

Cluster-based financing of MSMEs

Issues and Challenges

A study of Lock and Building Hardware Cluster in
Aligarh (U.P.)



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Abbreviations

API	Application Programming Interface
BC	Business Correspondent
BCSBI	Banking Codes and Services Board of India
CAP	Corrective Action Plan
CC	Cash credit
CCC	Certified Credit Counsellors
CCI	Credit Counselling Institution
CFS	Container Freight Stations
CGTMSE	Credit Guarantee Fund Trust for Micro And Small Enterprises
DIC	District Industries Centre
EPB	Export Promotion Board
FLC	Financial Literacy Centre
GBA	Gramin Bank of Aryavrat
GST	Goods and Services Tax
GVO	Gross Value of Output
HACCP	Hazard Analysis and Critical Control Point
HSC	Higher Secondary School Certificate
HUF	Hindu Undivided Family
ICD	Inland Container Depots
ISO	International Organization for Standardization
KVIC	Khadi and Village Industries Corporation
MSME	Micro, Small & Medium Enterprises
MSE-CDP	Micro & Small Enterprises - Cluster Development Programme
MSMED Act	Micro, Small and Medium Enterprise Development Act
MUDRA	Micro Units Development & Refinance Agency Ltd.
NBFC	Non-Banking Financial Company
NPA	Non-performing asset
NSIC	National Small Industries Corporation
NSSO	National Sample Survey Organisation

OD	Overdraft
ODOP	One District One Product
P2P lending	Peer-to-Peer lending
PMEGP	Pradhan Mantri Employment Generation Programme
PMMY	Pradhan Mantri Mudra Yojana
RBI	Reserve Bank of India
RRB	Regional Rural Bank
RSETI	Rural Self Employment Training Institute
SLBC	State Level Bankers' Committee
SSC	Secondary School Certificate
TFC	Task Force Committee
UAM	Udyog Aadhaar Memorandum
UNIDO	United Nations Industrial Development Organisation
UPSIDC	Uttar Pradesh State Industrial Development Corporation
ZED	Zero Defect Zero Effect

Executive Summary

Introduction

The College undertakes special studies in areas related to the training programmes conducted by the College. The College had conducted a special study of two MSME clusters in Pune during 2017-18. One of the points which emerged out of the study is lack of awareness amongst entrepreneurs regarding services offered by banks and technology platforms such as TReDS which have been set up to ease flow of credit to MSME sector. Therefore, it was decided that the College would conduct two cluster-based studies and conduct cluster based training programmes during 2018-19. Considering that Uttar Pradesh has highest number of MSMEs and the State has also implemented cluster-oriented schemes, the Lock and Building Hardware Cluster of Aligarh was selected for the study. The objectives of the study included understanding the perspectives of both the lenders and entrepreneurs in the cluster on their problems and prospects.

2. Methodology of the Study

The methodology adopted for the study included review of existing data, interaction with the entrepreneurs and data collection from bank branches with the help of structured questionnaires. The questionnaires were designed to collect data required for understanding the perspectives of both the lenders and the entrepreneurs in the cluster and analysing the issues and challenges faced by MSMEs. The sample included a diverse profile of entrepreneurs in terms of their size. The questionnaire for bankers was used to collect data on various aspects of MSME lending, including implementation of various schemes and initiatives. The data and the responses received through questionnaire and information received from Directorate of Industries have been analysed and the findings are presented in this report. Conclusions and suggestions have been made based on the analysis presented in this report.

3. Entrepreneurs' perspective

The entrepreneurs faced various challenges in arranging finance for their enterprises. The pattern of financing indicated significant reliance on their personal savings and

informal sources such as loans from members of family and friends and credit from suppliers of the raw materials. Bank finance was generally less preferred by the entrepreneurs due to reasons like cumbersome documentation, collateral and margin requirements. Those who availed of credit from suppliers opined that purchasing raw material on credit was a convenient source of finance. The entrepreneurs availed bank finance more for their working capital requirement than for their long-term requirement, indicating that bank finance was less availed during initial phases of the MSME's life cycle. The entrepreneurs also faced difficulty because of longer accounts receivable period of up to 180 days. The longer accounts receivable period had an impact on cash flow of the enterprises.

Finance from alternative sources, like P2P lending platforms, digital lending platforms, or from NBFCs was not availed by the entrepreneurs due to lack of awareness of these sources.

One of the potential benefits of GST registration for entrepreneurs is to get bank finance based on their turnover. However, though MSMEs covered in the study had GST registration, they had not availed of any bank finance based on GST turnover data.

4. Lenders' Perspective

The bankers reported that non-availability of financial records relating to income, business transactions and accounts of MSMEs was the major challenge in credit appraisal of MSMEs. Despite extant instructions mandating banks not to accept collateral security in the case of loans up to ₹10 lakh extended to MSE units, there were instances of accepting collateral in such loans by banks. This also indicated that the bankers' preferred collateral-based lending.

The share of NPA in MSME advance was generally one third of overall NPAs. However, it increased to half of the overall NPAs as on March 2017, before coming down to a third of overall NPAs in March 2018. The rise was generally attributed to the process of demonetization.

Bankers mentioned about utility of GST in credit appraisal process more as a tool to supplement or verify the traditional financial data in respect of the MSMEs, however, they were not utilizing the GST data for lending to MSMEs. The credit linkage of borrowers

who were trained by Rural Self Employment Training Institute (RSETI) was low. Besides, RSETI was not aware of its roles and responsibilities as Credit Counselling institution.

5. Benefits of cluster approach

Infrastructural facilities such as power, roads, drainage etc. and land/shed provided by the State Government, ease in getting statutory clearances and approvals and availability of skilled labour and raw material on credit were reported as major benefits of setting up MSMEs in a cluster.

The bankers reported ease in appraisal of loans due to better understanding of the overall profile of the cluster and the MSMEs. They also shared that monitoring of loans was easier and cost-effective in lending to MSME clusters.

6. Benefits of GST registration

All the units covered under the study were registered under GST. It was reported that the implementation of GST had brought down the accounts receivable period. The buyers settled the bills in a timely manner which in turn enabled the entrepreneurs pay their dues to their suppliers of raw materials. This had helped in efficient working capital management.

7. Financial literacy and awareness among MSMEs

The study revealed that the level of awareness about various schemes pertaining to MSMEs was low among entrepreneurs except in case of schemes like Pradhan Mantri Mudra Yojana (PMMY), Prime Minister Employment Generation Programme (PMEGP) etc. The awareness level in respect of Certified Credit Counsellor (CCC), framework on revival, rehabilitation and restructuring of MSMEs, procurement portal (MSME-SAMBANDH), delayed payment and grievance redressal portal (MSME-SAMADHAN) was significantly low.

The response from bank branches regarding implementation status of certain schemes/initiatives like collateral free loans up to ₹10 lakh, credit guarantee coverage for MSME loans, implementation of framework on revival, rehabilitation and restructuring of MSMEs etc., and use of alternative credit appraisal methods for credit assessment of

entrepreneurs indicated that the bank branch officials did not have adequate awareness/clarity about these schemes/initiatives.

8. Suggestions

Based on the findings of the study, a few suggestions have been made in the report. A summary of the suggestions made is given below:

- i. As part of the National Mission on Capacity Building (NAMCABs) of officials of bank branches lending to MSMEs, RBI conducts workshops across the country to build capacity among bankers for lending to MSMEs and create awareness about softer aspects of MSME lending such as entrepreneurial sensitivity, empathy and appropriate communication with entrepreneurs. The workshop also aims at creating awareness about recent developments in MSME sector with special focus on credit related issues, movable asset based finance, use of technology platforms, credit scoring models, use of big data in analyzing credit worthiness of MSMEs, CGTMSE, etc. The trainers in banks training establishments have also been trained to further train the branch officials on the similar lines.

It was observed that none of the officials from the 17 bank branches covered in the study had attended the NAMCABs workshop. The banks may consider availing of the benefits of the workshops being conducted every quarter at various centres by RBI or they themselves may conduct such programmes in their training establishments. This would be an important step in capacity building of bank branch officials on financing to MSMEs.

- ii. The bank branch officials also need to be abreast with latest initiatives of RBI Government of India and the State Government. At present, District Consultative Committee (DCC) acts as a forum to facilitate coordination in implementing various developmental activities under the Lead Bank Scheme. However, it does not explicitly provide for a platform for knowledge sharing or dissemination of information relating to various guidelines or recent initiatives. As the bank branch officials change at frequent intervals, there is a need for knowledge sharing platform which could meet at regular interval. In this context, constitution of a District Level Bankers Forum (DLBF) with membership of all bank officials posted in the district, the Lead District Manager (LDM) from Lead Bank, District Development Manager

(DDM) from NABARD could be considered. The LDO of RBI can play the lead role in such forum. The forum may have knowledge sharing sessions of one to two hours, once in a quarter, which could be held on the day of DCC meetings or any other day convenient to the members.

- iii. At present, loan applications in case of various government sponsored schemes are routed through District Industries Centre (DIC). It is suggested that the prospective MSME borrowers may directly submit such applications to banks instead of routing through DIC. Banks may ascertain viability of the proposals before sending them to DIC for release of margin money/subsidy. This would eliminate delays and rejection in the processing of loan applications. Further, the process of releasing margin money/subsidy may be completely made online to ensure transparency and avoid any delay.
- iv. During the study, various indications of non-implementation of RBI guidelines were observed. These instances particularly related to online credit proposal tracking system, collateral-free loans up to ₹10 lakh and implementation of framework on revival rehabilitation and restructuring. With a view to eliminate the issues relating to implementation of various initiatives and improve credit flow to the sector, it is suggested that the banks may improve/upgrade existing MIS to oversee the compliance status. Non-compliance of RBI guidelines by banks may be commented upon in the inspection reports of banks which should have a bearing on the overall assessment of the compliance culture of the bank.
- v. At present, there are online loan application portals for MSMEs like PMEGP portal and 'psbloansin59minutes' portal. However, these portals have utility limited to a particular scheme or a group of banks (e.g. PSU banks). Government of India may consider commissioning a single universal portal subsuming the existing portals to act as single window for entrepreneurs and provide an online market place for lenders.
- vi. The cluster provides great potential for banks to increase credit flow to MSMEs. The potential needs to be tapped. Therefore, emphasis may be laid on increasing the number of clusters particularly in micro and small segment on the lines of MSE-CDP.

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- vii. In order to create financial literacy and awareness about various schemes and policy initiatives, including quality control e.g. ZED certification, apart from the current approach like financial literacy camps, town hall meets, regular customer meetings by banks etc. a dedicated financial literacy centre for MSME in each district could also be set up.
 - viii. At present, training programmes at RSETI and Entrepreneurship Development Programmes of State Government are conducted independently. The RSETI may collaborate with District Industries Centre for the benefit of entrepreneurs.
 - ix. There is a need to create adequate awareness about RSETIs' role as CCI, wherever designated, among entrepreneurs. A dashboard for reporting performance of RSETIs as CCI may be also be put on the SLBC website. Wide publicity may be given about their roles and responsibility through use of electronic and print media.

Conclusions

In order to ensure growth of MSMEs, adequate credit flow, hand holding, and institutional support are needed. The traditional approach to lending has certain limitations reflecting in under-financing and entrepreneurs' preference for informal sources of finance. In order to finance the unmet credit needs of the sector, the banks need to develop new models of lending to overcome the limitations of the traditional methods of credit assessment. The reach of technology has deepened in a big way during the last few years, creating new data points in the form of digital footprints to assess credit-worthiness of the borrower and predict his/her willingness to repay. Various initiatives have been taken by the Government and RBI to address the above issues. However, it is important to effectively implement these schemes and initiatives to achieve the intended outcomes for the sector. Lack of awareness among entrepreneurs is also a cause of financial exclusion of MSMEs. Therefore, financial literacy would hold the key to financial inclusion of MSMEs.

Chapter I

1.1 Background

1.1.1 Importance of MSME Sector

The importance of Micro, Small and Medium Enterprise (MSME) sector in the Indian economy is a well acknowledged fact. As per Annual Report on MSMEs, 2017-18, published by the Ministry of MSME, Government of India, the contribution of manufacturing MSMEs in the country's total manufacturing GVO (Gross Value of Output) at current prices remained around the level of 33 per cent during 2011-16. The sector also plays a major role in employment generation, next only to agriculture. There are an estimated 63 million MSMEs in the country, providing employment to 111 million people.

1.1.2 Major issues and challenges faced by MSME sector

The sector faces several challenges. The Committee on Medium-term Path on Financial Inclusion (Chairperson: Dr. Deepak Mohanty) in the report (December 2015) *inter-alia* observed as under:

“The challenges that MSEs face are two-fold. First, they are often credit-starved and banks often do not have the requisite skills and time to assess their credit-worthiness. This entails a problem of adverse selection: good credit risk MSEs are often less inclined to access bank finance owing to onerous and complicated documentation procedures. Consultations suggest that there is also voluntary exclusion, with some MSEs not forthcoming with their detailed financing requirements owing to fear of tax complications and harassment by petty bureaucracy. Second, even if banks extend credit to these entities, monitoring of these entities is often lax, since the presence of a credit guarantee provides the borrower with back-up comfort. On the other hand, the credit guarantee institution does not have the wherewithal to conduct independent assessment. Consequently, the ‘one size fits all’ approach towards risk assessment of MSEs coupled with the paucity of domain knowledge perpetuates a cycle of high costs, low credit and high credit risk.”¹

¹ Report of the Committee on Medium-term Path on Financial Inclusion, RBI (Chairperson: Dr. Deepak Mohanty, December 2015)

Due to non-availability of timely as well as flexible institutional credit, a number of MSMEs fail to tide over temporary setbacks and eventually have to close down.²

1.1.3 Cluster approach for development of MSMEs

The cluster approach to support MSMEs envisages setting up a group of units manufacturing same or similar products in a locality with adequate infrastructure in terms of roads, power, drainage, etc. As per Ganguly Committee recommendations (September, 2004), banks have been advised to extend banking services to recognized clusters and cater to the diverse needs of the MSME sector. The cluster-based approach helps in better interface with well-defined and recognized groups as the lending institutions have access to adequate and appropriate information required for risk assessment and monitoring. There are 388 clusters identified by United Nations Industrial Development Organisation (UNIDO) across 21 states of India³. Government of India adopted cluster development approach for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and started the Micro and Small Enterprises – Cluster Development Programme (MSE-CDP) in 2007. The Government of Uttar Pradesh has also introduced One District One Product scheme with a view to promote cluster based approach for growth of MSMEs.

