

To,
The Executive Director
Udyog Bandhu
12-C Mall Avenue, Lucknow

Kind Attention: Shri V.K. Seth

Subject: Banking related proposals for Budget 2009-10

Dear Sir,

As desired by you, we are submitting the following proposals related to CREDIT FOR SSI

1. Flow of Credit:

Flow of adequate credit and its timely dispersal is not happening due to adverse risk perception of banks and Financial Institutions and lack of experience and expertise on part of entrepreneurs in submitting presentable proposals.

It is necessary to adopt a two pronged approach

- A) Increase in supply of funds to Micro and Small Enterprises (MSE's).
- B) Changes in existing practices of lending to Micro and Small Enterprises.

Increased supply will ensure keener competition in financial sector and perform direct more flow of credit to SSI. Besides following steps may also be considered:-

- a. The Government can invite institutions/business houses to set up large fund based Bank with charter to finance MSE's. Lower CRR/SLR may be stipulated as incentive.
- b. Some SLR/CRR cuts in future may be made conditional for lending to MSE's or utilised for setting up specialised MSE's Banks.
- c. Risk capital also needs to be provided to MSE sector by innovative means;

(i) Foreign and Indian financial institutions, Pension Funds etc. may be encouraged to set up venture capital companies of large size. Abundance of such funds will ensure that risk capital starts following to MSE.

(ii) Nationalised Banks and other lending institutions should be persuaded to consider equity obtained out of National Equity Funds as promoters share so that the scheme lying dormant takes off.

- d. Large companies may be mandated to set aside a part of their bill limits for payment of bills of MSE units.

Late Payment Act should be provided teeth and the relief under the Act must be available to factoring companies to secure their interest. The Facilitation Council like the DRT should be permitted to issue recovery certificate also in order to enforce their decision

- e. RBI should issue only those circulars/directives which can be enforced.
- f. Credit Monitoring Mechanism

There should be a effective mechanism for monitoring flow of credit and for redressal of grievances. The present systems of SLIIC / SLBC / RBI Meetings is not effective.

2. Changes in the existing lending practices:

- (i) The Bankers have to be sensitised through hard facts and mutual consultations that their risk perception about MSE sector vis-a-vis large sector is not in line with the realities. Their funds are safer with MSE if seen at macro level.
- (ii) Major causes for defaults are not only lack of experience and expertise on part of the entrepreneurs, but also lack of adequate training in extending credit on part of bankers and insufficient interaction with borrowers and supervision of their accounts.
- (iii) A detailed study can be commissioned through reputed agencies like to identify grey areas in lending and to recommend appropriate structure and system.
- (iv) A Committee approach of sanctioning loans may be adopted like in case of large loans, this will result in
 - a) Faster decision making and
 - b) Avoid hesitation on part of bankers due to personal responsibility in case of default.
- (v) Different levels in banking should be effectively empowered and Managers/Regional Managers made accountable for profits as also for acts of omissions.
- (vi) As of now MSE is clubbed with other welfare programmes under priority lending. Neither credit disbursed nor bad debts are clearly known. Hence MSE may be treated as distinct entity.
- (vii) The lease hold properties should be taken as collaterals by the bank. The village land should also be taken as security by the bank.
- (viii) Industrial Associations should be involved at the time of finalising the loan to the entrepreneurs.

Thanking you,

Yours truly,

D.S. Verma
Executive Director