

RBI panel recommends doubling collateral-free loans for MSMEs

Shishir Sinha New Delhi | Updated on June 19, 2019 Published on June 18, 2019



Says this facility must be extended to Mudra and SHGs, too

An expert committee of the Reserve Bank of India (RBI) on Micro, Small and Medium Enterprises (MSMEs) has suggested doubling collateral-free loans for these units. This should be applicable to Micro Units Development and Refinance Agency (Mudra) and Self-Help Groups (SHGs), too, the committee said.

The committee, headed by former SEBI Chairman UK Sinha, submitted its report to RBI Governor Shaktikanta Das on Monday. The RBI is expected to put up the report in public domain by Friday.

Sources told *BusinessLine* that the committee has suggested hiking the ceiling of collateral-free loans for MSME units to ₹20 lakh from ₹10 lakh now. As of now, MSMEs can get collateral-free loans under two mechanisms: one, based on the

RBI's 2010 circular, and the other based on Credit Guarantee Fund (CGF). While the 2010 circular prescribes a limit of ₹10 lakh, CGF talks about collateral-free loans of up to ₹2 crore.

According to RBI data, total outstanding advances for MSMEs as on March 29, 2019, was ₹15,491 crore, while it was ₹14,731 crore at the end of fiscal year 2017-18. This shows an overall growth of just little over 5 per cent.

The committee has suggested covering Mudra and SHGs, too, under the amended circular. As of now, Mudra offers three types of loans – Shishu (loans up to ₹50,000), Kishor (loans above ₹50,000 and up to ₹5 lakh), and Tarun (loans above ₹5 lakh and up to ₹10 lakh). Now, if the committee's recommendation is accepted, then the loan limit under Mudra will also be doubled, and this will be more beneficial to micro units.

At the end of financial year 2018-19, the total number of Mudra accounts touched 17.80 crore, with the sanctioned amount at more than ₹9.26-lakh crore. There are an estimated 2.6 crore MSMEs in the country, providing employment to six crore persons.

MSMEs contribute 45 per cent to the manufacturing sector's output and 40 per cent to the nation's exports.

Of all the problems faced by MSMEs, non-availability of credit at reasonable interest rates is the most severe.

One of the major causes for low availability of bank finance to this sector is the high-risk perception of banks in lending to MSMEs and, hence, the insistence on collaterals that are not easily available with these enterprises.

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