terms of overall stock of credit i.e. outstanding loan amounts and information available (literature survey) in various places. It is observed that outstanding MSME credit could be anywhere around ₹16 lakh crore. It is also observed that MSME sector is growing at a higher rate than other sectors which has been possible on account of focused recent initiatives for MSME by GOI and RBI. One of the recent initiatives is the change in the definition of MSME. It is however too early to see the impact of the change in the definition of MSME which, unlike the past when it was investment based, is now both investment and turnover based. It is evident that the basic reason for the change in definition is clearly a felt need to extend more credit, ensure adequate credit and to bring new as well as existing borrowing enterprises into higher loan sizes.

Prior to this, the definition was exclusively based on investments. Accordingly the investment to be considered a micro enterprise in the manufacturing industry was up to ₹25 lakh and for service industry up to ₹10 lakh. For small manufacturing units, the limit

Chart 2.1 Total Credit outstanding (CR) in the banking system loan limit-wise¹

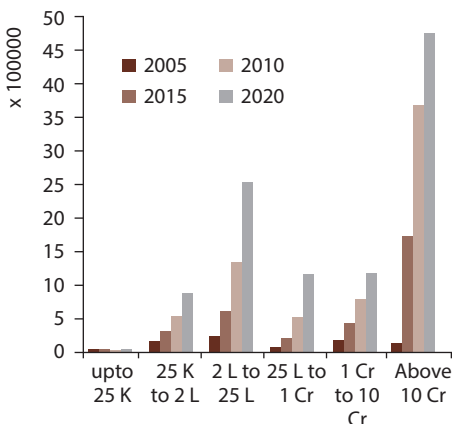
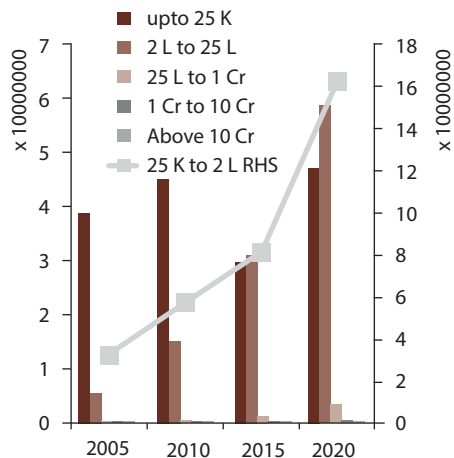


Chart 2.2 Number of accounts outstanding in the banking system loan limit wise



was ₹5 crore and for small enterprises ₹2 crore. As reporting under the new definition will take time and it is too early to expect it as of March 2021, in this report, which is focused on financial inclusion, credit facilities up to ₹25 lakhs have been taken up for study on the assumption that this will better represent the credit flow to majority, if not all micro and small enterprises. Looking ahead, as the MSME definition has been revised, the focus could be on loans up to ₹50 lakh or up to ₹1 crore for micro and small units while hoping that the existing flow of credit to a large number of micro units continues.

It is observed that since 2006 (Chart 2.2) there is a spurt in the number of accounts in the limit up to ₹25 l.

Overall in the banking industry, it is seen that 98.44% of the loan accounts were in the 'up to ₹25 lakh' range with 32.42% of the loan outstanding. Remaining 1.56 % (number) accounts had 67.58% of the amount of loan outstanding. It is also seen that the share of individuals and other households in the total credit (chart 2.3) was about 90%. Because most of the MSME borrowers are sole proprietors/individuals, (table 2.1) it is presumed

Chart 2.3 Share of individuals and household sector (non corporates/formal institutions) in total credit by SCBs March 20

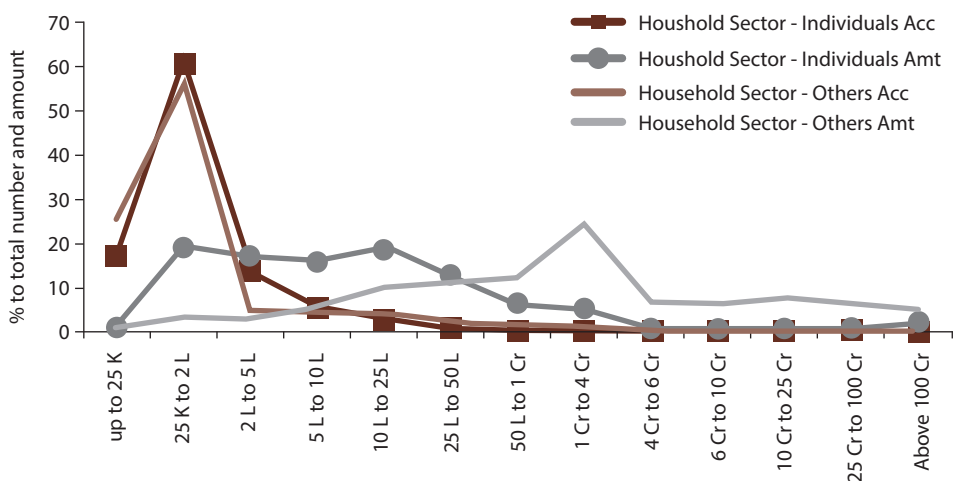


Table: 2.1 Share (%) of various types of borrowing persons/organisations in the total loan accounts and amount outstanding March 2020

Segment of borrowers	Acc	Amt
Public Sector	0.08	0.04
Co-operative Sector	0.06	0.05
Private Corporate Sector	0.30	0.38
Household Sector Individuals	91.32	29.91
Household Sector Others	6.68	2.05

that majority of the credit for them will fall within ₹25 lakh and that most of micro enterprises could be sole proprietorships as well. Evidently most enterprises start as sole proprietorships and as they grow in business, form partnerships, companies etc. and move into commercial credit.

Keeping it in mind that a majority of the credit to Micro Enterprises falls within in the range of ₹25 lakh and that most units are sole proprietorships, the following analysis of sourcing (sanction of loans) or origination of MSME credit during 2020-21 by Banks and NBFC is being attempted.

MSME CREDIT OUTSTANDING

The credit outstanding of the SCBs, under priority sector as of March 26, 2021, for the MSME sector (Priority Sector) stood at ₹11.07 lakh crore, up from ₹10.8 lakh crore in March 2020. In the recent years, NBFCs have also been playing a noticeable role in extending credit to MSME. This sector accounted for a share of around 18% in the total credit outstanding to industry and around 5 % in the total non-food credit extended by the SCBs⁴. The overall credit by Banks to MSME sector is reportedly around ₹16.86 lakh crore (Table 1.2). Of this, while commercial banks have reported an outstanding credit of ₹16.13 lakh to MSMEs as of March 2020, It is reported that NBFCs had, as of March 2019, an outstanding of ₹1.62 lakh crore. The growth of MSME credit under Priority Sector (Table 2.3) was placed at 2.3% for the year 2020-21. In the loan size up to ₹25 lakh the majority will fall in priority credit.

Table 2.3 Priority Sector MSME Credit⁵

	Outstanding Priority Sector as on last reporting Friday in March					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Amount ₹Crore	847587	901972	996365	1047699	1080443	1107236
Growth over pre year		6.42	10.47	5.15	3.13	2.48

MSME SANCTIONS AND ORIGINATIONS

We have, in the previous pages studied outstanding based analysis and made certain comments on MSME credit. For understanding the sanction and flow of credit to MSME, more particularly micro enterprises and loans up to ₹25 lakhs, Equifax gave four sets of origination or sanction data namely (i) Business Loans Agri, (ii) Business Loans Retail, (iii) Mudra loans and (iv) MSME Commercial loans. Of this the first three cover loans to individuals while the fourth covers companies, partnerships, cooperatives etc. Further data on delinquency in the portfolio of these four segments has also been provided for analysis.

Basically, the data given by Equifax emanates from banks and NBFCs who have been mandated by RBI to share certain data with credit bureaus. Therefore it is the reporting entity and not the CIB or CIC that determines whether an account is MSME and within that whether it is micro or small or medium. Data is submitted on-line to the CIC by the

nodal department of bank. Also the data is normally not subject to audit or verification. All the credit bureaus have their own publications on many subjects including MSME and it is noticed that the data on loan issued and outstanding for MSME reported by them do not always match. For this report/book, the data shared by Equifax show that overall credit flow during the year in loans up to ₹25 lakh was ₹5.8 lakh crore with commercial credit accounting for a bulk of it, say 60%.

Table 2.4 MSME credit in the loan limit range of up to ₹25 lakhs sanctioned by various agencies 2020-21⁶

Type of MSME Credit	Number of accounts (000)	Amount Sanctioned ₹Cr	Average Loan ₹
1 Business Loans Agriculture	12161.8	132531.3	108973.7
2 Business Loans Retail	6195.2	85868.9	138605.8
3 MUDRA	753.2	8979.0	119218.8
4 Commercial Credit	11317.64	352628.39	311574.1
Total	30427.84	580007.59	190617.4

As per the data it is observed that 3.04 crore accounts were sanctioned in 'loans up to ₹25 lakh' during the year involving an amount of ₹5.80 lakh crore. Within this the average loan was lowest in the Business loan (BL) Agri segment and highest in the Commercial Credit segment. But the overall average loan amount was less than ₹2 lakh. This is in line with what we saw earlier in respect of overall credit by banking system. Obviously the Micro enterprises are very small within MSMEs and possibly the banks are too conservative in sanctioning the loans.

Equifax had shared data in 7 loan sizes starting from 'up to ₹3 Lakh and ₹3 lakh to ₹5 lakh etc., up to ₹25 lakh. However for analysis and convenience of presentation, data has been clubbed into three groups.

REFERENCES

- ¹ Data Source: RBI BSR returns.
- ² Source RBI BSR returns Table 2.5 Size of credit limit & borrowing person/organisation wise classification of outstanding of SCBs- 3/2020. Credit bureaus are collecting information from lenders and have assigned codes for various loans. Some of this codes are prefixed with words 'microfinance' 'PMJDY' etc., and as such the data used in this report pertain to only MSME loans
- ³ 'Gross Bank Credit' in major sectors. RBI Bulletin June 21
- ⁴ Sectoral Deployment of Bank Credit in India: Recent Developments. RBI Bulletin February 2021
- ⁵ Table 46: Handbook of Statistics on Indian Economy. RBI
- ⁶ Data from Equifax

3

Business Loans Agri.

INTRODUCTION

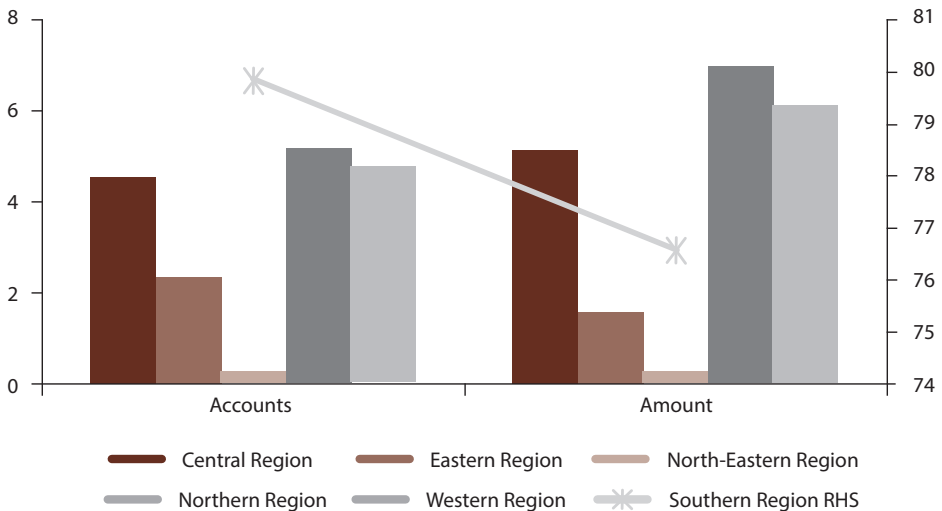
Agriculture as an occupation is different from what is covered under Business Loans Agriculture. Business Loans under agriculture¹ will cover processing and trading of agricultural produces, dairy and dairy products, service rendered towards agriculture and agriculturists like tractors for custom hire etc. Credit extended to FPO albeit business loans for agriculture will come under commercial MSME credit.

As per data, during the year 2020-21, 1.21² crore BL Agri accounts were sanctioned by banks and NBFCs in the size limit of loans up to ₹25 lakhs under MSME. This involved ₹1.32 lakh crore of credit flow (sanction) at an average of ₹1.09 lakh per account.

REGION WISE DISTRIBUTION OF BL AGRICULTURE

Region-wise analysis of data (chart 3.1) shows that Southern region accounted for about 80% of the accounts and 77% of the sanctions while other regions have less than 10% of the sanctions.

Chart 3.1 Sanction (% to total) of BL Agri Loans share of regions - March 21



The sanctions show a heavy tilt towards less than ₹3 lakh loans in all the four categories for which data has been made available. PSU banks had major share across regions (Fig 3.1) and a share of more than 90% in the central and eastern region.

Fig 3.1 Region-wise share of PSU in BL Agri loans up to ₹3 lakh



AGENCY-WISE DISTRIBUTION OF BL AGRICULTURE

Analysis of agency-wise lending performance shows that in case of ‘loans up to ₹25 lakh’ (charts 3.2 and 3.2A) PSU banks had more than 80% share in accounts and amount sanctioned followed by RRB and Private Banks which accounted for a share of about 6% each.

Chart 3.2 Agency wise share in B L Agri sanction accounts 20-21

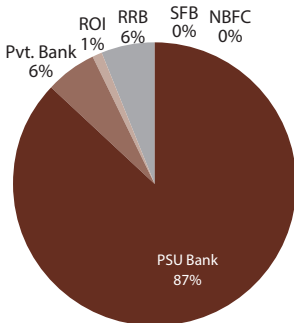
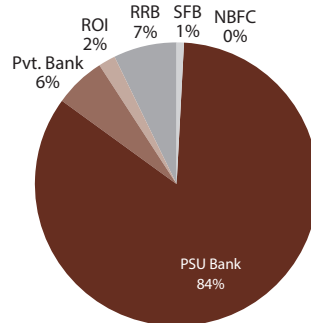


Chart 3.2 A. Agency wise share in B L Agri sanction - Amount 20-21



The data submitted by banks to CIC possibly, include 'Gold loans' which is a fast moving loan in the southern region. 'Gold loans' (loans issued against pledge of Jewellery) can be, as per RBI circular, extended by banks and NBFC for both agricultural and non-agricultural purposes. This could be one reason why southern region has a larger share in BL Agri.

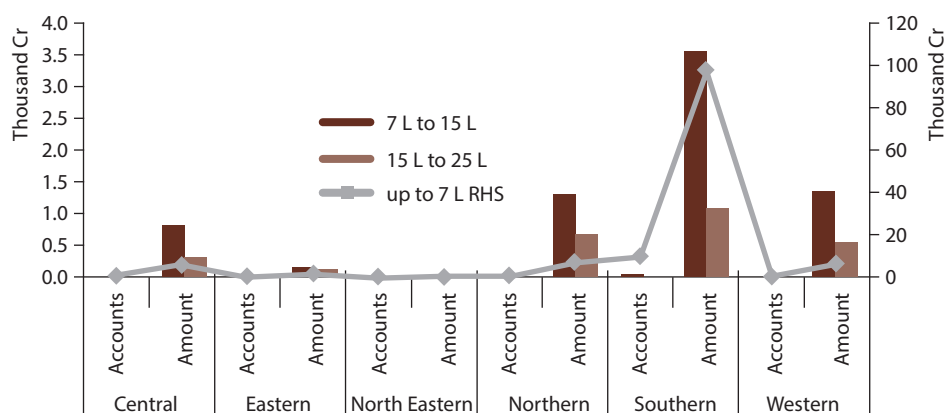
LOAN SIZE-WISE BL AGRI

Loan limit size-wise analysis shows that the sanctions are predominantly in the 'up to ₹7 lakh' loans. Of these, loans up to ₹3 L were 73.13% of the sanctions during the year. It is also seen that (table 3.1) barring SFBs in all other cases, loans up to ₹7 lakh accounted for more than 90% of the accounts and more than 75% of the amount. In case of PSU banks almost all loans and about 94% of the amount sanctioned was within ₹7 lakh. In case of SFBs about 40% of their accounts and 12% of amount sanctioned are of this size. It is noteworthy that SFB's have a higher share of loan sizes ₹7 lakh to 15 lakh and ₹15 lakh to 25 lakh. Given that banks are advised not to ask for collaterals, possibly these loans by SFBs are under LAP for agri-business purposes.

Table 3.1 Credit limit-wise and agency-wise sanctions under BL Agri 2020-21 % to total by the agencies

	up to 7 L		7L to 15L		7L to 15L	
	Accounts	Amount	Accounts	Amount	Accounts	Amount
NBFC	98.32	73.55	0.56	12.62	1.12	13.83
PSU Bank	99.36	93.81	0.08	1.43	0.55	4.76
Pvt. Bank	97.78	78.49	0.56	8.44	1.66	13.07
Others	97.89	84.14	0.24	3.36	1.87	12.50
RRB	98.58	88.50	0.20	2.80	1.22	8.70
SFB	39.96	12.14	24.32	49.47	35.72	38.39
Grand Total	99.18	91.98	0.13	2.19	0.69	5.83

Chart 3.3 Credit limit wise sanctions during 20-21



It was earlier observed (chart 3.1) that southern region has a major share in Micro enterprise loans. In this regard it is further observed (Chart 3.3) that in all loan sizes southern region has a major share. It is also seen that in BL Agri and in loans up to ₹25 lakhs the loan size 'up to ₹7 lakh' accounted for a major share almost dwarfing the contribution of agencies in other sizes.

ADEQUACY OF LOANS

In this background and to understand the adequacy of loans, an analysis of size wise average loans was undertaken which showed that (i) the average amount sanctioned in the range up to ₹7 lakh (which incidentally accounted for a majority of the accounts up to ₹25 lakh) varied from ₹61 thousand (NBFC) to ₹2.85 lakh and average of ₹1.01 lakh. PSU banks which had a major share had an average loan size of just about ₹1 lakh (ii) in the loan size ₹7 lakh to ₹15 lakh the average was lower than ₹7 lakh to ₹15 lakh (iii) in the third size almost all banks had same average amount barring SFB where it was slightly higher.

It can be, based on the low average concluded that majority of the loans were of less than ₹1 lakh amount.

Table 3.2 Average sanction of amount of credit Sanctioned (₹) in various limit ranges.

	Up to 7L	7 to 15L	15-25 L
NBFC	61330	1012183	1831856
PSU Bank	99956	911803	1819416
Private Bank	99859	981478	1877216
Others (ROI)3	112730	877155	1813599
RRB	115768	921318	1815454
SFB	285092	1008646	1908582
Overall	101059	923078	1839690

The average loan in case of up to ₹7 lakh is closer to the lower limit, while in other two sizes it is somewhat at midpoint in size. Yet the share of ₹7 to ₹15 lakh and ₹15 lakh to ₹25 lakh in the overall amounts sanctioned is too small, as overwhelming numbers of loans are in the size group up to ₹7 lakh. It is also seen that average loans in the size group up to ₹7 lakh is low due to a heavy concentration of loans up to ₹3 lakh in this group. As indicated earlier, it is possible that agri gold loans could be reported under the head gold loans. It is, in this connection observed that one of the codes used by CIB/CIC is meant for Gold loans. The code however does not distinguish agriculture loans and other loans. Gold loans for Agri and MSME are permitted by RBI. Recently RBI has increased the LTV for gold loans⁴. It is suggested CICs may, in the purpose-wise code, ensure that Gold loans are given two codes, one for Agri Gold loans and another for other purposes. This is important because a micro enterprise does not include agriculture (occupation).

A unique feature observed in the credit flow for BL Agri and also across MSME credit up to ₹25 lakh is the somewhat similar average credit sanctioned across the institutions, which raises an issue about whether there exist individual loan appraisals or whether banks sanction pre-determined/uniform amounts for majority of their MSME customers. To study this aspect we looked into the relationship between average loan and the upper end of the range and the following data emerged:

Table 3.3 Ratio of % of average loan to the higher end of the size limit

	Up to ₹7 lakh	₹7 lakh to ₹15 lakh	₹15 lakh to ₹25 lakh
NBFC	8.76	67.48	73.27
PSU Bank	14.28	60.79	72.78
Private Bank	14.27	65.43	75.09
RRB	16.54	61.42	72.62
SFB	40.73	67.24	76.34

It is seen that as the size of loan increases, the average loan size increases, indicating that entrepreneurs who get higher loan amounts are possibly (a) able to better comply with the eligibility and information criteria than the lower size loans and (b) therefore sanctioned loans based on individual appraisal. Also given the larger number of credit aspirants and lack of sufficient information about them the loan amounts for smaller units- like it is seen in the case of microfinance- is possibly uniform, despite differing individual requirements. It is evident that, given the large number of cases in lower sizes, banks are sanctioning certain fixed/standard amounts irrespective of the need of the MSME which is the reason why the average is closer to the lower end of the limits. Giving a predetermined amount is not incorrect unless after two or three cycles of credit and subject to good/satisfactory performances, banks increase the limits and enable the enterprise to grow. In fact, as in the case of microfinance, banks may consider assured sanction of three or four cycles of credit with certain some assured percentage increase in the loan amount and at the end of the third or fourth cycle appraise the borrower on the basis of performance and data and sanction appropriate loan amount. This will ensure new sanctions to credit cases are handled correctly and that MSMEs are able to grow with bank support.

CEOSpeak4: SIDBI

Qn: NBFCs borrow bulk from banks and on-lend to individuals and groups. Can this model be introduced in MSME segment? SIDBI has a long successful history of lending through NBFCs. Will you agree with this suggestion?

Ans: The Co-lending model of Banks and NBFCs has the potential to utilize the resources and reach of both the institutions. This model is already working well with SIDBI and NBFCs for catering to the credit needs of MSMEs.

AREA-WISE DISTRIBUTION OF BL AGRICULTURE

These being BL Agri, it is important to see how many of these loans have been extended in rural and semiurban areas.

Chart 3.4.A. B L Agri 2020-21 Area-wise distribution of sanctions

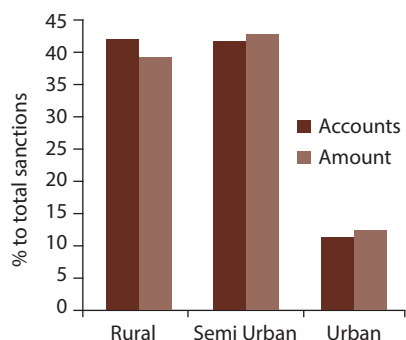
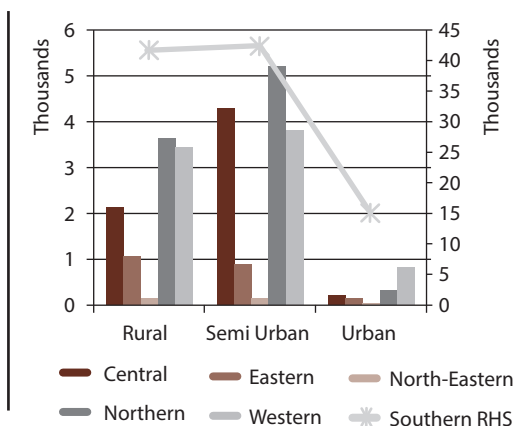


Chart 3.4.B. Region wise area wise distributions of BL Agri Sanction Amounts 20-21.



Information depicted in chart 3.4.A and 3.4.B would show that a majority of these loans are sanctioned in rural and semiurban areas and as indicated earlier southern region accounts for a major share of these loans. Eastern and North Eastern regions have very low share in these loans but there again the share of loans in rural and semiurban areas is higher.

Table 3.4. Agency-wise, area-wise sanction of BL Agri loans up to ₹25 lakh in 2020-21

Agency	Details	Sanctions			Total agency	% to total by the agency		
		Rural	Semi Urban	Urban		Rural	Semi urban	Urban
NBFC	Acc	9	9	1	22	43.59	39.38	5.97
	Amt	81	73	10	177	45.52	41.08	5.67
PSU Bank	Acc	4446	4425	1289	10554	42.13	41.93	12.21
	Amt	43913	47935	15198	111741	39.30	42.90	13.60
Private Bank	Acc	239	294	65	661	36.12	44.52	9.81
	Amt	2900	3552	1012	8224	35.27	43.19	12.31
RRB	Acc	343	275	18	747	45.94	36.86	2.41
	Amt	4220	3914	240	9638	43.79	40.61	2.49
SFB	Acc	2	3	0	5	35.56	50.67	6.12
	Amt	152	256	38	491	31.07	52.24	7.75
Total accounts in 000		5113	5067	1379	12162	42.04	41.67	11.34
Total amount in ₹Cr		52057	56692	16557	132531	39.28	42.78	12.49

Agency-wise, area-wise distribution of sanction accounts and amounts (Table 3.4) show that PSU banks accounted for 86.78% of accounts and 84.31% of amount of sanctions under BL Agri. Further their share in the amount sanctioned by all agencies in rural, semiurban and urban areas was 84.35%, 84.55% and 91.79% respectively. RRBS had a share of 7.27% in the overall sanction and private banks had a share of 6.2%. Of the total BL Agri loans nearly 42% of accounts involving 38% of the credit were sanctioned in the rural areas. Sanctions in semiurban areas were 42% of accounts and about 43% of the amount. Among all the agencies, rural and semiurban areas had almost equal share of loan sanctions. Urban areas had less than 12% (overall) share in BL Agri.

The agency-wise average loans are shown in Table 3.5 below

Table 3.5 Agency-wise, area-wise Average Loan (₹)

	Rural	S Urban	Urban	Overall
NBFC	85594	85499	77829	81962
PSU	98761	108327	117942	105874
Pvt	121478	120680	156171	124411
RRB	122908	142085	133185	128955
SFB	819785	967547	1188438	938375
Total	101811	111877	120028	108974

It is seen that the average loans are very small irrespective of the area or agency. It is further observed that NBFCs had the lowest average amount of loan. Whether these loans are adequate for the micro enterprises, what percentage of their credit needs were met by the banks, and if the loans were inadequate leading to further indebtedness on them, is worth a study. SFBs have sanctioned higher amounts of loan which are more than 8 to 10 times the loan sanctioned by other agencies, irrespective of the area.

CONCLUSIONS ON BL AGRİ

Some of the points that emerge in this analysis about loans up to ₹25 lakh are:

- Southern region has major share of BL Agri loans sanctioned during 2020-21
- PSU banks and especially in southern region account for a very large share of accounts sanctioned.
- The BL Agri accounts are evenly divided between rural and semiurban areas and about 10% of loans in urban areas.
- Loans up to ₹7 lakh and within these, loans up to ₹3 lakh had a major share of BL Agri Loans during the year 2020-21.
- The overall average amount under BL Agri is seen around ₹1 lakh which, it is apprehended, may not be sufficient for the micro enterprises.

