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**STANDING COMMITTEE ON FINANCE
(2021-2022)**

SEVENTEENTH LOK SABHA

**MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)
AND
MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES**

STRENGTHENING CREDIT FLOWS TO THE MSME SECTOR

FORTY SIXTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

MARCH, 2022/ CHAITRA, 1944 (SAKA)

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Presented to Hon'ble Speaker on 8th April, 2022

Presented to Lok Sabha on _____

Laid in Rajya Sabha on _____



**LOK SABHA SECRETARIAT
NEW DELHI**

MARCH, 2022/ CHAITRA, 1944 (SAKA)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE (2021-22)

Shri Jayant Sinha - Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Sukhbir Singh Badal
4. Shri Subhash Chandra Baheria
5. Shri Shrirang Appa Barne
6. Dr. Subhash Ramrao Bhamre
7. Smt. Sunita Duggal
8. Shri Gaurav Gogoi
9. Shri Sudheer Gupta
10. Shri Manoj Kotak
11. Shri Pinaki Misra
12. Shri Ravi Shankar Prasad
13. Prof. Sougata Ray
14. Shri P.V Midhun Reddy
15. Shri Gopal Shetty
16. Dr. (Prof.) Kirit Premjibhai Solanki
17. Shri Parvesh Sahib Singh
18. Shri Manish Tewari
19. Shri Bala Showry Vallabhaneni
20. Shri Rajesh Verma
21. *Vacant*

RAJYA SABHA

22. Shri Ahmad Ashfaque Karim
23. Shri Sushil Kumar Modi
24. Shri A. Navaneethakrishnan
25. Shri Praful Patel
26. Dr. Amar Patnaik
27. Shri Mahesh Poddar
28. Dr. C.M. Ramesh
29. Shri G.V.L Narasimha Rao
30. Dr. Manmohan Singh
31. Smt. Ambika Soni

SECRETARIAT

1. Shri Siddharth Mahajan - Joint Secretary
2. Shri Ramkumar Suryanarayanan - Director
3. Shri Kulmohan Singh Arora - Additional Director
4. Shri Kh. Ginlal Chung - Deputy Secretary
5. Ms. Madhumita - Assistant Committee Officer

INTRODUCTION

I, the Chairperson of the Parliamentary Standing Committee on Finance, having been authorized by the Committee, present this Forty-sixth Report on the subject 'Strengthening Credit Flows to the MSME Sector'

2. At their sitting held on 30 November, 2021, the Committee took evidence of the officials of the Ministry of Finance (Department of Financial Services), Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI). On 9 December, 2021, the Committee took evidence of the representatives of Public and Private sector Banks viz. State Bank of India (SBI), Punjab National Bank (PNB), Axis Bank and HDFC Bank as well as Non-Banking Financial Companies viz. Shriram City Union Finance Ltd., Credgenics and NeoGrowth. On 16 December, 2021, the Committee took evidence of the representatives of MSME associations viz. The Southern India Engineering Manufacturers' Association (SIEMA), Coimbatore District Small Industries Association (CODISSIA), United Cycle & Parts Manufacturers' Association (UCPMA), Jharkhand Small Industries Association, Jharkhand Small Tiny Services & Business Enterprise Association and Confederation of All India Traders (CAIT). The Committee also interacted with the representatives of Indian Software Product Industry RoundTable (iSPIRT) and CIBIL as well as with the officials of Ministry of Finance on 21 December, 2021.

3. The Committee considered and adopted this report at their sitting held on 30 March, 2022.

4. The Committee wish to express their thanks to the officials of the Ministry of Finance and Ministry of Micro, Small and Medium Enterprises and representatives of SIDBI, SBI, PNB, Axis Bank, HDFC Bank, Shriram City Union Finance Ltd., Credgenics, NeoGrowth, SIEMA, CODISSIA, UCPMA, Jharkhand Small Industries Association, Jharkhand Small Tiny Services & Business Enterprise Association, CAIT, iSPIRT and CIBIL for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the subject.

5. The Committee also wish to express their thanks to the Individuals/Experts/Stakeholders/Organisations for providing their views/suggestions against the Press Communique on the aforementioned subject.

6. For facility of reference, the observations/recommendations of the Committee have been printed in bold at the end of the Report.

