

'Sick' MSMEs: RBI for change in definition

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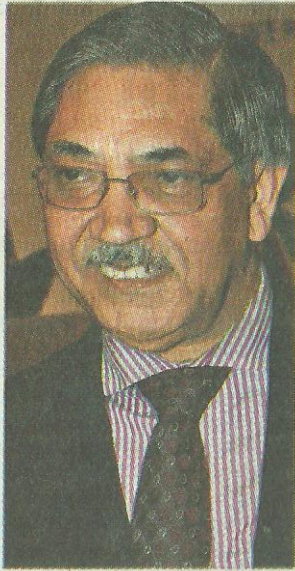
Mumbai, Feb. 4

The Reserve Bank of India wants the definition that classifies industrial units in the micro, small and medium enterprise category as 'sick' changed as barely 2 per cent of such units have got rehabilitated in the last few years.

The proposal to revise the definition is aimed at detecting signs of incipient sickness among MSME units so that preventive measures could be taken by all stakeholders, including banks, to nurse them back to health.

"As per the current definition, a unit is classified as sick when there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent. By the time the units reach this stage they are nearly dead. So, the definition of sick units needs to be changed," said Mr K. C. Chakrabarty, Deputy Governor of the Reserve Bank of India.

A Government standing advisory committee is looking into the possibility of making this change, he said at a seminar organised by the Small & Medium Business Development Chamber of India.



Mr K. C. Chakrabarty

ADVISORY DESK

The deputy governor called upon banks to set up financial management advisory desks to help MSMEs with non-core functions such as accounting, taxation and financial management. Banks could charge a reasonable fee to provide these services to the enterprises.

Underscoring the extent of financial exclusion when it comes to MSMEs, Mr

Chakrabarty said about 93 per cent of the SME promoters depended on self-finance or informal sources of financing.

He observed that the top management of banks should show their commitment to the MSME sector by clearly spelling out the targets for expanding the MSME portfolio at the branch level and closely monitoring them. Further, to ensure transparency, banks should disclose the interest rates they charge their borrowers segment-wise in the balance sheets.

The deputy governor said banks should tighten their credit appraisal standards. They should not relax their standards just because credit guarantee institutions such as the Credit Guarantee Fund Trust for Micro and Small Enterprises and the Export Credit Guarantee Corporation of India will pick up the tab should loans turn bad.

Entrepreneurs, said Mr Chakrabarty, should be encouraged to experiment with business ideas. If the entrepreneurs fail in their ventures, they should have an easy exit policy.

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