REFERENCES

- ¹ Agribusiness refers to any business related to farming and farming-related commercial activities. Investopedia
- ²
- ³ ROI=Rest of others Institutions
- ⁴ RBI has said in its circular of 6/8/20 “with a view to further mitigate the economic impact of the Covid19 pandemic on households, entrepreneurs and small businesses, it has been decided to increase the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75 per cent to 90 per cent. This enhanced LTV ratio will be applicable up to March 31, 2021 to enable the borrowers to tide over their temporary liquidity mismatches on account of COVID 19.

4 BL Retail

INTRODUCTION

Under Business Loan retail (BL Retail) in amounts up to ₹25 lakh, about 62 lakh MSME accounts were sanctioned by banks and NBFCs during the year 2020-21 involving an amount of ₹85870 crore during at an average of ₹1.38 lakh per account.

Region-wise sanction of BL Retail

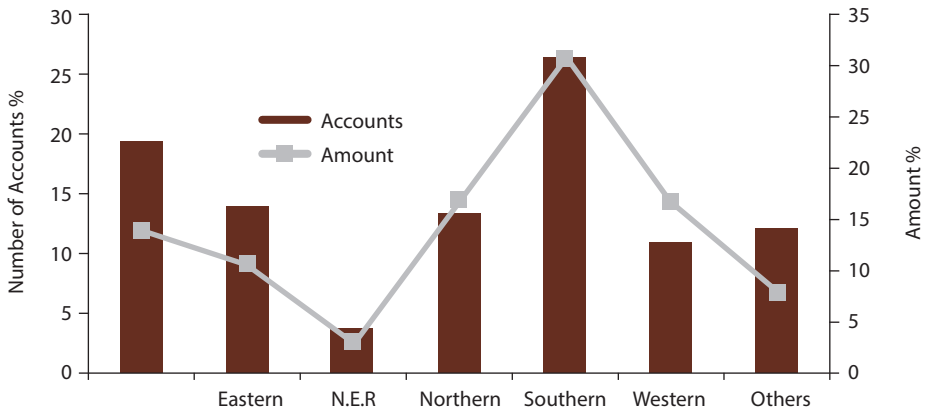
Region-wise analysis of data (Table 4.1 & Chart 4.1) shows that Southern region had, sanctioned nearly 26% of the number of accounts and 30% of the total amount. Also loans up to ₹7 lakh accounted for 95% of the accounts and 53% of the loans sanctioned. The number of accounts in the loan range of ₹15 lakh to ₹25 lakh was hardly 2% but formed 20% of the amount sanctioned.

Table 4.1. Region-wise loan limit-wise sanctions in retail MSME during 20-21 (Acc 000 Amt Cr)

	0-7L		7-15L		15-25L		Total	
	Account	Amount	Account	Amount	Account	Amount	Account	Amount
Central	1157	6549	36	3380	11	2067	1204	11995
Eastern	839	5557	24	2248	8	1378	870	9183
N.E.R	216	1945	5	474	1	237	222	2656
Northern	769	6987	45	4273	18	3316	832	14576
Southern	1538	15070	64	6125	28	5113	1630	26309
Western	617	6090	41	3956	23	4284	681	14330
Others	729	3700	19	1823	7	1299	755	6821
Total	5865	45898	234	22279	96	17694	6195	85869

NER had very low performance (3.5% of total accounts and 3% of amount) in BL Retail. Western and Northern regions had sanctions of 17% of the total. Central regions contributed about 20% of the loans but only 14% of the amount.

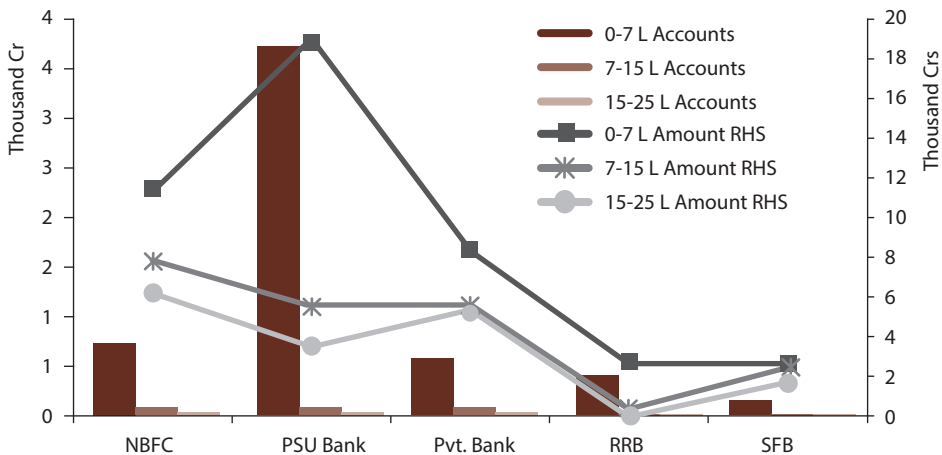
Chart 4.1 Share of regions in sanctions (flow) of retail credit 20-21



SIZE-WISE ANALYSIS OF BL RETAIL

In terms of number of accounts and amount in a size-wise analysis (Chart 4.2) it is seen that up to ₹7 lakh size and PSU banks accounted for a majority of loans.

Chart 4.2 Loan limit wise agency wise sanctions 20-21



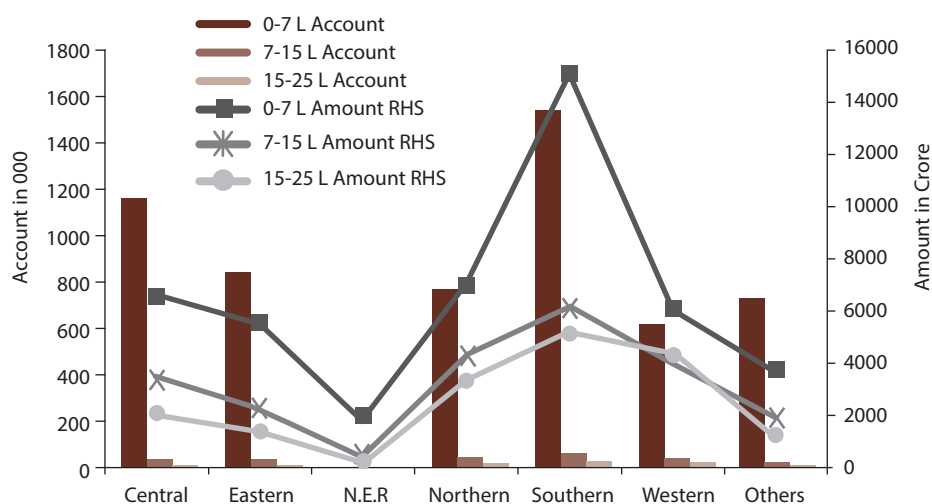
It is observed that loans (Chart 4.2 and Table 4.2) ‘up to ₹7 lakh’ accounted for nearly 95% of the number of accounts and 53% of the amount sanctioned. Private Banks, SFBs and NBFCs had a higher share of amount sanctioned in ₹15 lakh to ₹25 lakh range while PSU Banks had nearly 86% of their sanctions in less than ₹15 lakh. Private banks had about 73% of their loans in less than ₹15 lakh range. Over all PSU banks had sanctioned 32% of the total amount sanctioned by all agencies while NBFCs had about 30%. RRBs, given that their share in total banking business was around 3% had shown similar involvement in MSME Retail as well.

Table 4.2 Limit-wise agency-wise % of loans in BL Retail

	0-7L		7-15L		15-25L		Total	
	Ac- counts	Amount	Ac- counts	Amount	Ac- counts	Amount	Ac- counts	Amount
NBFC	86.33	44.58	9.62	30.85	4.06	24.56	13.70	29.52
PSU Bank	97.98	67.56	1.52	19.62	0.50	12.82	61.41	32.54
Private Bank	86.80	44.01	8.82	28.74	4.37	27.26	10.67	22.41
RRB	98.96	86.50	0.92	10.71	0.11	2.79	6.69	3.66
SFB	86.80	39.66	9.49	35.03	3.70	25.32	4.07	7.72
Total	94.67	53.45	3.77	25.94	1.56	20.60	96.54	95.85 ¹

In a limit-wise, agency-wise analysis, it is observed that nearly 95% loan accounts were in the 'up to ₹7 lakh' range. PSU banks accounted for nearly 2/3rd of the loan accounts and 1/3rd of the amount. NBFCs accounted for about 14% of the number of accounts and 30% of the amount sanctioned. The size '₹7 lakh to ₹15 lakh' and '₹15 lakh to ₹25 lakh' accounted for about 5% of the number of accounts and nearly 46% of the loan amounts.

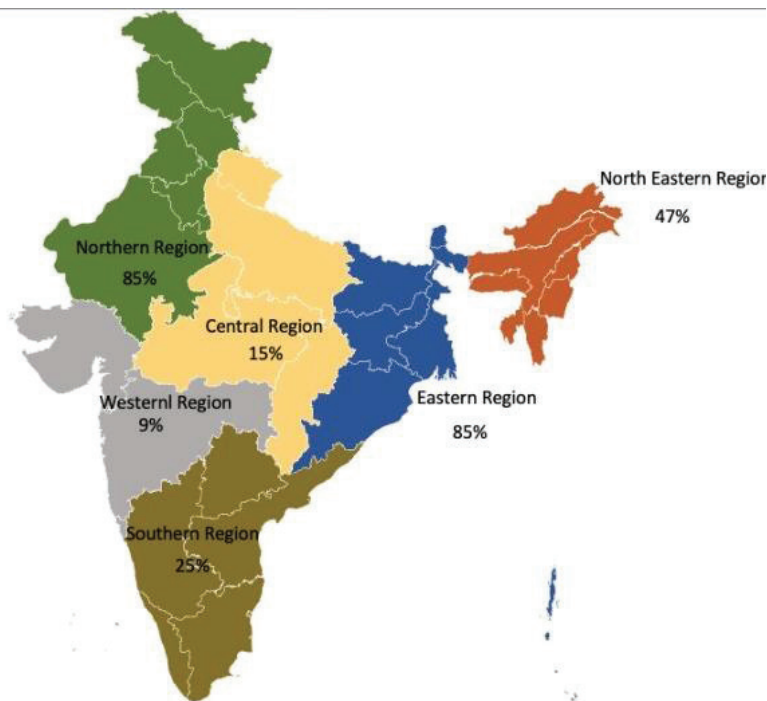
As regards region-wise size-wise performance in BL Retail, it is seen that Southern region had a very high share in terms of both number of accounts and amount sanctioned. (Chart 4.3) followed by Central region.

Chart 4.3 Regionwise, limit wise retail credit of up to 25 L MSME 2021

The size-wise average sanction under B L retail gives interesting insights similar to what was seen in BL Agri. Here again, it is seen that higher the loan size range, higher the average amount and that all agencies tend to have similar average in a given loan size.

The share of PSU in BL Retail was higher than other agencies.

Fig. 4.1 Share of PSU in BL retail across regions



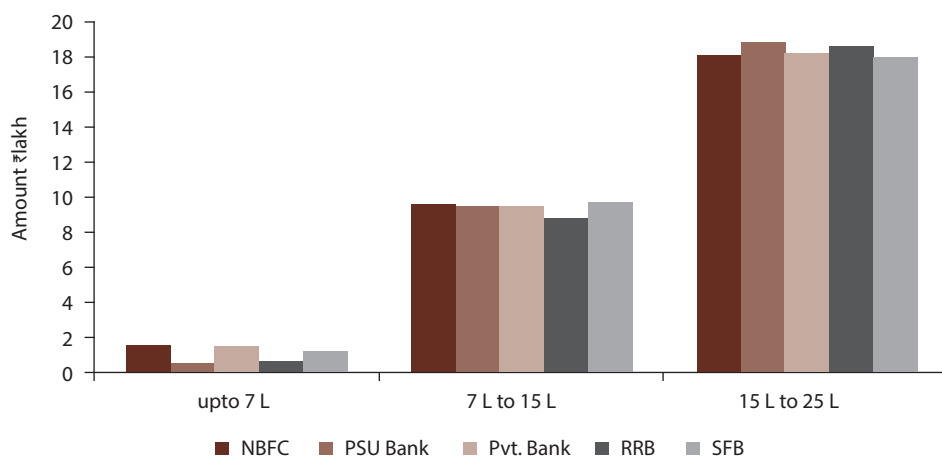
The fact that all banks/agencies seem to sanction a somewhat similar amount irrespective of the needs of the client seems to point out (a) non-availability of adequate information with the micro credit entrepreneurs to enable proper appraisal or (b) banks' practice to sanction a predetermined fixed amount to all micro enterprises irrespective of their needs. This could lead to lower or inadequate amount of credit. The low amounts of loan and kind of uniform amount sanctioned to various loanees suggest that probably banks are unable to appraise these loans individually as the borrowers may not have information that is needed for a regular appraisal and yet unable to refuse loans due to the loans being mandated. Perhaps the uniform loan amount sanctioned is a mid-path. In the absence of specific data it is difficult to comment about adequacy of credit except express an apprehension that these loans may be inadequate and could have negative consequences to banks in terms of more NPA in these accounts and to borrowers as it could push them into higher indebtedness.

AVERAGE SIZE OF BL RETAIL LOAN

The average size of loan in case of loans up to ₹7 lakh was about ₹1 lakh, while it was around ₹9 lakh for size '₹7 lakh to ₹15 lakh' and about ₹18 to 19 lakh for size ₹15 lakh to ₹25 lakh. It is seen that SFB's have on an average sanctioned higher limits than other banks/institutions in all size groups. The low average in loans up to ₹7 lakh is seen in

almost all types of MSME loans. Now that the definition of MSME has been expanded to include turnover in addition to investment, banks will have to more closely appraise individual MSME on its merits, rather than sanction uniform amounts as is normally the case with microfinance.

Chart 4.4 Average amount of BL retail 20-21



As in the case of BL Agri, almost similar average credit amount is seen in all ranges of credit and across the agencies. The relationship between average loan and the upper end of the range can be seen in the following table.

Table 4.3 Ratio of % of average loan to the higher end of the size limit

	Up to ₹7 lakh	₹7 lakh to ₹15 lakh	₹15 lakh to ₹25 lakh
NBFC	22.03	63.88	72.36
PSU Bank	7.24	63.22	75.03
Private Bank	21.09	63.23	72.59
RRB	9.47	58.67	74.38
SFB	17.15	64.64	71.81

Here again it is seen that as the size of loan increases, the average loan size increases, indicating that entrepreneurs for higher loans are possibly able to better comply with the eligibility and information criteria than the lower size loans. It is seen that in the size group up to ₹7 lakh PSU and RRB loans are on an average less than around ₹1 lakh.

AREA-WISE ANALYSIS

It is important to see how many of these loans have been extended in rural and semi urban areas. The following table gives area-wise agency wise details of BL Retail loans.

Table 4.4 Agency-wise, area-wise sanction to MSME retail (up to ₹25 l) in 20-21

	NBFC		PSU Bank		Private Bank		RRB		SFB		Total		Average Loan ₹
	Acct	Amt	Acct	Amt	Acct	Amt	Acct	Amt	Acct	Amt	Acct	Amt	
Rural	240	4901	1041	6640	133	2777	169	1288	47	1622	1690	18031	106692
Semi Urban	373	10320	1659	12838	279	7441	190	1445	122	3576	2710	37142	137055
Urban	185	8222	467	5762	189	6674	14	124	80	1327	967	23039	238252
Total	849	25345	3804	27943	661	19243	414	3143	252	6631	6195	85869	138610
Average ₹	298527		73457		291119		75918		263134		138610		

Amt= Amount ₹Crore and Acct= Accounts in 000

PSU banks had a share of 1/3rd of the amount sanctioned in rural and semiurban areas and about 1/4th of the amount in urban areas. Private banks had a higher exposure to these loans in urban areas (30% of the amount sanctioned). NBFCs had 1/3rd share in the sanctions in the semiurban and urban areas. Overall sanctions in the rural areas were 21% of the total. It was 43% in semi urban areas and 36% in urban areas.

The average loan amount was ₹1.38 lakh. Within this commercial banks and RRBs had average loan size of around ₹75000. SFBs had, on an average sanctioned ₹2.6 lakh while in the case of NBFCs and Private banks the average was about ₹3 lakh. The overall average of ₹1.38 lakh clearly indicates that a very high % of loans were in the size group of less than ₹3 lakh.

Some of the points that emerge in this analysis are:

- Nearly 95% of the BL Retail loans were in the size 'up to ₹7 lakh' accounting for about 54% of the amount sanctioned. This indicates that amount sanctioned in a larger number of accounts in this group will be smaller.
- Though southern region had a higher share in the number of accounts and amount, it is unlike BL Agri, where it had a dominant position.
- The average loan amounts were less than ₹1 lakh in the case of PSU banks and RRB but about ₹3 lakh in the case of NBFC and Private banks. These averages are better than BL Agri. The overall average is ₹1.38 lakh which is not much different from BL Agri.
- PSU banks had a 3rd share in the amount sanctioned, which was more skewed towards rural and semiurban areas. Private banks and NBFCs had a higher exposure to loans in ₹15 lakh to ₹25 lakh range. SFBs had about 10% share in the loan sanctioned in all the three areas namely rural, semiurban and urban

REFERENCES

- The data given by the Equifax had one classification called ROI (rest of institutions?) and not known etc. under institutions and area classification. This could be due to reporting error as banks may not have properly mentioned the agency/ region or size etc. As such in some tables the total % will be seen lower than 100%.

5 Mudra

INTRODUCTION

During the year 2020-21, in the case of loans up to ₹25 lakh banks sanctioned 7.53 lakh MUDRA accounts involving an amount of ₹8979¹ crore and average outlay of ₹1.19 lakh. This average amount is higher than what MUDRA authorities have reported namely around ₹52400. As per MUDRA, the number of loans sanctioned during the year was 5.07 crore involving ₹3.32 lakh crore and disbursed ₹3.12 lakh crore. Also it is reported that 28.81² crore (till March 2021) beneficiaries have been financed under MUDRA, involving ₹15.10 lakh crore (₹15.10 Trillion) which would mean an average sanction of ₹52412.

LOAN SIZE-WISE, BANK-WISE ANALYSIS

Table 5.1 Bank-wise, size-wise sanction of up to ₹25 lakh MUDRA loans 2020-21

	PSU Bank		Private Bank		RRB		All banks	
	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt
0-7L	679.94	5630.99	7.23	50.76	27.53	327.69	717.03	6013.68
7-15L	35.59	2903.95	0.32	28.47	0.07	6.32	35.99	2938.74
15-25L	0.14	25.75			0.01	0.90	0.14	26.65
Total of each agency	715.67	8560.70	7.55	79.23	27.60	334.91	753.16	8979.07

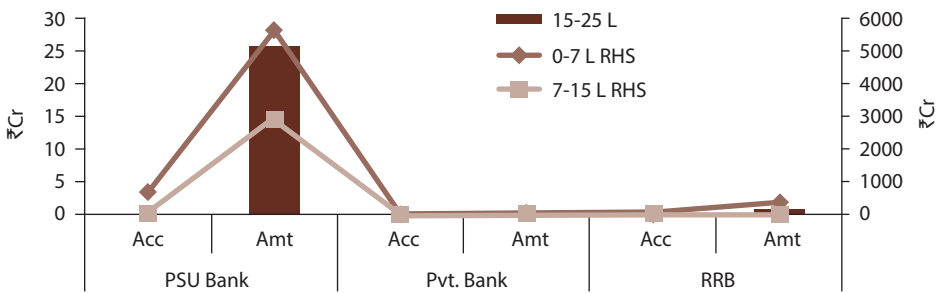
Accounts 000 and Amount ₹crore

In the case of MUDRA it can be noticed that the up to ₹7 Lakh size had maximum sanctions (i.e. nearly 95% of accounts and 67% of the amount) during the year. In the next size, there were 4.78% accounts but 32.73% of the amount of sanction. Above this there were about 0.02 % accounts involving 0.30% of the amount of sanction. This is not surprising because MUDRA's aim is basically to finance up to ₹10 lakh. Within this, the three schemes are (i) Shishu up to ₹50000 (ii) Kishor ₹50000 to ₹5 lakh and Tarun ₹5 lakh to ₹10 lakh. Further, as per MUDRA, Shishu has the highest number of sanctions among the schemes. As such, a very large percentage of loans falling within the size of 'up to ₹7 lakh' is only natural. Also it appears that banks are basically going by the scheme and may not be financing higher amounts of loans than that is recommended under each of these three

schemes. Another issue is that the guarantee offered by Credit Guarantee Fund for Micro Units (CGFMU) covers loans up to ₹10 lakh only. The guarantee is subject to first loss clause to the extent of 5% of the crystallized portfolio that will be borne by the lending institution. Out of the balance portion, the 'extent of guarantee' will be to a maximum extent of 50% of 'Amount in Default', subject to maximum cap of 15% of the crystallized portfolio. Since the guarantee is not up to the full extent of default, banks may not be keen on MUDRA loans beyond what is mandated by RBI as these loans are more prone to default.³ It must be added, that as these loans are without collateral recovery is not easy and money suits take a long time to be decreed in Indian Courts including the DRTs.

Unlike other three MSME loans discussed in this book, NBFC and SFB have not participated in MUDRA. Among the three group of banks, PSU banks play a leading role in MUDRA credit as depicted in chart 5.1.

Chart 5.1 Credit range wise and lending institutions wise MUDRA loans up to ₹25 lakh During 20-21



It is seen that, in case of loans up to ₹25 lakh under MUDRA, PSU banks (95%) and RRBs (4%) together had sanctioned 99% of the accounts (chart 5.2 and 5.2A) and amounts during 2020-21. Private banks had accounted for only 1% of the sanctions.

Chart 5.2 Share (%) of Bank groups in overall MUDRA -Accounts

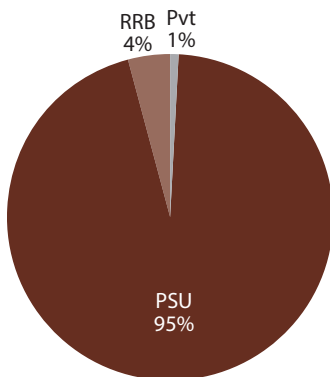
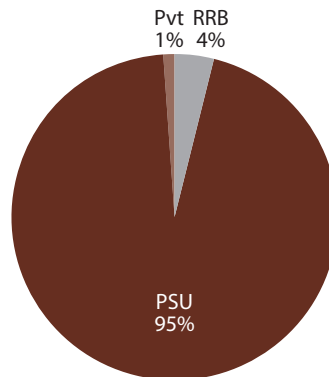


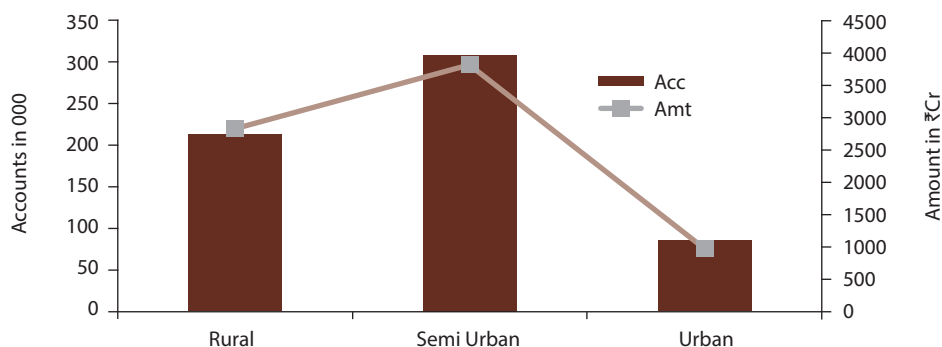
Chart 5.2 A Share (%) of bank groups in overall MUDRA- Amount



AREA-WISE ANALYSIS

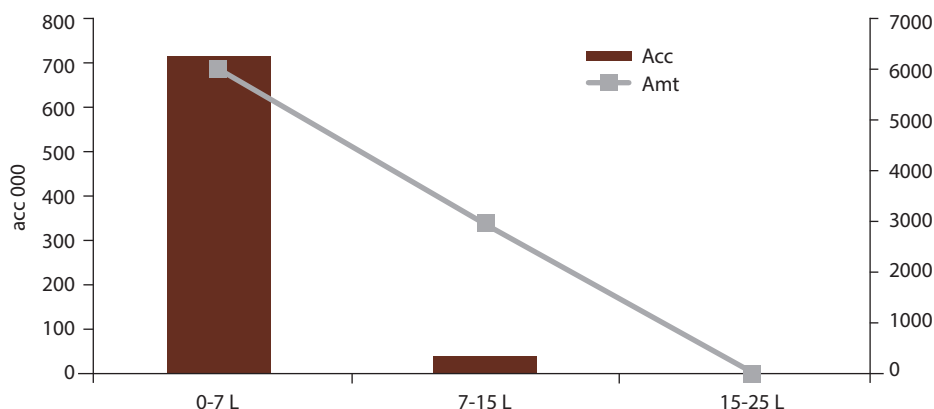
MUDRA encourages micro enterprises. It is not, however, focused on rural areas. Therefore area-wise performance analysis (chart 5.3) shows that MUDRA loans in terms of number of accounts and amount were more in semiurban areas, followed by rural areas and then urban areas.

Chart 5.3 Areawise MUDRA loans up to ₹25 Lakh 20-21



Size-wise analysis (chart 5.4) shows that majority of the loans under MUDRA was in the size group 'up to ₹7 lakhs' because Shishu and Kishor which are part of the three schemes of MUDRA are for loan amounts less than ₹5 lakh. It is also apparent that more loans have been extended under Shishu and Kishor than Tarun.

Chart 5.4 Size wise number of accounts and amount under MUDRA 2020-21



AVERAGE LOAN SIZE

It was seen earlier that average outstanding loan amount in MUDRA over the past few years is around ₹54000. In this background, analysis of data on sanctions during the year shows a higher average amount of loans (Table 5.2). It must be added, that the loan amounts seen in the loan range ₹15 l to ₹25 lakh are rare and for a very few accounts.

Table 5.2 Average size of Mudra Loans 20-21 in loans up to ₹25 lakh

	Up to ₹7 lakh	₹7 lakh to ₹15 lakh	₹15 lakh to ₹20 lakh	Overall
Rural	91646	793364	1769883	132432
Semiurban	87724	832475	1851541	124222
Urban	80844	880188	1884794	115465
PSU	82816	815878	277892	119618
Pvt	70221	881480		
RRB	119053	865324	306700	121331
Limit-wise average	83870	816567	282572	119219

It is seen that in the size limit up to ₹7 lakh the average MUDRA loan was ₹83870 with RRB at ₹119053. The overall average was ₹119219.

REGION-WISE PERFORMANCE

Region-wise performance under MUDRA shows that Southern region, as in the case of BL Agri and BL Retail, led the sanctions with 29% of the amount sanctioned followed by Eastern and Western. Area-wise Semiurban areas had 50% of the amount sanctioned while rural areas had 37% and urban areas 13%.

