# Govt taps banks to ease credit flow to SMEs for manufacturing boost

**Sunny Verma**
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In order to boost the manufacturing sector, the finance ministry has decided to streamline and liberalise banks' lending norms for the small and medium enterprises (SME) sector. The new norms, which will be unveiled over the next few days, seek to spur credit flow to the SME sector. The department of financial services (DFS) has asked state-owned banks to come out with a uniform loan application form for SMEs for loans up to ₹25 lakh.

After a series of meetings with state-owned banks, the DFS has told them to adopt a liberal approach while sanctioning loans for new projects or new units coming up in the SME sector. The government has asked banks to set up an electronic loan tracking system, which would enable prospective borrowers in the SME sector to check the status of their loan applications. This will reduce the discretion available to bank officers in granting loans to SMEs.

Finance minister P Chidambaram, in a recent meeting with bank officials, had emphasised the importance of making credit available to SMEs, which contribute to nearly half of the country's total exports. The DFS is directing banks to disburse loans in their entirety after sanctioning them. Banks would not be allowed to stop funding sanctioned loans midway, official sources said. The manufacturing sector grew only 0.2% in the April-June quarter, against 7.3% growth in the same quarter in 2011.

Accessing loans has never been easy for SMEs, with banks being very subjective in lending to them, said Anil Bhardwaj, secretary general, Federation of Indian Micro & Medium Enterprises. "There are instances when one bank accepts the loan application of a company but another bank rejects it," he said.

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## HELP AT HAND

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- DFS has directed banks to disburse loans in their entirety after sanctioning them
- Banks would now required to respond to an SME loan application within 30 days

**P Chidambaram,**
finance minister