1.2 MSMEs in Uttar Pradesh

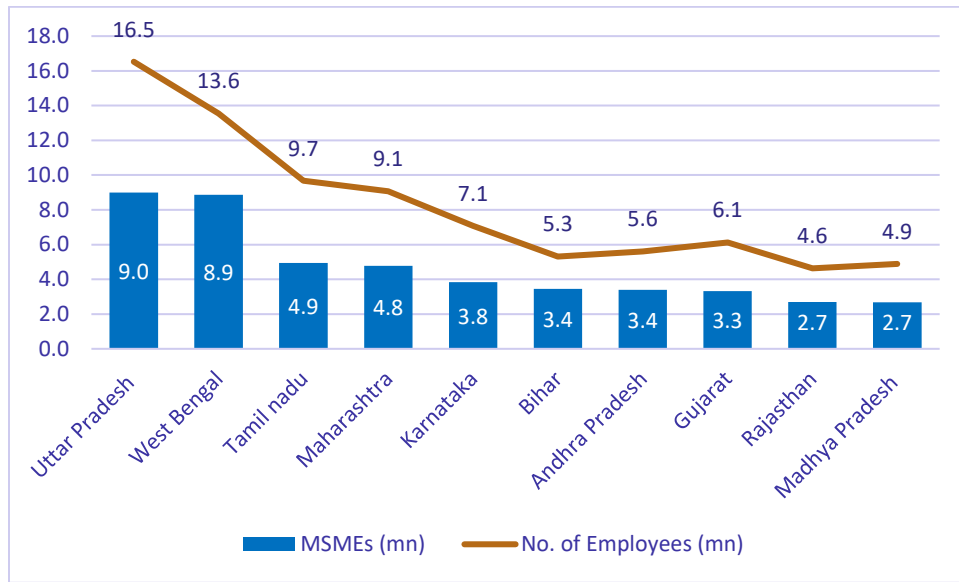
1.2.1 Overview

As per the 73rd round of NSSO Survey (2015-16), 14% of country's MSME units, i.e. 9 million out of total 63.3 million units are located in UP. They employ 16.52 million persons which is 14.89% of the total persons employed in this sector in India (Chart 1).

² Speech by Shri S. S. Mundra, Deputy Governor at the 3rd Bankers Borrowers Business Summit organized by ASSOCHAM in New Delhi (June 16, 2017)

³ The list as enclosed in the Master Directions on lending to MSME sector dated July 24, 2017 (updated as on April 28, 2018)

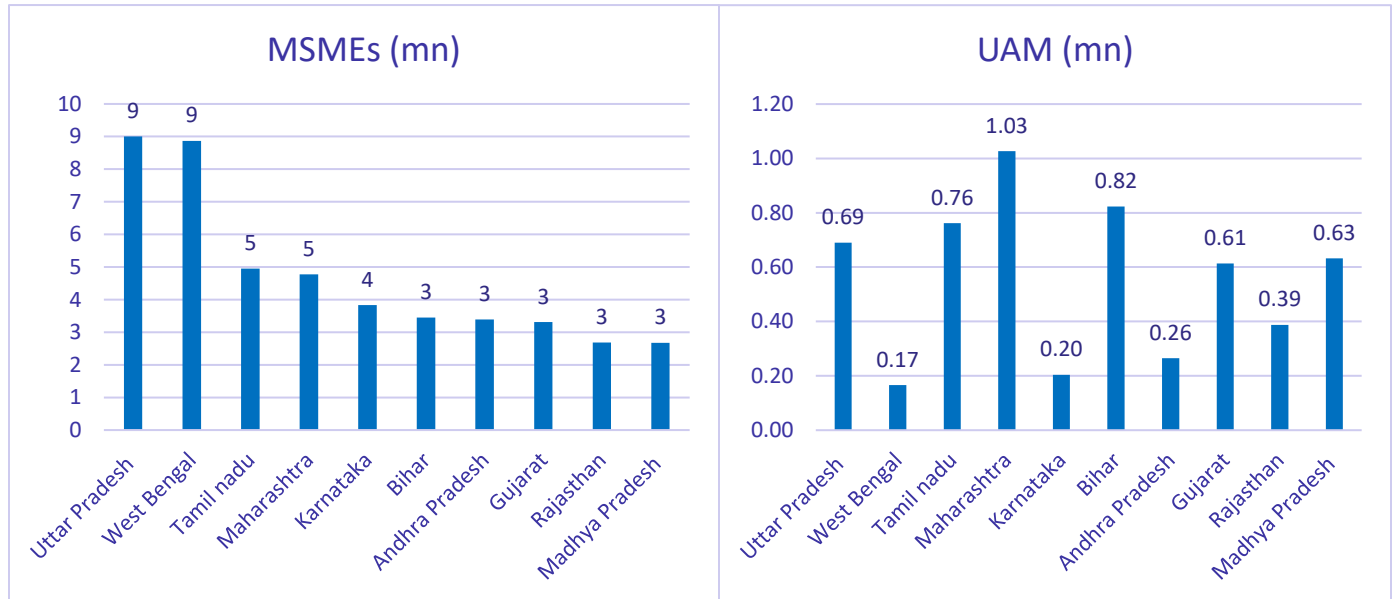
Chart 1: Distribution of MSMEs and persons employed in top ten states



(Source: Annual Report - 2017-18, Govt. of India, Ministry of MSME)

It may be observed from Chart 2 that around 0.69 million enterprises (7.7%) have registered for Udyog Aadhaar Memorandum (UAM) whereas the total number of enterprises as per 73rd round of NSS is almost 9 million in Uttar Pradesh.

Chart 2 & 3: UAM Registration vis-à-vis no. of enterprises



(Source: Annual Report. 2017-18, Govt. of India, Ministry of MSME,
Udyog Aadhaar portal-accessed on April 2, 2019)

The Udyog Aadhaar registration is not proportionately higher for Uttar Pradesh as compared to other states. The UAM registration is 0.69 million against around 9 million MSMEs in the State. The extent of UAM registration in states like Bihar and Maharashtra are relatively higher compared to Uttar Pradesh and West Bengal. In Bihar the UAM registration is 0.82 million against around 3.45 million MSMEs while in Maharashtra the UAM registration is 1.03 million against around 4.78 million MSMEs.

1.2.2 State Government Initiatives

1.2.2.1 The State Government has taken various initiatives to support growth of MSMEs in the State. The initiatives are discussed in the following paragraphs.

- (i) The State Government approved 'Industrial Investment & Employment Promotion Policy 2017⁴' with a view to create a framework to stabilize and make existing industries more competitive and attract investments in the industrial sector.
- (ii) The State Government launched a web based online facility 'Nivesh Mitra⁵'. It is a web application that enables entrepreneurs submit application and documents, pay fees and get approvals/clearances from concerned departments.
- (iv) With a view to address various inquiries and resolve problems of entrepreneurs, a scheme titled 'Single Table Management⁶' has been implemented by the State Government. As per the scheme guidelines, meeting of the '*District Industry Bandhu*' is held to resolve the problems of entrepreneurs and to facilitate timely approvals by concerned departments of the State Government.
- (v) The State Government has launched an Entrepreneurship Development Training ⁷program to facilitate self-employment of educated/trained and technically skilled persons. This program is conducted at district level based on the training need assessment of the particular district.

⁴ http://udyogbandhu.com/DataFiles/CMS/file/UP_Industrial_Policy_2017_English_Version.pdf

⁵ http://niveshmitra.up.nic.in/More_Home.aspx

⁶ www.upmsme.in/en/page/-entrepreneur-schemes

⁷ www.upmsme.in/en/page/-entrepreneur-schemes

(vi) The State Government has established industrial estates in various districts. The MSMEs have been provided with land and/or sheds in these industrial estates. The State Government has also created necessary infrastructure like roads, water supply, drainage system, electricity etc. The sheds are made available to entrepreneurs on hire purchase contract whereas the land is given on lease for 99 years. The banks can create charge over the land/shed while financing the entrepreneur.

(vii) Export Promotional Schemes⁸: The State Government has been encouraging exports by extending various concessions and subsidies, the details of which are furnished below, in Tables 1, 2 and 3.

Table 1: Marketing Support to MSMEs

Particulars	Eligibility	Details
Participation in fairs and exhibition abroad	MSME Exporter registered with Export Promotion Board and District Industries Centre	60% of stall charges, up to a maximum of ₹1,00,000/- for one fair/exhibition Air fare: 50% of the fare by economy class (max. up to ₹ 50,000/- for one fair/exhibition for one person)
Publicity advt., printing of catalogue & development of website	MSME Exporter registered with Export Promotion Board and District Industries Centre	60% of total expenditure, up to a maximum of ₹ 60,000/- annually.
Sending samples to foreign buyers	MSME Exporter registered with Export Promotion Board and District Industries Centre	75% of total expenses on air freight courier for sending samples, up to a maximum of ₹ 50,000/- per year

⁸ Department of Infrastructure and Industrial Development, Government of Uttar Pradesh
<http://udyogbandhu.com/topics.aspx?mid=State%20Government%20Support>

Particulars	Eligibility	Details
Facility for obtaining ISO 9001-2000/BIS 14000, Wool mark, Hall mark, Hazard Analysis Critical Control Point (HACCP) & C-mark certification	MSME Exporter registered with Export Promotion Board and District Industries Centre	50% of total expenses, up to a maximum of ₹75,000/- per year

(Source: Department of Infrastructure and Industrial Development, Government of Uttar Pradesh
<http://udyogbandhu.com/topics.aspx?mid=State%20Government%20Support>)

Table 2: Subsidy on freight charges provided

Particulars	Eligibility	Details
Export Cargo sent by ICD/CFS	MSME Exporter registered with Export Promotion Board and District Industries Centre	25% of freight charges, up to a maximum of ₹ 5,000/- per container (20 ft) is admissible for goods being sent by State ICD/CFS to the gateway port.

(Source: Department of Infrastructure and Industrial Development, Government of Uttar Pradesh
<http://udyogbandhu.com/topics.aspx?mid=State%20Government%20Support>)

Table 3: Subsidy on export cargo sent by air

Particulars	Eligibility	Details
Export Cargo sent by Air Cargo Complex in U.P. (Amausi, Lucknow and Babatpur, Varanasi)	SSI Exporter and Merchant Exporter with EPB and concerned DIC	20% of freight charges or ₹ 50/- per kg whichever is less up to a maximum of ₹ 2 lakh per unit per year.

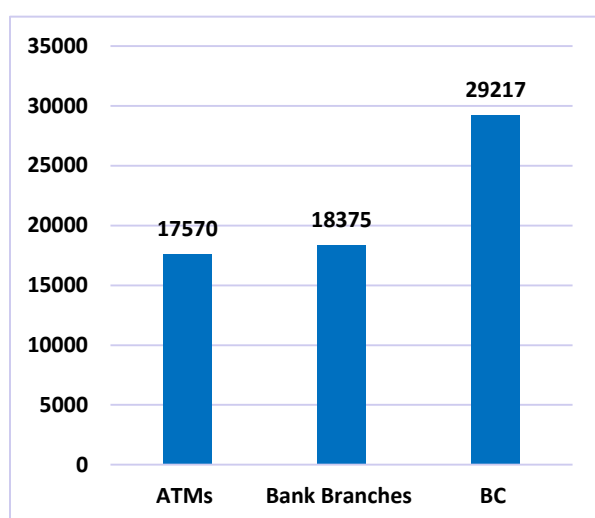
(Source: Department of Infrastructure and Industrial Development, Government of Uttar Pradesh
<http://udyogbandhu.com/topics.aspx?mid=State%20Government%20Support>)

1.2.3 Status of Credit Flow to MSMEs in Uttar Pradesh

1.2.3.1 The banking network in the State⁹

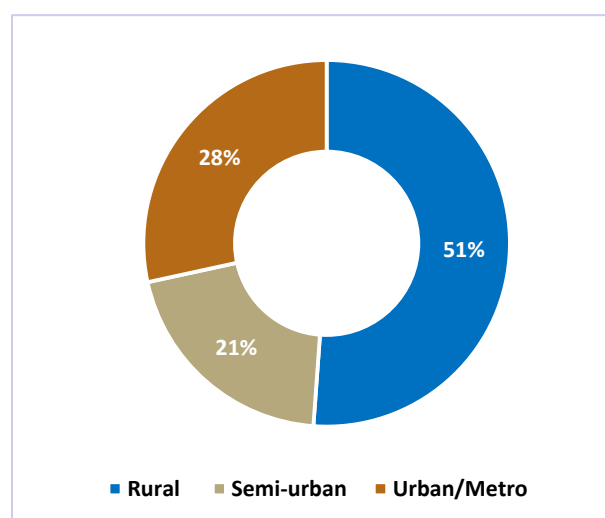
The State of Uttar Pradesh had a total of 18,375 bank branches as on December 31, 2018, 51% of which were in rural areas, 21% in semi urban areas and 28% in urban and metro areas. In addition to these brick and mortar branches, there were 29,117 Business Correspondents (BCs) and 17,570 ATMs as on December 31, 2018. The distribution of branch network in the State as on December 31, 2018 is given in Charts 4 and 5.

