



Nurturing dreams.  
Empowering enterprise.

## Financing needs of Micro and Small Enterprises – A guide

A financial literacy initiative by Reserve Bank of India

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Welcome to the beginning of a beautiful dream. A dream that you can now realise with a little bit of help from the country's leading financial institutions.

This book is a quick guide designed to help you make an informed choice regarding your options to fund a successful business venture in the Micro Small Enterprises sector. We have tried to answer some of the most commonly asked questions in the process of acquiring financial assistance from a bank by prospective investors such as yourself. We hope you will use this guide as a starting point in a fruitful and successful partnership with your financial institution of choice.

If you have additional queries, please approach the concerned personnel at the nearest branch of your chosen bank, or visit the bank's website for assistance.

You have a great idea. It can become a successful business.  
But you need funds to start. Who will you turn to?



Friend



Money lender



Relative



Bank



For once, the choice is simple. When it comes to laying a strong foundation for a successful business venture, **a Bank is your best friend.**

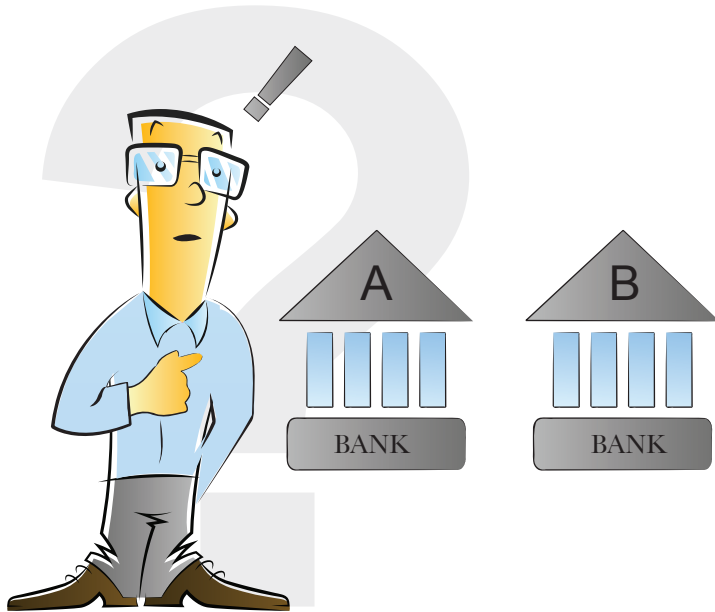
Why should I trust a Bank more than my friends and relatives?

**Because only a bank gives you:**



- a) Loans at fixed and reasonable interest rates
- b) A variety of options for financial assistance
- c) Flexible repayment options
- d) A simple and transparent system for loan processing
- e) Comprehensive consumer protection framework
- f) Bank is a regulated entity

That's well and good. But how do I know which bank to choose?



Every Bank has a set of policies when it comes to processing loans for Micro Small Enterprises. All you need to do is:



Visit the bank's website and check the policies to see if your business qualifies for a loan or



Visit the nearest branch of the bank and speak to the loan personnel for assistance

So how do I begin the process?



### It all starts with filling out a form!

When you approach a bank with the purpose of acquiring a loan for your business, they will give you:



A **checklist** of documents you need to provide to the bank and



A standardised, simple and easy to understand application form

Paperwork is crucial! And the bank will help you to fill the form and ensure that your documentation is complete.

## How will I know about the interest rates?

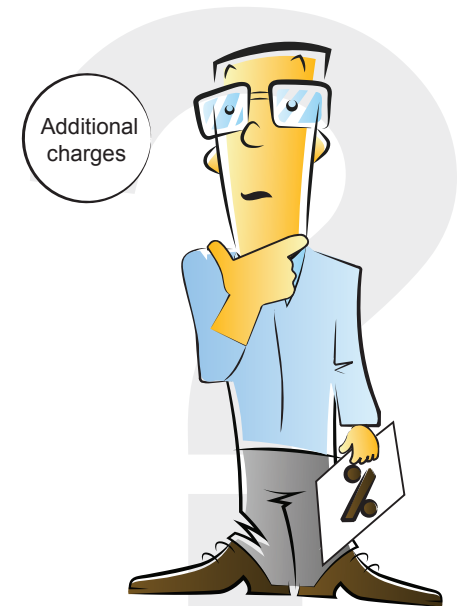


During the application process, every bank is required to provide you with the following information:

- a) Applicable rates of interest
- b) Annualised rates of interest and any other charges/ fees
- c) Any terms and conditions that will or may affect interest rates



Do I have to incur any additional charges other than interest rate on loan, while availing of a credit facility from a bank?