New Delhi
March, 2022
Chaitra, 1944(Saka)

Shri Jayant Sinha
Chairperson,
Standing Committee on Finance

PART - I
Chapter – I

Background

1.1 Micro, Small and Medium Enterprise (MSME) sector has emerged as a very important sector of the Indian economy, contributing significantly to employment generation, innovation, exports, and inclusive growth of the economy. The MSME sector contributes in a significant way to the growth of the Indian economy with a vast network of about 6.34 crore enterprises. This sector contributes to around 30% of India's GDP, over 48% of India's exports, about 45% to manufacturing output, while creating employment for about 11.1 crore people, which in terms of volume stands next to agriculture sector.

1.2 MSME sector is also important for fostering entrepreneurship and generating self-employment opportunities at comparatively lower capital cost. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly to the inclusive development of the country. MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

Present Definition Criteria of MSME:

New Definition for MSMEs

1.3 To pave way for strengthening and growth of MSMEs, Government announced a new definition of MSME. The revised definition removes the distinction between manufacturing and service enterprises. Besides the investment in plant and machinery, a new criterion for turnover has also been included. Revised definition is applicable from 1st July, 2020. The new definition of MSMEs is as under:

(Figures in Rs. crore)

Category	Investment (not exceeding)	Turnover (not exceeding)
Micro	1	5
Small	10	50
Medium	50	250

1.4 Government has included Retail and Wholesale trades as MSMEs from 02nd July, 2021. Ministry has clarified that Street Vendors can register as retail traders, as on 09th August, 2021. Benefits to Retail and Wholesale trade MSMEs are to be restricted to Priority Sector Lending (PSL) only. With introduction of new definition, Government has launched the Udyam Registration portal for smoothening the registration process for MSMEs.

Institutional framework for MSME Credit

1.5 The institutions lending to MSMEs in India regulated by Reserve Bank include Scheduled Commercial Banks (Public Sector Banks, Private Sector Banks including Small Finance Banks, Foreign Banks, Co-operative Banks and Regional Rural Banks) and Non-Banking Financial Companies including Micro Finance Institutions (NBFC-MFIs).

1.6 In addition, Securities and Exchange Board of India (SEBI) regulates the institutions engaged in providing or mediating equity capital to MSMEs such as SME Exchanges, Angel Investors, Venture Capital and Private Equity. Apex institutions such as Small Industries Development Bank of India (SIDBI) and Micro Units Development and Refinance Agency Ltd. (MUDRA) provide sectoral support and come within the purview of the Department of Financial Services, Government of India. Ministry of MSME is the apex executive body for the formulation and administration of policies, relating to micro, small and medium enterprises in India.

1.7 The two Guarantee Corporations, viz. Credit Guarantee Trust for MSMEs (CGTMSE) and National Credit Guarantee Company (NCGTC) have played an increasingly important role in facilitating growth of credit to MSME sector. Credit Bureaus, Goods and Services Tax Identification Number (GSTIN), National E-Governance Services Limited (NeSL), Unique Identification Authority of India (UIDAI), etc. have enabled digital credit flow through lenders and marketplace platforms like Trade Receivables Discounting System (TReDS) and Online PSB Loans.

RBI-Priority Sector Lending - features relating to MSMEs

1.8 Guidelines on 'Priority Sector Lending' are issued by Reserve Bank of India (RBI) which mandates banks to achieve a minimum of 40% of Adjusted Net Bank Credit (ANBC) targets for lending to priority sector, which inter-alia, includes agriculture; Micro, Small & Medium Enterprises; housing; education; social infrastructure; renewable

energy; etc. Within the 40% target, for Micro Enterprises, there is a specific target of 7.5% of the ANBC or Credit Equivalent of off-Balance Sheet Exposure (CEOBE), whichever is higher, as applicable as on the corresponding date of the preceding year.