Chart 4 : Banking network in Uttar Pradesh



(Source: SLBC, Uttar Pradesh)

Chart 5 : Distribution of bank branches

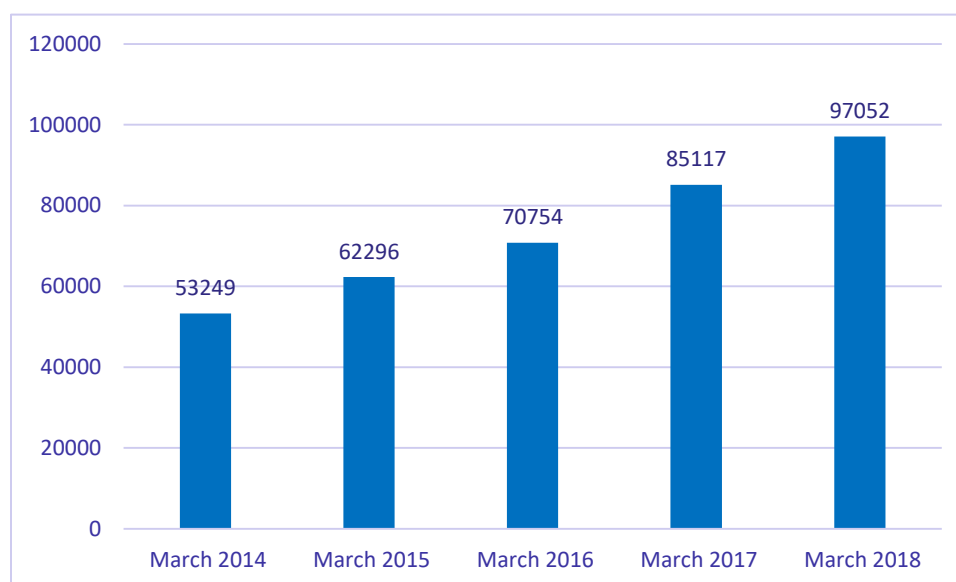


(Source: SLBC, Uttar Pradesh)

As per SLBC data, the total outstanding MSME advances in the State was ₹ 1,11,138 crore as on December 2018. The trend of outstanding advances during the last five years (as on March) in the State is given in Chart 6. It may be observed that the outstanding advances to MSME increased by 17% during 2014-15, 14% during 2015-16, 20% during 2016-17 and 14% during 2017-18. There has been an increase of 15% during April to December 2018.

⁹ Source : SLBC, Uttar Pradesh

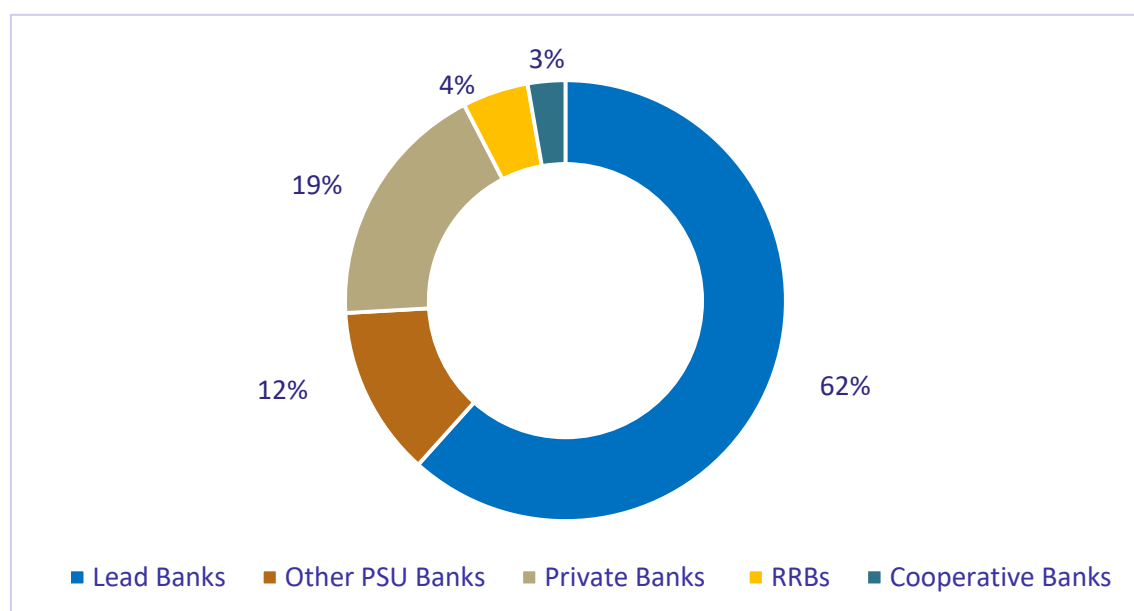
Chart 6 : Outstanding MSME Advances in Uttar Pradesh (₹ crore)



(Source: SLBC, Uttar Pradesh)

There are nine lead banks in Uttar Pradesh which contribute 62% of outstanding bank credit to MSMEs, 12 public sector banks have a share of 12%, private banks 19%, RRBs 4% and co-operative banks 3%. The bank group-wise lending to MSMEs is given in Chart 7.

Chart 7: Bank category-wise outstanding MSME advances as on December 2018



1.3 Objectives of the Study

Against the above backdrop, the present study was undertaken to study the following aspects:

- Challenges faced by MSMEs in sourcing of finance during different stages of their life cycle;
- Constraints faced by the banks in lending to MSMEs;
- Availability of alternative methods of financing;
- Benefits of cluster approach for MSMEs and bankers;
- Recent initiatives of Government and RBI for MSME sector – Level of awareness and availing of benefits by MSMEs; and
- Benefits of GST registration in channeling credit flow to MSMEs.

1.4 Sample Selection Criteria

Uttar Pradesh occupies an important place in the MSME map of the country, as it ranks first in the country in key parameters, like total number of units and number of persons employed. There are 39 clusters identified by UNIDO in 18 districts of Uttar Pradesh. The lock and building hardware cluster at Aligarh is one of the clusters identified by UNIDO. Hence this cluster at Aligarh, Uttar Pradesh was selected for the study. The study was conducted in the industrial clusters of the district covering 42 entrepreneurs running units of different size. The study covered 17 bank branches of 15 banks including one Regional Rural Bank. The bank branches selected were those which were lending to the cluster as per the information provided by the controlling offices of the banks concerned.

1.5 Methodology of the Study

The methodology adopted for the study included review of existing data, interaction with the entrepreneurs and data collection from bank branches with the help of structured questionnaires. The questionnaires were designed to collect data required for understanding the perspectives of both the lenders and the entrepreneurs in the cluster and analysing the issues and challenges faced by MSMEs. The sample covered a diverse profile of entrepreneurs in terms of their size. The questionnaire for bankers was used to collect data on various aspects of MSME lending, including implementation of various schemes and initiatives. The data and the feedback received through questionnaire and

information received from Directorate of Industries have been analysed and the findings are presented in this report. Conclusions and suggestions have been made based on the analysis presented in this report.

1.6 Limitations of the study

The limitations of the study include the following:

- i. The study was of exploratory nature and duration of the study was confined to five days.
- ii. The sample size of the entrepreneurs was small. However, attempt had been made to make it broad-based by including entrepreneurs with different business sizes.
- iii. The study was limited to the contents of the questionnaires, and the responses to these questionnaires by the entrepreneurs and bankers. These were not verified with reference to books of accounts, official records etc.
- iv. The bank branches did not have disaggregated data pertaining to lending to the lock and hardware units in the MSME cluster. The bank branches selected were those which were lending to the cluster as per the information provided by the controlling offices of the banks concerned.

Chapter II

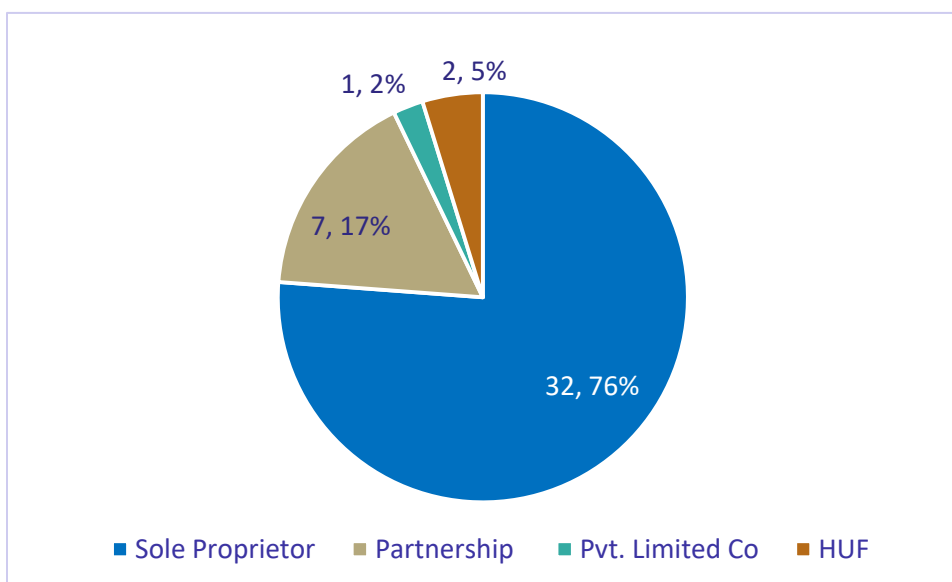
2.1 Profile of the entrepreneurs

Lock and building hardware cluster in Aligarh is one of the UNIDO identified clusters. The lock and building hardware units are located mainly in the Industrial Estate, Civil Lines, and Talanagari area of Aligarh. The State Government has provided land/shed on lease through District Industries Centre and Uttar Pradesh Industrial Development Corporation (UPSIDC). The building hardware included door fittings, handles, brackets, and curtain fitting hardware, cabinet hardware etc. made of brass, steel and alloys.

During the study, 42 entrepreneurs were interviewed and their responses were recorded in a structured questionnaire. Out of 42 respondents, 39 were male entrepreneurs. Majority of the respondents (71%) were graduates and others were either SSC or HSC pass.

The ownership of most of the respondents (76%) covered under the study was sole proprietorship followed by partnership (17%) and HUF (5%). Only one out of 42 respondents was registered as a private limited company.

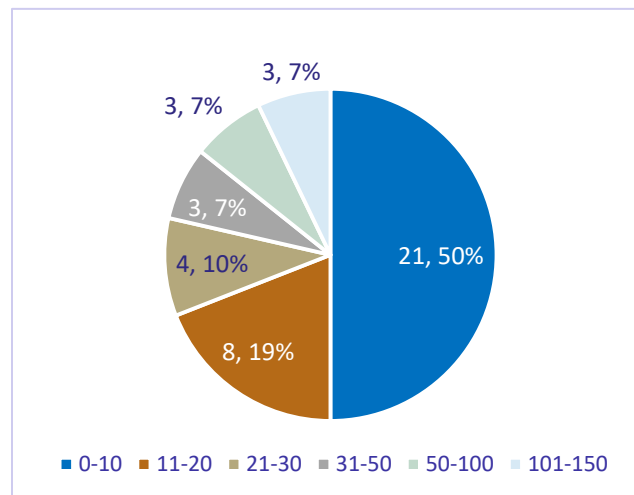
Chart 8 : Ownership pattern of MSMEs in the cluster



2.2 Business profile of the enterprises

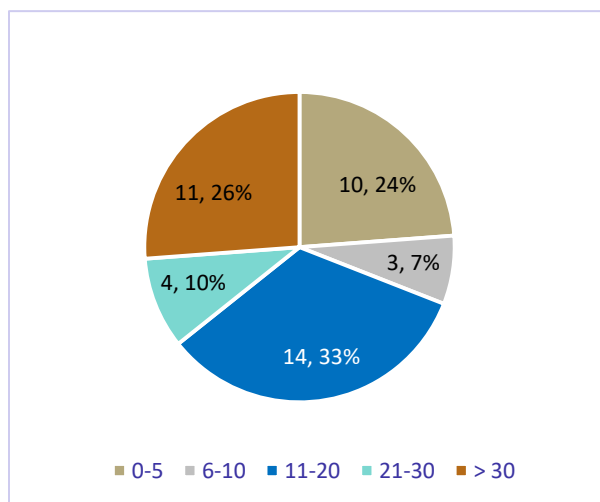
The number of skilled, semi-skilled and unskilled labourers engaged by these units were highly divergent. It was observed that 21 (50%) enterprises had 1 to 10 employees, 8 (19%) had in the range of 11 to 20, 4 (10%) in the range of 21 to 30 and 3 (7%) each in the range of 31 to 50, 51 to 100 and 101 to 150 labourers.

Chart 9 : No of Employees



Thirty (71%) respondents interviewed were first generation entrepreneurs and remaining 12 (29%) had inherited the business. 10 (24%) enterprises were less than five years old, three (7%) were in the range of six to ten years, 14 (33%) were in the range of 11 to 20 years, 11 (26%) were in the range of 21 to 30 years and 4 (10%) were more than 30 years old.

Chart 10 : No of years in operation



As regards classification of these enterprises, 29 (69%) were micro enterprises, 10 (24%) small and 3 (7%) medium enterprises. All the 42 enterprises had registered for GST and 34 (81%) had Udyog Aadhaar Memorandum (UAM) registration. The remaining enterprises had not registered for UAM because of lack of awareness.

The category-wise break-up of unite is given in Chart 11.