Yes. The bank may charge processing fees and other charges, as per their bank's policies, for the credit facility provided.

## How soon can I get the loan once I submit the application form?



After receipt of your application, submitted manually or online, you will be provided with an **Acknowledgement** number through which you can keep a **track** of the status of your application. You will also be given a time-frame during which the loan will be processed, which will vary depending upon the amount of the loan. The time-frame will be applicable only if the application is complete in all respects. The banks, as per their code of commitments, will:

- a) Process a credit of up to 5 lakhs in 2 weeks
- b) Above 5 lakhs up to 25 lakhs within 4 weeks
- c) Above 25 lakhs within 8 weeks

These time frames may also vary according to the bank's policies.

What if I can't provide any security? Will I still get a loan?



Yes! For Micro Small Enterprises, banks will provide loans up to 10 lakhs without asking for any collateral or security.

The Government of India provides a Credit Guarantee cover for collateral free loans to micro and small enterprises. Such a cover is available under the Credit Guarantee Trust Fund for collateral free loans up to Rupees one crore. A guarantee fee will, however, have to be borne by you or in some cases the banks also pay or share the cost of the guarantee fees. You may ask your bank of this facility.

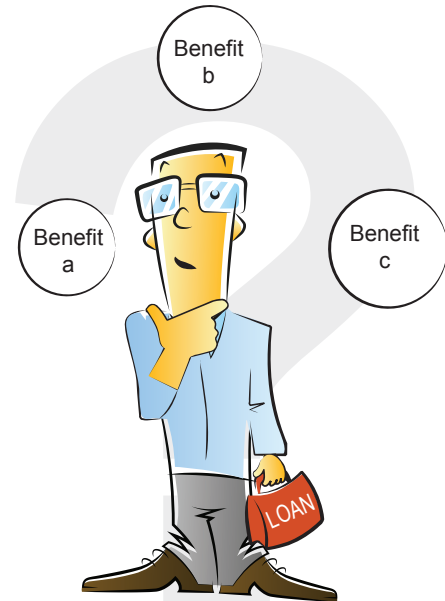
## Can a bank reject my loan application?



Yes. Banks have to be convinced about the viability of your business to extend credit facilities to you. They may choose to reject your application. However, banks need to inform the reasons for rejection.

Please submit all the documents as asked for by the bank at the application stage to help the Bank assess your financial standing and the feasibility of your business plans.

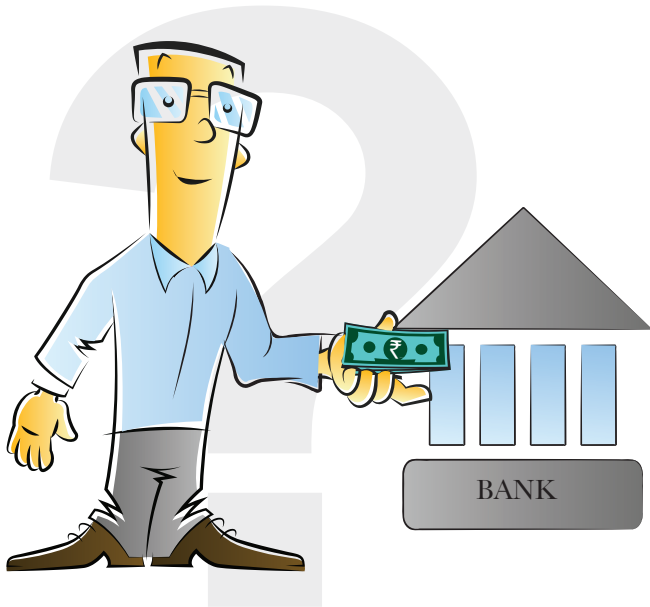
Apart from the loan, what are the other benefits of seeking financial assistance from a Bank?



When you sign up for a loan, the Bank becomes your business partner. And it will extend a host of specialised services to help you achieve your goals. Some of these services/ benefits are listed below:

- a) Conduct programmes to enhance your knowledge on financial management
- b) Inform you about any subsidies, Government Schemes, etc. and explain the terms to you in detail
- c) Give you access to banking facilities such as remittance, insurance and payment settlement systems

How do I go about repaying  
the amount I borrowed?



The best way to repay the loan amount is to make payments to the bank at regular intervals. This will help you:

- a) Keep an account of your spending
- b) Build a good credit reputation which helps to enhance your relationship with your bank



Like any other aspect of life, choosing the right partner can make a world of difference to your enterprise. Now that you are aware of the most pressing concerns, you can confidently march ahead and turn your dreams of an enterprise into the reality of a thriving business; assisted ably by your financial partner of choice.



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