Chart. 5.5 Region wise sanction MUDRA amount

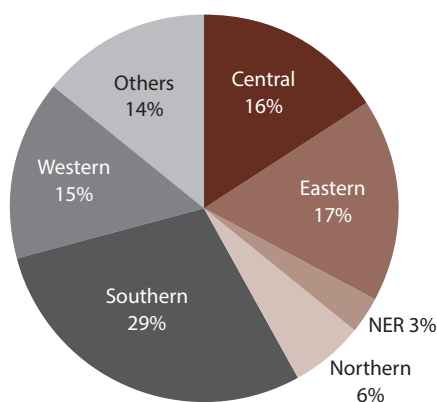
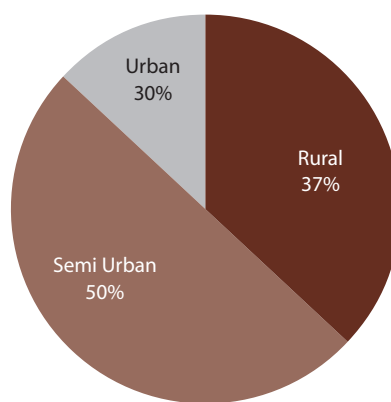
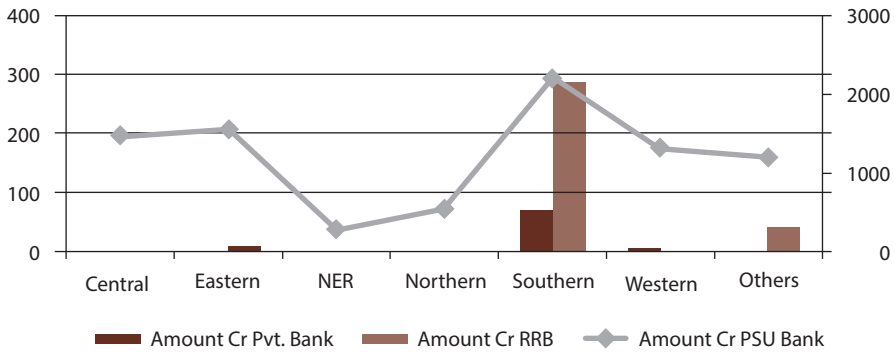


Chart 5.6 Area wise Amount MUDRA



PSU banks have a major share in number of loan accounts and amount sanctioned during 20-21 under MUDRA. In this again the PSU banks in Southern region have a major share.

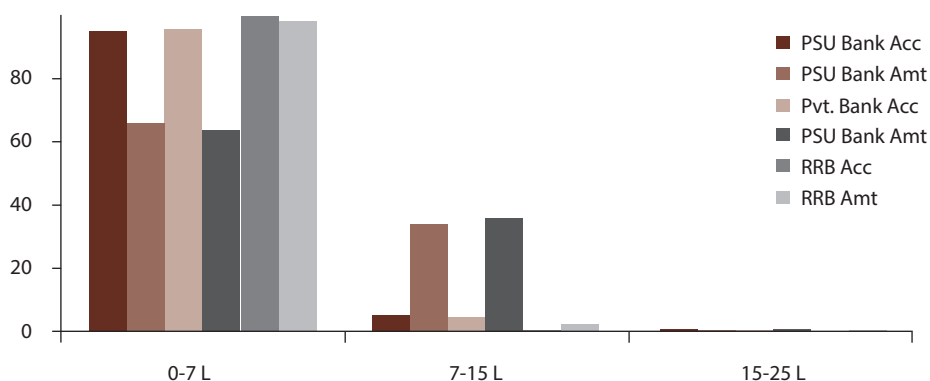
Chart 5.7 Bank wise Region wise amount of credit

The region-wise share of MUDRA loans up to ₹3 lakh shows even distribution showing that all regions paid somewhat equal attention to MUDRA in terms of smaller loans, mainly Shishu. It has been reported that about 88% of MUDRA loans were under Shishu.

Fig 5.1 Region-wise share of PSU in MUDRA loans up to ₹3 lakh

In Table 5.2 it was seen that average loans sanctioned in the size group ₹15 lakh to ₹25 lakh was high. This is because of very low number of sanctions as against most of the accounts being sanctioned in the size group up to ₹7 lakh. It can be seen (Chart 5.8) that loans in the ₹15 l to ₹25 lakh in MUDRA was very negligible.

Chart 5.8. Percentage of size-wise number of accounts and amount of the bank groups to total of the bank group



Some of the points that emerge from the above analysis are:

1. The amount sanctioned as per data used for analysis seems very small compared to the sanctions for the three schemes reported by MUDRA or Ministry of Finance¹
2. PSU banks and RRBs account for 99% of the MUDRA (PMMY) scheme. There is hardly any participation from Private Banks.
3. Loans under range 'Up to ₹7 lakh' form nearly 95% of the total MUDRA loans sanctioned during the year. This is consistent with MUDRA scheme. Literature review reveals that nearly 88% of the loans are given in Shishu category which is up to ₹50000.
4. Southern region has sanctioned the highest number of MUDRA loans.
5. It appears that NBFC and SFB are participating in MUDRA
6. Data published by MUDRA and MOF indicate that the average size of MUDRA loan is around ₹52400 and that 88% of the loans are under 'Shishu' which has a very low loan amount, whereas the data analysed shows average of ₹1 lakh. There are not many loans under MUDRA given in the range '₹15 lakh to ₹25 lakh'.
7. NER shows very low performance under MUDRA as well.

REFERENCES

- ¹ As per MUDRA: <https://www.mudra.org.in/> Business standard quoting MOF says that Loans sanctioned to small businesses and entrepreneurs under the PMMY (MUDRA) dropped to ₹2.7 trillion in financial year 2020-21 as the Covid-19 pandemic weighed on business activity. Loans sanctioned under PMMY were ₹3.4 trillion in FY20 and ₹3.2 trillion in FY19.
- ² MUDRA website and ET news item 29/05/21
- ³ Loans obtained by small borrowers up to ₹10 lakh under Mudra scheme originally known as Prime Minister Mudra Yojana (PMMY) are highly susceptible to become toxic or bad loans. While delivering a speech at SIDBI the deputy governor of RBI has indicated (Shri.MK Jain) that loans under potential default could be approximately ₹3.21 trillion. TOI 3/12/19 in a blog
- ⁴ Quoting MOF a financial paper says that Loans sanctioned to small businesses and entrepreneurs under the Pradhan Mantri Mudra Yojana (PMMY) dropped to ₹2.7 Lakh Cr (4.2 Crore loans) in financial year 2020-21 as the Covid-19 pandemic weighed on business activity. Loans sanctioned under PMMY were ₹3.4 Lakh Cr in FY20 and ₹3.2 Lakh Cr in FY19. In FY21, about 88 per cent of the loans were sanctioned with amount up to ₹50,000 which fell under the 'Shishu' category. Further around 24 per cent of the total loans were been given to new entrepreneurs, while 68 per cent of the loans have been given to women entrepreneurs. The average ticket size of the loans sanctioned in the last financial year, up to March 19, was about ₹52,000. NPAs Worries: With the Covid-19 pandemic severely impacting the economy, and the subsequent lockdown leading to closure of several small business units, there are concerns that the non-performing assets under the scheme may increase. NPAs under the scheme were 2.56 per cent in 2019-20. NPAs under PMMY for public sector banks as on March 31, 2020 were ₹18,836 crore against the total disbursed amount of ₹3.82 Lakh Cr.

6 Commercial

INTRODUCTION

Majority of the loans in the previous three heads, namely, BL Retail, BL Agri (where BL stands for business loans) and MUDRA are sanctioned to individuals or sole proprietors. Unlike these loans, commercial loans are sanctioned to organisations like partnerships, companies, HUFs etc. Under this head, during the year 2020-21, various agencies sanctioned 1.13 crore loan accounts involving ₹3.52 lakh crore¹ for an average of ₹3.11 lakh per account. The region-wise share of this amount is as under:

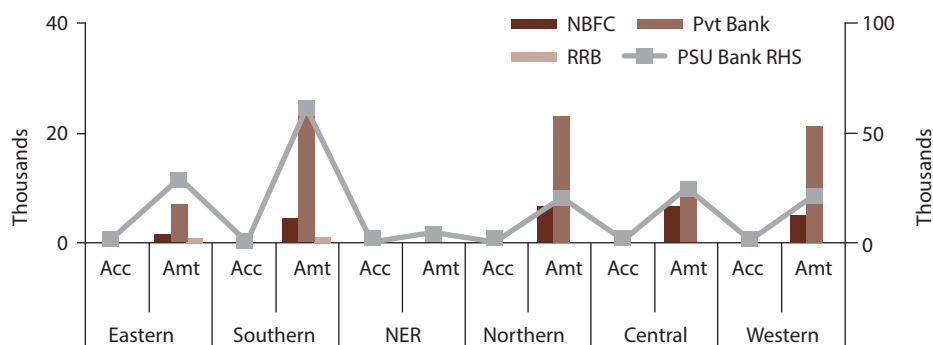
REGION-WISE ANALYSIS OF COMMERCIAL LOANS

The data given below would show that Southern region had sanctioned nearly a third of the accounts and amount in the overall commercial MSME loans during the year 2020-21.

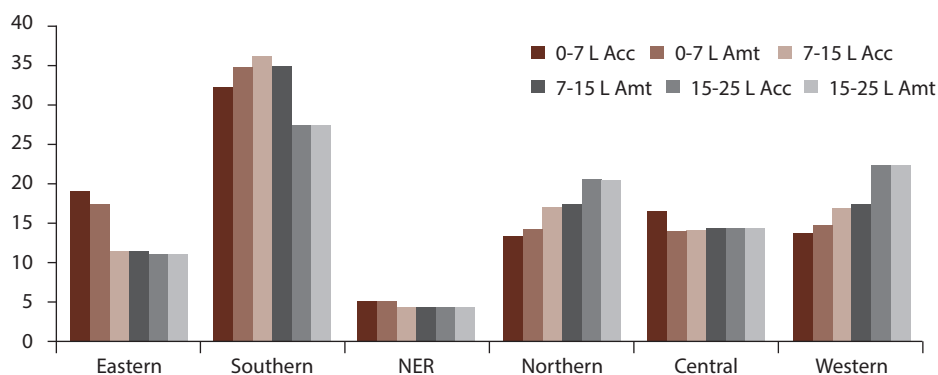
Table 6.1 Region-wise share of MSME Credit to institutions

	% of accounts	% of amount	Average Loan amount ₹
Central	12.87	11.02	266776
Eastern	14.67	10.53	223625
Northern	10.72	13.90	403769
NER	1.65	1.45	274115
Southern	29.28	29.73	316453
Western	11.16	14.58	407055

Western region had the second largest share in amount financed and had recorded the highest average amount sanctioned followed by Northern Region. NER had the lowest amount of sanction while Eastern region had the lowest average loan amount. Unlike the other three MSME loans seen before, which are sanctioned to individuals and are of small size, the average loan size under Commercial is higher. Yet it is indeed a surprise that even in case of commercial loans the number of loans under the 'up to ₹7 lakh' range is high.

Chart 6.1. Regionwise bankwise share in commercial Loans

Generally NER, Eastern and Central regions are kind of low performers with reference to credit and mandate driven programs. The region-wise, agency-wise analysis shows that this is the case with MSME Commercial (i.e. loans given to institutions) as well. Here again Southern region has a higher share in number of loans and amount sanctioned. It is also seen that Northern and Western regions have a higher share than Eastern and Central region.

Chart 6.2 Regionwise sizewise (%) commercial loans

AREA-WISE ANALYSIS

MSME annual report says that of the 63.38² million 63.05 million are micro units (in rural 32.40 million and urban 30.64 million), 0.30 million small units of which 0.25 million in urban areas and 0.05 million medium units mostly in urban areas. In this background, it is seen that of the MSME commercial credit i.e. loans extended to organisations, 21.37% of loans to non-individual borrowers (in the loan size 'up to ₹25 lakh' for MSME) were lent in rural areas and 37.51% in semiurban areas. The average loan amounts in these cases were less than ₹3 lakh but definitely more than other three MSME that were presented earlier.

Table 6.2 Area-wise details of MSME Credit (Commercial) to institutions

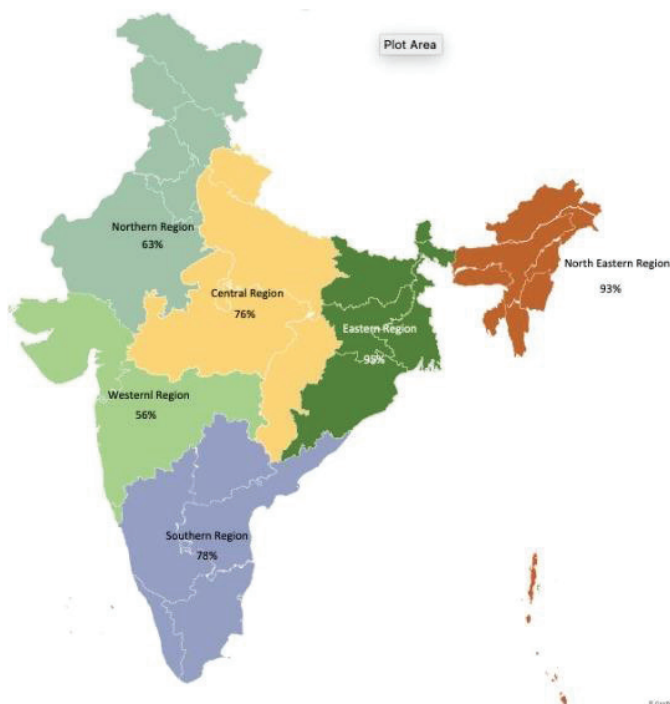
	% of Accounts	% of sanction	Average Loan amount ₹
Rural	21.37	16.31	237743
Semiurban	37.51	35.93	298421
Urban	21.01	28.55	423323

Given that these loans (Commercial) are extended to organisations and that not many companies/partnerships are established in rural area, it is noteworthy that 21% of Commercial loans are sanctioned in rural areas.

In the case of commercial loans unlike the loans to individuals under BL Agri and BL Retail, where the rural area had a larger share of loans up to ₹25 lakh loans, it is seen that it is in Semiurban and Urban areas that Commercial Loans have a higher share (amount-wise). The average size of loans in urban areas is almost double the size of rural areas.

AGENCY-WISE ANALYSIS

Continuing similar analysis among agencies, it can be seen that (Table 6.3) like other MSME loans, PSU banks have a larger share in accounts and amount sanctioned under the head Commercial MSME, followed by Private Banks, NBFCs and RRBs.

Fig 6.1 Share of PSU banks in Commercial Loans up to ₹3 lakh

In fact the share of RRBs in Commercial loans is very small because it is more focused on individual loans and has a higher priority sector target (75%) than others. However it is noteworthy that NBFC and Private banks have achieved a much higher average loan size, indicating that they have sanctioned more loans in the higher size ranges. The average loan size of Commercial banks and RRB are less than 1/3rd of the loan size recorded by NBFC.

Table 6.3 Agency-wise details of MSME Credit (commercial) to institutions³

	Share in Accounts	Share in Amount	Average Loan
NBFC	3.07	7.17	727460
PSU Bank	79.81	61.57	240364
Private Bank	13.72	27.32	620331
RRB	1.24	0.75	188914

The average loan size is highest with NBFC followed by Private Banks. Despite this it is seen, that even in the case of commercial loans, majority of 'up to ₹7 lakh' loans are sanctioned in rural areas with an average loan size of ₹1.41 lakh.

AREA-WISE, SIZE-WISE ANALYSIS

Area-wise sanction of loans to institutions as a % of total sanctions under Commercial during the year is given (Table 6.4) below:

Table 6.4 Share (%) of agencies in total sanction area wise

	Rural	Semi Urban	Urban	Overall
NBFC	0.68	2.39	2.40	7.17
PSU Bank	12.12	22.18	13.37	61.57
Private Bank	2.70	10.13	11.60	27.32
RRB	0.31	0.14	0.07	0.75
Overall	15.80 ⁴	34.84	27.44	96.81

It is seen that the share of rural areas is low in Commercial banks whereas semiurban and urban areas have higher sanction. This is because rural areas do not have many companies, partnership etc. Similarly NBFC have very low share in Commercial MSME loans. PSU banks have a high share of Commercial MSME loans followed by Private banks.

In the case of loan size-wise details (Table 6.5) it is seen that the sanction of loans in the range 'up to ₹7 lakh' accounted for about 85% of cases and about 39% of the loan amount and only a very small % of loans are sanctioned in the loan size ₹15 lakh to ₹25 lakh. Naturally above this amount MSME Commercial loans will have a higher share than other three categories namely BL Agri, BL Retail and MUDRA.

It is however seen that the average loan amounts depicted in the size wise classification are higher than what has been shown in the case of regions, institutions and areas. For

MSME Commercial loans as a whole, in less than ₹25 lakh cases, the average loan size works out to ₹311574.

Table 6.5 Size-wise details of MSME Credit (commercial) to institutions

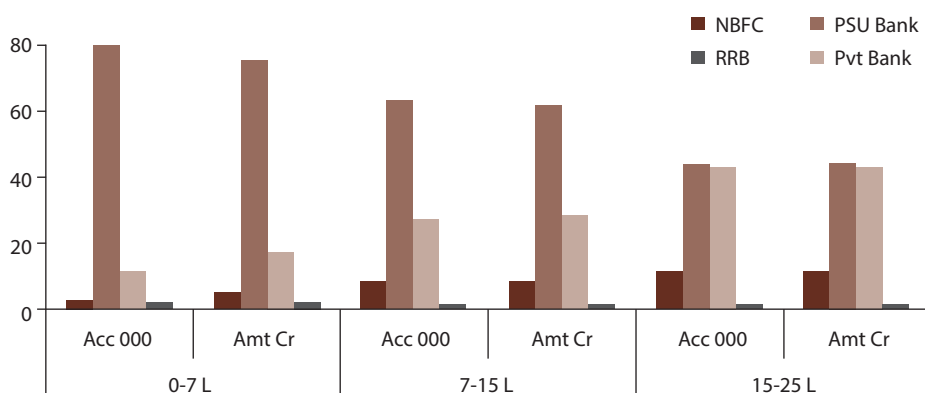
	% of accounts	% of sanction	Average size of loan ₹
₹0-7 lakh	85.54	38.85	141524
7 lakh-15 lakh	10.25	33.80	1027603
15 lakh -25 lakh	4.21	27.35	2021757

Area and size-wise analysis (chart 6.5) shows those amounts sanctioned in Commercial MSME are more in semiurban and urban areas than rural areas. Size-wise analysis shows that even in MSME Commercial loans sanctioned in rural areas could be of smaller amounts than their counterparts in semiurban and urban areas

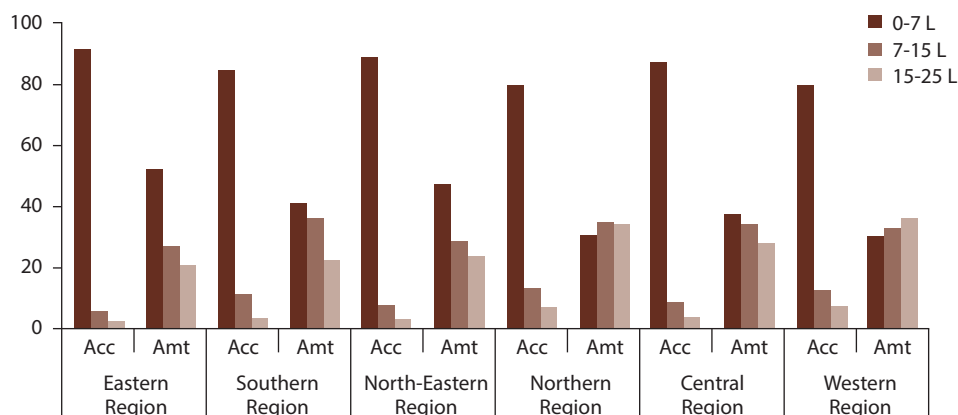
AGENCY-WISE ANALYSIS

PSU banks have the highest share in MSME Commercial loans. In fact PSU banks have the highest share in all categories of MSME loans. In loans of higher sizes i.e. in loan ranging ₹7 lakh to Rs15 Lakh and above ₹15 lakh, private banks have an equal share with PSU banks.

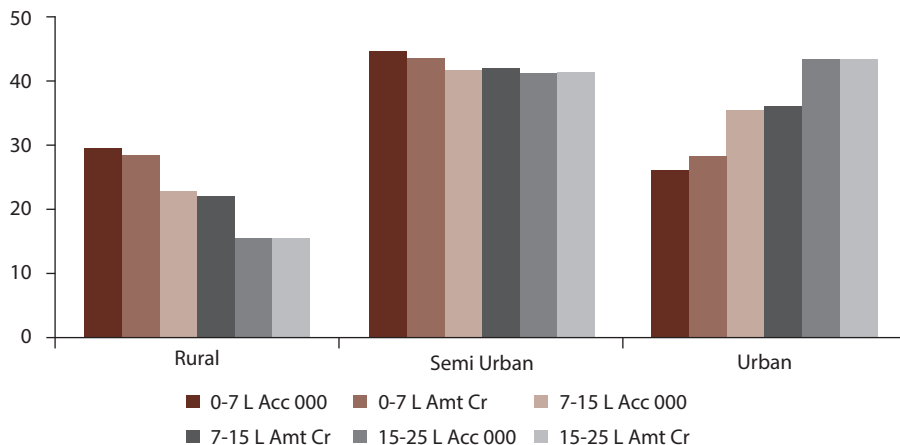
Chart 6.3 Lending Institution and size wise (%) commercial loans



Dispersal of size-wise loans in the regions show that number of loans in less than ₹7 lakh is high across the regions, but the amount of loan sanctioned is rather small. In the case of size ₹7 lakh to ₹15 lakh and ₹15 lakh to ₹25 lakh, the number of accounts are low but the amount sanctioned is higher, pointing out to the fact that average amounts sanctioned in these cases are higher.

Chart 6.4 Region wise size wise (%) analysis of commercial loans

In almost all regions, as is the case with other type of MSME loans as well, the MSME Commercial loan accounts and amount sanctioned are high in the size 'up to ₹7 lakh'. In the case of loans ₹7 lakh to ₹15 lakh southern region has higher loan accounts and amount than others, followed by Northern, Western and Central region.

Chart 6.5 Size wise area wise share (%) of commercial accounts

From the above analysis it emerges that

1. Even in the case of MSME Commercial loans the share of loans 'up to ₹7 lakhs' is high
2. The overall average size of loans in MSME Commercial is higher than other three types of MSME loans. This could be due to better information availability as these are institutions and their ability to submit documents as desired by commercial banks. The size of average loans under MSME Commercial is higher than the average loans to in other MSME purposes.

3. PSU banks have maintained their high share in Commercial MSME as well.
4. There is noticeable size (high) difference in the case of loans issued by Private banks.
5. That NBFCs lend to institutions is noteworthy and shows that some of them are moving into new areas because normally NBFCs are popular for individual loans. Given this and their comparatively lower financial size vis-a-vis PSU and private banks, the low share in Commercial loans is understandable.

REFERENCES

- ¹ In the case of region wise, agency wise, size wise and area wise data the sponsoring agencies has used words such as undefined and ROI (others) which being not materially large or important have been ignored for analysis. These are apparently reporting errors
- ² Statement 2.2 MSME Annual Report 2021
- ³ The total does not add up to under as the data contains items which are noted as others or not defined
- ⁴ Data difference between Table 6.2 and 6.4 due to ROI/undefined institutions

7 Delinquency

INTRODUCTION

From the last quarter of 2019 till date, one word that has continuously held everyone's attention all over the world and one word whose impact is not yet complete or fully known in all activities including banking is Covid/Pandemic. This pandemic has impacted the global economy on a never-before scale as the only way to manage it, till vaccination is complete, is through lock-downs and restrictions on movement which has severely restricted economic activities. Without doubt, the pandemic has affected firms of all sizes. Micro and Small Enterprises, being more vulnerable to events outside their control, as amply demonstrated in the case of demonetisation and GST,¹ found it difficult to manage the slowdown, manage lack of business, and reduced cash flows. Obviously they were unable to make repayments to banks as well. It should be, in this connection, borne in mind that Micro Enterprises established in rural and semiurban areas are, generally customer touch oriented, cash driven and small in size. Manufacturing units among them depend on local sales or supply to cities which got impacted due to lock down, disruptions in supply chain and lack of transport. The series of pandemic related lock downs affected micro enterprises more than any other businesses. Also banks which practiced visit or touch based collection of loans found it impossible to continue their efforts due to lock downs and related restrictions. Banks could neither undertake their collection drives nor could customers visit the bank branches to repay as a result of which repayments suffered. The impact of Covid on MSMEs was similar to what happened in the case of demonetisation, GST and other event risks all of which had affected business more particularly cash flows and turnovers of MSME. RBI has in the years 2020 and 21 issued a number of guidelines on moratoriums and certain concessions in the way NPA is reckoned. This helped banks manage NPA but whether it resulted in additional credit flow to the borrowers is not clear and could not be ascertained!

ISSUES FACED BY MSMES

MSMEs have, in the past, faced cash flow problems and business cycle related issues for short periods. But being forced to lock down and not allowed to do business and render service for a long period (the two waves have lasted almost 18 months till now) has been a first of its kind experience. Strangely, lenders had access to more deposits but could

not do collection as efficiently as they did before Covid-19. It must be added that Micro entrepreneurs (individuals) barring fintechs are not adept at electronic modes of banking and clients in rural areas are not as connected with banks through technology as their counterparts in urban areas.

Unlike bigger businesses/enterprises, micro and small enterprises are without doubt, financially more fragile and have no cash surplus/savings/buffers. Most of the times, their entire funds and borrowed money are fully used or invested in their business. In their case, more often there is no distinction from business money and own money.

It must be said here that in the case of micro enterprises, of the total borrowed funds or amount of funds invested in business, bank loans may not be a sizable portion as banks do not finance them based on appraisal but offer some standard sum as loan on a per unit/person basis. Despite such small size of loans, banks are able to easily achieve the priority sector target without much difficulty, as the financially excluded MSME are very large in number and even if a small portion of MSMEs are financed the PS targets will be easily realized. Given this, if the loan amounts are inadequate MSMEs have to access informal sources for funding, which has both cost and liquidity implications. In view of this these considerations, MSME units are less resilient to crises. Without doubt, their ability to meet the repayment/EMI obligations has been impacted by the covid induced lock downs, restrictions in business etc., resulting in default.