As per the information of RBI the trend of outstanding loans under Priority Sector Lending to MSME is as under:

Priority Sector Lending to MSME Sector									
No. of Accounts in Lakh and Amount in Rs. Crore									
Year/ Quarter ended	Micro Enterprises		Small Enterprises		Medium Enterprises		Total MSME		Year on Year Growth (%)
	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	Amt. O/s
Mar-19	295.05	6,75,200.50	23.03	6,38,030.79	2.60	1,97,419.22	320.68	15,10,650.52	--
Mar-20	353.02	7,46,043.67	27.62	6,67,734.90	3.54	1,99,803.60	384.18	16,13,582.17	6.81
Mar-21	387.93	8,21,027.77	27.82	6,62,998.50	4.44	2,99,898.53	420.19	17,83,924.80	10.56

Source- Reserve Bank of India

1.9 Credit Guarantee Corporations of India:

(a) Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

CGTMSE (corpus largely given by M/oMSME) extend credit guarantee facilities to lenders for extending collateral free credit to MSEs. CGTMSE guarantees 75% of collateral free credit extended by eligible member lending institutions to MSEs. Credit Guarantee Scheme (CGS) helps in improving the flow of credit to MSEs. Since its incorporation, CGTMSE has provided guarantee to 81.64 lakh MSE units with guarantee amount of Rs.2.92 lakh crore as on 24.11.2021. During FY 2022 (as on 24.11.2021), CGTMSE has provided guarantee to 15.74 lakh MSEs with guarantee amount of Rs.31,997 crore.

Recently CGTMSE introduced two new guarantee schemes for PM Street Vendor's AtmaNirbhar Nidhi(PMSVANidhi) scheme and Subordinate Debt scheme (CGSSD). Under PMSVANidhi scheme, CGTMSE has provided guarantee to 25.71 lakh units with guarantee amount of Rs.2,549 crore. Further, under credit guarantee for Subordinate Debt for stressed MSMEs, CGTMSE has provided guarantee to 754 MSMEs with guarantee amount of Rs.81 crore as on Nov 24, 2021.

FY/Particulars	FY 2020		FY 2021		FY 2022 (upto 24.11.21)		Cumulative (as on 24.11.21)	
	Rs Crore	No	Rs Crore	No	Rs Crore	No	Rs Crore	No
Guarantees issued in FY	45850	846650	38389	2283331	31997	1573536	292198	8163949
Banks								
- General CGS	20109	291048	19429	336612	14975	150269	220560	4085175
- Retail Trade	7252	164158	7712	240244	5644	142593	24292	635351
- Hybrid Collateral	1141	4602	1572	5687	1643	5042	4622	16433
NBFC	17348	386842	8186	253049	8595	151463	40094	855082
PM Svanidhi	-	-	1435	1447266	1114	1123888	2549	2571154
CG for Sub-Debt			55	473	26	281	81	754

(b) National Credit Guarantee Company (NCGTC)

NCGTC operates several credit guarantee schemes for different sectors within MSE space like Prime Minister Mudra Yojna (PMMY), Stand up India Scheme, etc. ECLGS scheme introduced by Government of India under Atmanirbhar Bharat Abhiyaan was operated by NCGTC.

As on Oct 31, 2021, NCGTC has provided guarantee to 94.84 lakh micro units with guarantee amount of Rs.1.33 lakh crore under Credit Guarantee Fund for Micro Units (CGFMU). Under Credit Guarantee Fund for Stand-Up India (CGFSI), the cumulative guarantee as on Oct 31, 2021, stood at 38,346 with guarantee amount of Rs.6,373 crore. Under Emergency Credit Line Guarantee Scheme, 1.15 crore guarantees were provided with guarantee amount of Rs.2.61 lakh crore as on Oct 31, 2021

Sr. No.	Particulars	CGF (Micro Units)	CGF (Stand Up India)	ECLGS	CGSMFIs	LGSCAS
1	Guarantee Issued (Nos.)					
a.	- as on 31/10/2021	9484277	38346	11587765	262	59
b.	- as on 31/03/2021	8715679	37138	9537847	0	0
2	Total Sanctioned Amount Covered Under Guarantee (Rs Crore)					

a.	- as on 31/10/2021	132830	6373	261869	10000	212
b.	- as on 31/03/2021	121275	6159	234605	0	0
3	Live Outstanding Amount	77270	3985	261869	10000	212
4	Claims Lodged	1397	56	26	0	0

(c) Partial Credit Guarantee Scheme

The Scheme aims to address temporary liquidity/cash flow mismatches of Non-Banking Financial Companies(NBFCs)/Housing Finance Companies (HFCs)/Microfinance Institutions (MFIs) without having to resort to distress sale of their assets for meeting their commitments, and to enable availability of additional liquidity to them for on lending. The guarantee is offered by Government of India to PSBs for purchase of high rated pools as well as Bonds/Commercial papers(CPs) of NBFCs/HFCs. Pooled Assets of Rs.11,769.58 crore purchased by Public Sector Banks (PSBs) (60 proposals) wherein guarantee has been approved/executed by Department of Financial Services (DFS). Under portfolio guarantee, Bonds/CPs of Rs.22,217 crore purchased by PSBs wherein guarantee has been approved/ executed by DFS.