Chart 11 : Classification as MSME

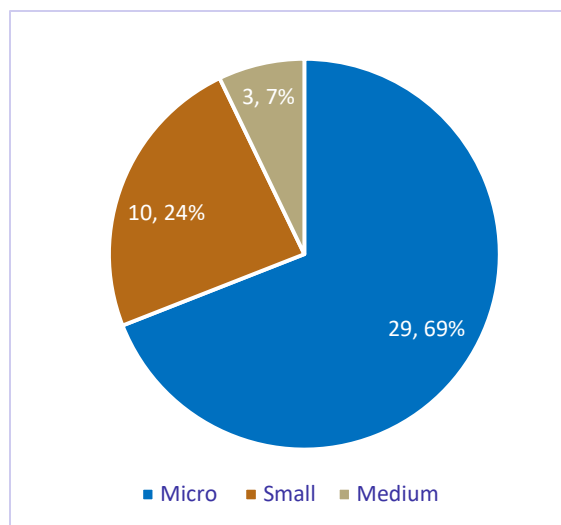
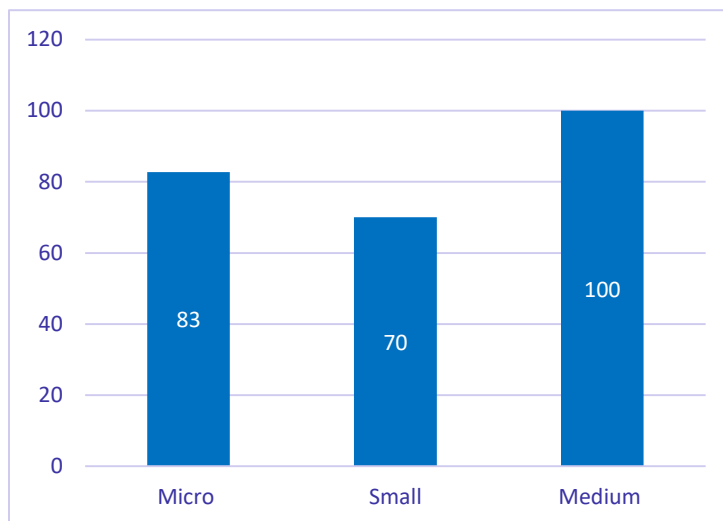


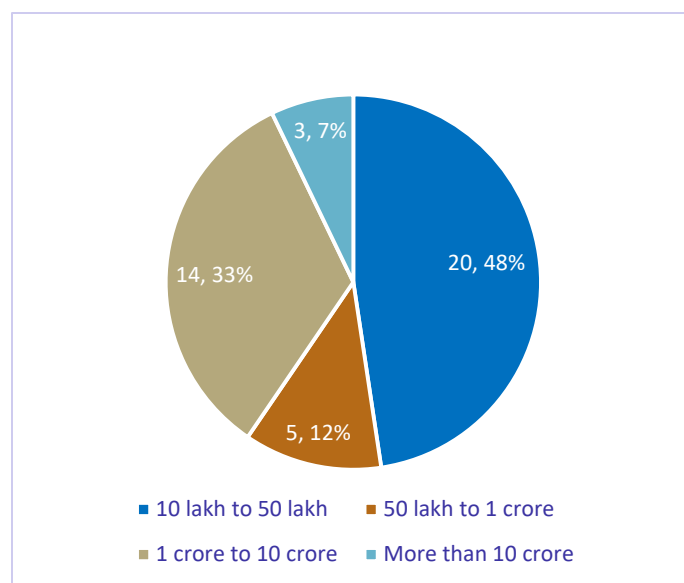
Chart 12 : UAM Registration (%)



2.3 Sales and marketing of products

The total reported annual turnover of the sample was around ₹ 175 crore. However, the individual turnover ranged between ₹ 10 lakh and ₹ 60 crore. For the sake of easy understanding, the turnovers are classified into 4 groups. Three enterprises reported annual turnover of more than ₹ 10 crore, 14 were between ₹1 crore to ₹10 crore, 5 reported the annual turnover between ₹50 lakh and ₹ 1 crore and the remaining 20 reported between ₹10 lakh and ₹50 lakh.

Chart 13 : Annual Turnover (₹)

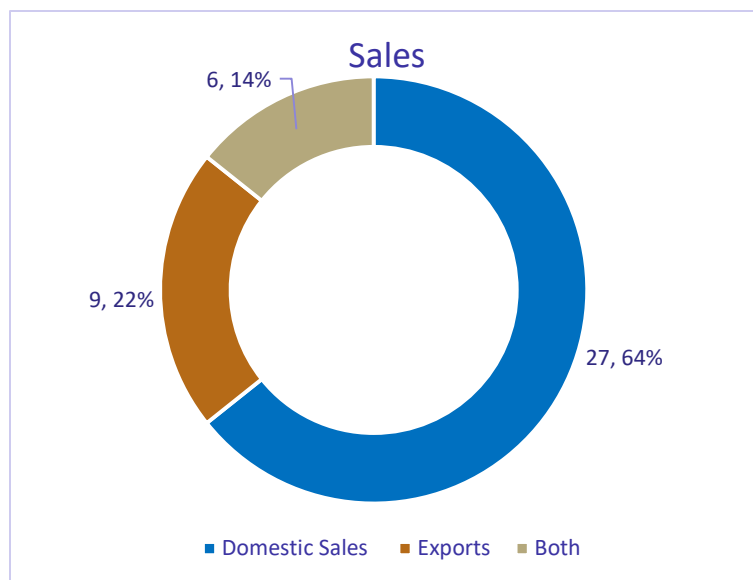


It may be observed that the sample represents a heterogeneous mix in terms of ownership, size, turnover and personal profile of the entrepreneurs.

Out of the 42 entrepreneurs, 41 were manufacturing lock and building hardware and one was engaged in iron sheet cutting and manufacturing of related articles. All these units were procuring raw materials like zinc, aluminum, stainless steel etc. from the local market.

Out of the 42 enterprises, nine were 100% exclusively export oriented units, 27 were selling in only domestic market and six were having both domestic as well as export sales. United Kingdom, Europe and countries in the middle-East are the major export markets. Two of the enterprises doing exports used their own savings and purchased on credit for running the enterprise, and they did not avail any finance from banks.

Chart 14 : Sales and Marketing



2.4 Financing of enterprises

MSMEs need capital for various purposes at different stages of their operations such as procurement of fixed assets at the commencement of operations as well as for enhancement of the capacity utilization and for managing the working capital requirements.

2.4.1 Long-term sources of finance: Financing of fixed assets

The setting up of an enterprise involves various expenses towards creation of fixed assets including, land, building, plant and machinery. The entrepreneurs arrange funds for long-term financing requirement from sources like, own savings, loans from family and friends, term loan from bank, subsidy from the government and loan from moneylender.

The units covered under the study met their long-term financing requirement from more than one source. The details are given in Table 4.

Table 4 : Sources of finance for long-term requirements of MSMEs

Sr.No.	Source of funds	No. of respondents	Percentage
1.	Own savings only	8	19
2.	Own savings and loan from banks	9	21
3.	Own savings and loan from family/friends	10	24
4.	Own savings, loan from banks and loan from family/friends	2	5
5.	Own savings, loan from banks, loan from family/friends and subsidy received from Government	1	2
6.	Own savings and subsidy received from government	1	7
7.	Own savings, loan from banks and subsidy received from government	1	2
8.	Own savings, loan from family/friends and subsidy received from government	1	2
9.	Own savings, loan from banks, loan from family and friends, subsidy received from Government, loan from money lender	1	2
10.	Loan from bank only	1	2
11.	Loan from bank and subsidy received from Government	1	2
12.	Loan from bank and loan from family and friends	3	7
13.	Loan from bank, loan from family/friends and loan from moneylender	1	2
14.	Loan from family/friends only	2	5

Observations:

- i. It was observed that own savings and loan from family/friends was the most preferred way to finance the long-term financing requirement. Ten respondents (24%) reported to have used this combination.
- ii. The second preferred way to finance the long-term financing requirement was own savings and loan from banks. Nine respondents (21%) reported to have used this combination.
- iii. While eight respondents (19%) reported to have used their own savings only to fund the long-term financing requirement.
- iv. Only one of the respondents availed bank loan for his entire requirement.

The above trend suggests a significant inclination on part of the entrepreneurs to arrange finance from non-institutional sources, either own savings or loan from family/friends. Further discussion with the entrepreneurs revealed that the inclination was attributable to the following factors:

- i. Own savings was readily available. As an investment option, redeploying the savings in their own enterprise was preferred over other investment options.
- ii. In most cases, friends and relatives were willing to provide finance. These were unsecured loans and primarily emanated from the element of mutual trust among them. Besides, these loans were quickly available without any documentation and delays.
- iii. The respondents also indicated that they were generally aware of two requirements for the bank finance, collateral and margin.
 - a. Most of the bank finance in the cluster was against collateral security. However, the availability of collateral was limited. Some of the respondents did not have collateral and some were not willing to offer the same to the bank.
 - b. The banks required margin, generally in the range of 20% to 30%, which had to either come from own savings or loan from other sources.

-
- iv. The two respondents who had taken loan from money lenders in their initial stages availed bank finance subsequently. Both were micro enterprises, one of them functioned as a sole proprietary firm and the other was a private limited company.

One of the respondents informed that he had the skills, knowledge and grit to set up the enterprise, but all these were not enough to get him the bank loan. He had to approach the money lender as the banks refused to provide him loan. He was not having the required documents. He availed finance from money lender at an interest rate of 3% per month. He had to continue with the loan for almost five years. Finally, he got a limit of ₹ 5 lakh under PMMY (MUDRA) scheme which helped him to pay off the loan from moneylender. The unit owned by him functioned well.

The other respondent mentioned that the bank was not agreeable to sanction the quantum of money applied. He continued to approach the banks for loan. In the interim, he had to take loan from money lender for a period of around six months at a rate of 1.5% per month. Once his loan was sanctioned by the bank, he could repay the loan to moneylender.

2.4.2 Short-term sources of finance: Financing of working capital

Adequate working capital is no less important than term loan as it ensures continuity in production cycle. The entrepreneurs arranged funds to meet working capital requirements from multiple sources, viz., cash generation from the enterprise, own savings, purchase on credit, loan from family/friends and working capital advance from banks. The entrepreneurs' utilization of these options of managing working capital was also analyzed as part of the study.

The units covered under the study met their working capital requirement from more than one source. The details are given in Table 5.

Table 5 : Sources of funds for financing working capital requirement

Sl. No.	Financing working capital requirement	No. of respondents	Percentage
Availed from			
1.	Only banks	2	5
2.	Banks and own savings	3	7
3.	Banks and purchase on credit	0	0
4.	Banks, own savings and purchase on credit	27	64
5.	Banks, own savings and loan from family/friends	0	0
6.	Banks and loan from family/friends	0	0
7.	Purchase on credit only	2	5
8.	Own savings only	0	0
9.	Own savings and purchase on credit	3	7
10.	Own savings and loan from family/friends	3	7
11.	Own savings, loan from family/friends and purchase on credit	2	5

Observations:

- i. Twenty seven entrepreneurs (64%) preferred financing their working capital requirement through a combination of working capital finance from banks, own savings and purchases on credit.
- ii. The respondents indicated the following reasons for their preference for purchase on credit as a means to meet their working capital needs :

-
- a. The entrepreneurs who were well settled in the business for a reasonable time and had earned good reputation in the market could avail credit facility from their suppliers on easy terms without any additional cost.
 - b. The entrepreneurs who were new to the business were also able to purchase the raw material on credit. However, they were required to bear a cost (1.5 to 2 % per month) in the form of higher prices. Though this was a costlier option than availing CC/OD from banks, majority of them opined that purchasing raw material on credit was more convenient, besides, obviating the need for cumbersome documentation as in case of banks.
 - c. The respondents indicated that availing higher account payable period from suppliers even at a cost was preferred as it was less cumbersome. They mentioned that the arrangement was free of any procedural delays and was hassle-free.
 - d. Besides, the tenure of credit being flexible, the entrepreneurs found it easier to pay and save on the cost of finance.
- iii. Ten respondents (24%) did not avail any bank finance to meet their working capital requirements. Bankers in their feedback given in section 3.7 had mentioned about the usefulness of the GST in credit appraisal of MSME, particularly as it provides reliable data on the enterprises' turnover. Incidentally, all these entrepreneurs had GST registration and they were also availing banking facility in some form. Therefore, they could be potential customer for working capital finance by banks.
 - iv. Three respondents (7%) financed their working capital requirements through a combination of own savings and purchase on credit.
 - v. Two respondents (5%) availed only bank finance to meet their working capital requirement.
 - vi. A comparison of financing pattern of long-term and short-term requirement of funds revealed that respondents availed bank finance more for their working capital requirement than for their long-term requirement suggesting that the entrepreneurs availed less bank finance during initial phase of the MSMEs life cycle.

2.4.3 Availability of alternative methods of financing

The respondents reported that they did not avail finance from any alternative sources like P2P lending platforms, e-commerce seller finance or NBFCs. They were not aware of the digital lending by NBFCs, FinTechs etc. They did not also approach any NBFC for their financing needs.