REGULATORS' VIEWS

The number of times that guidelines have been issued by RBI² over the last few years for (a) keeping NPA norms in abeyance, (b) increasing number of days in default in reckoning an account as NPA and (C) allowing restructuring of accounts in default in respect of MSME accounts, where the bank credit is less than ₹25 crore is adequate proof of the difficulties encountered by MSMEs. In addition, these units face challenges in accessing finance from formal institutions. Possibly due to these reasons, credit growth³ in micro and small industries decelerated to 0.5 per cent in March 2021 from a growth rate of 1.7 % a year ago (19-20). One would easily agree that a 1.7% credit growth is low. Therefore a further decline in growth rate points out that despite having multiple Central Government, State Government and Bank schemes pushing/targeting financial assistance, availing credit from banks is a huge challenge for MSMEs.

NPAS

Without doubt MSMEs were affected. Because the units were affected, banks found that the delinquencies increased. Banks noticed that many of their borrower clients suffered huge income and cash flow deficits resulting in increased delinquencies. This impacted the asset quality and increased NPA and the stressed assets. This was more pronounced in loans to micro and small enterprises where banks had pursued touch based collection. The increase in loans past due dates but not yet NPA was mostly due to lockdowns and restrictions and resultant cash flow issues with micro and small enterprises.

Box.7.1. Managing Pandemic (an event risk). MSME perspective

To manage the pandemic and reduce loss of life, GOI and State Governments, like countries across the globe, had announced a series of lock downs and other measures. Even when the lock downs were relaxed, there were severe restrictions in business hours, transport etc., resulting in stoppage of business. Micro enterprises in manufacturing and service sector found it difficult to carry on business and had to reinvent business processes. Affected by Covid and not able to go to office or factories, workers of these units migrated back to their home place which made reopening of business -when lock downs were relaxed - extremely difficult. It has been reported that some of the bigger enterprises could continue business by shifting to 'work from home' and 'on-line ordering and delivery' models. But smaller enterprises could not do any business during lock-down and periods of restrictions. 'Online order and home delivery' which has now become the business model for almost everything could not be used by MSME's as their production and services were decentralized and not large scale. Many of them had high quotient of local cash business and were not part of any supply chain. Technology helped bigger firms to manage pandemic induced problems but micro and small units which were cash oriented could not do much because technology had not reached the hinterland and rural areas. Governments announced schemes and sops but it took time to reach the micro units. That the Covid pandemic was in waves made it extremely difficult for MSME's to continue running the enterprises.

Impact of Covid on Banks was seen in terms of increase in stressed assets. Knowing it was inevitable that banks will have more delinquency and possibly realizing the existing NPA regulations⁴ are one-size-fits-all, RBI had announced a series of measures for all credits more particularly MSMEs. These included steps such as stopping NPA's at a point of time and allowing restructuring. This is however not the first time that RBI has increased the DPD from 90 to 180 for reckoning an account as NPA and allowed restructuring. It had announced similar steps a few times in the past. This clearly shows that MSME sector is a growing sector, but being small cannot comply with stiff regulations which can be managed by banks but is tough even on well-established and cash rich businesses. It is time to recognize that regulatory norms have impact beyond the banks and financial institutions. An example is the impact of IRAC norms on the borrowers who are of varied sizes and some of them might have ceased to do business due the application of norms.

Once assets were restructured, banks could extend fresh loans. This is also facilitated by CGTSME, the credit guarantee scheme implemented by SIDBI. Under this scheme, guarantee cover is available to the extent of 80 per cent for (i) micro enterprises for loans up to ₹5 lakh; (ii) MSEs operated and/or owned by women; and (iii) all loans in the North-East Region. In case of default, the CGTSME trust

will settle claims up to 75% (or 80% wherever applicable) of the amount in default of the credit facility extended by the lending institution. For this purpose the amount in default is reckoned as the principal amount outstanding in the account of the borrower, in respect of term loan, and amount of outstanding working capital facilities, including interest, as on the date of the account turning Non-Performing Asset (NPA). The Guarantee cover under the scheme is for the agreed tenure of the term loan/composite credit. In case of working capital, the guarantee cover is of 5 years or block of 5 years

Reportedly NPA ratio of MSMEs stood at 12.5 % as of January 2020. Within this it is reported that NPA was 9% in the case of micro segment and 11 % in the case of small and medium segment. In this connection, MSME Pulse⁵ had reported the following NPA data (Table 7.1)

Table 7.1 NPA ratios (%) of MSMEs

SN	Period	Micro	Small	Medium
1	January 2020	9.4	10.4	17.7
2	March 2020	9.5	10.4	17.4
3	June 20	10.0	11.1	18.6
4	Sept 2020	9.2	10.2	16.9
5	Dec 2020	9.2	10.1	16.4
6	Mar 2021	10.2	10.4	16.8

In an earlier report it was reported that Micro enterprises had NPA around 8.9% between June 2017 to June 2019 and Small enterprises had NPA of 11.2% and 10.6% during the same period. A prima facie analysis of this data shows that there has been no impact of Covid-19 on NPA. This is not correct and not because MSMEs did not face any stress. MSMEs did face stress, but NPA position did not change much due to various relaxations announced by RBI.

The NPAs of the sector has to be viewed in the perspective of information shared in the box 7.1 above. It is because of the restructuring etc. that the gross non-performing assets (GNPA) and net NPA (NNPA) ratios for MSME sector remained stable during the second half of 2020-21. It is however noticeable that special mention account (SMA) ratios deteriorated and the overall provisioning coverage ratio (PCR) increased from 66.2 per cent in March-2020 to 68.9 per cent in March 2021. Also it is reported that macro-stress tests for credit risk showed that SCBs' GNPA ratio may increase from 7.48 per cent in March 2021 to 9.80 per cent by March 2022 and to 11.22 per cent under a severe stress scenario. It is in this background worth noting that a credit bureau has reported NPA ratios⁹ of micro enterprises which was 8.9% in June 19 had increased to 9.1% in June 20 and 10.2% in March 21.

Box.7.2. Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances

As regards stressed assets, the prudential framework aims at early recognition, reporting as well as time-bound resolution of stressed assets, while providing strong disincentives for delays in implementation of resolution plans (RPs) in the form of additional provisioning. Normally any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and will warrant higher provisioning requirements as per extant IRAC norms. Such an account may be considered for up-gradation to 'standard' only if it demonstrates satisfactory performance during the specified period. During 2019 (in a measure similar to those taken in the past) as a onetime measure certain restructuring was permitted and it is reported that banks had restructured ₹71,431⁶ crore in loans to micro, small and medium enterprises since January 2019 based on above rules. Such concessions acknowledge that stress is natural to MSMEs

Covid 19 is an event that had impacted MSMEs and therefore a window was provided under the prudential framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures (without change in ownership), and personal loans, subject to specified conditions.

As per this Banks/NBFCs were, in April 2020 permitted by RBI to restructure MSME advances during normal course of business (one-time restructuring) classified as 'standard' without a downgrade in the asset classification, if (a) the aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 Cr as on January 1, 2019 (b) the borrower's account is in default but was a 'standard asset' as on January 1, 2019 and continued to be classified as a 'standard asset' till the date of implementation of the restructuring, (c) the borrowing entity is GST-registered on the date of implementation of the restructuring or is exempt from GST-registration and (d) the restructuring of the borrower account is implemented on or before March 31, 2020 i.e. (i) all related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities should be completed by all lenders; and the new capital structure and / or changes in the terms and conditions of the existing loans should be duly reflected in the books of all the lenders and the borrowers and (ii) a provision of 5% in addition to the provisions already held, is made in respect of accounts restructured under these instructions. Banks can reverse such provisions at the end of the specified period, subject to the account demonstrating satisfactory performance during the specified period.

In continuation of the above, in August 20, RBI issued another set of guidelines on NPA and stressed asset to lenders advising them to implement a resolution plan in respect of eligible corporate exposures and personal loans. Under this Lending

institutions have been permitted to extend facilities to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan subject to certain conditions. As per this lending institutions are allowed, in respect of loans extended to (a) Individuals for business purposes and to whom the lending institutions does not have an have aggregate exposure of more than ₹25 crore as on 31/3/21 (b) Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on 31/3/21 where in the lenders exposure is not more than ₹25 crore as on 31/3/21 subject to certain conditions mainly that credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021.

These resolutions may include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. Compromise settlements are not permitted as a part of resolution. Further, moratorium period, if granted, cannot be beyond two years. Extension of the residual tenor of the loan facilities may also be granted to borrowers, for not more than two years with or without payment moratorium. The resolution plan could also be for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower.

In this connection, RBI has stated in its financial stability reports that as on 31/08/20 customers accounting for 40 % of outstanding bank loans availed the benefit of moratorium allowed for borrowers affected by the COVID-19 pandemic. Also though most sectors reported a lower level of outstanding loans under moratorium in August 2020 compared to April 2020, Micro, Small and Medium Enterprises (MSMEs) reported that the number of customers availing moratorium increased to 78 per cent in August 2020, reflecting the stress in the sector.

Information on the moratorium in MSME loans has shown that (i) urban co-operative banks (UCBs) seems to have borne the brunt of the stress (later it will be seen that MSME customers have said that UCBs are more approachable for credit than commercial banks), followed by PSBs and NBFCs (ii) in the case of moratorium availed for individual loans outstanding, the share of SFBs is the highest, followed by UCBs and NBFCs and (iii) about 2/3rd of the total customers of PSBs and half of the total customers of PVBs exercised the option to defer payments in April 2020. As on 31/8/20 PVBs accounted for a larger customer base under moratorium than other categories of lenders, mainly due to a four-fold increase in their MSME customers availing the benefit, and with sizeable customer base across categories (majorly individuals) opting out of moratorium in case of PSBs

Table 7.2 Loan Moratorium (Availed as on 31/8/20) by various types of borrowers

Sector	Corporate		MSME		Individual		Others		Total	
	% of total Customers	% of total outstanding	% of total Customers	% of total outstanding	% of total Customers	% of total outstanding	% of total Customers	% of total outstanding	% of total Customers	% of total outstanding
PSBs	24.96	36.70	64.11	75.42	36.28	34.51	30.58	39.08	34.80	41.33
PVBs	16.37	23.19	83.38	62.99	50.25	33.60	47.90	54.00	54.88	33.96
SFBs	36.94	34.13	80.29	66.90	81.48	69.39	86.34	80.90	82.47	68.18
UCBs	43.13	90.15	47.08	89.60	47.50	57.64	32.81	46.93	43.45	64.09
NBFCs	42.65	37.15	68.76	67.01	23.11	56.51	50.21	33.20	26.58	44.94
SCBs	18.02	30.44	77.19	68.07	43.65	33.89	35.62	39.11	43.75	37.91
System	31.31	34.28	77.50	69.29	42.62	41.00	45.40	42.12	45.62	40.43

It can be seen from the above (Table 7.2) that MSME has highest percentage of customers and percentage of o/s which availed moratorium. It is noteworthy that PSB, PVB and SFB have availed the opportunities to restructure the accounts.

Many questions arise. Did the banks inform the borrowers that these facilities are available? Yes banks' websites⁷ contain announcements about these and also forms for applying. It should be added here that unless micro enterprises have support of consultants it will be difficult for them to fill up the application forms. One bank has said 'The borrowers to approach Branches for availing resolution under the above framework and should be able to demonstrate (why?) the financial stress being faced by them due to COVID-19'. Scrutiny of the announcements made by the banks show that there is no mention of likely additional loans in the notice/announcements. Given that such micro enterprises were under stress, how many of them got additional funds/limits? There is, as of now no information on these issues!

Further with the objective⁸ of alleviating the potential stress to individual borrowers and small businesses due to the COVID-19 pandemic, a limited window up to 30/09/21 permitting lending institutions to implement resolution plans in respect of their exposures to individuals, MSMEs and other small businesses with aggregate exposure up to ₹50 crore, while classifying the same as standard. Moreover, priority sector classification was extended to fresh credit advanced by SFBs to specified categories of NBFC-MFIs and other MFIs for the purpose of on-lending to individuals in order to address the emergent liquidity stress faced by smaller MFIs.

Also in recognition of the continuing adverse impact of COVID-19 pandemic on certain service sectors, the Government expanded the scope of Emergency Credit Line Guarantee Scheme (ECLGS) on 31/3/21 through introduction of ECLGS III

to cover the credit needs of business enterprises in hospitality, travel and tourism, leisure and sporting sectors. This was followed by ECLGS IV which covered the credit needs of hospitals for setting up oxygen generation plants while expanding the coverage of ECLGS III to include the civil aviation sector and extending the validity of the schemes to 30/09/21.

It has been reported by the National Credit Guarantee Trustee Company Limited (NCGTC) that under Emergency Credit Line Guarantee Scheme (ECLGS) as on 28.2.2021, cumulative sanction of loans stood at ₹2.46 lakh crore against which guarantees for a total amount of ₹2.14 lakh crore to more than 92.27 lakh borrowers have been issued under ECLGS. It should be mentioned here that the number of accounts mentioned above is a very low % of accounts outstanding on that date.

Broad concept of resolution plan is as under.

- i. The asset classification of borrowers' accounts classified as Standard may be retained and borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.
- ii. In respect of the above borrowers lending institutions can sanction additional finance to meet the emergent liquidity requirements of the borrower (Did they?). This facility may be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower in the interim. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.
- iii. The lending institutions should keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 per cent of the renegotiated debt exposure of the lending institution post implementation (residual debt). Residual debt, for this purpose, will also include the portion of non-fund based facilities that may have devolved into fund based facilities after the date of implementation. Half of the above provisions may be written back upon the borrower paying at least 20 per cent of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.
- iv. In respect of exposures other than personal loans, the above provisions shall not be written back before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.

Working capital support for small businesses where resolution plans were implemented previously

In respect of borrowers who have been given restructuring, lending institutions can review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring.

BEYOND NPA AN ANALYSIS OF STRESSED ASSETS

In this background to understand the NPAs and stressed assets of micro units under MSME and the impact of Covid on MSMEs the following analysis using the data given by the Equifax on various aspects of delinquency in respect of MSME loans (within ₹25 lakhs) outstanding as of March 2021 is presented. It may be added that the estimation of stressed assets and calculation of various ratios are done by the author using the given data. As these loans form part of overall NPA data the NPA % presented herein may not match with any published data on NPAs

In respect of MSME loans up to ₹25 lakhs details of the total outstanding, amount of NPA and NPA % (% of amount in default to outstanding loans within ₹25 lakh) under the four broad heads namely MSME Retail, MSME Agri, MUDRA and MSME Commercial as of March 2021 are as under (Table 7.3). It is worth mentioning here that whereas in the case of first three categories namely Business loan Retail, Business Loan Agri and MUDRA most of the borrowers are individuals, in the case of Commercial loans credit is availed by organisations like company, partnership, HUF, cooperative, PSU etc.

Apparently NPA percentages are low. It must also be added that the NPA percentage is in respect of loans up to ₹25 lakh and as such, may not be directly comparable to overall NPA in credit or in overall NPA in MSME financing in the banking sector. It is essential to keep in reckoning that in order to manage the impact of the pandemic, banks have been allowed

Table 7.3 MSME Percentage of accounts & amount outstanding and NPA for loan size less than ₹25 lakhs as of March 2021

Type of MSME Credit	% of ACCs & Amt in MSME type to total Acc and Amt in loans up to ₹25 lakh		NPA in the segment as % of total NPA		NPA %	
	Acc	Amt	Acc	Amt	Acc	Amt
BL Retail	14.17	6.24	29.59	11.18	13.5	13.7
BL Agri	34.14	8.65	43.15	11.69	9.9	10.3
MUDRA	1.76	0.56	3.53	0.75	13.1	10.2
Commercial	49.93	84.55	23.72	76.38	4.1	7.5

by RBI to keep status quo of NPA of certain accounts (box 7.1) and not to reckon fresh defaults as NPA, subject to certain conditions, such that credit flow to clients are not denied on account of pandemic related repayment deficiencies. Banks have also been allowed to restructure some accounts. Even otherwise banks have the prowess to restructure accounts subject to internal rules. In view of this it is necessary to evaluate the percentage of stressed assets to loan outstanding. It should be added here that the SMA i.e. loans which are past due for less than 90 days (SMA concept is not applicable to micro and small accounts), accounts past due above 90 days, and restructured accounts have been added up to arrive at total stressed assets.

The overall data analyzed in this regard is large and a very good data base to arrive at well-judged observations and recommendations. The Credit outstanding, NPA and details of NPA percentages in respect of credits up to ₹25 lakhs typically representing micro enterprise financing as of March 2021 is as under:

OVER ALL MSME ACCOUNTS WITHIN ₹25 LAKH CREDIT FLOW/ OUTSTANDING:

The data in the following tables are arranged in four heads namely Business Loan Retail (personal loans are not included in this head) Business Loans Agriculture (does not include agriculture loans such as crop loans, animal husbandry loans etc.) MUDRA loans and MSME Commercial which is essentially loans issued to institutions, whereas the former three are issued mostly to individuals. Equifax have also informed that Microfinance loans are reported separately and MSME data given for this report does not include Microfinance loans.

Table 7.4 Loan Outstanding¹⁰ as a % of total loans in the system (loans up to ₹25 lakh (Micro Units) March 2021

	NBFC		PSU		Pvt		RRB		SFB	
	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt
Retail	16.28	20.48	52.81	49.63	9.45	13.60	10.76	4.61	5.84	6.20
Agri	0.35	0.27	80.42	79.50	3.17	3.90	10.42	15.69	0.05	0.25
Mudra	ND	ND	95.32	96.29	0.73	0.90	3.96	2.81	ND	ND
Commercial	4.50	2.91	75.55	65.08	15.62	24.25	1.18	0.14	ND	ND
Total	4.70	3.83	74.19	65.58	9.55	21.49	6.31	1.91	0.95	0.44

PSU Banks account (Table 7.4) for a major share of overall loan outstanding as well as in all the four categories of loans that are extended to MSMEs both in terms of number of accounts and amount of credit. This is in line with their performance overall credit in the banking industry. NBFCs account for nearly 21% of outstanding loans in Retail segment while Private Banks account for 24% of outstanding in Commercial segment

and 22% in overall credit. SFBs have a higher Priority Sector target and hence play a noticeable role in BL Retail and BL Agri segments. RRBs have a very small exposure to Commercial loans.

AGENCY-WISE SHARE OF NPA

Table 7.5 Share of NPA in the system for loans up to ₹25 lakh (Micro Units) March 2021

	NBFC		PSU		Pvt		RRB		SFB	
	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt
NPA retail	14.05	14.51	52.10	60.36	6.00	8.12	19.18	7.11	5.49	3.37
NPA Agri	2.17	1.35	85.37	88.82	4.80	5.47	6.90	3.21	0.04	0.10
NPA Mudra	0.00	0.00	97.98	98.08	ND	ND	1.52	1.92	ND	ND
NPA Commercial	3.68	7.24	71.26	66.80	9.68	18.11	6.19	10.02	ND	ND
NPA overall MSME ₹25 lakh	6.02	7.33	72.33	68.84	6.23	15.41	10.22	8.85	1.65	0.39

As regards amount of NPA in the case of loans 'up to ₹25 lakh' it is seen that PSU banks have a high share in the total NPA within the 'up to ₹25 lakh' NPA. It is seen that NPA in MUDRA is almost exclusive to PSU banks. NBFCs have the second highest amount of NPA in BL Retail. It is seen (table 7.5) that Commercial banks account for a major share of NPAs as well. The share of NPA of private sectors is significant in Commercial (MSME) loans.

As regards NPA in overall MSME PSU banks have recorded a higher NPA, followed by Private Banks, RRBs and NBFC. NBFC, RRB and Private Banks together account for 40% NPA in BL Retail segment. It is well known that PSU banks are more compliant than others in lending as per Priority Sector norms and other dictates of authorities. Therefore it is only natural that they bear the higher brunt of NPA as well.

Table 7.5 A NPA % to total outstanding within the segment for loans up to ₹25 lakh (Micro Units) March 2021

	NBFC		PSU		Pvt		RRB		SFB	
	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt
NPA% Retail	11.7	9.7	13.3	16.6	8.6	8.2	24.1	21.0	12.7	7.4
NPA% Agri	48.2	51.5	8.4	11.5	12.1	14.4	5.3	2.1	2.8	4.3
NPA% MUDRA			11.3	7.7	ND	ND	5.4	5.1	ND	ND
NPA% Commercial	3.4	18.8	3.9	7.7	2.6	5.6	21.8	5.4	ND	ND
NPA % MSME	9.3	15.7	7.1	8.6	4.7	5.9	11.7	38.0	12.6	7.3

CEOSpeak5: SIDBI

Qn. It seems banks are in compliant mode for MSME products/loans i.e. they do exactly what is needed to comply with Priority Sector targets. Do you agree? How to make them consider MSME as good business too?

Ans: RBI, during PSL review, has revisited the existing PSL norms and has undertaken several changes to improve the Priority Sector lending. The measures such as incentive framework for banks, increase targets for various segments in phased manner; raising the cap for renewable energy and start-ups is expected to boost the Priority Sector lending. RBI has also issued revised guidelines for co-lending model which aims to improve synergy between banks and NBFCs considering the lower cost of funds from banks and greater reach of the NBFCs. So overall, RBI has been undertaking various pragmatic approaches to enhance PSL and it is expected to enhance going forward.

MSME lending has been perceived as high-risk due to the uncertainties associated with small businesses. However, things have improved over the years, which is evident from the increasing market share of Private Banks and NBFCs in the MSME lending. As per MSME Pulse, the Private Banks share in MSME lending has increased from 35.2% in March 2018 to 42% in March 2021. NBFC share has also improved from 11% in March 2018 to 14% in March 2019, before declining to 11% in March 2021 due to COVID pandemic. So, the perception regarding MSME lending is changing and measures such as co-lending model can boost it further.

Overall NPA% of PSU banks, as reported, is around 8.6% which shows that the exposure to MSME in terms of size of balance sheet is low. Similar is the case with Private Banks particularly as three Private Banks are among top 10 banks of the country in terms of business volumes. The data (table 7.5 and 7.5A) should be read in the backdrop of many restructuring and other concessions in NPA accounting extended to this sector since 2015-16. As such the NPA mentioned may not be merely on account of Covid related slowdown.

It is seen that the extent of NPA ranged from 8.2% to 21% in BL Retail, 2.1% (RRB) to 51.5% (NBFC) in Agri Business, 5.1% to 7.7% in MUDRA and 5.4 % to 18.8% in Commercial. These are GNPA % and not NNPA.

RBI (see box 7.1 above) had permitted banks in 2016 and then in 2017 as a onetime exercise to restructure and /or reschedule eligible MSME accounts due to event-driven issues. During Covid similar permission has been extended. Therefore it is difficult to evaluate NPA and arrive at a conclusion about the impact of Covid on asset quality. Also this is not the whole of NPA of the agencies but a portion of it, as only loans up to ₹25 lakh as of March 2021 are being analysed. But given the earlier conclusion that 90 % and more of bank credit are in this range, it is a definite pointer that NPA is a critical issue in this sector and Covid has definitely impacted the sector.

Box.7.3. Need for proportional/ differential regulation under IRAC norms for bank/NBFC credit to MSMEs

Given that it is well known that MSMEs are subject to event risks, a natural question is: why not stipulate broad range of NPA norms and allow banks to implement board approved norms based on broad sector, subsector and typical customer profile? Also, given that Micro Enterprise is a sub sector within MSME, is the current approach to NPA and periodical changes in norms post an event appropriate for the Micro and Small MSMEs?

A prima facie study of some of the information culled out from the table IV.25 published by RBI in its Report of Trends and progress of banking in India (see below) would show that under financial inclusion plan there is good progress in opening of deposit accounts and transaction banking.

Table 7.6 Performance under Financial Inclusion Plan

Sr. No.	Particulars	End-March 2010	End-March 2019	End-March 2020
1	BSBDA - Total (No. in Lakh)	735	5,742	60,04
2	BSBDA - Total (Amt. in Crore)	5,500	1,40,960	1,68,412
3	OD Facility Availed in BSBDA's (No. in Lakh)	2	59	64
4	OD Facility Availed in BSBDA's (Amt. in Crore)	10	443	529
5	KCC - Total (No. in Lakh)	240	491	475
6	KCC - Total (Amt. in Crore)	1,24,000	6,68,044	6,39,069
7	GCC - Total (No. in Lakh)	10	120	202
8	GCC - Total (Amt. in Crore)	3,500	1,74,514	1,94,048
9	ICT-A/Cs-BC-Total Transactions (No. in Lakh)	21,019	32,318	53.8
10	ICT-A/Cs-BC-Total Transactions (Amt. in Crore)	700	5,91,347	8,70,643

It can be seen from the table above that between 2010 and 2020 nearly 5269 lakh new deposit account have been opened whereas the increase in OD facility is a mere 63 lakh, KCC 235 lakh and GCC 192 lakh. Obviously credit inclusion is very slow. GCC is generally meant for Micro and small enterprises and the progress in GCC is very poor.

MSME entrepreneurs need continuous financial support because it is very clear that this sector faces a number of issues that impact the finances of these enterprises. This point is without doubt proved by the fact that between the years 2015-16 and

2021 there have been frequent relaxations in NPA regulations for MSMEs. Regulator has also urged banks to extend credit support to MSME

At the same time risk management guidelines are being tightened and banks are expected to make more provisioning for NPAs.

In view of this and very stiff reporting requirements there is no incentive for banks and financial institutions to look seriously into MSME as a business opportunity. Essentially there are too many regulations, norms and guidelines which make lending to the MSME not a business proposition. **This could often result in under financing and absence of timely financial help to Micro Enterprises.**

One of the reasons for poor credit inclusion is lack of or poor credit history with the excluded populace. Also there is no real encouragement for micro units to seek bank loan when they know that they will not get adequate finance and compliance to bank norms which is common to all borrowers irrespective of size and place is a huge constraint and it also increases the cost of credit.

From the bankers perspective, when there is no record it is presumed the sector is highly risky. Micro and small borrowers are one such risky sector. They are the primary concern/objective of this research report. Literature survey clearly indicates that

- a) These day's banks are expected to maintain a strict vigil over risk management and should be adequately capitalized to meet credit risk.
- b) Credit risk is allegedly (in fact the sum of corporate default is very high though % wise agriculture and MSME sector may show high default!) high in the MSME sector as the borrowers lack (a) credit history and (b) face frequent cash flow problem. Given that the MSME loans are about 15% and about 30% of it is stressed the overall impact of credit risk on banks due to micro and small loans may not be more than 4.5%. Of this less than ₹25 lakh account for about 95% of the accounts but say 1.5% of the risk. This is significant as the total outstanding to this segment may be a very small portion of the loan outstanding. This also shows the sector can be encouraged with more finance
- c) Government and RBI are aware of the risks and the importance of the sector and hence schemes like credit guarantee scheme for micro & small enterprises (cgtmse) are formed.
- d) Banks are not allowed to take collaterals in these cases as most of these loans are less than ₹10 lakh.
- e) The reason for mandating credits, stipulating 'no collateral' and offering partial guarantee is that the sector needs nurturing and will take time to stabilize i.e. the lending should be under what was previously encouraged as development banking.