Impact of the Pandemic on MSME Sector

1.10 India's GDP contraction in April to June (Q1 FY20-21) quarter reflects the unparalleled effect of the Covid-19 pandemic and the containment measures that were taken to control the pandemic. The first quarter of FY 2020-21 witnessed the rapid spread of the perplexing virus, an unparalleled lockdown for two months and a sharp recovery as India unlocked in June. With the economy brought to a standstill for two complete months, the inevitable effect was a 23.9 per cent contraction in GDP as compared to previous year's quarter. MSMEs were no exception and indeed it was feared that the impact on them would be even more severe as they lack deep pockets to withstand loan disruption.

1.11 The economy, backed by structural reforms and the policy push under AtmaNirbhar Bharat Mission along with slew of measures announced in the Union Budget 2021-22towards achieving broad based inclusive growth, started witnessing recovery. The momentum of economic recovery was, however, moderated by the ravaging second wave of COVID-19. Unlike the first wave, the effect of second wave

was asynchronous in its onset across states and wider in its spread as the second wave also entered the rural hinterland. The ongoing third wave has added further to the already stressed MSME sector. However, its full impact could be known only later when various economic data becomes known.

Major Schemes for Credit Support to MSMEs

The Major Credit Schemes for the MSME sector that is implemented by the Ministry of MSME and their performance are detailed below:

Prime Minister Employment Generation Programme (PMEGP)

1.12 PMEGP is a major credit-linked subsidy programme aimed at generating self-employment opportunities through establishment of micro-enterprises in the non-farm sector by assisting traditional artisans and unemployed youth in rural as well as urban areas. Khadi and Village Industries Commission (KVIC) is the nodal agency at the national level. At the State/district level, State offices of KVIC, Khadi and Village Industries Boards (KVIBs), District Industry Centres (DIC) and Coir Board are the implementing agencies.

1.13 The maximum cost of projects is Rs. 25 lakh in the manufacturing sector and Rs. 10 lakh in service sector. For setting up of projects costing above Rs. 10 lakh in the manufacturing sector and above Rs. 5 lakh in the business/service sector, the beneficiaries should possess at least VIII pass educational qualification. Project cost includes Capital Expenditure and Working Capital. Cost of the land is not included in the project cost. Level of funding and Margin Money (MM) subsidy under PMEGP is summarized below:

Categories of beneficiaries under PMEGP	Beneficiary's contribution (of project cost)	Rate of Subsidy (of project cost)	
		Urban	Rural
Area (Location of project / unit)		Urban	Rural
General Category	10%	15%	25%
Special (including SC/St/OBC/Minority/ Women, Ex-servicemen, physically handicapped, NER, Hill and border areas, etc.)	05%	25%	35%

1.14 The scheme was launched in 2008-09 and continued during XI and XII plan. Beyond XII plan. PMEGP was appraised by Expenditure Finance Committee(EFC) and approved by Cabinet Committee on Economic Affairs(CCEA) for continuation of the existing PMEGP Scheme with some modifications for the next three years from 1st April,2017 to 31st March, 2020 (three financial years), with the outlay of Rs.5500 cr. (later increased to Rs.5656.14 cr.)

1.15 The scheme has been continued further for FY 2020-21 and 2021-22 as per Department of Economic Affairs (DoE) instructions. Second loan of up to Rs. 1.00 cr. to existing and better performing PMEGP/Rural Employment Generation Program(REGP)/MUDRA units for upgrading with subsidy of 15% of the project cost (20% for Hill Areas and North-Eastern Region(NER)) was allowed w.e.f. 2018-19. Rs.100 cr. was earmarked for subsidy towards 2nd loan for upgradation of existing 1000 PMEGP/MUDRA units.

