



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/2015-16/160

FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16

August 27, 2015

All Scheduled Commercial Banks  
(Excluding Regional Rural Banks)

Dear Sir / Madam,

**Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle'**

Micro and small units are more prone to facing financial difficulties during their Life Cycle than large enterprises / corporates when the business conditions turn adverse. Absence of timely support at such a juncture could lead to the unit turning sick and many a time irreversibly. As such, role of banks in providing continuous support to viable MSEs during such phases of transient financial difficulties assumes significance.

2. Accordingly, banks have been advised to put in place Board approved policy on lending to MSEs, adopting an appropriate system of timely and adequate credit delivery to borrowers in the MSE segment within the broad prudential regulations of Reserve Bank of India. The feedback received from various stakeholders indicate that some banks have put in place such policies for extending financial help to the viable / stressed MSE borrowers by way of adequate ad-hoc and standby limits which support the MSE units during adverse business conditions as also when their credit requirements go up. However, some banks are yet to put in place a similar framework.

3. Banks are, therefore, advised to ensure that their lending policies for MSEs are streamlined and made flexible in order to empower the officials concerned to take quick decisions on credit delivery to MSEs. In this connection, banks may consider the following guidelines and tune their existing policies for lending to the MSE sector accordingly:

वित्तीय समावेशन और विकास विभाग, केन्द्रीय कार्यालय, 10 वी मंजिल, केन्द्रीय कार्यालय भवन, शहीद भगतसिंह मार्ग, पोस्ट बॉक्स सं. 10014, मुंबई -400001

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हिंदी आसान है, इसका प्रयोग बढ़ाइए।

"चेतावनी: रिज़र्व बैंक द्वारा मेल-डक, एसएमएस या फोन कॉल के जरिए किसी की भी व्यक्तिगत जानकारी जैसे बैंक के खाते का ब्यौरा, पासवर्ड आदि नहीं मांगी जाती है। यह धन रखने या देने का प्रस्ताव भी नहीं करता है। ऐसे प्रस्तावों का किसी भी तरीके से जवाब मत दीजिए।"

**Caution:** RBI never sends mails, SMSs or makes calls asking for personal information like bank account details, passwords, etc. It never keeps or offers funds to anyone. Please do not respond in any manner to such offers.

- i) Standby Credit Facility – In terms of [circular DBR.No.BP.BC.33/21.04.048/ 2014-15 dated August 14, 2014](#) banks are allowed, at the time of sanction of project loans, to sanction a ‘standby credit facility’ to fund unforeseen project cost overruns, if needed. Such ‘standby credit facilities’ are sanctioned at the time of initial financial closure; but disbursed only when there is a cost overrun. At the time of credit assessment of borrowers / project, such cost overruns are also taken into account while determining viability and repayment ability of the borrower. Banks may, as part of their lending policy to MSEs, consider a similar approach of providing a ‘standby credit facility’, while funding capital expenditure, to fund unforeseen increases in capital expenditure. Further, at the discretion of banks, such ‘standby credit facility’ may also be sanctioned to fund periodic capital expenditure. The objective of such ‘standby credit facility’ would be, among others, to extend credit speedily so that the capital asset creation is not delayed and commercial production can commence at the earliest.
- ii) Working Capital Limits – In terms of extant guidelines, banks are allowed to determine working capital requirements according to their assessment of the borrowers and their credit needs. Banks are required to have a transparent policy and guidelines for credit dispensation, with the approval of their Board, in respect of each broad category of economic activity. In this connection, it is advised that banks may also incorporate, in their lending policy to MSEs, a policy for fixing a separate additional limit, at the time of sanction / renewal of working capital limits, specifically for meeting the temporary rise in working capital requirements arising mainly due to unforeseen / seasonal increase in demand for products produced by them. Such limits may be released primarily, where there is a sufficient evidence of increase in the demand for products produced by MSEs. Banks may also sanction ad-hoc limits subject to the extant prudential norms, to be regularised not later than three months from the date of sanction.

- iii) Review of Regular Working Capital Limits – At present, banks review working capital limits at least once in a year based on audited financial statements. However, audited financial statements of MSE units would ordinarily be available with a time lag, post-closing of the financial year. In such cases and where banks are convinced that changes in the demand pattern of MSE borrowers require a mid-term review, they may do so. Such mid-term reviews may be based on an assessment of sales performance of the MSEs since last review without waiting for audited financial statements. However, such mid-term reviews shall be revalidated during the subsequent regular review based on audited financial statements.
- iv) Timelines for Credit Decisions – Timely credit is critical to the growth of a healthy MSE sector. Towards this Reserve Bank has issued several guidelines. In terms of [circular RPCD/MSME&NFS. BC. No 74/06.02.31/2012-13 dated May 9, 2013](#) banks were advised to put in place a structured monitoring mechanism for holistic monitoring of all credit related matters, pertaining to MSE Sector. Banks were also advised to have a Credit Proposal Tracking System (CPTS) with a view to closely track the applications and ensure speedy disposal. Further, in terms of [circular DBOD.Leg.No.BC.104/09.07.007/2002-03 dated May 5, 2003](#) on 'Guidelines on Fair Practices Code for Lenders', banks were advised that the time frame within which loan applications up to Rs.2 lakh will be disposed of should be indicated at the time of acceptance of loan applications. Banks were also advised vide [circular DBOD.No.BP.BC.35/21.04.048/2014-15 dated September 01, 2014](#), that they should clearly delineate the procedure for disposal of loan proposals, with appropriate timelines, and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period, without any compromise on due diligence requirements. Banks are also required to make suitable disclosures on the timelines for conveying credit decisions through their websites, notice-boards, product literature, etc. In view of the above, banks are hereby advised that above systems should be put in place with immediate effect, with regard to credit facilities (regular, additional / ad-hoc

credit facilities and restructuring of accounts, if considered viable) for MSE borrowers.

4. Banks are advised to review their lending policies and adopt the above measures so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances.
5. Please acknowledge receipt and furnish Action Taken Report by October 31, 2015.

Yours faithfully,

(Madhavi Sharma)  
Chief General Manager