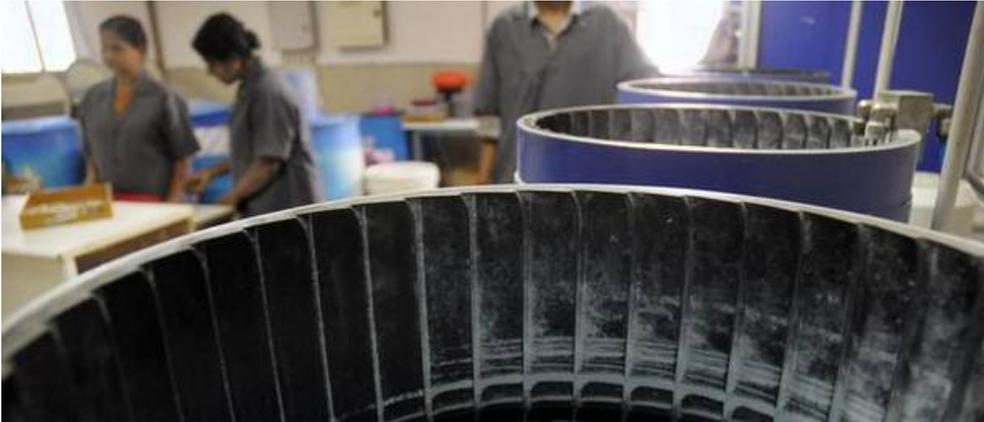


# Clogged credit is biggest pain point

Amiti Sen Updated on January 01, 2019



Will the new Central schemes for easier credit address the sector's distress, or are they just election year gimmicks?

Micro, small and medium enterprises (MSME), the backbone of the manufacturing industry and generator of millions of jobs in the country, continued with their struggle for survival in 2018.

The going has been tough for the sector in the aftermath of demonetisation, the start of a complex GST regime, and ever-shrinking bank credit stifling growth.

The sector also witnessed some key events over the year. The Centre, taking cognizance of its distress, announced various schemes and measures. It also picked up an almost public fight with the RBI over the increasing exposure of banks to MSME units.

The upcoming general elections and the angst of struggling industrialists and jobless youth may have played a role in the Centre's interest in the sector's plight, but whether it will actually make a difference to MSME units on the brink of closure remains to be seen.

## Job losses

A recent survey carried out by the All India Manufacturers' Organisation (AIMO) suggested that in four-and-a-half years of NDA rule, at least 35 lakh jobs have been lost among traders and in the MSME sector.

Traders were hit the hardest, with 43 per cent job losses over this period, followed by the small industry segment at 35 per cent, micro enterprises at 32 per cent, and medium enterprises at 24 per cent.

The slowdown in the global market has also been a cause of worry for MSMEs, which contribute about 40 per cent to the country's total exports. The erratic performance of the engineering goods sector, and labour-intensive sectors — such as readymade garments, leather, and gems & jewellery — have added to the woes.

## Interest subvention

The increase in interest rate subvention (wherein banks give credit to beneficiary sectors at lowered rates of interest, and are then compensated by the Centre) announced by the government as part of the package for MSMEs in 2018 will no doubt make the cost of borrowing lower for such units. But it doesn't help them address the main problem, which is poor access to credit.

“The banks have started implementing the interest subvention scheme, which is a positive development. However, interest subvention becomes effective only when there is flow of credit. That is the biggest challenge,” pointed out Ajay Sahai, Director General and CEO of the Federation of Indian Export Organisations.

Commerce Minister Suresh Prabhu had said he would convene a meeting of the RBI, Department of Financial Services and Commerce Ministry to look into ways to improve credit flow, recalled Sahai.

According to RBI data, the overall bank credit outstanding, and that to the industry segment, grew 11.3 per cent and 2.3 per cent respectively in September 2018 (over September 2017). However, the credit outstanding to the MSME sector — which accounts for about 45 per cent of manufacturing — contracted by 1.4 per cent during the month.

## 59-minute loans

The Central scheme for approving loans of up to ₹1 crore for MSME units in under 59 minutes (part of the MSME package) has started delivering some results, but it is yet to be seen how widespread it is.

As per government data, loans worth over ₹14,000 crore have been sanctioned by public sector banks under the 59-minute scheme.

However, of the 1.12 lakh applications that have received approval, sanctions have been made in just 40,669 cases, or over one-third of the approvals.

“One has to analyse the figures properly to understand its spread,” said Anil Bhardwaj, Secretary General, the Federation of Indian Micro and Small & Medium Enterprises. “Many of our existing members are yet to benefit from the scheme. Maybe it is the new players who have availed the benefits. It is also possible that those who used to apply for loans under the Prime Minister’s Rozgar Yojana have shifted to this scheme.”

Bhardwaj added that 2019 would be important for the MSME sector as it would become clear whether the sops announced, including allowing units to post their trade receivables on the digital platform, were delivering results. If not, they would sadly prove to be just gimmicks in an election year.

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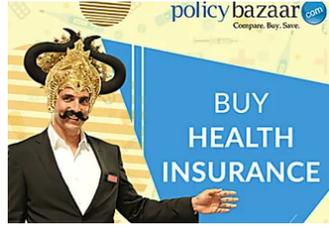


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