2.4.4 Managing working capital cycle: accounts receivable vs accounts payable

2.4.4.1 Purchase of raw material

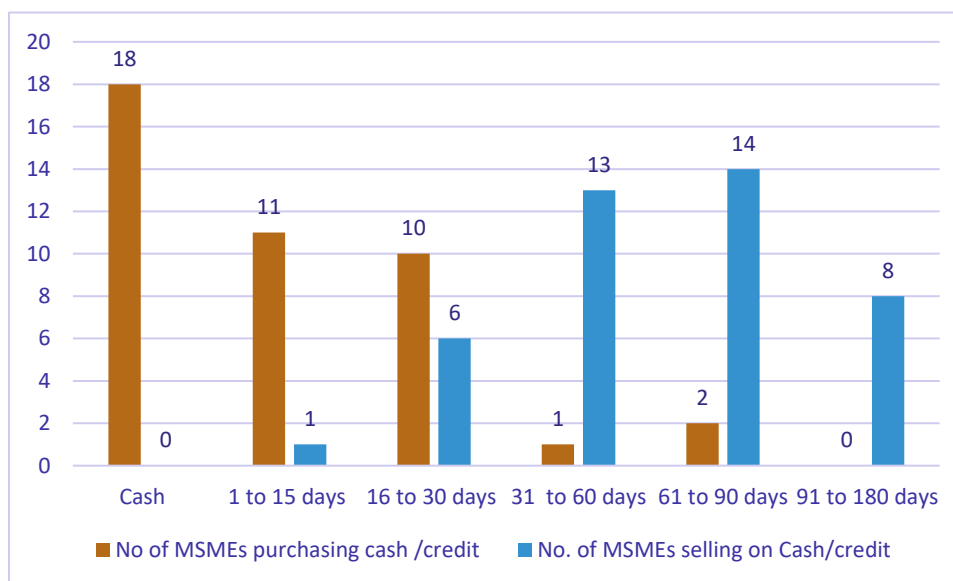
Eighteen respondents (43%) informed that they purchased in cash. Eleven respondents (26%) purchased on credit up to 15 days, ten (24%) on credit of 16 days to 30 days, one (2%) on credit of 31 days to 60 days, and two (5%) on credit of 61 days to 90 days.

2.4.4.2 Sale of finished goods

One respondent (2%) sold on credit for a period up to 15 days, 6 (14%) sold on credit for a period between 16 days to 30 days, 13 (31%) on a credit of 31 days to 60 days, and 14 (33%) on credit for a period between 61 days to 90 days and eight (19%) on credit for a period between 91 days to 180 days.

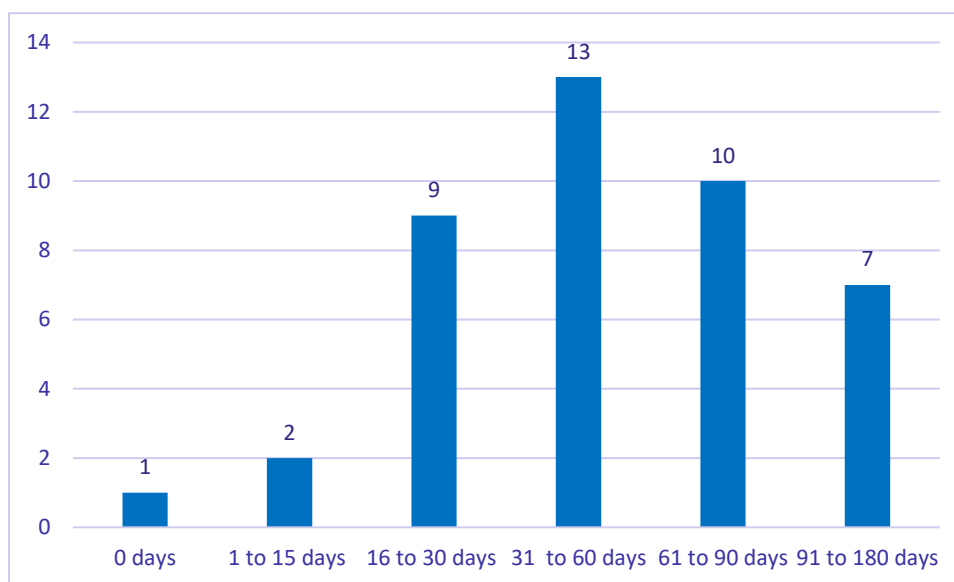
The above pattern of purchase on credit and sales on credit is shown in the Chart 17.

Chart 17 : No. of MSMEs purchasing and selling on credit



It was observed while comparing the accounts receivable period and accounts payable period of individual entrepreneurs that the gap between the two was between 16 days and 30 days in case of nine respondents (21%), between 31 days and 60 days in case of 13 respondents (31%), between 61 days and 90 days in case of 10 respondents (24%), and between 91 days and 180 days in case of seven respondents (17%). In the remaining cases, it was less than 15 days. The detailed break-up is given in Chart 18 and 19.

Chart 18 : Gap in Accounts Receivable Period and Accounts Payable Period (No of Respondents)



It may be observed that the accounts receivable period was generally higher than the accounts payable period, having impact on cash flow of the enterprise. As institutional finance was not easily available to meet this gap, they moved towards more of purchases on credit. The entrepreneurs' preference towards purchase on credit and the reasons thereof have been discussed in section 2.4.2.

2.5 Level of awareness about various schemes pertaining to MSMEs

The financial literacy and capacity building of MSME entrepreneurs is very important as it would help them to benefit from the policy interventions and schemes of Government and RBI. During the study, the awareness level of entrepreneurs' vis-à-vis various schemes was assessed with reference to some of the key initiatives. Apart from assessing awareness about these schemes, it was also enquired whether the

respondents were availing of the benefits under these schemes. The responses are compiled in Table 6.

Table 6 : Awareness about various schemes pertaining to MSMEs

Sl. No.	Scheme/Initiative	Respondents aware of the scheme		Respondents availing of the scheme	
		Number	%	Number	%
1.	CGTMSE – Credit Guarantee Scheme	7	17	0	0
2.	Certified Credit Counsellors	0	0	0	0
3.	Framework on revival, rehabilitation and restructuring of MSMEs	2	5	0	0
4.	MUDRA – Pradhan Mantri Mudra Yojna	40	95	1	2
5.	Prime Minister Employment Generation Programme (PMEGP)	28	67	3	7
6.	MSME SAMADHAN	1	2	0	0
7.	MSME SAMBANDH	3	7	0	0
8.	State Government scheme – One District One Product (ODOP)	23	55	0	0
9.	Quality Certification (ZED/ISO)	9	21	3	7

Observations:

(i) CGTMSE- Credit Guarantee Scheme

Eighty three per cent responded that they were not aware of CGTMSE, only 17 per cent knew about the scheme. However, none of them took advantage of the scheme.

The respondents who were aware but had not availed of CGTMSE indicated that annual guarantee fee was an additional cost of finance. They also indicated that bankers also preferred collateral security.

(ii) Certified Credit Counsellors (CCCs)

None of the respondents to the survey was aware about the Certified Credit Counsellors.

The respondents indicated that they needed support in various matters relating to finance and coordination with banks and District Industries Centres. However, in the absence of any such formal arrangement, they generally took advice and guidance from the office bearers of their associations or from other senior entrepreneurs.

(iii) Framework for Revival, Rehabilitation and Restructuring of MSMEs

While only 5 per cent of the respondents were aware about the framework, none had availed of any benefit under the same.

The respondents reported that there was no occasion to take recourse to the provisions of the framework.

(iv) Pradhan Mantri Mudra Yojana (PMMY)

Ninety three per cent respondents were aware of the scheme, however, only 2 per cent (i.e. only one respondent) had availed the benefits under the scheme.

The respondents reported that the awareness was because of the scheme being implemented in mission mode and its popularity among general public. However, they did not take loan from banks under the scheme.

(v) Pradhan Mantri Employment Generation Programme (PMEGP)

Sixty seven per cent respondents were aware of the scheme and seven per cent had availed of the benefits under the scheme.

When enquired about reasons for not availing of loan under the scheme, some of the entrepreneurs reported that the constraints faced in a bank loan like collateral security remains the same in case of the scheme. Therefore, other than the subsidy available, there was no change in the appraisal process of loan under the scheme.

(vi) MSME-SAMADHAN (Delayed Payment Monitoring System)

Ninety eight per cent of the respondents were not aware of the arrangement. They also expressed ignorance about the provisions of MSMED Act, 2006 relating to payment of interest on account of delay in payment to MSE by the buyer.

(vii) MSME-SAMBANDH (Public Procurement Policy Monitoring Portal)

Ninety three per cent of the respondents were not aware of the scheme. None of the remaining 7% had availed of the benefits under the scheme.

(viii) Quality Certification

Twenty one per cent of the respondents were aware of the procedure for quality certification. Seven per cent of them had done quality certification of their enterprise by way of ISO certification. One of the respondents reported to have applied for ZED certification.

(ix) State/district specific schemes

The State Government had taken various initiatives for the MSME Sector, including schemes for export promotion and related subsidies, single desk approval systems, and the One District One Product (ODOP) Scheme etc. The scheme details are given in Annex I.

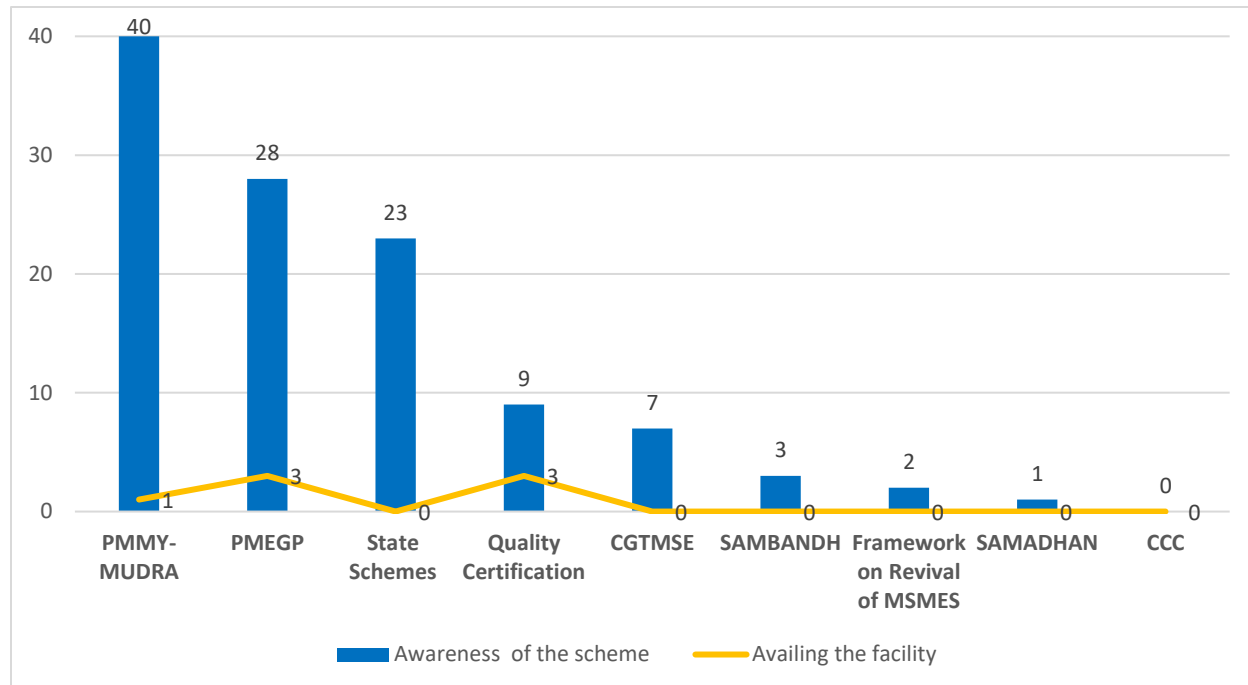
Fifty seven per cent respondents were aware of these scheme because of their interface with District Industries Centre. No respondent reported to have availed of financial benefits from these schemes.

(iv) Unique Identifier for MSMEs (Udyog Aadhaar Memorandum)

Thirty four (81%) respondents had registered for Udyog Aadhaar Memorandum (UAM). The remaining were not aware of Udyog Aadhaar Memorandum. The registration percentage in the sample is higher than the state average of around eight per cent.

The overall response to various schemes in terms of awareness and availing the scheme is shown in the Chart 19.

Chart 19 : Level of awareness about various schemes pertaining to MSMEs



- (i) In respect of subsidy or benefit oriented schemes, the awareness levels were high, whereas in case of other interventions like CCC, framework on revival, rehabilitation and restructuring of MSMEs, procurement portal (MSME-SAMBANDH), delayed payment and grievance redressal portal (MSME-SAMADHAN), the awareness was low.
- (ii) It was also observed that while respondents were aware about certain schemes like PMMY, PMEGP and other state government subsidy-oriented schemes, they had not availed of the benefits of these schemes in proportionate numbers. Only 12 per cent respondents reported that they had availed of subsidy or any other benefit under government sponsored schemes.

2.6 Benefits of setting up the enterprise in a cluster

The views expressed by the entrepreneurs regarding setting up enterprise in the cluster are as follows:

- The government provided land/shed and necessary infrastructure like power, roads, drainage which facilitated setting up of enterprise and its functioning in the cluster.

-
- The MSMEs being in the cluster found it easier to get various approvals/concessions/subsidies as relevant records of the setting up of the unit and its functioning were available with the government authorities.
 - They also mentioned that availability of skilled labour and raw material on credit were some of other major benefits of operating from the cluster.

2.7 General feedback of the entrepreneurs

During the study, some of the entrepreneurs gave their feedback on the general condition of the micro and small entrepreneurs in the area and the difficulties faced by them. It was reported that lack of technical skills was one of the major constraints in expanding/upgrading the business. They also highlighted the need for awareness on various schemes to benefit from various policies of the Government/RBI. It was also reported that the implementation of GST had brought down the accounts receivable period. The buyers settled the bills early, which in turn enabled the entrepreneurs pay their dues to their suppliers of raw materials. This had helped in efficient working capital management.

Chapter III

3.1 Profile of the bank branches covered in the study

The study covered 17 branches of 15 commercial banks including one Regional Rural Bank. These bank branches were major lenders in the Aligarh lock and building hardware cluster. Since the loans to enterprises in the cluster were not put under any separate code in the banks' core banking solution, the bank branches submitted the data in respect of overall MSME lending by them.