- f) But the inflexible NPA norms and that no concession can be extended once an account becomes NPA and the need to wait for RBI guidelines to extend genuine distress times does not encourage development banking. As such development banking cannot be practiced these days as the asset quality and risk management norms are very stiff and do not differentiate good or bad units within the sector.
- g) The borrowers in this segment are subject to cash flow woes. Also they use own funds and bank funds the former in larger quantity in relation to their requirement and therefore find it difficult to meet the repayment obligations. Every repayment- as most loans are term loans- reduces the funds in their hand.

It is in this background that the issue 'are uniform NPA norms across the country, across different geo-eco zones, across different loan sizes and across different types and sizes of business units and for individuals and business organisations alike correct is raised.

The study clearly shows that stress is natural to the micro and small enterprises more so in rural and semi urban areas and MSME in these areas are cash oriented and may not enjoy high supplier credit. This study based on the information given by CIC and the experience of the author in working in rural development, small finance banks and other areas makes it necessary to write that

- i. NPA norms should not be same across all types and sizes of borrowers but should be differential particularly on account of the need to continue development banking.
- ii. Where ever credit is mandated and governments announce schemes there is a political hue. Historically it is seen that defaults in all government driven schemes has been high because public perceive the credit as government driven and not bank driven. They may feel it is not necessary to make repayment in government schemes and this is increased when waivers happen and guarantee schemes are framed to encourage credit flow. This is being mentioned here because of the high default of MUDRA loans with PSU banks and generally higher default with PSU banks and RRBs.
- iii. The apparent difference in NPA ratios of PSU/RRB on one side and Private lenders on the other proves that repayment in PSU banks/RRB is lower raises a question why the default is high. Is it because these are government schemes?
- iv. At the time of Global Financial Crisis (GFC) and now on the wake of Covid RBI has extended concessions in NPA in the form of keeping the NPA process in abeyance for brief period, or allowing restructuring or allowing a higher NPA period (in the year 2015-16 and¹¹ in 2017 MSME were given 180 day NPA on account of GST)

RBI being a regulator cannot issue differential or proportional norms beyond a level. Therefore it is recommended that it could consider issuing broad guidelines say NPA norms between 90 days and 150 days i.e. stipulate a range of NPA and allow bank boards to plan and operate within the range. This will give some real governance role to play for the banks as governance is, currently nothing but compliance to regulation. This will also enable banks to take quick action in case of risk events like introduction of GST, Covid, etc. rather than wait for RBI intervention.

(Endnotes)

1 New Delhi, Jun 6 In a major relief to MSMEs, the Reserve Bank today eased NPA classification norms for such units facing input credit linkages and associated issues under the Goods and Services Tax. More particularly credit facilities from these lenders up to ₹25 crore, as per a 180-day past due criterion having regard to the input credit linkages and associated issues.

SECTOR-WISE LOAN OUTSTANDING AND NPA%

Loan size-wise analysis shows that (a) about 90% of the accounts and 77% of the outstanding amounts are in the loan size up to ₹7 lakh.

Table 7.7 Loan limit wise % share in total o/s in the MSME Loans (size less than ₹25 lakh) as of March 21

	Up to 7L		7L to 15L		15L to 25L	
	Acc	Amt	Acc	Amt	Acc	Amt
Retail	90.24	52.1	30.91	21.60	6.67	26.31
Agri	98.56	88.2	0.24	3.19	1.21	8.54
MUDRA	95.08	45.2	0.31	4.16	1.42	10.34
Commercial	81.31	77.5	12.73	11.65	5.95	10.73
All MSME	89.63	76.8	10.67	11.63	4.13	11.51

MUDRA and BL Retail have 45% and 52% of the credit in the 'up to ₹7 lakh' limit. That MSME Commercial has 78% of its loans in this size is a surprising find. Size group ₹7 lakh to ₹15 lakh and size group ₹15 Lakh to ₹25 lakh account for about 11% of the loans. Clearly the enterprises supported by these loans will face liquidity and financial issues. This is amplified confirmed by the NPA % of each of these segments.

Table 7.7 A Loan limit wise business segment wise NPA of MSMEs. March 21 for loans up to ₹25 lakh

	Up to 7L		7L to 15 L		15L to 25 L	
	Acc	Amt	Acc	Amt	Acc	Amt
Retail	14.29	20.04	0.61	6.12	6.65	7.21
Agri	7.95	9.98	10.41	13.42	9.40	12.47
MUDRA	16.79	15.79	5.34	5.89	3.00	8.86
Commercial	4.39	8.61	3.02	3.70	3.06	3.97
All MSME	7.74	9.32	1.99	4.28	4.70	5.06

NPA percentage arrived at based on data given, shows that it varied between 5.06% in the loan range ₹15 lakh to ₹25 lakh, 4.28% in the loan range ₹7 lakh to ₹15 lakh and 9.32% in the loan range up to ₹7 lakh. It is seen that NPA percentage in case of loans up to ₹7 lakh was higher than that of loans above ₹7 lakh barring BL Agri where NPA percentage was higher in the case of loans for amounts between ₹7 lakh to ₹15 lakh and above ₹15 lakh as well. MUDRA had the highest number of accounts and amount in NPA. Generally NPA percentage of commercial category of MSME was lower than other business types.

Table 7.7 B Loan limit-wise share of NPA in overall NPA in loans up to ₹25 Lakh

	Up to 7L		7L to 15 L		15L to 25 L	
	Acc	Amt	Acc	Amt	Acc	Amt
Retail	95.33	76.45	1.38	9.67	3.28	13.88
Agri	98.27	85.51	0.31	4.16	1.42	10.34
MUDRA	98.30	86.77	1.60	15.60	0.02	0.31
Commercial	86.34	88.62	9.31	5.73	4.41	5.65
All MSME	94.48	87.04	2.89	6.06	2.64	7.08

As regards share of number of accounts in NPA to total account and NPA amount to total amount covered in the study, it is seen that loans up to ₹7 lakh accounted for nearly 95% of the NPA accounts and about 87% of the amount.

The overall NPA of MSME Sector during 2020-21 was 7.3%. In this connection, as indicated previously, it should be noticed that lenders have been allowed a number of concessions in the past in NPA norms. As such, mere analysis of NPA% norms may not be sufficient to understand the stress or impact of Covid in the Sector. It is necessary to understand the stress by adding up all loans which have defaults less than 90 days, defaults more than 90 days, restructured accounts etc., and reckon it as percentage to total outstanding and find by how much percent stressed accounts are more than NPA percent to delineate stress in assets. It is in this background that an analysis of stressed assets as of March 2021 is taken up below.

STRESSED ASSETS

To understand and estimate stress, the author has estimated stressed assets. It is stated that stressed assets are distinct from NPA and include (a) all past due accounts including past due for less than 90 days, (b) restructured accounts, (c) accounts which are past due but treated as standard due to regulatory guidelines on Covid impact, etc. The stressed assets are discussed in four broad heads namely BL Retail, BL Agri, MUDRA and MSME Commercial.

Table 7.8 Agency wise percentage of Stressed Assets BL Retail as of March 21 in loans up to ₹25 lakh

	SMA	Past due above 90 days	Restructured	of which restructured due to Covid	NPA%	Total Stressed
NBFC	7.37	9.44	3.76	2.03	9.68	20.57
PSU Bank	5.80	6.54	6.79	0.99	16.61	19.13
Pvt Bank	10.80	6.80	1.78	0.08	8.16	19.37
RRB	7.28	20.44	0.00	0.00	21.09	27.73
SFB	13.18	7.43	1.58	1.57	7.43	22.18
Overall	7.53	8.38	4.55	1.04	13.66	20.46

Table 7.8 A Loan size wise percentage of Stressed Assets BL Retail March 21.

	SMA	Past dues above 90 days	Restructured	of which restructured due to Covid	NPA%	Total Stressed
Up to 7 Lakh	7.65	10.70	5.80	0.81	20.04	24.14
7 lakh to 15 lakh	7.65	6.27	2.87	1.14	7.20	16.79
15 lakh to 25 lakh	7.10	5.36	3.56	1.49	6.12	16.03
Over all	7.53	8.38	4.55	1.04	13.66	20.46

In case of BL Retail (Table 7.8 and 7.8 A) it is seen that stressed assets (which includes NPA) in terms of amount involved was 20.57 % for NBFC, 19.13% for PSU banks, 19.37% for Private banks, 27.73% for RRBs and 22.18% for SFBs. It must be noticed that stressed assets include SMA i.e. less than 90 days default which forms sizable portion of stressed assets. This is of particular importance in view of the pandemic. This current default could add to NPAs in future. Percentage of SMA is particularly high in the case of private banks.

The overall stress is seen at 20.46 % for the sector whereas NPA (which is part of the overall stress) is seen ranging from 7.20 % (SFB) to 21.09% (RRBs). Overall restructuring of assets is seen at 4.55% and restructuring due to Covid was 1.04%. PSU banks have reported highest % of restructuring.

In terms of size of loans it is seen that the stressed assets were high at 24.14% in the case of loans in less than ₹7 lakh size. Obviously this would impact smaller sized loans more forcefully as bank credit flow could be reduced if not stopped. It is seen that as the size increases, stress is less, which goes to show that units which have more finance, have possibly more capacity to withstand or manage cash flow problems due to event risks and economic

Table 7.9 Percentage of Stressed Assets BL Agri March 21- Agency wise

	SMA	Past due above 90 days	Restructured	of which restructured due to Covid	NPA	Total Stressed
NBFC	9.86	51.02	5.81	0.02	51.54	66.68
PSU Bank	2.83	10.08	1.11	0.36	11.51	14.03
Pvt Bank	9.57	13.53	0.10	0.00	14.45	23.20
RRB	0.45	1.91	0.00	0.00	2.10	2.36
SFB	49.20	4.28	0.00	0.00	4.28	53.48
Overall	2.89	9.09	0.90	0.29	10.30	12.89

Table 7.9 A Stressed Assets BL Retail March 21- Size wise

	SMA	Past dues above 90 days	Restructured	of which restructured due to Covid	NPA	Total Stressed
Up to 7 Lakh	2.52	8.88	0.81	0.21	9.98	12.21
7 L to 15 L	7.85	10.29	1.78	1.16	13.42	19.92
15 L to 25 L	4.94	10.81	1.52	0.79	12.47	17.27
Overall	2.89	9.09	0.90	0.29	10.30	12.89

In the case of BL Agri (Table 7.9 and 7.9A) it is seen that NBFCs had total stressed assets of about 67% followed by SFBs at 54%. It is also seen that SFBs have reported a high SMA. Given that SFBs have graduated to their current status from being an MFI and their strategy is touch based collection, the impact of Covid on SMA will be evidently high. Only PSU banks and NBFC have reported restructuring and within that due to Covid as well. A high SMA is a definite pointer about the impact of Covid 19.

Table 7.10 Percentage of Stressed Assets MUDRA March 2021- Agency-wise

	SMA	Past dues above 90	Restructured	of which restructured due to Covid	NPA	Total Stressed
PSU Bank	5.65	8.24	16.99	15.46	7.71	30.89
Pvt Bank	18.71	8.21	0.00	0.00	0.02	26.92
RRB	0.00	0.00	0.00	0.00	5.10	0.01
Total	5.61	8.01	16.36	14.89	11.16	29.98

The size-wise analysis shows that as in the case of BL Retail, stress is high in Up to ₹7 lakh loans. Overall stress in BL Agri is seen at 12.89%.

Table 7.10 A Percentage of Stressed Assets MUDRA March 21

	SMA	Past dues above 90 days	Restructured	of which restructured due to Covid	NPA	Total Stressed
UP to ₹7 L	6.09	9.86	18.94	17.19	12.95	34.90
₹7 L to ₹15 L	4.31	3.22	9.67	8.90	4.67	17.21
₹15 L to ₹25 L	3.90	0.52	0.00	0.00	1.80	4.42
Total	5.61	8.01	16.36	14.88	10.64	29.98

In the case of MUDRA loans (Table 7.10 and 7.10 A) PSU banks account for almost entire NPA of MUDRA loans and have reported a high stress followed by Private banks. However if these percentages are weighted by the percentage of loan outstanding to total outstanding it will be seen that the stress in case of private banks is negligible.

In the size wise analysis of MUDRA it is seen that Stress in 'up to ₹7 lakh' is very high. The overall stress is about 30%.

Table 7.11 Percentage of stressed assets MSME Commercial March 21 Agency-wise

	NBFC	PSU	Pvt	RRB	others	Total
SMA	14.3	6.8	4.5	14.2	4.32	6.27
Past dues above 90 Days	9.97	8.89	3.14	0	0.56	6.65
NPA	18.77	7.73	5.63	5.4	7.7	7.53
Stressed Assets	20.54	16.6	8.63	15.17	5.71	13.85

Overall, in the case of MSME Commercial category, stress seems to be less. Within this, NBFCs have reported a higher percentage of stressed assets than others. However share of NBFC in the overall credit to MSME up to ₹25 lakh is rather low. RRBs have more than 15% stressed assets but here again their overall exposure to MSME Commercial loans is very small. In case of Commercial loans as in the case of others, higher stress in less than 90 days past due is clearly seen. This is without doubt the impact of Covid 19.

Table 7.11 A Percentage of stressed assets MSME Commercial March 21 size-wise

	Up to ₹7 lakh	₹7 lakh to ₹15 lakh	₹15 lakh to ₹25 lakh	Total
SMA	5.11	10.73	9.9	6.27
Past due above 90 Days	6.59	3.31	3.27	5.86
NPA	8.6	3.7	3.97	7.53
Stressed Assets	12.45	15.74	14.48	13.85

Unlike other MSME loans where the stress was high in up to ₹7 lakh loans the percentage of stressed assets in case of Commercial loans is high in ₹7 lakh to ₹15 lakh. The stress in 'up to ₹7 lakh' is lower than the average stress.

Chart 7.12 Estimate of % of total stressed assets to loan outstanding in the loan limit range up to ₹25 lakh

Agency		MSME Retail			MSME BL Agri			MUDRA			Commercial	
		NPA	Restru ctured	Total stressed assets	NPA	Restru ctured	Total stressed assets	NPA	Restru ctured	Total stressed assets	NPA	Total Stressed Assets
PSU Bank	Acc	18.02	8.69	26.71	10.25	1.38	11.63	12.28	17.22	29.51	3.90	22.57
	Amt	34.67	6.79	41.45	12.99	1.11	14.11	9.73	16.99	26.72	7.73	16.60
Private Bank	Acc	3.11	0.96	4.07	2.02	0.04	2.06	1.12	0.00	1.12	2.56	15.96
	Amt	3.31	1.78	5.09	3.81	0.10	3.91	0.76	0.00	0.76	5.63	8.63
RRB	Acc	30.91	0.06	30.97	12.71	0.01	12.72	34.59	0.00	34.59	21.78	7.25
	Amt	21.25	0.03	21.28	10.55	0.00	10.56	29.25	0.00	29.25	5.40	15.17
SFB	Acc	0.42	5.20	5.62	0.09	0.00	0.09					
	Amt	1.52	1.58	3.09	0.16	0.00	0.16					
NBFC	Acc	2.84	2.07	4.92	1.49	1.97	3.47				3.40	24.73
	Amt	3.25	3.76	7.01	2.81	5.81	8.62				18.77	20.54
Total	Acc	14.13	5.37	19.50	9.96	1.12	11.08	13.08	16.42	29.50	4.14	21.44
	Amt2	19.52	4.55	24.07	12.26	0.90	13.17	10.20	16.36	26.56	7.53	13.85

It is seen (table 7.12) that in case of loans up to ₹25 lakh in Commercial MSME no restructuring has been reported. It is seen that generally MUDRA loans have higher default and restructuring and the total stressed assets in MUDRA is higher than Commercial loans. It is seen that the total stressed assets (amount of stressed assets) were 24.07% in Retail, 26.56% in MUDRA, 13.85% in Commercial and 13.17% in Agri. It should be kept in mind that the analysis is about loans up to ₹25 lakh and the profile of the borrowers may not vary very much among type of credit barring Commercial MSME and therefore there may not be noticeable differences in the overall NPA and stressed assets among the four broad groups that are being studied.

It has been mentioned that restructuring of past due and NPA accounts have been permitted a number of times. In this background it is seen that restructuring has been high in the case of MUDRA and Commercial loans. PSU banks have undertaken restructuring in all four categories of loans that is being studied. PSU banks have restructured nearly 17% of MUDRA accounts. In the case of RRBs NPAs and stressed assets are high.

IS THERE REMARKABLE CHANGE IN STRESSED ASSETS?

There is definite increase in stressed assets in the past few years. This can be seen in terms of SMA which was 7.53% in Retail, 2.59% in Agri, 5.61% in MUDRA, and 6.27%

in Commercial category. This shows that collections are under severe stress. Another indicator is percentage of restructured accounts in the loan outstanding. Here it is seen that in loans less than ₹25 lakhs, MSME Retail had 4.55% of its amount in restructured accounts. It was 0.90% in Agri and 16.30% in MUDRA. In order to see if there has been any change, a comparison of stressed assets as of March 2021 and March 2020 was attempted. However, as data on loans up to ₹20 lakh only was available for both years and not for ₹25 lakhs, the comparison is done for loans up to ₹20 lakh.

Table 7.13 Comparing NPA and Stressed assets of Loans outstanding up to ₹20 lakh for the years 2020 and 2021

	NBFC		PSU Bank		Private Bank		RRB		SFB	
	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt
March 2020										
O/S as % of total MSME	4.7	3.7	74.3	65.7	9.4	21.5	6.5	1.9	44.6	0.4
Amt of NPA as % of total NPA	1.7	0.4	76.1	27.2	3.0	5.8	14.5	0.1	0.0	0.0
NPA to loan outstanding %	3.2	14.0	8.9	10.2	2.8	5.8	19.4	12.7	4.9	7.9
Stressed Assets %	26.1	21.3	17.2	15.4	18.1	8.6	11.3	7.5	20.5	12.9
Restructured %	0.8	0.8	0.6	0.2	0.0	0.0	0.0	0.0	0.2	0.0
Re due to Covid %	0.7	0.8	0.6	0.2	0.0	0.0	0.0	0.0	0.8	0.1
March 2021										
O/S as % of total MSME	4.6	3.5	74.4	66.5	9.3	20.8	6.4	2.0	1.0	0.4
Amt of NPA as % of total NPA	1.7	5.8	76.2	72.4	3.0	13.5	14.4	2.6	0.0	0.1
NPA %	3.1	14.9	8.4	9.9	2.7	5.9	18.4	12.1	0.4	1.4
Stressed Assets %	25.1	20.0	17.3	14.9	17.4	8.1	11.5	7.2	25.2	23.9
Restructured %	0.5	0.6	1.5	0.4	0.1	0.1	0.0	0.0	0.0	0.0
Re due to Covid %	0.7	0.8	0.5	0.2	0.0	0.0	0.0	0.0	5.2	1.7

Comparison of stressed assets and NPA of loans up to ₹20 lakh between March 2020 and March 2021 shows that the MSME Sector has been continuously facing higher level of stress. This is not surprising because since 2015¹² this sector has been facing cash flow problems due to internal issues and also on account of demonetisation, GST and now Covid related lock-down and/or slowdown. It is on account of these reasons that there have been frequent announcements of relaxations, by RBI in NPA norms or allowing restructuring, etc. Naturally, during such events, the difficulties faced by Micro and small enterprises will be more strenuous. These enterprises may need not only restructuring of loans but

also additional finance to sustain their business. Most of these enterprises are, as indicated earlier run by individuals who may, for example run a small grocery shop or vegetable shop or a repair shop. Their business is mostly cash oriented and they do not get much of seller credit. They depend completely on borrowed funds including bank credit and there is no distinction between personal and business cash flows. In this regard the high percentage of stressed assets to total loan outstanding clearly shows that these accounts will tend to default whenever there are external issues that cause slowdowns.

CEOSpeak6: SIDBI

Qn: Currently in the pandemic period, including restructured accounts, postponement of NPA status etc. the total stressed assets seem to be in excess of 25% in (a) most banks and (b) in case of loans up to ₹25 lakh. Hopefully with increase in vaccination coverage the impact of pandemic will be reduced and RBI will withdraw some of the NPA related relaxations. This will impact the NPA and financial positions of banks and NBFCs. What will be your suggestions to the banks to tide over the difficulties? Will SIDBI come out with short term fund support to MFIs, NBFCs and SFBs?

Ans: The pandemic had adversely affected the various sections of the economy and MSMEs faced multiple challenges on various fronts viz. liquidity, manpower, marketing, supply chain, delayed payment from debtors, reduced / no credit from suppliers, fixed cost despite no or low production, etc. Therefore, RBI and Gov't of India introduced various schemes/initiatives to help MSMEs to face these challenges. MSMEs were extended additional assistance under ECLGS. Moratorium was extended and later restructuring was allowed without downgrade in asset classification. The purpose was to allow some time to MSMEs to continue their operations during pandemic. This support appears to have served its purpose as fresh NPAs are much lower than initially estimated. However, Banks will have to be cautious and also considerate at the same time. To address the liquidity concerns of financial intermediaries, RBI provided Special Liquidity Facility (SLF) of ₹15,000 crore to SIDBI on April 17, 2020, to support MSMEs during Covid pandemic through Banks, NBFCs and MFIs. The facility was fully utilized during FY 2021. Now in consideration of the SIDBI's request, RBI has provided SLF-II of ₹15,000 crore to address liquidity concerns of MSMEs directly or through financial intermediaries during FY 2022. Under the scheme, SIDBI has disbursed ₹5,200 crore to various Banks / NBFCs and MFIs as on Sept 2021. We will continue to support these FIs during these difficult times within the overall guidance provided by Reserve bank.

CONCLUSION

The obvious conclusion is that stress is natural to micro loans of MSME. Currently though NPA ratios are apparently not high stress is high. NPAs would have been high but for some concessions extended by RBI. As the impact on account of Covid has not been specifically assessed it has not been possible to distinguish stress on account of Covid. Though NPA at banks level can be managed by such relaxations stress at MSME level cannot be managed by periodical waiver in IRAC norms. As such there is a case for proportional IRAC norms for MSME based on the amount of loan extended and business size of borrower. Also there is a need for a closer look on the adequacy of bank credit, terms of credit, how the instalments are stipulated and how much of income/cash flow of a MSME can be earmarked for repayment without affecting the continuance of business. Credit terms should be such that MSMEs should be able to repay and also continue to grow. There is a need to study the sector closely in terms of adequacy of finance and appropriateness of the terms of credit including NPA norms.

REFERENCES

- ¹ Many MSME units have suffered severe hardships, including shutdowns and employee layoffs, due to demonetisation. This led to distress and defaults on bank loans. Reserve Bank of India (RBI), had announced a series of measures to alleviate their distress including a one-time restructuring of existing stressed MSME loans below ₹25 crore. The impact of demonetization was largely ironed out by mid-2017 but the introduction of GST brought with it a fresh wave of challenge such as affected supply chains, particularly where small traders acted as suppliers of intermediates to larger manufacturing companies. RBI announced similar measures for GST impact like it did for demonetisation
- 2 RBI Circulars on restructuring etc., of MSME accounts
 1. 'Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle'. Additional limit or Facility due to demonetisation Circular dated December 29, 2016.
 2. Increase in NPA norms from 90/120 days to 180 days on account of introduction of GST. Relief for specified MSME Borrowers registered under Goods and Services Tax (GST). Circular dated February 07, 2018
 3. Encouraging formalization of MSME sector. Circular dated June 6, 2018
 4. Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances. Circular dated January 1, 2019
 5. Interest Subvention Scheme for MSMEs. Circular dated 19 February 22, 2019.
 6. Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances. Circular dated February 11, 2020
 7. Distressed Assets Fund - Subordinate Debt for Stressed MSMEs. Circular dated July 1, 2020
 8. Resolution Framework for COVID-19-related Stress: circular dated August 6, 2020
 9. Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances: Circular dated August 6, 2020
 10. Credit to MSME Entrepreneurs: Circular dated February 05, 2021
 11. Resolution Framework 2.0 – Resolution of Covid-19 related stress of MSMEs Circular dated May 5, 2021

- 3 RBI Report on Trends and Progress of Banking in India
- 4 Regulations are generally one size fit all. But given the different sizes and hues of banks ranging from big PSU and private banks to small finance banks, UCBs and short term coop banks there is a need for appropriate and differential regulation on all aspects including NPA norms so that banks can take timely steps and need not wait for RBI clearance on such events. Indeed this will empower board governance which is currently (due to regulatory pressure) focused on compliance
- 5 MSME Pulse June 2021
- 6 Bloomberg Quint
- 7 Study of a few banks' websites not all banks
- 8 Financial Stability report June 21
- 9 Collected from various issues of MSME Pulse published by TransUnion CIBIL
- 10 The data shared by the institution for loans up to ₹25 lakh was unique and could not be verified with any official data sources and hence it was decided to use % to describe the portfolio and stressed asset.
- 11 New Delhi, Jun 6 In a major relief to MSMEs, the Reserve Bank today eased NPA classification norms for such units facing input credit linkages and associated issues under the Goods and Services Tax. More particularly credit facilities from these lenders up to ₹25 crore, as per a 180-day past due criterion having regard to the input credit linkages and associated issues.
- 12 MSME Ministry had issued guidelines vide Gazette Notification dated May 29, 2015 a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'.

8 Entrepreneur Perspective on MSME Credit

INTRODUCTION

Some of the points mentioned in the previous chapters like the (i) average loan size of all MSME loans up to ₹25 lakh being less than ₹2 lakh, (ii) majority of loans being in the size group less than ₹3 lakh, (iii) a high % of loans being issued by the combination of PSU banks and RRB etc., and (iv) high stress seen in all the four category of accounts are clear pointers of (a) inadequate finance (b) rather difficult/stiff terms of credit and (c) difficulties faced by MSMEs in accessing adequate and timely credit. The overall MSME loans are less than 15% of the overall credit outstanding in the country. This shows that there is huge scope to increase the loan coverage. The level of inclusion in MSME space is very low despite many initiatives taken by the government. This shows the need to understand the issue from the MSME perspective.

For a larger inclusion of MSME into credit fold it is necessary for micro enterprises and start-ups to understand various (rather enormous) rules and regulations that need to be complied for getting sanctions for bank loans. They must be able to produce required documents. Often, entrepreneurs are reluctant to seek bank loans because they feel the procedure involved is lengthy, documents difficult to compile and there is too much officialdom. In this connection it must be said that over the years there has been a move towards standardising eligibility criteria and documents required without regard to the size and stage of business. For example most banks do not extend credit to a MSME unless a track record of business say three years is established. This eliminates all 'start ups' from bank credit unless a specific scheme is developed by authorities. In this regard there is a need for banks to frame specific identification and eligibility criteria for MSME instead of adopting uniform norms for all sizes of loans.