Performance

1.16 Since inception & up to 31.10.2021, a total of 7.20 lakh micro enterprises have been assisted with total Margin Money subsidy of Rs. 17,360 cr. (Total investment of about Rs.68,000 cr. including bank loan), generating estimated employment for 57 lakh persons. PMEGP performance during 2017-18 to 2019-20, consequent to the last EFC appraisal and subsequent years is as under:

(MM subsidy Rs. in crore)

Year	MM subsidy allocated	MM subsidy released	MM subsidy disbursed	Number of units assisted	Estimated employment generated
2017-18	1052.90	1052.90	1312.4	48398	387184
2018-19	2068.8	2068.80	2070	73427	587416
2019-20	2396.44	2396.44	1950.82	66653	533224
Total	5518.14	5518.14	5333.22	188478	1507824
2020-21	1877.33	1877.33	2188.80	74415	595320
2021-22*	1900.00	1285.00	1143.74	36277	290216

*As on 31.10.2021

1.17 Recent initiatives undertaken in PMEGP

(a) Awareness campaign to reach 1 crore prospective beneficiaries – Start outreach to various technical institution/colleges/ Universities etc.

- (b) Setting up Centres of Excellence (COE) with prominent technology institutions- IITs, etc. for research and promotion of sector specific low cost technology.
- (c) Handholding to beneficiaries by engaging professional, technical & marketing experts and retired bank officials.
- (d)Advanced training on quality control, packaging, export, certification etc.
- (e)Wide publicity of the scheme on regional languages
- (f)Business Facilitation Centre on a pilot basis by hiring of an agency to provide hand holding to PMEGP aspirants.
- (g)Two days free online EDP training for all aspiring entrepreneurs and Sunday webinars on various business ideas
- (h)Geo tagging of the PMEGP units across the country for improved monitoring and business linkages

Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE)

1.18 CGTMSE was set up in 2000 by Ministry of Micro, Small and Medium Enterprises, Government of India (GoI) and Small Industries Development Bank of India (SIDBI) to facilitate credit guarantee support for collateral free / third-party guarantee-free loans to the Micro and Small enterprises (MSEs), especially in the absence of collateral. It facilitates access to finance for unserved and under-served segments of society and geographies, making available of finance from conventional lenders to new generation entrepreneurs and under privileged, who lack supporting their loan proposal with collateral security and/or third-party guarantee. With increased focus on MSE lending, CGTMSE has undergone transformative reforms in the recent past to expand the scope of its schemes to uncovered segments like partially collateralized loans, inclusion of retail trade and amongst uncovered lender category like NBFCs, Small Finance Banks and Cooperative Banks.

1.19 The Scheme covers collateral free credit facility (term loan and /or working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 200 lakh per borrowing unit. The guarantee cover provided is with a uniform guarantee at 75% of the credit exposure above Rs. 50 lakh and up to Rs. 200 lakh (85% for loans up to Rs. 5 lakh provided to micro enterprises, 80% for MSEs owned/ operated by women and all loans to NER). A composite all in Annual Guarantee Fee upto 1.80% p.a. of the credit facility (2% for retail Trade) sanctioned is charged on the outstanding loan amount, with the minimum Guarantee Fee being 1 % p.a.

1.20 The initial corpus fund of ₹2,500 crore of the Trust was contributed by the Government of India (GoI) and Small Industries Development Bank of India (SIDBI) in the ratio of 4:1. The committed corpus of the Trust is now enhanced to ₹7,500 crore, contributed by GoI (Rs 7,000 crore) and SIDBI (Rs. 500 crore). As on November 30, 2020, the Corpus has been fully contributed which is at ₹7,500 crore. The Credit Guarantee Scheme is self-sustaining with capital seeded by Government of India

Performance

1.21 CGTMSE has completed two decades of dedicated service to MSE Sector by facilitating access to finance to MSE Entrepreneurs through traditional lenders. Under the scheme, during FY 2020-21, 8.35 lakh guarantees were approved involving an amount of Rs.36,899 crore. During FY 2021-22 (Up to 27.10.2021), 4.23 lakh guarantees were approved involving an amount of Rs. 27,864 crore.

