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## RBI Panel's Recommendations on MSME

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A Reserve Bank of India (RBI) expert committee on micro, small and medium enterprises (MSMEs) has recommended doubling **the cap on collateral-free loans to Rs 20 lakh** from the current Rs 10 lakh.

- This will be extended to borrowers falling under the Mudra scheme, self-help groups, and MSMEs.
- The current limit of Rs 10 lakh on collateral-free loans was prescribed by RBI in June 2010.

**A collateral free loan** means that borrowers do not have to offer any asset or pledge collateral to borrow against.

- The committee has also suggested various long-term solutions for the economic and financial sustainability of MSMEs.
- The report has also **recommended the mainstreaming the restructuring of stressed loans**, considering the central bank had given a one-year window to banks to do so in January 2019.
- The proposal is part of a report prepared **by the eight-member RBI committee** tasked with reviewing the current framework for the MSME sector.

The panel was **headed** by former Securities and Exchange Board of India chairman **U K Sinha**.

### The MSME definition

- The Micro Small & Medium Enterprises (MSMEs) are defined under the Micro, Small & Medium Enterprises Development (**MSMED) Act, 2006** on the basis of capital investment made in plant and machinery, excluding investments in land and building.
- Manufacturing units having investment:
  - below Rs 25 lakh are termed as Micro,
  - those between Rs 25 lakh and Rs 5 crore as Small
  - and from Rs 5 crore to Rs 10 crore as Medium.
- Service units, corresponding investment thresholds are:
  - up to Rs 10 lakh are termed as Micro,

- between Rs 10 lakh to Rs 2 crore as Small
- and between Rs 2 crore to Rs 5 crore as Medium
- **However, the government is contemplating to change the definition of MSMEs.**
  - The proposed change under a new draft is that **annual turnover, rather than investment size**, should be the criterion for such units.
  - Under the draft, there would be **no difference between a manufacturing and service unit.**
  - Micro can be up to Rs 5 crore of turnover, small up to Rs 75 crore, and medium up to Rs 250 crore of turnover should be considered.

### **Pradhan Mantri MUDRA Yojana (PMMY)**

- The PMMY is a scheme launched in 2015 for providing loans up to 10 lakh to the non-corporate, non-farm small/micro enterprises.
- These loans are classified as MUDRA loans under PMMY.
- These loans are given by Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs.
- Under the aegis of PMMY, MUDRA has created three products namely 'Shishu', 'Kishore' and 'Tarun' to signify the stage funding needs of the beneficiary/entrepreneur and also provide a reference point for the next phase of graduation/growth.
  - **Shishu:** covering loans up to Rs.50,000
  - **Kishore:** covering loans above Rs.50,000 and up to Rs.5,00,000
  - **Tarun:** covering loans above Rs.5,00,000 and up to Rs.10,00,000
- As of Feb 1, 2019, over 157 million loans amounting to Rs 7.59 trillion have been extended under PMMY since its inception.