ISSUES/DIFFICULTIES FACED BY PROPONENTS/ENTREPRENEURS

There is ample literature on difficulties faced by the MSMEs accessing finance. Most important point made by the authors is confirming the view made earlier that for a new unit or a new entrepreneur it is almost impossible to get a loan from a bank as almost all banks insist on some track record of business, few years' information on financial performance etc. In view of this and as there is no venture capital support or seed capital funding available for these micro enterprises, the entrepreneurs have to arrange initial funds from relatives and

friends or borrow from money lenders at very high costs so that they can start and create a track record.

Even in the case of MSMEs financed by the banks, there is often a need for the MSMEs to access private funds as the amount of bank credit is often inadequate or too small. In this connection a study by College of Agriculture banking Pune (2018) (Institute run by RBI) has pointed out that entrepreneurs preferred Urban Cooperative Banks (UCBs) despite somewhat higher rates of interest than Commercial Banks as these banks offered personalized attention and dedicated service and processed the application/proposal in a shorter time. These UCBs are local and situated closer to the place of MSME and possibly did not seek all the information that Commercial Banks wanted. The study has also revealed that commercial banks were reluctant to lend to new entrepreneurs as their rules required three years' income tax returns, financial statements, invoices, etc., even if the project proposal was sound and commercially viable. **Evidently RULES EXCLUDE! Definitions exclude!**

In this regard entrepreneurs had rated the NBFCs better because they not only reached the customers at their place of business but also collected the required documents in one go and offered door to door service which allowed proponents to focus on their business without disturbance. Often they were able to finance in the absence of tract record as well. They did not have difficult rules for 'start ups' and were willing to consider cases on merit. NBFCs gave better customer experience. On the contrary in the case of banks, proponents had to make repeated visits to the branches for submission of the various documents, discussions and follow up.

INFERENCES FROM VARIOUS STUDIES ON ISSUES FACED BY PROPONENTS

CAB in its study has also pointed out that almost all Commercial Banks rejected loan proposals without giving reasons and without making an entry in the Loan Proposal Tracking Systems. More often they accepted loan applications only when they saw a strong possibility of actually extending a loan. Also the entrepreneurs were unaware of the option of the online portal for submitting loan applications and tracking the status. Proponents felt that if the banks were to share the reason for rejection it would help them to redo the business plans and proposals. In this connection it is felt that there is a strong need to ensure that branches do not reject applications outright. There is a need for branches to display a notice in local language about the on-line application facility and important eligibility conditions. There should be hand holding of MSMEs at the branches and support for submitting applications on-line.

As regards normal branches and specialised MSME branches CAB has observed that specialised branches of banks performed better than the normal branches in respect of dealing with applications, assessment of credit needs and credit delivery. Specialist branches showed better ability and interest in dealing with the new entrepreneurs and possessed entrepreneurial sensitivity. The sanctioning powers with these branches were higher by about 25% which helped in avoiding unnecessary delay in sanction. In the case of NBFCs,

despite their having centralized loan processing centres, turnaround time was actually shorter, due to reasons like focused attention, incentives to the field staff, etc. The study, however, does not comment if specialized branches handled ‘new to business cases’ better.

The study has pointed out that awareness about GOI/RBI policies relating to MSME and financial products offered by banks was rather low among the entrepreneurs. Many of the entrepreneurs were not aware that banks are not allowed to insist or accept collaterals for loans below ₹10 lakh. MSMEs have pointed out that application forms are complex, seek many details and are difficult to fill up in full. The entrepreneurs voiced a unified opinion that for micro and small enterprises (say where the loan amount could be less than ₹25 lakhs) banks should devise simple application forms with minimum document requirements.

In discussions in the cluster, CAB found that almost all proponents voiced the issue of under financing by banks which has forced the entrepreneurs to meet the credit gap from NBFCs or informal sources such as money lenders, credit societies, etc.

RBI SPEAKS

The problems of MSME customers are well known to RBI. In a recent speech in SIDBI, Governor RBI has said that “Despite the MSME sector contributing significantly to the economy, it continues to face several challenges”. The major challenges indicated by him include (i) physical infrastructure bottlenecks; (ii) absence of formalization; (iii) inertia to technology adoption; capacity building; (iv) lack of backward and forward linkages; (v) lack of access to credit and risk capital; and the (vi) perennial problem of delayed payments, among others. He has added that “Credit plays a vital role in development of MSME sector as funds at a reasonable cost (only) can increase their competitiveness.

He has observed that ‘Credit disbursal to this sector has, however, remained sluggish in recent periods’. Further “As many MSMEs mainly operate in the informal space, assessing their creditworthiness can be difficult due to information asymmetry, particularly with respect to the financial performance of their businesses. In the absence of collateral, underwriting the customer **often entails higher operating cost**. Also, due to their small-scale operations, MSMEs are not able to raise risk capital. They are also unable to take advantage of most of the Government schemes which are mostly based on digital infrastructure and require beneficiaries to have some form of digital identity and presence. With the implementation of structural reforms like GST and JAM trinity, the informal units will get integrated with the mainstream in the coming years.

ADB SAYS

An ADB working paper¹ has pointed out that ‘SMEs face challenges from increased competition, being (un)able to adapt to rapidly changing market demand and technological changes, and capacity constraints relating to knowledge, innovation, and creativity’. For many SMEs, however, their potential is often not fully realized due to factors related to their small scale. In addition, many micro and small businesses find that their geographical

CEOSpeak7: SIDBI

Qn: It is reported that measures taken by GOI, RBI and SGs has resulted in ensuring that almost all farmers are covered by bank finance (it is estimated that the number of farmers covered by banks is nearly 12 crore). In their cases there is no information asymmetry issue. Given this, what should be done to include more of the 63 million SMEs into the banking system?

Ans: There is no doubt that the lack of formalization has impeded the inclusive growth of MSME Sector in terms of access to credit and delivery of policy benefits to the last mile. Therefore, a push to the formalization exercise by linking it to various Govt. schemes can be a game changer in MSME access to credit. SIDBI, therefore, is working with Ministry of MSME for bringing millions of unregistered Micro Enterprises into UDYAM registration framework so that these entities start availing/becoming eligible for institutional credit and various subsidy schemes/incentives of the Government. The increasing formalization and rapid uptake of the India Payments stack has ensured access to non-conventional, alternate sources of data for underwriting. New underwriting models based on such alternate data points will also bring an even larger fold of MSMEs into the formal credit bracket.

Addressing the credit gap in MSME sector has been a thrust area of SIDBI's future plans. Capitalizing on the increasing digitization, we are focusing on making MSMEs credit/KYC ready by improving financial literacy under our promotional and developmental activities. Further, SIDBI is also undertaking a bouquet of initiatives to create robust digital lending environment for businesses. The technology platforms of SIDBI viz. Udyamimitra Portal and PSBLoansin59minutes have been instrumental in strengthening digital lending ecosystem. The Udyamimitra portal is also being mapped with Govt. schemes so as to create a virtual ecosystem for MSMEs. These lending platforms shall be further strengthened by enabling data-backed risk assessment and decision-making for faster credit delivery to MSMEs, thereby ensuring inclusion of MSMEs in financial channels. SIDBI is also working on developing an end-to-end paperless digital lending platform for MSMEs which shall not only add to the ease of doing business objective but would also enhance the efficiencies in MSME lending ecosystem. Further, SIDBI is also trying to create an enabling environment with the help of Fintechs to make available seamless digital solutions by leveraging the expertise of the Fintechs for the MSME space.

Further Digital India programme has brought us closer to achieving the financial inclusion dream. In India we have 620 million smartphone users; the number is further expected to increase by 410 million by 2025. Further, active internet users in India are expected to reach 900 million by 2025. The data shows that we need to be future ready to capitalize on the increasing digitization. As mentioned earlier, the increasing digitization will lead to new underwriting models based on alternate

data. Further, the growing acceptance of data governance framework shall lead to the availability of credible data to the stakeholders which shall pave the way for higher lending by the players.

Focusing on the Micro-Enterprise segment, SIDBI has pioneered several initiatives in Livelihood and Entrepreneur promotion. We have also launched PRAYAAS programme to facilitate access of low-cost borrowings for aspirational Micro Entrepreneurs at the bottom of the pyramid. The initiative has facilitated access to low-cost borrowings for Micro-Entrepreneurs/Micro-Enterprises under partnership arrangement with BC/ MFI/ SHPI/ NBFC/ Fintechs with the objective to cater to targeted segment by providing loans up to Rs`5 lakh to meet their livelihood and income-generating activities. In order to enhance coverage under the scheme, we have recently launched the programme 'Digital Prayaas', an app-based, end-to-end digital lending tool platform resulting in loan sanction accorded by the end of the day. The initiatives of this nature shall be further scaled up by the lenders to assist Micro-Entrepreneurs.

Similarly, bringing more and more MSMEs into the formal system of registration on digital platforms would help in providing more credit to MSMEs also.

isolation puts them at a competitive disadvantage. ADB indicates the following factors that are affecting the MSMEs.

- i. lack of resources (finance, technology, skilled labour, market access, and market information);
- ii. lack of economies of scale and scope;
- iii. higher transaction costs relative to large enterprises;
- iv. lack of networks, that results in lack of information, know-how, and experience of markets;
- v. increased market competition and concentration from large enterprises caused by globalization and economic integration;
- vi. inability to compete against larger firms in terms of R&D expenditure and innovation (product, process, and organization);
- vii. Being subject to "churning" and instability

ADB observes that 'despite their perceived weaknesses SMEs have not been swept away with the process of globalization and regional integration, but, rather, their role and contribution have changed and evolved which have enabled many to remain competitive and collectively be an important source of employment generation.'

In an article titled 'Problems of MSME Finance in India and Role of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)' the author² says that typically

MSMEs are more opaque than large firms because they have less publicly available information. Consequently, it becomes difficult for banks to assess the creditworthiness of MSMEs, which discourages lending. The lenders use the lack of information to seek higher collaterals to which MSMEs don't have access and as such they are unable to get timely and adequate finance.'

Clearly the Information asymmetry in this sector leads to inadequate bank finance. Also, MSMEs, particularly the smaller ones among them, make most of their transactions in cash (the debit cards and POS machines have not yet fully reached these markets) due to which it is difficult to assess the turnover as reported data (turn over) is often different from actual figures of sales and profitability. This is due to absence of documentation of large volume of small ticket cash transactions. Actually micro enterprises do not need such information except for getting bank loans. At the same time non availability of such information results in very low eligibility of bank credit. In addition the sector suffers from high transaction cost and lower margins, lack of product innovation by the enterprises and low-risk appetite of Financial Institutions, all of which results in poor credit flow to MSMEs.

These issues are corroborated by the chamber of MSME which says “ Despite the importance of the MSMEs in Indian economic growth, the sector is facing many challenges and does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporates, which is proving to be a hurdle in the growth path of the MSMEs. Continuous follow up is needed with various government agencies to resolve problems which gets accentuated due to lack of sufficient knowledge of procedures etc. The list of the problems that are faced by existing/new companies in SME sector is as under:

- Absence of adequate and timely banking finance
- Limited capital and knowledge
- Non-availability of suitable technology
- Low production capacity
- Ineffective marketing strategy poor supply chain linkages
- Constraints on modernization & expansions
- Non availability of skilled labour at affordable cost

CEOSpeak8: SIDBI

Qn: Technology is playing a greater role in deposits and remittance related issues than credit and loans. What are your recommendations to augment technology for financial inclusion, more so of MSMEs?

Ans: The growth of New Age Fintechs using innovative technology and tools in financial services is a path breaking development in the last decade. More so,

as Fintechs have the potential to play a critical role in Financial Inclusion and in deepening the outreach for holistic growth of MSMEs in the country. Govt. and regulators have also created an enabling environment for Fintechs through proactive policies related to Financial Inclusion (through GST & Jan-Dhan Yojana), digital infrastructure (through UPI & Digital India initiative) and promoting innovation and competition through regulatory sandbox, License to Payment Banks etc.

Fintechs have made tremendous progress in lending by leveraging technologies/ innovative business models in pivotal areas viz., customer acquisition, and credit scoring etc. to reshape/reinvent the lending value chain. However, huge potential still exists, not only in its focus area i.e., Micro and Small Enterprises but also in more niche areas viz., P2P lending, Supply Chain Financing, Bills/Invoice financing, Mobile based lending, pay later loan etc. The announcement of the Open Credit Enablement Network (OCEN) can be a long-awaited reform which can push digital lending to new heights in India. With the proactive steps already being undertaken by the Government and regulators, it is for the lenders to play the part by leveraging these platforms and alternate data models for financial inclusion of the MSMEs.

Qn: Can Fintechs help augment finance to MSME? Currently they have no regulatory and other constraints. If banks can lend to MSMEs through Fintechs will it lead to higher credit flow?

Ans: Fintechs in India are eyeing the huge unmet demand in MSME Sector. As per MEDICI report on Fintech, the traditional ways of banking approve only ~25% to 40% of the loan applications, however, with access to more data for credit scoring such as transaction, behaviour, app-based data, local information, social data etc., the new digital lending models aim to increase the threshold by 10 to 15%, creating huge opportunity.

In a world where the Fintech companies are leading in terms of the volume of digital transactions and playing a more active role in the banking and finance industry, it is important that the Commercial Banks adapt to the technological changes and work in tandem with these entities so that in future they are part of the ecosystem rather than competing with Fintech companies for business. A meaningful collaboration and co-existence in providing affordable and efficient value-added services would help both the worlds.

In view of the performance of Fintech NBFCs on various measurable parameters and the thrust accorded by the Government of India as well as the demand from various quarters for providing continued assistance to them, we have launched a scheme for financing the New-age Fintech NBFCs towards the fag end of FY 2021 which will enhance credit flow to Fintech NBFCs.

ISSUES/CONCLUSIONS BASED ON STUDY FINDINGS AND LITERATURE SURVEY.

There are many issues faced by MSMEs in accessing bank credit. Some of them are listed below.

- i. Most start-ups in India face problems in the initial stages because of the prevalence of too many regulations and approvals. Though they are well intended, officialdom and compliance only increases the difficulties.
- ii. There are many organisations established to help MSMEs achieve ease of business. But the sheer number of organisations and the procedures laid down by each of them (registration, KYC, eligibility) has instead of making it easy, made it tough for MSMEs to do business.
- iii. Most MSMEs face problems in accessing finance even as the government has implemented measures to make credit for businesses readily available to foster entrepreneurship.
- iv. A large number of entrepreneurs lack the financial knowledge to manage business and steer it in the right direction. It is a well-known issue that most of them have the technology or business knowledge but lack knowledge on banking and finance.
- v. Most businesses are not able to reap the benefits of the latest technological developments in their sector due to a lack of expertise and awareness. There is a need to make MSMEs aware of the same, particularly those that are significant for the growth of their businesses.
- vi. MSMEs are appreciated for providing employment to a large number of people. At the same time it is a fact that labour laws have not been amended to suit MSME business. To avoid labour laws some MSMEs are not able to employ required number of labourers. Many MSMEs face frequent labour issues.
- vii. MSMEs should be assisted in terms of skill development and training more particularly in the area of banking and finance and how to use credit.
- viii. In case of MSMEs production is decentralized. Therefore there is a need to ensure market linkages to help both urban and rural Micro-Entrepreneurs.
- ix. It is observed that banks refrain from extending loans to Micro Enterprises since the amount of credit is small. At the same time banks also think that MSMEs do not have adequate repayment capacity. As such banks end up stipulating stricter terms of credit on these start-up MSMEs.
- x. Some MSMEs fail to keep track of their credit rating or credit scores which hampers the prospect of availing loans. Lengthy procedure of MSME loan approval further dampens their spirits.
- xi. Some MSMEs find it difficult to avail loan as a result of a strict collateral protocol excepting where collaterals are not allowed. Since Small Entrepreneurs may not have

the property/assets to fulfil the collateral criteria to avail a loan, they may opt for unsecured Business Loans from private lenders.

If an MSME has to grow it must look towards financial institutions to ease the cost of doing business, and ensure availability of adequate funds to sustain growth and higher volumes. Commercial Banks have to necessarily play a bigger role in this as UCBs and NBFCs may not be able to fund such growth.

IS GETTING A BANK LOAN EASY?

What will a sole proprietor, who wants a loan for a Micro Enterprise do? She will go to a nearby bank branch and ask for details and application. If it is a specialized MSME branch, chances are that she will get better information and treatment than a normal branch. In all likelihood she will get an application form if the branch feels that prima facie the idea/project is acceptable and within its sanction powers. Will the branch give an application form to one and all? Doubtful, as CAB study has pointed out. As the banks have to keep record of applications received and sanctioned and submit the same to authorities, in majority of the cases, branch will give application forms only if it intends to sanction. Otherwise, it will find some reason for not giving the application form or ask the person to apply online.

On-line application is not easy as the information shared by the banks and the approach to on-line application differs from bank to bank. Let's have a look (Box 8.1) at the information required and ease of online application process.

Box 8.1: Website information on MSME and on-line application. Study of some banks..

Following information has been collected from the websites of some major banks. Banks have been selected without any specific criteria except that most of the banks are among the top 10 largest banks in India. It must be said that every bank has a MSME page and has also published Covid-19 related procedures. Given the length of regulatory guidelines/circulars and conditions contained therein, the web page on restructuring due to Covid is also long. In order that people across the country should be able to do on-line application the website should provide language options which is currently – in most cases- limited to only English and Hindi.

1. State Bank of India (<https://sbi.co.in/web/business/sme/sme-loans>): This page provides information on 20 types of loans for business/SME. If a person were to click on any one item, a page opens with more information providing purpose of loan, features, eligibility, fees etc. Interest rates are available on another page common to most of the loans. Then the proponent can click on apply, where the details of name, mobile, email ID are asked for sending OTP after which may be the application form can be accessed.

2. Bank of Baroda (<https://www.bankofbaroda.in/business-banking/msme-banking/loans-and-advances>) has nearly 40 different products listed in its website. Here one can click on apply and the details of mobile etc. are requested for further processing.
3. Axis Bank (<https://www.axisbank.com/agri-and-rural/loans/msme-samriddhi-loans/eligibility>) does not announce all the products but upon accessing the site/page, seeks contact details for further processing.
4. HDFC Bank (<https://www.hdfcbank.com/personal/resources/learning-centre/borrow/how-to-apply-for-msme-loans>) gives a 5 step direction as to how to apply namely (i) **Know Your Business Requirements:** (ii) **Opt for the Right Lender: (does not say 'apply to our bank!)** (iii) **Apply Online:** (iv) **Keep The Requisite Documentation Ready: and then (v) Sanction & Disbursement: It states that once the documents and details in the application form are scrutinized, verified and confirmed the lender will sanction the loan. It also instructs how to apply on line and finally says 'To apply for an MSME Loan with HDFC Bank, click here.'**
5. ICICI Bank: (<https://www.icicibank.com/business-banking/business-loans/working-capital/loans-for-sme-segment.page>) and (<https://www.icicidirect.com/loans/sme-msme-loan>) The bank talks in terms of credit facilities Offered (Cash Credit / Overdraft for meeting working capital finance requirement, Export Credit to provide Pre-Shipment & Post Shipment finance. Letter of Credit to facilitate trade, Bank Guarantees for meeting performance and financial obligations and Term Loan for purchase of commercial assets & business expansion needs). It mentions collateral and types of institutions (commercial MSME) financed. In the second page it lists types of MSME loans for working capital, term loans, business loans, collateral-free loan etc. It gives eligibility criteria and documents required as well.
6. Indian Bank (<https://apps.indianbank.in/msme/>) has an online application for MSME. It also provides a one page checklist of requirements. In another page (<https://www.creditmantri.com/indian-bank-msme-loan/>) it lists its products.

It should be evident from the above that on-line application is not as easy as it is said. Basically it is meant for 'MSME Commercial' and those who have documents as required by the banks. It is evident that most banks do not distinguish between the needs of Micro and Small units and Medium and Large enterprises. From the banks' perspective, every bit of information as per bank loan policy/ procedure is needed and sanction cannot be made without complying with data/document requirement. While without documents banks cannot sanction loans, mere availability of documents does not mean that sanction will be granted. Banks also look forward to some performance data and some track record for sanctioning a loan.

Currently the on-line applications are recommended by banks. On-line application will also enable tracking of sanction. However, it is doubtful if a start-up barring Fintechs and other city based ventures- will be able to fulfil the eligibility mentioned by banks. It appears that only after a few years of existence can SMEs hope to get some attention if not loan from Commercial Banks. Possibly this is why, in loans up to ₹25 lakhs, banks seek to finance in the lowest possible amount as most micro enterprises may not be able to provide all the documents mentioned in the websites. The documents and other details (Box 8.2) required by banks are rather long.

Box 8. 2: Checklist of requirements from Indian Bank website. It is almost similar in other banks as well.

Check List of Data to be kept ready by the Customer. Comments in italics are the concerns. The sheer length of the list and coverage in each item indicates how difficult it is to comply with bank requirements.

1. Proof of Identity – Voter’s ID Card / Passport / driving license / PAN Card / signature identification from present bankers of Proprietor , Partner or Director (if a company) . A new entrepreneur may not have income that will attract income tax, yet she/he must have a PAN card!
2. Proof of residence – Recent telephone bills, electricity bill, property tax receipt / passport / voter’s ID card of Proprietor , Partner or Director (if a company)
3. Proof of business address
4. Proof of Minority
5. Previous three years' balance sheets of the unit, along with income tax / sales tax returns etc. (Applicable for all cases (of loans?) from ₹2 lakh and above). However, for cases below fund based limits of ₹25 lakh, if audited balance sheets are not available, then unaudited balance sheets are also acceptable as per extant instructions of the Bank. For cases of ₹25 lakh and above, audited balance sheets are necessary.
6. Memorandum and article of association of the Company / Partnership deed of partners etc. Sole Proprietors?
7. Assets and liabilities statements of promoters and guarantors along with latest Income Tax returns.
8. Rent agreement (if business premises on rent) and clearance from pollution control board, if applicable.
9. MSME registration if applicable
10. Projected balance sheets for the next two years in case of working capital and for the period of the loan in case of term loan (for all cases of ₹2 lakh and above).

11. In case of takeover of advances, sanction letters of facilities being availed from existing bankers / Financial Institutions along with detailed terms and conditions.
12. Profile of the unit (includes names of Promoters, other Directors of the company, the activity being undertaken, addresses of all offices and plants, share holding pattern etc. (applicable for cases with exposure above ₹25 lakh).
13. Last three years' balance sheets of the Associate/Group Companies, if any. (Applicable for cases with exposure above ₹25 lakh).
14. Project report (for the proposed project if term funding is required) containing details of the machinery to be acquired, from whom to be acquired, price, names of suppliers, financial details like capacity of machines, capacity utilization, estimated production, sales, projected profit and loss and balance sheets for the next 7 to 8 years, till the proposed term loan is to be repaid, the details of labour, staff to be hired, basis of assumption of such financial details etc. (Applicable for cases with exposure above ₹25 lakhs).
15. Review of account containing month-wise sales (quantity and value both), production (quantity and value), imported raw material (quantity and value), indigenous raw material (quantity and value), value of stocks in process, finished goods (quantity and value), debtors, creditors, bank's outstanding for working capital limits, term loan limits, bills discounted. (Applicable for cases with exposure above ₹25 lakhs).
16. Photocopies of lease deeds / title deeds of all the properties being offered as primary and collateral securities.
17. Position of accounts from the existing bankers and confirmation about asset being standard with them (in case of takeover).
18. Manufacturing process if applicable, major profile of executives of the Company, any tie ups, details about raw material required and their suppliers, details about buyers, details about major competitors and company's strengths and weaknesses as compared to competitors etc. (Applicable for cases with exposure above Rs 25 lakhs). (The check list is only indicative and not exhaustive and depending upon the local requirements at different places, addition could be made as per necessity).

Possibly because banks seek exhaustive information, studies have pointed out that it is not easy to get loan from Commercial Banks even in the case of PSU banks that have high exposure to MSME credit and are known to practice development banking. In this background it is necessary to focus on:

1. **Capacity Building:** It should be mentioned here that the Ministry of MSME, SIDBI and NABARD are involved in organizing specific initiatives and capacity building efforts for development of MSME. Banks also offer some training³.
2. **Linking MSMEs to supply chains:** Ensuring market access to them.
3. **Hand holding** start-ups by giving focused attention to solve their problems.
4. **Making available adequate finance:** In this regard there is a case to stop using Priority Sector Lending Certificate for achieving PS targets but insist that banks should actually lend the amount. At the same time, to encourage NBFCs and others who issue PSLC there should be some arrangements to fund them. PSLC defeats the very purpose of Priority Sector target.

Capacity building is a **multidimensional** issue. It goes much beyond skill development. It is about training, enhancing knowledge, skill building, ensuring infrastructure, ensuring market and about handholding. Given in the box below (NABARD Speak) is an insightful example of capacity building, by a development bank, more particularly on capacity building for Rural Micro Enterprises. This also highlights the point mentioned earlier that MSMEs need development banking to co-exist with modern risk oriented banking.

NABARD Speak: Multidimensional Capacity Building for Agri and Rural Micro Enterprises.

Off-farm activities⁴ i.e. rural business beyond basic agriculture carried out by farmers and other entrepreneurs in rural and semiurban areas contribute 45% to the rural economy. The NAFIS⁵ Report 2019 has indicated that more than 50% of the income in a rural household comes from activities ‘other than agriculture’.

Promotion of economic or business activity that farmers or rural people can take up beyond basic agriculture can be termed ‘Off Farm Sector’. This assumes significance in the context of the (a) pressing need of reducing rural India’s heavy dependence on agriculture by providing alternate livelihood options and to (b) prevent migration of small and marginal farmers and agricultural labourers to urban areas. Over the past three decades, NABARD has designed several refinance and promotional schemes for development of ‘Rural Off Farm Sector’ and has been making constant efforts to widen their base and refine them in response to field level needs with a focus on ensuring larger credit flow, provision of credit to the unreached and provision of linkages for small, cottage and village industries, handloom, handicrafts and other rural crafts and service sector in the decentralized sector in the rural areas. In this connection, building an entrepreneurial culture and necessary skills among the rural youth and women has been a priority area along with developing markets for the rural Off Farm Sector. NABARD has also been actively involved in promoting innovations in rural areas in Farm and Off-Farm Sectors.

In this regard, it is well realised that **capacity building** for rural entrepreneurs is important, so that Micro Enterprises can be set up and run successfully in rural areas. Capacity building is not merely training on skills or financial management. It is a wholesome activity that includes skill development through identified institutions nearer to the rural areas, infrastructure development, market development and developing support system in terms of advisory and handholding institutions. Given below is a list of initiatives taken by NABARD in developing Micro Enterprises in Agri business and related areas.