Among the bank branches covered in the study, two branches were classified as specialized MSME branch. It was observed that four branches of other banks had more than 60% of their advances to MSMEs. In terms of RBI instructions contained in paragraph 5.1 of Master Direction on Lending to Micro, Small & Medium Enterprises (MSME) Sector, banks are permitted to categorise their general banking branches having 60% or more of their advances to MSME sector as specialized MSME branches. It was also observed that 12 of these branches had extended MSME advances in the range of 31 to 60 % of their total advances. Only 2 branches had advances less than 30 % of their total advances to MSMEs. Thus, of the sample of 17 branches, 15 had significant lending to the MSME sector.

3.2 Bankers' response to the questionnaire - Survey results

The data was collected from the 17 bank branches covered in the study. The data collected from these branches has been analysed and the observations have been presented in the following paragraphs.

3.2.1 Credit Proposal Tracking

In terms of RBI instructions contained in paragraph 4.1 of Master Direction on Lending to Micro, Small & Medium Enterprises (MSME) Sector, banks have been advised to mandatorily acknowledge all loan applications submitted by their MSME borrowers. They have also been advised to ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt. They have also been advised to put in place a system of Central Registration of loan applications, online submission of loan applications and a system of e-tracking of MSE loan applications.

Based on the data reported by the banks, it was observed that nine of the 14 commercial banks confirmed having put in place the online tracking system. The data pertaining to applications received, loans sanctioned and loans disbursed during the last three years has been summarized in Table 7.

Table 7 : Credit Proposal Tracking–Consolidated data for 2015-16, 2016-17 and 2017-18

Category	Manufacturing (No. of applications)			Services (No. of applications)		
	Received	Sanctioned	Disbursed	Received	Sanctioned	Disbursed
Micro	994	813	806	2287	1778	1596
Small	312	227	227	482	381	366
Medium	22	18	18	58	54	54
Total	1328	1058	1051	2827	2213	2016

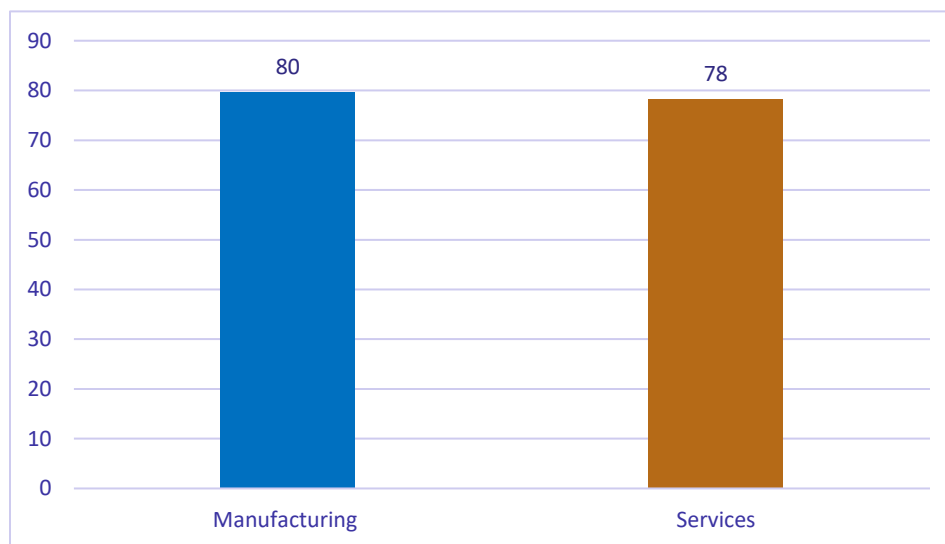
(Source : Data provided by banks covered in the study)

In manufacturing sector, the percentage of sanctioning was 82% for micro, 73% for small and 82% for medium. For services sector, these figures were 78%, 79% and 93% respectively. It emerged that majority of the loans were sanctioned for micro loans in absolute terms.

Overall sanction percentage in manufacturing was 80% whereas in case of services, it was 78% (Chart 21).

The figures reported in the study indicate that only 20% MSME borrowers who approached the banks could not get the loan.

Chart 21 : MSME Credit Proposal Tracking – Sanction Rate (%)



(Source : Data provided by banks covered in the study)

3.2.2 Collateral free loans

In terms of RBI instructions contained in paragraph 4.2 of Master Direction on Lending to Micro, Small & Medium Enterprises (MSME) Sector, banks have been advised to mandatorily not to accept collateral security in the case of loans up to ₹ 10 lakh extended to units in the MSE sector. Banks are also advised to extend collateral-free loans up to ₹ 10 lakh to all units financed under the PMEGP administered by KVIC. Banks are advised to strongly encourage their branch level functionaries to avail of the Credit Guarantee Scheme cover, including making performance in this regard a criterion in the evaluation of their field staff.

The data on collateral-free loans obtained from 14 banks (excluding RRB) was compiled for the last three years, 2015-16, 2016-17 and 2017-18. The summary on sanctioning of collateral free loans is given in the Table 8.

Table 8: Collateral free loans to MSMEs – Gap in coverage

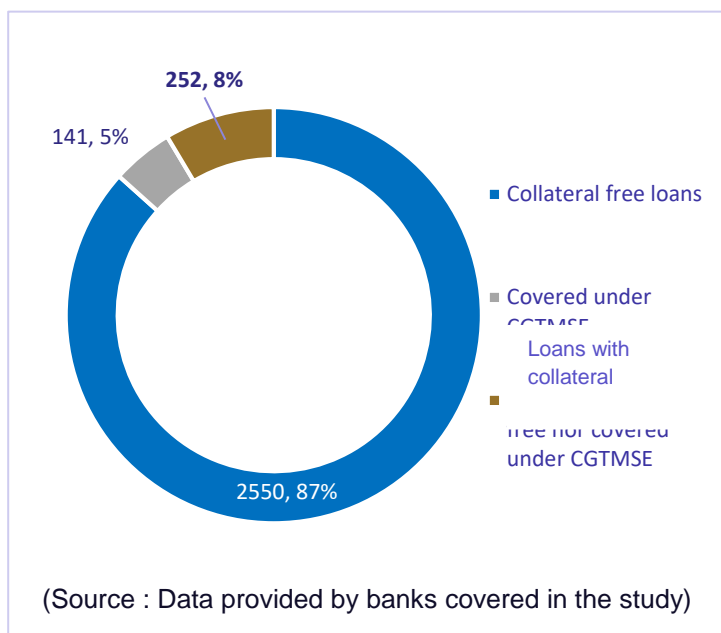
Year	loans ≤10 lakh	Collateral free loans	Gap	Out of which covered under CGTMSE	Loans with collateral security
(1)	(2)	(3)	(4)={(2)-(3)}	(5)	6= (4)-(5)
2015-16	993	836	157	62	95
2016-17	917	785	132	41	91
2017-18	1033	929	104	38	66
Total	2943	2550	393	141	252

(Source : Data provided by banks covered in the study)

Observations:

- Chart 22 indicates the gap in sanction of collateral-free loans vis-à-vis eligible cases. Of the sample of 2,943 loans of value ₹ 10 lakh or below reported during the study, 2,550 were sanctioned without collateral.
- Of the remaining 393 loans, 141 were covered under CGTMSE.
- Therefore, collateral was taken in case of 252 loans (8% of the sample) below ₹ 10 lakh.

Chart 22 : Collateral free loans : Gap in coverage



Overall, it may be observed that despite extant instructions mandating banks not to accept collateral security in the case of loans up to ₹ 10 lakh extended to units in the MSE sector, there were instances of accepting collateral in such loans. While it appears to be primarily an implementation issue, it also indicates towards a larger issue that is manifested in bankers' preference for collateral-based lending.

3.2.3 Turnaround time

A Code of Bank's Commitment to Micro and Small Enterprises has been formulated by the Banking Codes and Standards Board of India (BCSBI). The Code prescribes minimum standards of banking practices for banks while dealing with Micro and Small Enterprises (MSEs). The Code also mentions, *inter alia*, that the banks are expected to dispose of MSE loan application for a credit limit or enhancement in the existing credit limit up to ₹ 5 lakh within two weeks; and for credit limit above ₹ 5 lakh and up to ₹ 25 lakh within 3 weeks; and for credit limit above ₹ 25 lakh within 6 weeks from the date of receipt, provided the application is complete in all respects and is accompanied by documents as per 'check list' provided. However, the code also suggests that every effort should be taken to reduce further the time taken to process and dispose of MSE loan applications.

All the respondent bank branches confirmed that they were aware of the timelines given in the BCSBI code of Bank's Commitment to Micro and Small Enterprises and that they adhered to the timelines given in the BCSBI code. It may be mentioned here that most of the entrepreneurs, who participated in the study, in their feedback corroborated the bankers' response.

The time taken by the respondent bank branches in processing of loan applications for micro enterprises ranged between 1 to 2 weeks, for small, it ranged between 2 to 5 weeks and for medium enterprises it was up to 6 weeks.

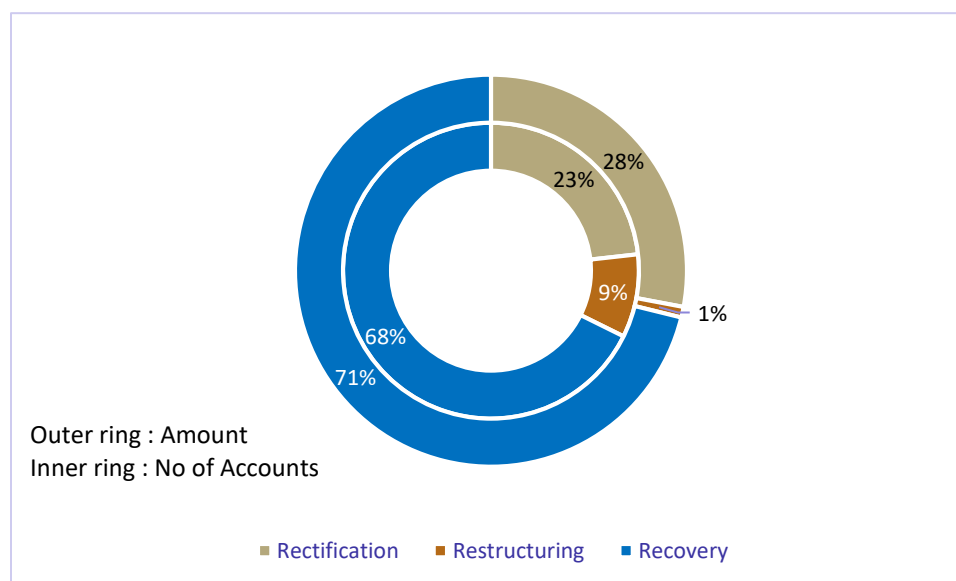
3.2.4 Implementation of Framework on Revival, Rehabilitation and Restructuring of MSMEs

The framework on revival, rehabilitation and restructuring of MSMEs, *inter-alia*, provides that all banks having exposure towards MSME sector shall constitute a committee at district level where they are present or at Division level or Regional Office level, depending upon the number of MSME units financed in the region. These committees will be Standing Committees and will resolve the reported stress of MSME accounts of the branches falling under their jurisdiction. The bank branches also have been given powers to resolve the reported stress of MSME accounts of loans up to ₹10 lakh. The Corrective

Action Plan (CAP) comprises of three measures viz., rectification, restructuring and recovery.

Out of the 14 banks covered in the study, only three branches submitted data regarding the CAP. The remaining banks either reported nil or not reported any data. Based on the data submitted by the three banks, the position of rectification, restructuring and recovery is given in Chart 24.

Chart 24 : Implementation of Framework on revival, rehabilitation and restructuring of MSMEs by banks



(Source : Data provided by banks covered in the study)

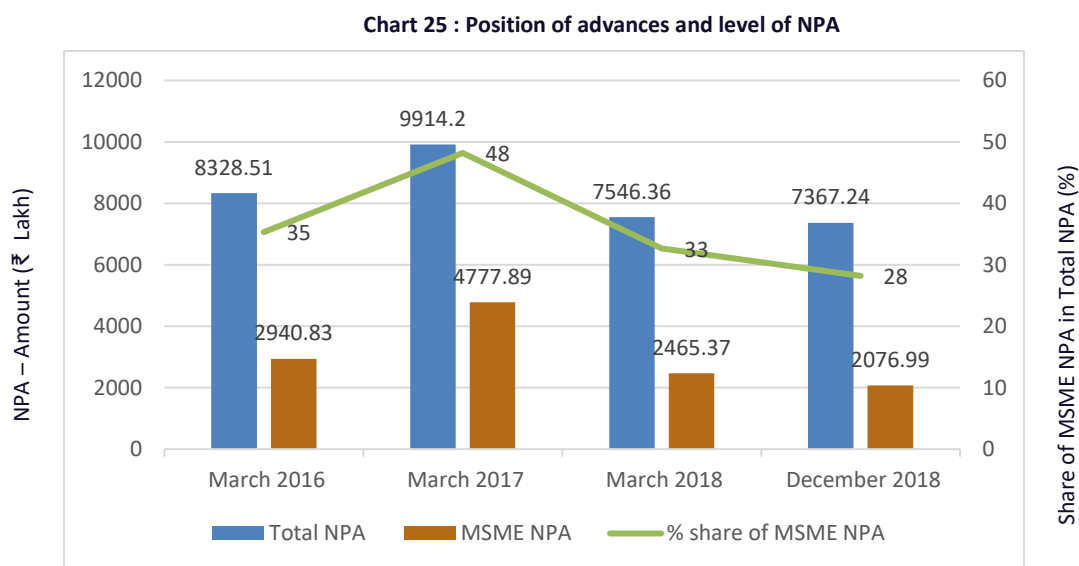
It may be observed that in terms of number of accounts, the framework was used in 68% accounts for recovery, 23% for restructuring and 9% for rectification. Whereas in terms of amount, it was 71% used for recovery, 1% for restructuring and 28% for rectification of stressed accounts. The framework had not been effectively utilized to reduce stress in the MSME sector.

