Private and Confidential

Bombay Chamber of Commerce and Industry

Suggestions and Comments to the Hon'ble Governor of Reserve Bank of India, towards lending a helping hand for MSMEs with suggestions to better access to banking credit facility.

19 January, 2021

We thank the Reserve Bank of India (the "**RBI**") for this opportunity to present our views and suggestions on how RBI can lend a helping hand for MSMEs through access to credit.

Set out below are our inputs on certain specific recommendations in the discussion paper.

Sl. No	Main Issues of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme
1.	Clause 5 (v) of this scheme makes it ineligible for MSMEs if in case they have already availed facility on existing Collateral, it reads: INELIGIBLE: "Any credit facility which has been sanctioned by the lending institution against collateral security and / or third party guarantee." The issue here is that in case of expansion, the bank does not allocate further enhancement with the CGTMSE scheme and asks for more collateral. Collateral additions is a challenge for MSMEs and therefore capacity building is hindered by this clause.
2.	The Banks are not keen on CGTMSE scheme for start-ups MSMEs, they are taking a lot of time to sanction the facility due to delay in paper-work; this needs to be eased. Most of the Start-ups are refused for any facility under this scheme.
3.	Transfer of existing loans under CGTMSE scheme is not possible from one bank to another. Hence, flexibility of availing better interest rate is ruled out.
4.	Interest rates charged on Cash Credit Limit or Term Loans to MSMEs are way higher than MCLR rates wherein the current interest charges floats around 9.5% to 11.5%

Sl. No	Suggestions for Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme
1.	The CGTSME scheme to be simplified and faster approval needed for the same. Many Banks are still denying the same to MSMEs with existing deployment of Collateral Property
2.	The MCLR interest rate especially for MSMEs to be reduced by 175 basis points minimum, this will give a boost for capacity building. MSMEs should be able to avail loans in the interest rates ranging from 6 to 7.25% for being competitive locally & Globally.
3.	The basis of authorisation of Cash Credit Limit @ 20% of the previous year Turnover may be extended to 40% of the previous year turnover at least for 3 years period (tapering mode on yearly basis).
4.	Start-ups to be supported by the Banks vide special booster credit on a tapering mode for the first 3 years of inception.
5.	Capital Investment for modernization of Production Facility may be supported with a special category Loans facilitated by the Banks with reduced margin and reduced Interest rate.
6.	Exports loans to be simplified for MSMEs, especially for 100% EOUs for ease of business.

WEF from 01-01-2021, Banks are offering:

Allahabad Bank	At the discretion of the bank
Oriental Bank of Commerce	10.70% p.a. onwards
Andhra Bank	At the discretion of the bank
ICICI Bank	10-13% p.a. onwards
Central Bank of India	11.25% p.a. onwards
Indian Bank	9.75% p.a. onwards
Punjab and Sind Bank	9.95% p.a. onwards
Punjab National Bank	At the discretion of the bank
State Bank of India	7.65% p.a. onwards
Syndicate Bank	At the discretion of the bank

UCO Bank	8.85% p.a. onwards
Union Bank of India	At the discretion of the bank
United Bank of India	10.25% - 16.25% p.a.

As seen in the above table: except State Banks rest all have loaded 3-5% on MCLR, which needs to be set with some limitation by the RBI. Either the MCLR rate is brought down by 175 basis point or loading by Banks restricted to 100-150 basis point over and above the MCLR. The effective pay out of Interest to MSMEs should be around 7-8% for becoming competitive both Locally & Globally.

This will indeed help MSME sectors. (It is generally observed that the Banks are more interested in Home Loans or Loans against collateral)