SKILL DEVELOPMENT

Rural youth require entrepreneurial skills. To meet these needs and institutionalize the Entrepreneurship and Skill Development initiatives, NABARD has initiated capacity building of rural youth through programs to be delivered by RUDSETI/ RSETI, NGOs/ VAs etc. NABARD also collaborates with NSDC affiliated training institutes for capacity building of rural youth in new age skills like Mechatronics, Arc welding, Refrigeration, etc. Some of the skill building efforts of NABARD are as under:

- i. With the objective of stimulating Micro Entrepreneurship, NABARD⁶ has launched many skill building and capacity building programmes namely Micro Enterprise Development Programme (MEDP), Livelihood and Enterprise Development Programme (LEDP) and Rural Entrepreneurship Development Programmes (REDPs) & Skill Development Programme (SDPs). Under MEDP, since 2006, 5.22 lakh SHG members have been trained through 18434 MEDPs and grant support of ₹35 cr.
- ii. More than 1.36 lakh SHG members have been trained and supported through 1284 LEDPs with grant sanction of ₹63 cr.
- iii. NABARD has, so far, supported skilling of 9.58 lakh rural youth through 35,557 programmes with grant assistance of ₹174 cr. During 2020-21, NABARD has skilled 31,890 rural youth by supporting 679 skill development programmes.
- iv. During 2020-21, towards increasing employability of people who migrated back home from work places due to Covid-19 a mega project on “Rapid Reskilling and Quick Employment for 10,000 Reverse Migrants” was supported in various districts of Uttar Pradesh, Bihar and Jharkhand.

Application for the above skill development programmes can be made through NABSKILL portal ([https://www.nabskillnabard.org/.](https://www.nabskillnabard.org/))

During event risks, Micro Entrepreneurs suffer losses and are stressed. In such times they need support and capacity building to deal with the stress. Here are two cases of how well-thought out training helps.

Sensing a business and livelihood opportunity in the Covid-19 pandemic, NABARD supported projects for training rural women in the manufacturing of face masks and PPE kits that were in much demand to adhere to the Covid-19 protocols.

Unmasking Covid-19 risk

NABARD has been associated with Sambhav Foundation for capacity building of 2500 women members of FFOs, OFPOs and SHGs on face mask production.

1. During Covid-19 lockdown, Dhanalakshmi, a resident of Kariyamanickam in the rural village of Pondicherry and her family could not pursue their economic activities and lost all their income. In this situation Sambhav Foundation joined hands with NABARD and organised training programs for making face masks in their location. The participants were told about importance of masks, and imparted training on mask structures and how to make different types of mask. After the training she got the work order from Sambhav foundation for stitching 1500 masks which resulted in a monthly income of ₹3000/-.

Yasmin had completed her Fashion Technology course and was running a tailoring shop in her house. During the Covid19 lock down she lost all income and customers. Because of this her family suffered economically and faced stress. She participated in the training in Villianur and learnt stitching different styles of masks. After completion of the training, she got the work orders for stitching masks (2000) and earned ₹4000/- per month.

OFPO

In order to upgrade artisans/weavers/ Off Farm activity clusters and mainstream them into formal registered entities, as also to support producers in taking up collective business through capacity building, business planning, market linkages, design development etc., a scheme for formation and nurturing of Off Farm Producer Organisations (OFPOs) was initiated during the year 2016-17. Under this, NABARD supports eligible entities to act as Producer Organisation Promoting Institution to mobilise rural Off Farm Producers for undertaking business collectively, so as to enable scale as well as better bargaining power, facilities and opportunities of business.

As on 31 March 2021, 40 OFPOs covering around 14,043 beneficiaries have been supported with grant assistance of ₹17.4 cr. across 20 states. Of which, 27 OFPOs have been, now registered under Companies/Societies Act and are undertaking

business activities through aggregation, marketing and input distribution. Eight OFPOs are all-women OFPOs and are expected to empower 3325 women weavers/artisans directly.

Realising that Covid broke the business cycle of the MSMEs, NABARD provided an one time Revolving Fund Assistance of ₹5 lakh to each of its OFPOs to overcome the cash crunch and continue with regular business.

MARKETING INITIATIVES:

i. Rural Haats⁷

Rural Haats are vital for rural communities for providing them market place and market access to buy and sell their farm and off-farm produce. Rural Haats have emerged as effective marketing links for Producer Organizations and Village Watershed and Tribal Development Committees. 58 Rural Haats were supported for creation of infrastructure (raised platforms, roofing, drinking water facility, sanitation) etc., during 2020-21. As on 31 March 2021, 636 Rural Haats have been supported with grant assistance of ₹54.23 cr.

ii. Rural Marts

Rural Marts help promote entrepreneurship amongst rural producer communities and provide market link for domestic products manufactured by them particularly women and weaker sections and help generating income and employment at grass root level. During 2020-21, 155 Rural Marts have been sanctioned a grant support of ₹7.6 cr. As on 31 March 2021, 1,085 Rural Marts have been supported with grant assistance of ₹23.2 cr.

iii. Mobile Rural Marts

Realising the constraints/limitations of the rural marts due to Covid lockdowns, NABARD swiftly tweaked its policies to provide Mobile Rural Marts in the form of a vehicles which could be placed at different locations at different times of the day to sell the products of the rural producers. 37 such units to FPOs/OFPOs/PACS were supported during the year 2020-21.

iv. Exhibitions/Melas

Exhibitions and Melas provide a direct marketing platform to the rural artisans with access to market intelligence, customer preferences and bulk orders. Participation in such melas empowers the artisans to face the challenges in doing business.

The Covid-19 pandemic and the subsequent lockdown/restrictions impacted organizing of exhibitions and melas. As the situation eased, NABARD organized 10 exhibitions with grant assistance of ₹2.74 cr. This initiative is aimed at empowering

the participating producers by organizing Buyer-Seller Meets, conducting training programmes and workshops on branding, marketing, packaging, effective communication and entrepreneurship development, promoting financial inclusion and digital payment mechanisms.

Setting up of Catalytic Capital Fund

In India, most of the Agri based start-ups face challenges with respect to funding sources. These start-ups which have innovative enterprises and have an early stage technology/ innovative products/ process innovations/ supply chain innovations/ business model innovations, but struggle to find financial support at the right time. To support the Agri Start-ups, NABARD has set up “Catalytic Capital Fund for supporting Rural and Agri Start-ups”.

Promotion of GI Product

Geographical Indications (GI) is an Intellectual Property right that identifies goods originating from a specific geographical location and having distinct nature, quality and characteristics linked to that location. A GI right allows its holder to prevent its use by a third party whose product does not conform to the applicable standards. NABARD has supported GI registration of 72 products. NABARD has facilitated creation of an FPO for marketing of Mattu Gulla Brinjal (GI Product) resulting in increased turnover and direct selling to urban markets. NABARD has also provided financial support for the creation of dedicated product catalogue in three international languages for 10 GI products. A marketing outlet for GI products at Deendayal Hastakala Sankul, Varanasi has also been supported.

HANDHOLDING

NABARD provides financial support in the form of grant for providing training and handholding, provision of loan and credit-linked, back-ended composite subsidy for Agri-clinics and Agri Business Centres and end-to-end solutions for promotion of activities which generate or enhance livelihoods under the Rural Off-Farm Sector to eligible institutions.

i. Agri-Clinics

Agri-Clinics are envisaged to provide expert advice and services to farmers on various aspects, to enhance productivity of crops/animals and increase the incomes of farmers. Agri-Clinics provide support in the area of soil health, cropping practices, plant protection, crop insurance, post-harvest technology, clinical service for animals, feed and fodder management etc.

ii. Agri-Business Centres

Agri-Business Centres are commercial units of agri-ventures established by trained agriculture professionals. These ventures may include maintenance and

custom hiring of farm equipment, sale of inputs and other services in agriculture and allied areas, including post-harvest management and market linkages for income generation and entrepreneurship development.

Agri Business Incubation Centres (ABICs):

In order to develop a sustained supportive ecosystem for promoting more Agri start-ups, develop Agri /Rural Entrepreneurs and Enterprises NABARD is involved in setting up of Agri Business Incubation Centres in association with Agriculture universities and other similar institutions. So far 7 such Agri Business Incubation Centres have been set up. One such centre is the Madurai Agri Business Incubation Forum (MABIF).

MABIF is hosted by Tamil Nadu Agriculture University (TNAU and supported by NABARD, is a Section 8 (not for profit) company. In a short span of 3 years of establishment, MABIF has assisted 435 Incubatees including 117 Start-ups.

These incubatees are a composition of idea generator, early stage start-ups and those with

prototypes, making the centre robust and enabling leveraging upon the knowledge and experience of

these incubatees. Engaged as an Intellectual Property Rights Facilitation Centre by Ministry of MSME,

MABIF has facilitated registration of **15 Patents, 49 Trademarks, 38 Plant Varieties and 6 Geographical Indications (GIs)**. MABIF's presence has resulted in resolving many issues of farmers at ground level and Agri-Entrepreneurs in realizing their goal for a sustained business in Agriculture.

MABIF brought revolutionary changes in agriculture and agri business in their command area through

- i. Consultancy services enabling product fine-tuning, market validation, business plan preparation, and legal assistance to new ventures.
- ii. About 100 new marketable products have been introduced by the MABIF supported incubatees.
- iii. It has supported farmers for marketing and storing of the agri-produce through their own cold storage facility and organizing 'Buyer-Seller' meets, etc. MABIF also conducts a buyer-seller meet called TANFOOD where the Micro Entrepreneurs can sell what they produce to buyers directly.
- iv. Besides supporting start-ups, MABIF facilitated trade relationships between farmers and FPOs, other small producers with external markets inside and outside the state.

- v. MABIF also explored options to use emerging technologies like Block Chain, IOT, Artificial Intelligence and Machine Learning to address constraints in the agri-rural environment.
- vi. Through its flagship event Ideathon called “Jallikattu”, innovative ideas of students that emerged were taken up for incubation.
- vii. During the financial year 2020-21, the industrial shed of MABIF was inaugurated in the presence of Chairman, NABARD. The machineries and equipment’s will serve the needs of Micro Entrepreneurs and start-ups in the neighboring regions to validate their products in order to reach the market.

MABIF is in the advanced stage of providing fund assistance to start-ups in their early stages, benefiting rural India. NABARD has sanctioned ₹3 crore to MABIF under Catalytic Capital Fund for providing support to start ups.

These business incubation centres will nurture start-ups /Agri Enterprises/ Entrepreneurs/Farmer Producer Organisations etc., working in irrigation, seed production, bio- pesticides, bio fertilizers, precision farming, agro-processing, marketing, biofuel, drinking water, sanitation, energy, health, education, etc. ABICs will provide business support services and resources, marketing help and finance to Agri-Start-ups and Agri-Entrepreneurs to develop them into viable commercial entities which will result in both direct and indirect benefits accruing to the farmers. With the help of professionals these ICs mentor the start-ups in various aspects of business.

WHAT NEEDS TO BE DONE?

Continuous finance is the most important thing to sustain MSME. There are many things about MSME credit that are not flexible. For example a sole proprietor will use her money to meet the medical emergency in family even at the cost of closing the business for a few days. But she/he cannot default in repayment of bank loan despite such emergencies! Default leads to NPA. NPA is an important factor which creates fear among the bankers in providing loans⁸. Once an account becomes NPA, even though the default by start-ups may not be due to internal reasons of MSME, banks stop further transactions and at times almost stop entire credit. IRAC norms do not allow any leeway for the banks to nurture NPA account unless the restructuring takes place before the account becomes NPA. The IRAC and NPA norms are inflexible and treat a big company with ₹100 crore and more loans and a borrower with ₹1 lakh loan in the same manner. Moreover, even in cases where the Micro Enterprise accounts are, as per IRAC norms, restructured due to stress in business there is no guarantee that banks extend additional facility to the borrowers. Banks have the balance sheet strength and capacity to withstand non-recognition of interest income, as they pay very low interest rates on deposits, in case of NPA account and provisioning against loss.

They have the financial strength to bear the NPA burden and still be viable, but a Micro Enterprise which becomes NPA will find it difficult to be in business as its funding almost comes to a total halt. Often it goes out of business and becomes more indebted than when it started. It is for this reason that we have recommended proportional NPA norms for banks dealing with Micro and Small Enterprise loans which are very small in size.

Many of the existing and new MSMEs lack knowledge about bank loan and procedures. We have seen that the procedures for availing credit are lengthy. Operations in the account have equally lengthy procedures like submission of stock statement, quarterly or half yearly information, routing all credits through the account etc. Micro units are invariably unaware of these norms/practices. Banks should consider sharing list of such expectations with the entrepreneur along with the sanction letter and spending time with the MSEs in explaining the same, such that the norms are adhered to and smooth flow of credit is ensured.

REFERENCES

- ¹ Harvie and Charoenrat 2015.
- ² C. S. Mund
- ³ In an effort to improve and empower small and medium enterprises, Indian Bank has launched its Business Mentoring programme named 'MSME Prerana' in Maharashtra. This program is a business mentoring plan for MSME entrepreneurs. First post 1/07/21
- ⁴ This deals with micro and small industries/enterprises in areas related to agriculture and rural industries
- ⁵ 'NABARD All India Rural Financial Inclusion Survey'-2017
- ⁶ NABARD website and write up from off farm department
- ⁷ A market, especially one held on a regular basis in a rural area.
- ⁸ Expert committee on MSME

Summary and Conclusions

INTRODUCTION

The data provided by the Equifax on MSME loans up to ₹25 lakh included details of number of accounts, amount sanctioned, portfolio size and delinquency volumes under four broad categories namely BL Agri, BL Retail, MUDRA and Commercial loans. It also facilitated size-wise, area-wise (rural, Semiurban and Urban), state-wise and lending agency-wise analysis. It is important to add, that as the data was on loans up to ₹25 lakhs the Equifax indicated that it does not include data on microfinance loans because microfinance data is collected separately by the credit bureaus.

The MSME financing covered by the analysis is summarized in the table below

Table 9.1 Details of sanction and share in overall sanctions up to ₹25 lakh size in the year 2020-21. MSME

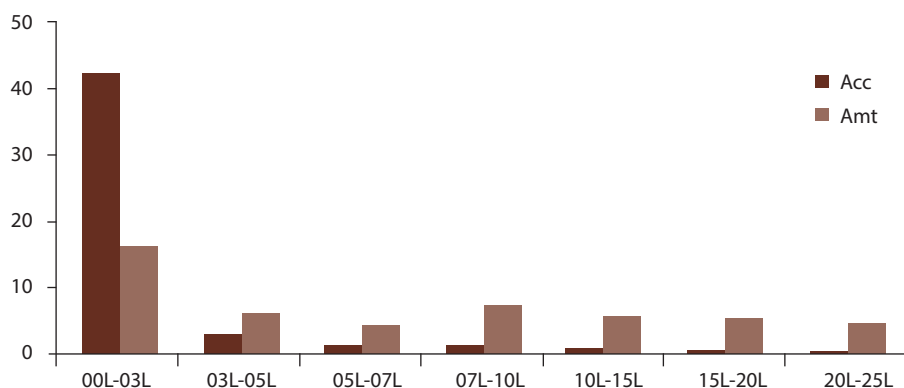
Area Size Agency	Sanctions		Share (%) in total		Rs
	Acc (L)	Amt (Cr)	Acc	Amt	Average
Rural	94.4	130422	31	22	138229
Semiurban	123.3	224357	41	39	181943
Urban	48.1	141258	16	24	293716
Undefined	38.5	83971	12	15	218106
₹0-7 lakh	283.2	310819	93	54	109734
₹7-15 lakh	15.1	152126	5	26	1005394
₹15-25 lakh	5.9	117062	2	20	1984715
NBFC	12.2	50804	4	9	417166
PSU Bank	241.1	365363	79	63	151558
Private Bank	28.8	123870	9	21	429781
ROI (others)	6.3	17077	2	3	269732
RRB	13.3	15772	4	3	118601
SFB	2.6	7122	1	1	276434
Grand Total	304.3	580008	100	100	190618

It can be seen from the above that in all 3.04 crore loans were sanctioned in loans up to ₹25 lakh in the year 2020-21 involving ₹5.80 lakh crore of which 93% of accounts and 54% of amount was in size less than ₹7 lakh and PSU banks had sanctioned 79% of the loans and 63% of the amount. The average size of loan in the case of PSU banks and RRBs, in the range of up to ₹7 lakh loan is about ₹1 lakh. In view of this the overall average loan amount is also low at ₹1.9 lakh. As such, most of the Micro Enterprises covered in the study, cannot normally, have an investment much above the amount of average loan as these are margin free and collateral free loans. Margin is mentioned here in terms of sanction not in terms of involvement of own funds of Micro or Small Enterprise. If data on own funds were available, it is wargered that it would have shown that margin was indeed very high. The average amount of loans in the case of private banks and NBFC are higher and that's the way the future sanctions should move. That the overall average amount is less than ₹2 lakh is a matter of concern. There is a need to increase this amount if MSMEs have to grow and contribute more to the economy.

SIZE-WISE ANALYSIS

Given the low average amount of loan, analysis showed that a majority of the MSME accounts for credit amounts of less than ₹25 lakh are in the 'Up to ₹3 lakh' size (Chart 9.1). Loans in the 'Up to ₹3 lakh' range accounted for 84.3% of the loans (i.e. more than 2.55 crore accounts out of the 3.04 crore accounts) and 32.6% of the amount of loans.

Chart 9.1 Loan size wise number of accounts and amount



Generally data about adequacy of credit is not available in public domain. Also no data has been collected from the banks about adequacy of credit. Yet a very large number of less than ₹25 lakh accounts falling within the size of ₹3 lakh and the overall average loan size being less than ₹2 lakh points out to a strong possibility that (a) generally MSME credit was of small amounts and that (b) sanctions are possibly based on some predetermined uniform loan amount across all sorts of micro and small enterprise clients. It is observed that in less than ₹3 lakh loans, the average loan amount was ₹73697 for all accounts. Within this, BL Agri had the highest figure at ₹84905 and BL Retail (₹46846) and Mudra (₹49932) were less

than ₹50000. The loan amounts can be increased leading to a larger contribution of MSME to the economy if banks will consider financing MSME as a business proposition.

From the MSME entrepreneur's perspective, there is definite scope to increase the size of loans. Banks may therefore study these accounts, their relationship with the clients, the client track record and take steps to increase the volume of credit to as many clients as possible. Previously on more than one occasion it has been pointed out that RBI has, on a number of occasions in the past, allowed concessions in NPA norms and allowed restructuring of accounts. While the economic reasons for such action cannot be disputed, it would be interesting to study if adequate financing could have reduced the impact of such severe risk events on the MSMEs.

CEOSpeak9: SIDBI

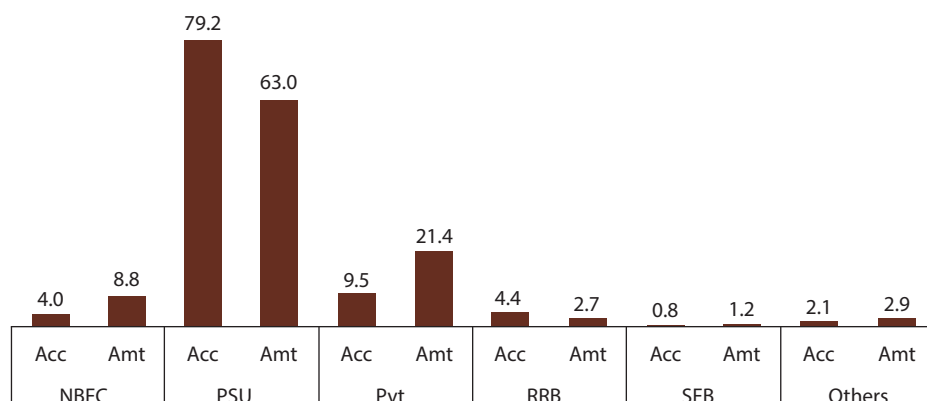
Qn: Normally 80% of the Micro& Small enterprise loan accounts perform well. This is inferred from the fact that the GNPA, barring few years, has never been above 12% in the past decade. Considering this, many of the MSMEs who have taken loans from institutions could be encouraged to take more loans and allowed to grow. But newspapers point out that when a borrower wants higher loans he/she/it has to move to a new bank or institution. Possibly because all banks look out for new clients to meet (targets given by management) proving the adage “ghar ki murgi daal barabar”. How can the mindset of the banks be changed?

Ans: Generally targets are given by any management, both for increasing the size of the portfolio as well as adding more (new) customers. While the lenders adopt a more aggressive approach for acquisition of new customers by lowering interest rates, processing fee benefits etc., they can ill afford the departure of existing customers, who have been nurtured by them all through. However, to cope up with the increasing competition and takeovers of their existing customers, the lenders are adopting excellent customer service norms to treat their existing customers in a fair manner.

LENDING AGENCY-WISE ANALYSIS

A study of Bank-wise performance shows that barring BL Retail, PSU banks have the highest share in all types of MSME amounts. It was stated earlier that PSU banks and RRBs are seen implementing government sponsored norms more than private banks.

It is seen that PSU banks account for 79% of the accounts and 63% of the amount in MSME credit. It should be added, that they also face high default rates and high NPA in the case of MSME accounts. The share of RRB in the disbursements is around 2.7 % which is almost similar to their share in the total assets of the banking system (2.9% as on March 2020).

Chart 9.2 Lending agency wise share (%) in MSME up to ₹25 lakh

CREDIT ANALYSIS PURPOSE-WISE

An analysis of purpose-wise (i.e. BL Retail, BL Agri, MUDRA and MSME Commercial) credit flow shows that during the year 2020-21 the overall credit flow to MSME Sector was about ₹5.8 lakh crore as per details below:

Table 9.2. Sanctions under MSME for loans up to ₹25 lakh during 2020-21

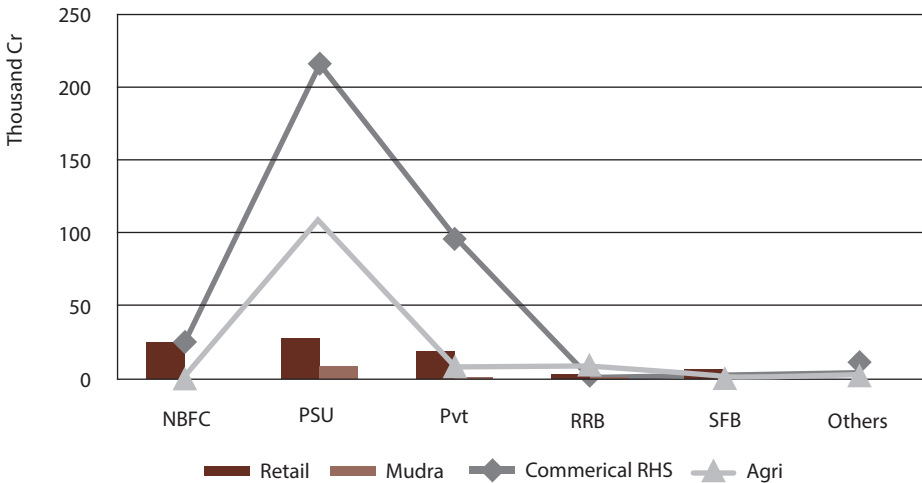
Category	Accounts (lakh)	Amount (crore)	Average Rs
Commercial	113.18(37)	352628(61)	311574
Agri	121.62(40)	132531(22)	108974
Retail	61.95(20)	85869(15)	138606
MUDRA	7.53(3)	8979(2)	119219
Total	304.28	5,80,008	190681

(Figures in parenthesis % to total)

A high % of amount in MSME Commercial credit shows the preference of Commercial Banks to finance institutions that are definitely able to produce documents that are needed for the banks.

It is observed that (chart 9.3) Commercial category was leading with nearly 60% of MSME credit in the size group being studied. NBFCs involvement in BL Retail is almost equal to PSU banks. It is however evident, that there is definite scope for Private Banks and NBFCs to play a more active role in financing MSME.

MSME Commercial credit is extended to institutions. In those cases it is possible for the banks to verify the business performance much better than individuals or sole proprietors who are the clients in the other three categories. On account of KYC and risk management systems, banks prefer commercial credit more than others. It is seen that the average loans under Commercial is about ₹3 lakhs with BL Retail having the next high average i.e. ₹1.38 lakh.

Chart 9.3 Share of lending agency in various purposes under MSME

As indicated previously PSU banks have a major share in all the four categories (Chart 9.3). In a way it is unique, that whichever way one looks at the performance, the conclusions are obvious i.e. a majority of the loans are in the loan range up to ₹7 lakh, the average loan size across regions/lenders/ is somewhat similar and that PSU banks have a larger share in all four MSME categories taken up for analysis. Also what is common for banking industry in India i.e. some regions are ahead of others in deposits, lending etc. on account of better banking infrastructure and other reasons is also true of MSME lending.

Table 9.3 Size-wise Region-wise average size of loan sanctioned under MSME. ₹lakh

	BL Agri			BL Retail			Mudra			Commercial		
	Up to ₹7 L	₹7L to 15L	₹15L to 25L	Up to ₹7 L	₹7L to 15L	₹15L to 25L	Up to ₹7 L	₹7L to 15L	₹15L to 25L	Up to ₹7 L	₹7L to 15L	₹15L to 25L
Central	1.05	9.27	17.79	0.57	9.50	18.15	0.78	8.77	19.59	1.15	10.44	20.31
Eastern	0.64	9.69	18.14	0.66	9.38	18.32	0.96	8.77	18.11	1.27	10.28	20.30
N.E.R	0.77	9.23	19.13	0.90	8.98	18.85	0.56	1.21	18.11	1.46	10.31	20.43
Northern	1.19	9.39	18.31	0.91	9.57	18.14	1.05	9.03	17.93	1.56	10.58	20.07
Southern	1.00	9.10	18.58	0.98	9.54	18.22	0.74	7.93	18.16	1.54	9.87	20.19
Western	1.10	9.33	18.50	0.99	9.74	18.41	1.20	7.90	19.90	1.56	10.61	20.22
Average	0.96	9.33	18.41	0.83	9.45	18.35	0.88	7.27	18.64	1.42	10.35	20.25

It has been mentioned earlier that in case of rural loans, Micro Enterprise lenders, possibly adopt a prefixed or thumb rule amount for various categories of borrowers. This is clearly seen (table 9.3) while analyzing MSME loans that are being sanctioned wherein the average amount sanctioned in various size groups of loans are somewhat similar in

a given size of loan across regions more so in the case of loans up to ₹7 lakh. Above this and in the range of ₹15 lakh to ₹25 lakh, it seems there could be some sanction based on individual appraisal yet the amounts are somewhat similar. It is also possible that given their long experience, lenders might have arrived at standard credit requirement of a given type and set of Micro Enterprises and sanctioned them uniform predetermined amount. These observations are true in terms of size, area and region-wise analysis. This differs only in case of agency-wise analysis where the averages are different (see table 9.4 below). It is in this connection hoped, that based on performance of MSMEs, banks will periodically increase the amount sanctioned.

The analysis also throws up many questions i.e. (a) are entrepreneurs financed adequately? (b) Is the amount of credit enough to meet their needs and (c) because the loans are so small are the MSMEs not constrained to borrow informally? These aspects need a deeper study.