3.2.5 Position of advances and level of NPA

As per the data reported by 15 bank branches of 13 banks covered in the study, as on December 31, 2018 the total MSME advances stood at ₹ 373.52 crore, of which ₹ 25.09 crore was reported as NPA, i.e. 6.71% of total MSME advances.

Eleven bank branches could furnish the data for three years ended March 2016, March 2017 and March 2018 and for the period ended December 2018. The NPA levels in

MSME advances had been compared with the overall NPA of these bank branches and the position is presented in Chart 25.



(Source : Data provided by banks covered in the study)

The level of NPA in MSME loan accounts had generally followed the pattern of overall NPA except during March 2017 when it increased from 35% of total NPA in March 2016 to 48% of the total NPA as on March 2017. While enquiring about the steep rise in March 2017, with the bankers, it was generally attributed to the process of demonetization. However, the NPA levels normalized for the periods ending March 2018 and December 2018. Since the study was conducted in the month of January 2019, the impact of revised guidelines on restructuring of MSME advances issued on January 01, 2019 could not be captured.

3.2.6 Loans disbursed under key government sponsored schemes for MSMEs

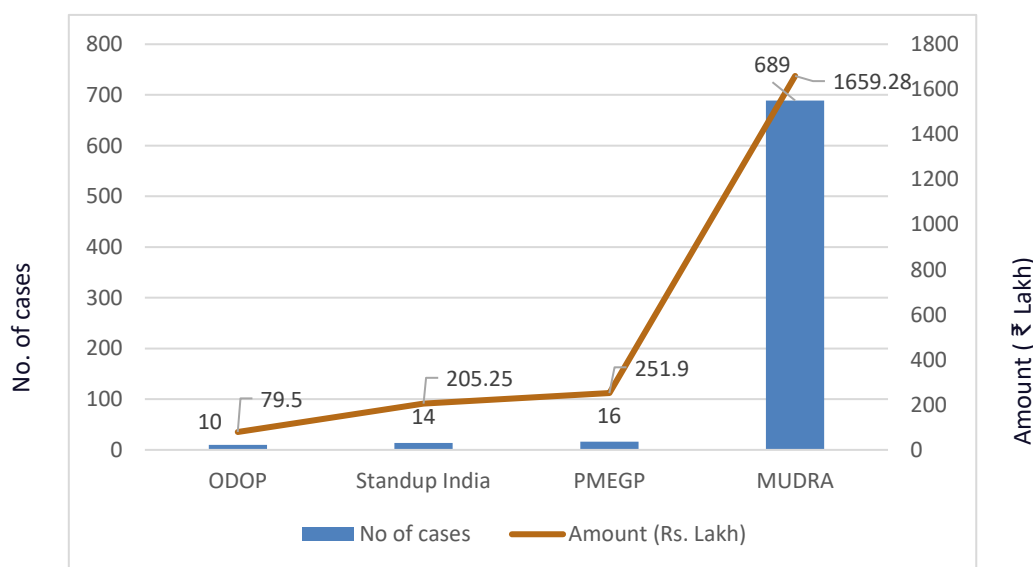
There are some important schemes of the Government of India and the state government to support MSMEs. The important schemes of Government of India include Pradhan Mantri Mudra Yojana (PMMY), Prime Minister Employment Guarantee Programme (PMEGP) and Stand-up India programme. The State Government has also taken various initiatives like One District One Product (ODOP) which are aimed at development of MSMEs on cluster model. ODOP is a new scheme of the State Government and is primarily focused at developing clusters that would be manufacturing one product identified for the district. The scheme is being implemented through District Industries

Centre. The nature and objective of the scheme is different from other schemes discussed in this section. A list of district-wise products is furnished in Annex II.

Observations:

As per the data reported by banks covered in the study (Chart 23), the maximum bank finance to MSME sector was extended under PMMY. In comparison to PMMY, lending under PMEGP, Stand-up India and state government schemes was significantly less. Extent of awareness about PMMY scheme, its design (mission mode) and effectiveness of implementation were reported to be the reasons for higher achievements under the scheme.

Chart 23 : MSME Advances under Important Govt. Schemes



3.2.7 Financing of entrepreneurs trained by RSETIs/Credit linkage of entrepreneurs (Source : Data provided by banks covered in the study)

The RSETI in the district is sponsored by Canara Bank, the lead bank. During interaction, the RSETI officials informed that they do not train persons in the skills required for lock and hardware making. They informed that the labourers working in units manufacturing lock and building hardware are mostly trained on the job in the factories. Incidentally, the RSETI had also been designated as Credit Counselling Institution (CCI). However, there was no awareness about the role and responsibility of CCI among the officials of RSETI.

Regarding credit linkage of the trainees trained by RSETI, only two bank branches reported having credit linked 3 and 23 trainees of RSETI respectively during the last three years. The remaining bank branches did not report any credit linkage of trainees of RSETIs.

As on January 24, 2019, RSETI had trained 621 persons of which 449 persons (72%) were self-employed. Fifty-one trainees (8.2%) were credit linked. This implied that 398 persons (64%) arranged finances from either their own savings or borrowed money from non-institutional sources.

Observations:

The responses from bankers and the data reported by RSETI indicated that the credit linkage of trainees from RSETI was low (8%). Besides, the RSETI did not include training programmes in the area of lock and hardware manufacturing which was area identified under the ODOP scheme of the State Government.

The RSETI could play the role of CCI more effectively to provide direct interface with bankers before completion of each training programme. This could help in better assessment of credit needs and credit linkage of the trainees.

Since RSETI had also been identified as Credit Counselling Institution, building the required capacity among the Directors/Officials of RSETI may be useful.

3.2.8 Other credit facilities to MSMEs

3.3.8.1 With a view to provide timely financial support to micro and small enterprises facing financial difficulties during their 'Life Cycle', in terms of RBI instructions contained in paragraph 4.6 of Master Direction on Lending to Micro, Small & Medium Enterprises (MSME) Sector, banks are advised to review and tune their lending policies to the MSE sector by inter-alia incorporating therein the following provisions:

(i) Extending standby credit facility in case of term loans

Two bank branches indicated in the data reported by them that they had provided credit facility to 2 and 15 MSME borrowers respectively, remaining branches did not provide any data suggesting utilization of this provision.

(ii) Additional working capital to meet emergent needs of MSE units

Three bank branches mentioned that they extended the facility to the MSME borrowers. Remaining 14 branches did not provide any data suggesting utilization of this provision.

Observations:

These provisions were aimed at facilitating timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances. However, the response from banks indicated that these provisions were not put to effective use.

3.2.9 Composite loan

In terms of RBI instructions contained in paragraph 4.6 of Master Direction on Lending to Micro, Small & Medium Enterprises (MSME) Sector, there is a provision of a composite loan limit of ₹ 1 crore which can be sanctioned by banks to enable the MSE entrepreneurs to avail of their working capital and term loan requirements through single window approach.

Bank branches of five banks reported that they provided composite loans to the MSME borrowers. However, the remaining branches reported that they had not specifically sanctioned composite loans.

Observations:

The response is indicative of an implementation issue with regard to the referred guidelines.

3.2.10 Conduct of Financial Literacy programmes for entrepreneurs

During the study, 10 bank branches reported having conducted 59 financial literacy programmes during the last three years 2015-16 (16), 2016-17 (24) and 2017-18 (19) at an average of less than 2 financial literacy programme per year per branch. The remaining seven bank branches did not report having conducted any financial literacy camps.

Observations:

A reference is invited to section 2.5 of the report which indicated gaps in financial literacy and awareness of the entrepreneurs. The initiatives taken by bank branches were not adequate to meet these gaps and engage in the right kind of capacity building.

3.3 Constraints faced by banks while lending to MSMEs

The bankers expressed the following major constraints in financing of MSMEs :

- i. The challenges faced by MSMEs in accessing finance were due to non-availability of documents relating to income, business transactions and accounts. As a result, loans were provided to the MSMEs mainly through appraisal of their collaterals rather than assessing their true business potentials.
- ii. Incomplete documents led to deficient credit assessment. Besides, getting the required documents also consumed resources and time. The assessment had to be done fast to avoid losing the deal/lead to the competitor.
- iii. One of the respondents mentioned that there was no consolidated database exclusively for MSME enterprises wherein he could access the credit profile of the entrepreneur.

3.4 Benefits of lending in a cluster

Regarding benefits of lending to MSMEs in a cluster, the bankers mentioned that cluster-based approach provided a full-service approach to cater to the diverse needs of the MSE sector. They informed that the approach was beneficial in view of the following aspects:

- i. Lending in a cluster was simpler as banks get to interact and deal with borrowers in well-defined and recognized groups
- ii. In a cluster, most of the units had higher formalization levels in terms of GST registration, record keeping etc., and therefore, availability of appropriate information aided them in credit appraisal.
- iii. The bankers also got an overall profile of the cluster which included general health of units in terms of production, marketing, support and concession from government as also the delinquency levels. Such input helped them profile the enterprise before extending bank finance/additional finance.

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- iv. The understanding of the business model of the enterprise helped in making realistic assessment about its cash flows and therefore, the repaying capacity of the entrepreneur. It was easier to know their suppliers and buyers and verify overall financials. The bankers felt that such understanding also helped in reducing TAT.
 - v. When the bank lent in a cluster, it was able to access multiple accounts in single visit. The monitoring became easier and it also saved the related costs. The banks were able to oversee many loan accounts in a single visit.
 - vi. Various benefits that accrued to the entrepreneurs in a cluster helped in better performance of the enterprise and thereby health of the loan account
 - vii. The bankers also found it easier to do recovery of loans in clusters on account of two main factors,
 - a. Firstly, higher level of formalization of MSMEs made possession of securitized asset easier.
 - b. Secondly, as the assets were well located and generally in demand due to various facilities available, the disposal of such assets became easier for the banks.

3.5 Use of GST registration in credit appraisal of MSME borrowers

While discussing the challenges associated with the credit appraisal of MSMEs, bankers had expressed concern mainly on account of absence of adequate financial records and status of licenses and other approvals/clearances that a MSME is required to have.

The bankers' views regarding use of GST registration in credit appraisal of MSME borrowers are given below:

- i. The bankers responded that GST registration of entrepreneurs helped them in verification of turnover figures through the GST portal.
- ii. They also mentioned that subsequent to GST registration, the reported turnover had increased. During appraisals based on 'Turnover Method', such increase in turnover had helped the entrepreneur in getting higher working capital finance.
- iii. This has also helped them get information regarding sales returned.

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- vii. In Chapter II, the pattern regarding availing finance from various sources was discussed. As regards financing of working capital requirements, ten (24%) respondents did not avail any bank finance and managed it from other sources. Incidentally, they had GST registration and they were also availing banking facility in some form. Considering bankers' feedback regarding usefulness of GST, such entrepreneurs could be potential customer for working capital finance by banks.

3.6 Other issues

The District Industries Centre (DIC) acts as nodal agency for various government sponsored schemes for MSMEs like PMEGP, PMMY and other state government schemes for MSMEs where disbursement of subsidy or margin money is involved. They also provide support to MSMEs through trainings and other capacity building measures. The application for loan under these schemes, after approval of the Task Force Committee (TFC), were forwarded to banks for sanction. Feedback from bankers and the LDM indicated that in several cases, the applications forwarded by the DIC even after recommendation of the TFC were found unviable by the banks and the applications were rejected. In this context, a mechanism to work out viability of such proposals by bank before consideration by TFC could be useful to bring down rejection.

Chapter IV

Key findings and suggestions

4.1 Key findings

The summary of key findings discussed in the preceding two chapters are given below:

4.1.1 Challenges faced by MSMEs in sourcing of finance during different stages of their life cycle

4.1.1.1 Financing patterns

- i. It was observed that own savings was the most preferred source of financing followed by borrowings from family and friends for financing long-term requirement of funds. Only half of the respondents availed loan from banks as one of the sources of finance.
- ii. With regard to financing the working capital requirements, most of the respondents preferred own savings and purchase on credit as major sources of funds for working capital, followed by finance from banks. Loan from family/friends had limited preference, unlike in the case of long-term source of finance. Those who availed of credit from suppliers opined that purchasing raw material on credit was more convenient, hassle free and without procedural delays, besides, obviating the need for cumbersome documentation as in case of banks.
- iii. The respondents also indicated that they preferred to use own savings, loan from family/friends and purchase on credit to meet the financing requirements rather than resorting to bank finance, as bank finance required collateral and margin money in most cases.
- iv. The entrepreneurs availed bank finance more for their working capital requirement than their long-term requirement indicating that bank finance was less availed of during initial phase of the MSME's life cycle.
- v. The accounts receivable period was generally higher than the accounts payable period, having impact on cash flows of the entrepreneurs. As finance from institutional sources was not easily available to meet this gap, they preferred to make purchases on credit or from the informal sources. The entrepreneurs reported that the rate of interest in case of purchase on credit ranged between 1.50% to 2.00% per month.

4.1.1.2 Use of alternative methods for appraisal financing and use of GST in credit appraisal by banks

- vi. The banks covered under the study reported that they did not use alternative methods of credit appraisal.
- vii. As regards utility of GST data, the bankers reported that it was useful in credit appraisal process as a tool to supplement or verify the traditional financial data in respect of the MSMEs, however, they were not utilizing the GST data as part of alternative tech-driven models of lending to MSMEs. The benefits of GST registration in credit assessment process by banks were not getting reflected in the financing of MSMEs.
- viii. Some MSMEs despite having GST registration had not availed any bank finance.

4.1.2 Bank finance and related issues

- ix. The bankers reported that non-availability of financial records relating to income, business transactions and accounts of MSMEs was the major challenge in credit appraisal of MSMEs. They also reported that incomplete documents led to deficient credit assessment. Besides, obtaining the required documents from the entrepreneurs also consumed resources and time.

It was observed that despite RBI's instructions mandating banks not to accept collateral security in the case of loans up to ₹ 10 lakh extended to units in the MSE sector, there were instances of banks' accepting collateral in such loans. This indicated that the bankers' preferred collateral based lending.

- x. A few branches only could submit the data regarding framework on revival, rehabilitation and restructuring of MSMEs; thereby indicating that the framework had not been effectively utilized to reduce stress in the MSME sector. The data reported suggested that the scheme was used more for recovery rather for restructuring and rectification.
- xi. The credit linkage of trainees from RSETI was low (8%). Banks did not provide credit linkage to the trainees of RSETI. The RSETI did not include training programmes in the area of lock and hardware manufacturing which was the product identified under

the ODOP scheme of the State Government. The RSETI had also been designated as Credit Counselling Institution (CCI). However, they were not functioning as CCI.

- xii. The share of NPA in MSME advance was generally one third of overall NPAs. However, it increased to half of the overall NPAs as on March 2017, before coming down to a third of overall NPAs in March 2018. The rise was generally attributed to the process of demonetization.

4.1.3 Benefits of cluster approach for MSMEs and bankers

- xi. The entrepreneurs reported that availability of infrastructural facilities such as power, roads, drainage etc. and land/sheds provided by the State Government to be the major benefits of operating in a cluster. They also mentioned that ease in getting statutory clearances and approvals and availability of skilled labour and raw material were the other benefits of setting up the enterprise in a cluster.
- xii. The bankers reported various benefits of lending to MSME in cluster, like easier appraisal of the loan due to better understanding of the overall profile of the cluster, of the enterprise and its forward and backward linkage. They also mentioned that the units in cluster had higher levels of formalization due to the administrative requirement of various compliance and clearances required in the cluster. Besides, easier and cost-effective monitoring of the loans was another benefit reported.

4.1.4 Recent initiatives of Government and RBI for MSME sector – Level of awareness and availing of benefits by MSMEs

- xiii. The awareness levels were high in respect of subsidy-oriented schemes, like PMMY Scheme, PMEGP or such schemes of the State Government. However, in case of other interventions like CCC, framework on revival, rehabilitation and restructuring of MSMEs, procurement portal (MSME-SAMBANDH), delayed payment and grievance redressal portal (MSME-SAMADHAN), which could lead to sustainable qualitative improvement in the sector, the awareness was low.
- xiv. While awareness in respect of schemes like PMMY, PMEGP and other state government subsidy-oriented schemes was reasonably high, only a few respondents availed of the benefits of these schemes.

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- xv. The maximum bank finance to MSME sector was extended under PMMY. In comparison to PMMY, lending under PMEGP, Stand-up India and state government schemes was significantly less. Extent of awareness about PMMY scheme, its design (mission mode) and effectiveness of implementation were reported to be the reasons for higher achievements under the scheme.
 - xvi. The data for the last three years indicated that on an average less than two financial literacy programme were conducted per year per branch. This was inadequate to meet the gaps and engage in the right kind of capacity building of entrepreneurs.
 - xvii. The limitation of traditional methods of lending was reflected in prevalence of financing from informal sources. In this context, the participants were requested to indicate if they availed of finance from alternative sources such as P2P lending platforms or NBFC. The entrepreneurs responded that they were not aware of these modes and therefore, did not avail finance from any alternative source.

4.2 Suggestions

4.2.1 In view of the above findings the report suggests the following:

- i. As part of the National Mission on Capacity Building (NAMCABs) of officials of bank branches lending to MSMEs, RBI conducts workshops across the country to build capacity among bankers for lending to MSMEs and create awareness about softer aspects of MSME lending such as entrepreneurial sensitivity, empathy and appropriate communication with entrepreneurs. The workshop also aims at creating awareness about recent developments in MSME sector with special focus on credit related issues, movable asset based finance, use of technology platforms, credit scoring models, use of big data in analyzing credit worthiness of MSMEs, CGTMSE, etc. The trainers in banks training establishments have also been trained to further train the branch officials on the similar lines.

It was observed that none of the officials from the 17 bank branches covered in the study had attended the NAMCABs workshop. The banks may consider availing of the benefits of the workshops being conducted every quarter at various centres by RBI or they themselves may conduct such programmes in their training establishments.

This would be an important step in capacity building of bank branch officials on financing to MSMEs.

- ii. The bank branch officials also need to be abreast with latest initiatives of RBI Government of India and the State Government. At present, District Consultative Committee (DCC) acts as a forum to facilitate coordination in implementing various developmental activities under the Lead Bank Scheme. However, it does not explicitly provide for a platform for knowledge sharing or dissemination of information relating to various guidelines or recent initiatives. As the bank branch officials change at frequent intervals, there is a need for knowledge sharing platform which could meet at regular interval. In this context, constitution of a District Level Bankers Forum (DLBF) with membership of all bank officials posted in the district, the Lead District Manager (LDM) from Lead Bank, District Development Manager (DDM) from NABARD could be considered. The LDO of RBI can play the lead role in such forum. The forum may have knowledge sharing sessions of one to two hours, once in a quarter, which could be held on the day of DCC meetings or any other day convenient to the members.
- iii. At present, loan applications in case of various government sponsored schemes are routed through District Industries Centre (DIC). It is suggested that the prospective MSME borrowers may directly submit such applications to banks instead of routing through DIC. Banks may ascertain viability of the proposals before sending them to DIC for release of margin money/subsidy. This would eliminate delays and rejection in the processing of loan applications. Further, the process of releasing margin money/subsidy may be completely made online to ensure transparency and avoid any delay.
- iv. During the study, various indications of non-implementation of RBI guidelines were observed. These instances particularly related to online credit proposal tracking system, collateral-free loans up to ₹10 lakh and implementation of framework on revival rehabilitation and restructuring. With a view to eliminate the issues relating to implementation of various initiatives and improve credit flow to the sector, it is suggested that the banks may improve/upgrade existing MIS to oversee the compliance status. The non-compliance, delay or non-implementation of scheme

guidelines by banks could be adversely commented in the inspection reports of banks.

- v. At present, there are online loan application portals for MSMEs like PMEGP portal and 'psbloansin59minutes' portal. However, these portals have utility limited to a particular scheme or a group of banks (e.g. PSU banks). Government of India may consider commissioning a single universal portal subsuming the existing portals to act as single window for entrepreneurs and provide an online market place for lenders.
- vi. The cluster provides great potential for banks to increase credit flow to MSMEs. The potential needs to be tapped. Therefore, emphasis may be laid on increasing the number of clusters particularly in micro and small segment on the lines of MSE-CDP.
- vii. In order to create financial literacy and awareness about various schemes and policy initiatives, including quality control e.g. ZED certification, apart from the current approach like financial literacy camps, town hall meets, regular customer meetings by banks etc. a dedicated financial literacy centre for MSME in each district could also be set up.
- viii. At present, training programmes at RSETI and Entrepreneurship Development Programmes of State Government are conducted independently. The RSETI may collaborate with District Industries Centre for the benefit of entrepreneurs.
- ix. There is a need to create adequate awareness about RSETIs' role as CCI, wherever designated, among entrepreneurs. A dashboard for reporting performance of RSETIs as CCC may also be put in public domain. Wide publicity may be given about their roles and responsibility through use of electronic and print media.

Chapter V

Conclusions

In order to ensure growth of MSMEs, adequate credit flow, hand holding, and institutional support are needed. The traditional approach to lending has certain limitations reflecting in under-financing and entrepreneurs' preference for informal sources of finance. In order to finance the unmet credit needs of the sector, the banks need to develop new models of lending to overcome the limitations of the traditional methods of credit assessment. The reach of technology has deepened in a big way during the last few years, creating new data points in the form of digital footprints to assess credit-worthiness of the borrower and predict his/her willingness to repay. Various initiatives have been taken by the Government and RBI to address the above issues. However, it is important to effectively implement these schemes and initiatives to achieve the intended outcomes for the sector. Lack of awareness among entrepreneurs is also a cause of financial exclusion of MSMEs. Therefore, financial literacy would hold the key to financial inclusion of MSMEs.

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One District One Product Programme¹⁰

Uttar Pradesh has significant diversity in terms of its geographical expanse of 2,40,928 sq km. and population of 199.8 million people (as per Census 2011) coming from diverse community traditions and economic pursuits. This manifests in various crafts and industries located in various parts of the State. The State Government's One District One Product Programme aims to encourage indigenous and specialized products and crafts. The district-wise list of identified products is given in Annex II. The main objectives of this scheme are as follows:

- Preservation and development of local crafts / skills and promotion of the art
- Increase in the income level and local employment (resulting in decline in migration for employment)
- Improvement in product quality and skill development
- Transforming the products in an artistic way (through packaging, branding)
- To connect the production with tourism (Live demo and sales outlet – gifts and souvenir)
- To resolve the issues of economic difference and regional imbalance
- To take the concept of ODOP to national and international level after successful implementation at State level

In some districts with more than one distinct product, the product with potential of generating more employment has been selected in the first phase. Gradually, other products will also be included under the purview of scheme.

2. The following measures are being taken for the promotion of identified products:

- Consolidation of information on total production, export, availability of raw material, need for training and engagement of stakeholders

¹⁰ Source : ODOP portal

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- Exploring possibilities of research and development for increasing production and marketing of the product - preparation of micro plan for product development and marketing
 - Providing additional opportunities of employment and wage increment for the entrepreneurs (artisans and workers)
 - Providing advertising, publicity and marketing opportunities at district, state, national and international level.
 - Convergence with other Government Sponsored Schemes like Pradhan Mantri Mudra Yojana (PMMY), Prime Minister Employment Generation Programme (PMEGP), Stand-Up India as well as Mukhya Mantri Yuva Swarojgar Yojna and Vishwakarma Shram Samman Yojna of Government of Uttar Pradesh for facilitating financial support to new and existing units.
 - Planning new schemes for the purpose as required
 - Setting co-operatives and Self Help Groups
 - Training of the entrepreneurs craft and technology development.

3. ODOP is a new scheme and is primarily focused at developing clusters that would be manufacturing one product identified for the district. The scheme is being implemented through District Industries Centre. The State government has set a goal of providing employment to 2.5 million people in five years through the financial assistance of ₹250 billion. The scheme is expected to raise the Gross State Domestic Product (GSDP) by about 2 percent. A budget provision of ₹ 2.5 billion for 2018-19.

One District One Product Scheme: District-wise list of identified products¹¹

1. Agra	Leather Products
2. Amroha	Musical Instruments
3. Aligarh	Locks & Hardware
4. Auraiya	Food Processing (Desi Ghee)
5. Azamgarh	Black Pottery
6. Ambedkar Nagar	Textile Products
7. Amethi	Moonj Products
8. Ayodhya	Jaggery
9. Budaun	Zari-Zardozi
10. Baghpat	Home Furnishings
11. Bahraich	(Wheat-Stalk) Handicrafts
12. Bareilly	Zari-Zardozi
13. Ballia	Bindi (Tikuli)
14. Basti	Wood Craft
15. Balrampur	Food Processing (Pulses)
16. Bhadohi	Carpet (Dari)
17. Banda	Shazar Stone Craft
18. Bijnor	Wood Craft
19. Barabanki	Textile Products
20. Bulandshahar	Pottery
21. Chandauli	Zari-Zardozi
22. Chitrakoot	Wooden Toys
23. Deoria	Decorative Products
24. Etawah	Textile Products

¹¹ Source : ODOP portal

25. Etah	Ghungroo & Ghanti
26. Farrukhabad	Block Printing
27. Fatehpur	Bed Sheets
28. Firozabad	Glassware
29. Gautam Buddh Nagar	Readymade Garments
30. Ghazipur	Jute Wall Hanging
31. Ghaziabad	Engineering Goods
32. Gonda	Food Processing (Pulses)
33. Gorakhpur	Terracotta
34. Hapur	Home Furnishing
35. Hardoi	Handloom
36. Hathras	Hing 'Asafoetida'
37. Hamirpur	Shoes
38. Jalaun	Handmade Paper Art
39. Jaunpur	Woollen Carpets (Dari)
40. Jhansi	Soft Toys
41. Kaushambi	Food Processing (Banana)
42. Kannauj	Perfume (Attar)
43. Kushinagar	Banana Fiber Products
44. Kanpur Dehat	Aluminium Utensils
45. Kanpur Nagar	Leather Products
46. Kasganj	Zari Zardozi
47. Lakhimpur Kheri	Tribal Craft
48. Lalitpur	Zari Silk Sarees
49. Lucknow	Chikankari & Zari Zardozi
50. Maharajganj	Furniture
51. Meerut	Sports Products
52. Mahoba	Stone Craft
53. Mirzapur	Carpets
54. Mainpuri	Tarkashi Art

55. Moradabad	Metal Craft
56. Mathura	Sanitary Fittings
57. Muzaffarnagar	Jaggery
58. Mau	Powerloom Textile
59. Pilibhit	Flute
60. Prayagraj	Moonj Products
61. Pratapgarh	Aamla Products
62. Raebareli	Wood Crafts
63. Rampur	Patch Work
64. Sant Kabir Nagar	Brassware Craft
65. Shahjahanpur	Zari-Zardozi
66. Shamli	Rim And Axle
67. Saharanpur	Wood Crafting
68. Shravasti	Tribal Craft
69. Sambhal	Handicraft (Horn-Bone)
70. Siddharthnagar	Kala Namak Rice
71. Sitapur	Carpet(Dari)
72. Sonbhadra	Carpets
73. Sultanpur	Moonj Products
74. Unnao	Zari Zardozi
75. Varanasi	Banarasi Silk Saree