Table 9.4 Agency-wise (%)share in accounts & amount sanctioned under various MSME during the year 2020-21

	B L Retail		BL Agri		Mudra		Commercial	
	Acc	Amt	Acc	Amt	Acc	Amt	Acc	Amt
NBFC	13.70	29.52	0.18	0.13			3.07	7.17
PSU Bank	61.41	32.54	86.78	84.31	95.02	95.34	79.81	61.57
Private Bank	10.67	22.41	5.44	6.21	1.00	0.88	13.72	27.32
RRB	6.69	3.66	1.42	1.71	3.66	3.73	1.24	0.75
SFB	4.07	7.72	6.15	7.27				

As indicated earlier, PSU banks play a leading role (Table 9.4) in all the four categories of MSME loans including near total sanction of loans under MUDRA. The analysis of MSME performance by PSU banks show that they are possibly adopting a target approach on lending to the sector since both RBI and GOI closely monitor time based credit rather than their composition or quality. Giving small amounts of loan will not help the MSMEs. This is also true of private banks as they do not seem to lend beyond Priority Sector targets. However the fact that overall outstanding credit for MSME lending is higher than Priority Sector target shows that banks may be lending higher amounts to medium enterprises than micro and small enterprises. This is because medium size enterprises are mostly registered institutions (i.e. partnerships, companies etc.) or well established sole proprietors and will be able to offer collaterals etc. As such, lending to these units beyond Priority Sector is possible and here private sector might have a higher share than other banks. RRBs and SFBs have a higher PS norm, yet have comparatively lower access to funds. RRBs account for about 3% of the total assets of the Banking Sector and as such will not have high share in any area but will be participating to the extent required. SFBs have 75% P S norm but are new and have very small (comparatively) size balance sheets. Also their rate of interest on loans is much higher than other institutions.

Table 9.5 Region-wise % share in the total of MSME accounts and amount sanctioned during 2020-21¹

	B L Retail		BL Agri		MUDRA		Commercial	
	Account	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
Central	19.43	13.97	4.56	5.14	19.75	16.47	12.87	11.02
Eastern	14.05	10.69	2.36	1.57	17.16	17.36	14.67	10.53
N.E.R	3.59	3.09	0.27	0.22	2.13	3.18	1.65	1.45
Northern	13.43	16.97	5.21	7.01	4.91	5.92	10.72	13.90
Southern	26.31	30.64	79.83	76.58	29.14	28.53	29.28	29.73
Western	11.00	16.69	4.78	6.12	8.86	14.75	11.16	14.58

It has been well documented that Southern region is leading in banking infrastructure and in terms of percentage of deposits and credit closely followed by Western and Northern regions. Better infrastructure is not the only reason. It seems bankers in Southern region are somewhat more willing to lend than their counterparts in Central and Eastern regions. There is ample literature about poor banking infrastructure in NER. These aspects are well reflected in the region-wise performance in MSME.

Table 9.6 Average size of Loans across MSME categories (Rs)

	NBFC	PSU	Private	RRB	SFB	Others	Overall
Commercial	727461	240365	620331	188915	-	461269	311574
Retail	298635	73448	291207	75874	262718	166102	138606
Agri	81979	105874	124412	128955	938377	131150	108974
MUDRA		119618	104919	121331	-	18140	119219
Total	417166	151558	429781	118601	276434	269732	190618

In the analysis of size-wise average loan, it was seen earlier that very low averages prevail in the loan size up to ₹7 lakh. It should be added that the number of accounts in the 'up to ₹3 lakh' loans are the largest in all the four categories of MSME (in loans up to ₹25 lakh).

Table 9.6 A size-wise purpose-wise average loan amount ₹

	Up to 3L	3 L to 5 L	5 L to 7 L	7 L to 10 L	10 to 15 L	15 to 20 L	20 - 25 L	Overall
Commercial	77669	432619	615729	890656	1295196	1816087	2325344	311574
Retail	46846	366133	547115	810632	1119841	1623182	2104578	138606
Agri	84905	349149	552316	814798	1126559	1658793	2140414	108974
MUDRA	49932	370248	549566	783899	1002999	1623063	2098652	119219
Overall	73697	397383	588667	872806	1247693	1780765	2283034	190618

Agency-wise average size of loan (Table 9.6 and 9.6A) however shows a completely different picture, where Private banks and NBFC have issued higher amounts than PSU banks. PSU banks and RRB have lower average loan amounts. Possibly they are more inclined towards inclusion. Also it has been mentioned many times, that PSU banks and RRBs are more involved in loans up to ₹7 lakh and BL Agri. SFBs have a high average size of loan in BL Agri which is a pointer to the possibility of financing higher amount to target audience through LAPs. The possibility of higher loan that can be given under MSME commercial (which are institutions) as against individuals show the need to make individuals who take loans in Retail, Agri and MUDRA to set up LLPs and similar organisations so that (i) better compliance to eligibility norms and (ii) information availability for appraisal can result in higher credit flow. Individuals should be motivated to form institutions by careful handholding.

Table 9.7 Share of MSME category, area and size-wise

Loan Size	B L Retail			BL Agri			In Retail and BL Agri majority of the accounts are in loan size up to ₹7 lakh. It is seen that the ₹15 lakh to ₹25 lakh size accounts, though very small in number, accounts for more than 12% of the amount BL Retail in Rural, Semiurban and Urban areas. MUDRA Loans are somewhat uniformly distributed across size and area, possibly because it has three products with different amounts and focus. Surprisingly a high % of Commercial loan accounts are in rural areas and in the size of loans up to ₹7 lakh, but the overall loan amounts are less than 40%. This would show that the average loan amount in size group up to ₹7 lakhs is low.	
	Rural	Semi Urban	Urban	Rural	Semi Urban	Urban		
0-7L	Acc	96.7	94.8	89.1	99.3	99.1	99.1	
	Amt	65.2	55.2	41.1	93.2	91.6	92.1	
7-15L	Acc	2.5	3.8	7.0	0.1	0.1	0.1	
	Amt	22.2	26.1	28.5	1.8	2.3	2.2	
15-25L	Acc	0.7	1.4	4.0	0.5	0.7	0.7	
	Amt	12.6	18.7	30.4	5.0	6.1	5.7	
		MUDRA			Commercial			
0-7L	Acc	28.0	40.9	11.4	89.32	86.99	81.36	
	Amt	30.6	42.8	11.0	48.55	41.45	32.50	
7-15L	Acc	34.3	41.5	10.0	8.36	9.42	12.50	
	Amt	33.4	42.3	10.7	32.82	33.31	34.65	
15-25L	Acc	15.3	51.4	32.6	2.32	3.59	6.14	
	Amt	14.6	51.4	33.2	18.63	25.24	32.85	

How to read: In BL Retail up to ₹7Lakh 96.7% accounts were in rural areas and 94.8% accounts in semiurban areas were in up to ₹7 lakh size

Loans in Rural area and in the size group up to ₹7 lakh dominate in the loans up to 25 lakh selected for study. It is a matter of inclusion and hence laudable, but at the same time, a matter of concern, as low amounts of finance may not meet all the needs of the entrepreneur/borrower and could lead to distress. The repeated relaxations in NPA norms for MSME is a pointer to distress and therefore banks and lenders should find ways to gather more information and lend appropriate amounts to their clients. Use of technology, credit scores and past track record in arriving at the amount of sanction will be a good approach. Generally stressed assets are seen in around 20 to 25 % of accounts which leads one to think that remaining 70% accounts could be taken up for additional finance, which should lead to growth of more Small Enterprises as the borrowers move from Micro to Small.

Table 9.8 Share of banks in MSME Business Loan size-wise

		PSU NBFC	Private Bank	Private Bank	RRB	SFB	NBFC	PSU Bank	Private Bank	RRB
Size		BL Retail					MUDRA			
0-7 lakh	Acc	86.3	98.0	86.8	99.0	86.8		95.01	95.72	99.72
	Amt	44.6	67.6	44	86.5	39.7		65.78	64.07	97.85
7-15 lakh	Acc	9.6	1.5	8.8	0.9	9.5		4.97	4.28	0.26
	Amt	30.9	19.6	28.7	10.7	35.0		33.92	35.93	1.89
15-25 lakh	Acc	4.1	0.5	4.4	0.1	3.7		0.02	0.26	0.02
	Amt	24.6	12.8	27.3	2.8	25.3		0.3	1.89	0.27
		BL Agri					Commercial			
0-7 lakh	Acc	98.3	99.4	97.8	98.6	40.0	2.65	84.19	11.28	1.88
	Amt	73.6	93.8	78.5	88.5	12.1	5.09	75.52	17.27	2.13
7-15 lakh	Acc	0.6	0.1	0.6	0.2	24.3	8.36	63.27	27.21	1.16
	Amt	12.6	1.4	8.4	2.8	49.5	8.59	61.82	28.45	1.14
15-25 lakh	Acc	1.1	0.6	1.7	1.2	35.7	11.51	43.99	43.28	1.22
	Amount	13.8	4.8	13.1	8.7	38.4	11.29	44.36	43.12	1.23

In all the four categories of MSME that we have been discussing, number of accounts is ore in size up to ₹7 lakh and PSU banks lead in all categories and loans up to ₹7 lakh.

This study is on MSME loans up to ₹25 lakh. The analysis and the conclusions of this study could be helpful for the policy makers and banks. The analysis in the four chapters on origination and sanction of MSME loans, followed by detailed analysis of delinquency and client perspectives lead to the following conclusions:

1. Overall amount of loan outstanding under MSME as of March 2021 is reportedly around ₹16.6 lakh crore. Of this, around ₹11.1 lakh crore is reportedly under Priority Sector. It is seen, that in overall banking credit (as of March 2020) loans up to ₹25 lakh account for nearly 98% of the overall number of loans and about 35% to 40% of the amount outstanding. This has been the trend over the last decade. In theory MSME loans should follow a similar pattern i.e. seen in overall credit and ₹25 lakh loans. At the same time, given the high percentage of MSME loans in less than ₹3 lakh range, there is a possibility that the amount of MSME loans in up to ₹25 lakhs could be higher.
2. Generally PSU banks have the maximum share of accounts and loans outstanding in loans up to ₹25 lakh. It clearly shows that they are more focused on inclusion and compliance with guidelines. A similar picture is seen in MSME credit as well. The low average loans in their case could be because they have more loans in the rural areas. Share of PSU in mandated credit is more than other agencies.
3. Apparently all banks comply with Priority Sector norms for MSME, but within this

private banks appear choosing their customers carefully and are obviously having lesser NPAs. But it is noticed that in the wake of Covid their stress as seen in SMA has increased.

4. NBFCs are playing an increasingly noticeable role in the sector and are seen active in all four categories of MSMEs. In this, they may be receiving fund support from banks.
5. It is seen that in the data analysed in terms of performance of PSU banks, loans up to ₹7 lakh, rural areas and Southern region dominate in terms of number of accounts and amount outstanding under MSME.
6. In a size-wise analysis, it is seen that majority of loans in less than ₹25 lakhs fall in the size group less ₹3 lakh loan with an average of ₹1 Lakh. As such, it is apprehended that the amount of credit may be too small even for a Micro Enterprise and the amount may not be sufficient for MSMEs to manage their business and liquidity. This has been voiced by RBI and pointed out by other studies as well. Looked at in this perspective, the recent change in definition appear rather ambitious.
7. Lending to MSME could be constrained. In this regard it is worth noting, that the advisory committee on MSME² has observed that
 - a. There is a higher risk in lending to MSME as evidenced by NPA. It has identified (i) inability to pay and (ii) unwillingness to pay as two reasons for risk/NPA. The former could be due to internal deficiencies of MSME, delayed receipt of dues from suppliers, changes in consumer demand and other extraneous events that create a slow-down in the market.

In this connection, regarding inability to pay, it is observed that the vast majority of units covered in loans up to ₹25 lakh are Micro Units which are often affected by events beyond their control, which is a high risk as well. They are prone to frequent cash flow issues leading to defaults.

As regards unwillingness, the reasons could be (i) the way guarantee schemes, non-insistence of collateral etc. are announced, which ends up giving a message to the entrepreneur that loans need not be repaid; (ii) the long-time taken to pursue collection through legal processes which encourages default and (iii) absence of risk mitigation mechanisms that are available to the MSMEs. Due to these reasons, lenders are exposed to significant credit losses.

- b. The committee has also observed that assessing the creditworthiness of an MSME could be difficult due to information asymmetry, particularly with micro units in respect of financial performance of the business. As lenders are discouraged to take collaterals, they have to practice a “high-touch” approach which translates into higher operating cost. It has suggested electronic KYC, paperless (digital) applications, rapid loan underwriting and a greater emphasis on customer service can redefine the lending to MSME sector. As technology has not evenly spread across the country, implementing tech based credit delivery in rural areas could take more time.

8. Currently due to various reasons the NPA data does not show the real stress in the sector. Therefore analysis of total stressed assets was taken up which shows a very high stress. There is thus a need to relook at the terms of credit.
9. In the case of Micro enterprises there is a need to recognise the limitations in information availability and difficulties on the part of MSME in complying with eligibility norms for credit.
10. The share of 'Up to ₹3 lakh' loans in MSME continues to be high and unchanged over years. There is regular growth in the number of accounts so financed. Analysis of stress shows that nearly 70% of the accounts are regular. Evidently some of these loans should have good track record as well. But only than 2% of MSME accounts are in the loan size above ₹25 lakhs. In view of this there is a case for giving a higher credit support to some of the existing MSME accounts.
11. The study has clearly shown that stress is natural to the sector, more particularly for the Micro Enterprises. A very low average amount of loan and high stress evidenced by repeated relaxations in IRAC norms points out that the sector needs proportional IRAC norms and possibly revision in terms of credit. Possibly a higher loan amount, coupled with longer repayment period. Studies on customer perspective have pointed out that apparently terms of credit seem tough and there exists cash flow vulnerability, impacting asset quality. In view of this it has been suggested to (a) stipulate a longer period of default before an account becomes NPA and (b) banks be permitted to nurture the accounts by taking appropriate restructuring steps. The amount involved in loans up to ₹25 lakh in financing MSME within the overall credit portfolio of banks is very small and modifications suggested in the IRAC norms (below), it is felt, will not have any adverse effect on financial stability.

Suggestions: Based on the above, some suggestions, which will increase the credit flow and ensure sustainability of MSMEs, are given below.

Chart 9.4 Size wise number of accounts in the banking system last 5 years

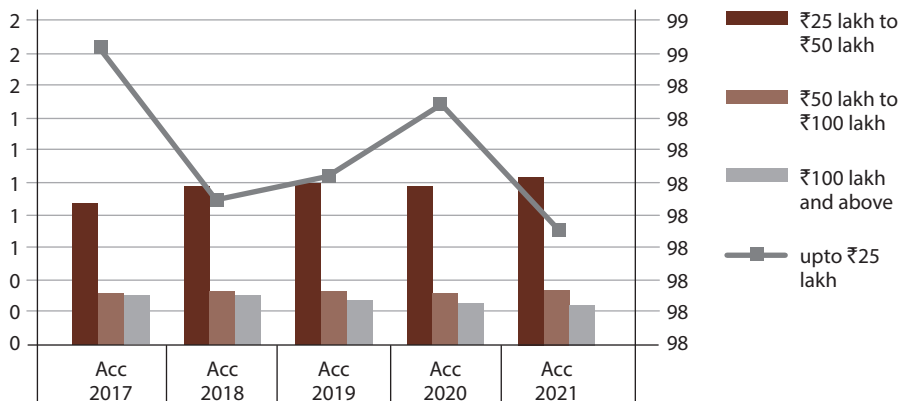
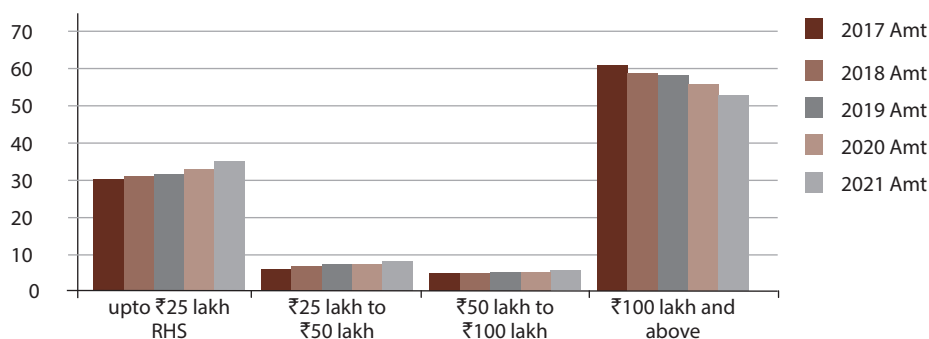


Chart 9.5 Loan size wise amount o/s (Cr) last 5 years

- i. An important point that has emerged in the study is that the number of loans in less than ₹25 lakhs and within that less than ₹3 lakhs is very high in the banking sector and the amount of loan involved in these accounts is not high. This can be confirmed by the following two charts on size-wise distribution of credit in the banking system. It is seen that between the years 2017 to 2021 the number of accounts in less than ₹25 lakh increased by 12.57 crore. Increase in accounts in loan size between ₹25 lakh to ₹50 lakh was about 15 lakh and above 50 lakh but less than ₹1 crore was about 5 lakh. Loans above ₹50 lakh were hardly 2% of the total accounts in the country. This means, while there is good inclusion in case of small accounts in MSME and other sectors, the graduation of accounts from lower size to higher size is rather negligible. In this connection, a mention may be made of Micro finance where a group member is assured of 5 or 6 cycles of credit where the amount of loan increases gradually with every cycle of loan (each cycle is typically 18-24 months) and a borrower reaches from a credit of ₹25 k to a credit of about ₹1.25 lakh in 4 or 5 cycles. In view of this, it could be considered whether a similar model could be practiced for financing for Micro Enterprises where banks can assure repeated sanction and increase of credit for 3 or 4 cycles, such that Micro Enterprises graduate into Small and then to a Medium Enterprise over a period of time.
- ii. Interest rate-wise analysis³ of overall credit extended by Commercial Banks which includes MSME loans as well (Chart 1.5 and 1.5 A) shows that majority of the accounts in the limit size up to ₹25 lakh fall within 12% ROI. However, it is seen that some of the loans in limit size lower than Rs2 lakh are charged more than 20% ROI. Given that authorities are making efforts to lend to corporates at reasonable ROI by pursuing MCLR and by keeping the interest rates on deposits low, it is necessary to think in terms of specifying a reasonable ROI to Micro and Small Enterprises, particularly for Private Banks and Small Banks who have high operational costs. In this connection, *recently, deposit markets have witnessed a sharp fall in ROI and therefore lending rates are also down. It is observed that though banks have announced reduction in lending rates on personal loans and home loans on account of prevailing low rate of interest and availability of low cost funds, no such reduction is announced for MSME*

loans. In fact for MSME Government has announced subventions. (Interest subvention announced by GOI⁴ has been extended till March 2021, wherein borrowers are eligible for an interest subvention of 2% subject to certain conditions). A reduction in the interest rate coupled with subvention will be of immense help to Micro enterprises which are facing stress due to event risk.

It must be added here that the transmission of reduction in rates of interest is not uniform across the range and spectrum of borrowers with some segments benefitting disproportionately more than others. This needs, as far as MSMEs are concerned addressed through a mandate to reduce ROI or higher subvention such that the rates ultimately applicable are market related and gives the intended benefit of subvention.

- iii. The purpose for which RBI collects MSME data (i.e. to verify Priority Sector compliance) and the purpose for which credit bureaus collect MSME data are different. Also, apparently, data collected by RBI is occupation oriented, while MSME is not an occupation but classification, which includes loans to industries and business/trading enterprises and includes individuals, sole proprietary organisations and institutions like partnerships, LLPs, companies etc. Considering this and the objective of financial inclusion, finance to MSME under Priority Sector may be broadly classified as loans up to ₹10 crore. It may be clarified that this should not include personal loans and retail loans which are consumption oriented. This will not only help in better clarity about how much finance is going towards MSME but also help gauge how many of the 63.8 million MSMEs are really financed.
- iv. A variety of data analysis has been done in the preceding pages in the case of loans up to ₹25 lakhs (nearly 3.04 crore accounts) which leads to conclusions that (a) stress is natural to the MSME sector (b) risks of unknown nature which could be classified as **event-risks** (risk on account of sudden economic or other reasons causing unprecedented business stoppage etc.) i.e. event induced business risks, leading to cash flow issues and credit risk to banks occur frequently in the case of MSMEs. (c) banks have not extended the facilities to MSMEs unless the latter has consented to the restructuring proposed in the guidelines and (d) the modifications in the IRAC norms or restructuring is uniform irrespective of the size and type of MSME, area where the MSME is situated and the underlying product handled. A study of circulars on MSMEs to banks would show that RBI has definitely recognized these risk events and after study, (naturally because the novel nature of risk and its impact on the finances of MSME accounts and banks) issued guidelines modifying or keeping in abeyance IRAC norms and allowing restructuring of loans. Though there has been no effort on offering proportional or differential regulation to suit the MSME sector.

In this regard and given the impact of event risks and the need to take quick action when an event risk occurs, a question arises: why should banks wait for regulatory circular to reschedule a loan when the issue necessitating the restructuring is beyond the control, grasp or power of MSME and that too a Micro enterprise. In this connection it is worth noting that overall financing to MSME is not more than 15% of the overall

credit and loans. In this the amount of credit to 'loans of less than ₹25 lakhs' may be around about 40% i.e. about 6% of the overall credit. As such, Micro and Small Enterprises are no threat to financial stability. It is therefore suggested that differential regulation could be considered **for accounts with credit limit of less than ₹25 lakh. The differential regulation could be in the form of a NPA corridor of 90 days to 180 days, a maximum of two or three restructurings in the life of an account of less than 7 years and that banks could develop their credit policy within this and act quickly in managing risk and more importantly, extend support to the hapless entrepreneur, who has to face event related cash flow problems and yet repay the loan in time.** Such a regulation will really give quick relief from some of the difficulties faced by MSMEs. This will also, in case of MSMEs which are regular MSME, ensure continued credit flow which otherwise could get stopped if it were to suddenly become an NPA account. Supervision will ensure that banks use the differential regulation as intended.

- v. Terms of credit for MSME should be appropriate. In this regard there is a need to match the repayment time and amount to cash flows of MSMEs as cash flows of each MSME is distinct based on its location, its positioning in the supply chain etc. This is important for viability of MSME as also NPA management.
- vi. MSMEs will grow and become bigger and some of them will definitely become a Navratna, albeit in Private Sector. If this logic is accepted then a question arises: What does the sector need? Financial stability-oriented banking or development banking? There is no unique answer. But it is clear that financing MSME needs softer credit terms and or support in line with the ideologies of development banking. Banks will find it difficult to continue extending loans to this sector if the developmental needs of the sector are not addressed and not factored into risk management guidelines.

CEOSpeak10: SIDBI

Qn: You are performing both, the role of development banker and a financier. Which one is more important? Your views are particularly important because after Global Financial Crisis and Global Debt Crisis, development banking has taken a back seat and 'risk and regulation' has come to centre stage.

Ans: SIDBI is more focused on holistic development of MSME sector through activities such as addressing credit gaps, infrastructure development for MSMEs, Digital lending access, handholding support etc. Under the financier role it aims to address credit gaps through demonstrative lending products which can be further scaled up by the lending ecosystem. So, it is a Development Bank addressing the credit gaps through its financial role. SIDBI will continue to play its multifaceted role as an enabler and financier to promote the MSMEs.

- vii. Guidelines on financing MSME indicate that banks should not take collaterals up to a particular limit. At the same time credit risk is high. There are some guarantee schemes for MSME sector but these schemes offer only partial cover. All these, coupled with risk management guidelines, may constrain banks to comply with the minimum that needs to be done and not look at MSME as business that could be pursued. In this background, a relook on risk weights leading to a lower risk weighted capital for MSME will help increase flow of credit to this sector and allow MSMEs to grow bigger.
- viii. One of the major constraints that Micro and Small Enterprises face in availing credit is lack of proper books of accounts. Often this is due to apprehensions about tax and other issues. But without proper books of accounts Micro and Small Enterprises cannot avail credit and grow. Therefore it is necessary to start educating and helping these enterprises in this area on a mission mode. Looking at the huge number of loan accounts that has been extended by the banks but low loan amounts, one should be convinced about helping Micro and Small Enterprises in maintaining proper accounts, such that they are able to get adequate credit. Lest unscrupulous advisors exploit these clients, banks may like to use their retired officers as advisors for this purpose, so that there will be better compliance and credit culture.
- ix. Banks have achieved Priority Sector norms in financing MSME. Despite keeping the amount of loans small or a uniform amount, irrespective of whether the needs of Micro enterprises are met, the PS targets have been achieved. If there is shortfall, banks have been allowed to buy PSLCs. Therefore as a matter of good governance and also in order that inadequate financing does not push the entrepreneur into more difficulties than she/he had before availing MSME loan, banks should seriously think of adequate financing. It is seen that in the data taken up for study, there were 3.04 crore accounts (loans less than ₹25 lakh) of which 83.55% accounts were sanctioned less than ₹3 lakh with an average of ₹80730/-. Obviously very low amounts of credit. To ensure adequate financing, banks should advise their branches to follow LTV norms for investments in fixed assets and that W/C finance should be around one fifth of the turnover. Branches should be encouraged to extend working capital support to MSMEs. It is important to ensure adequacy of financing. Obviously there is a need to build capacity with the entrepreneurs as well.
- x. Many agencies are involved in the massive effort to support and finance MSMEs. There are many achievements as well. But much more remains to be done. If banks have to be seriously involved in financing MSMEs and nurturing their growth, there has to be more professional financing. In this regard Bank officials' fear about backlash on them in case of NPA despite genuine finance, should be definitely addressed.

A number of suggestions in the area of Credit Delivery (adequate finance and appropriate terms of credit), infrastructure support, marketing, changes in NPA/risk policies, and support systems in times of stress etc. have been made in this report to create a vibrant MSME space. There are many agencies involved in MSME establishment, financing and growth. The suggestions made in in this report may be considered by the agencies such that the objective of sustainability and growth of MSME can be achieved.

REFERENCES

- ¹ RBI 'in its Annual Report 2021' says "However, regional disparities in credit flow are on account of multiple factors and would need a multi-stakeholder approach for increasing the flow of credit in the underserved areas. The Reserve Bank's efforts of ensuring higher credit flow need to be effectively complimented by central and state governments in increasing the credit absorption capacity in underserved areas for a sustainable change.
- ² RBI Advisory committee on MSME
- ³ Source: RBI BSR Table 2.1 Size of credit limit and interest rate range wise credit outstanding of SCBs March 2020.
- ⁴ RBI/2020-21/48 DOR (PCB).BPD. Cir No.3/13.05.001/2020-21-October 7, 2020

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