1.22 Cumulatively till October 2021, CGTMSE accorded guarantee approvals for 55.68 lakh accounts involving guarantee coverage amount of Rs. 2.87 lakh crore, evidently indicating acceptance and popularity of Guarantee program amongst MLIs. The performance of the scheme during last three years and the current financial year is given in the table below:

Financial Year	No. of Guarantees	Amount of Guarantee (Rs. in crore)
2016-17	4,52,127	19,931.49
2017-18	2,63,195	19,065.90
2018-19	4,35,520	30,168.57
2019-20	8,46,650	45,851.22
2020-21	8,35,592	36,899.39
2021-22 (As on 27-10-2021)	4,23,526	27,864.00

Guarantee Emergency Credit Line (GECL) / Emergency Credit Line Guarantee Scheme (ECLGS)

1.23 Government implements Emergency Credit Line Guarantee Scheme (ECLGS) w.e.f. 23.05.2020, as a relief measure to MSMEs by providing them additional funding of up to Rs. 3 lakh crore in the form of a fully guaranteed emergency credit line. Overall ceiling of Rs 3 lakh crore has been enhanced to Rs. 4.5 lakh crore.

1.24 During FY 2021-22 Budget to the tune of Rs. 10,000 crore were allocated to Ministry of MSME. Ministry of MSME is sanctioning and releasing the funds to the National Credit Guarantee Trust Company (NCGTC), the implementing agency for Emergency Credit Line Guarantee Scheme and being administered by Department of Financial services.

Performance

1.25 This scheme provides 100 per cent credit guarantee cover to Banks and NBFCs on principal and interest. No guarantee fee and fresh collateral is required. Progress under the scheme (as on 12.11.2021) is as follows:

Category	No. of Guarantees	%	Guarantee Amount (Rs. in crore)	%
Micro	1,02,96,333	89	65,771.05	25.01
Small	4,98,509	4	66,349.63	25.23
Medium	2,60,757	2	42,041.38	15.98
Other Business Enterprises	5,37,069	5	88,828.99	33.78
Total	12,96,335	100	2,62,991.05	100

From the above table, it may be observed that 95% of total guarantees have been issued to MSMEs, out of which 89%, 4% and 2% are Micro, Small and Medium Enterprises respectively.

Rs 20,000 crore Subordinate Debt for Stressed MSMEs

1.26 'Credit Guarantee Scheme for Subordinate Debt' of Rs. 20,000 crore was approved by the Government as Distressed Asset Fund -Subordinate Debt for Stressed MSMEs on 1st June, 2020. The scheme was launched on 24th June, 2020 to provide credit facility through lending institutions to the promoters of stressed MSMEs. The promoter would infuse the credit in the MSME as quasi equity or sub-debt.

1.27 Rationale of the scheme is that many MSMEs get financially stressed because of commercial and non-commercial reasons beyond their control. MSME entrepreneurs of

such stressed units find it difficult to bring in this additional equity and that in turn severely constrains the survival of these units. Infusion of capital in such units in the form of equity or sub-debt will be of substantial help in sustaining and reviving the MSMEs which have either become NPA or are on the brink of becoming NPA.

1.28 Under this Scheme, 36 banks got registered as Member Lending Institutions and 18 of them started availing credit. A Portal has also been developed by SIDBI for this scheme. 754 guarantees amounting to Rs. 81.47 crore issued till 23.11.2021.

1.29 This is a demand-driven scheme and meant for a specific set of borrowers, which might be one of the reasons for low off-take of the scheme. Ministry of MSME has been requesting State Governments, Bankers and Industry Associations to create more awareness about the scheme. CGTMSE, the implementing agency has also taken initiatives in this regard. Scheme has been extended up to 31st March, 2022.

Rs. 50,000 crore Equity infusion for MSMEs through Fund of Funds [Self Reliant India (SRI) Fund]

1.30 Government has set up a Fund of Funds with a corpus of Rs. 10,000 crore that will provide equity funding support of Rs.50,000 crore for MSMEs. The Fund of Funds shall be operated through a mother and multiple daughter funds. It will provide equity funding for viable MSMEs. This scheme will help MSMEs to expand its size and capacity and will also encourage them to get listed on stock exchanges.

1.31 Revised operational guidelines of Self-Reliant India (SRI) Fund have been issued on 17.08.2021. NSIC venture Capital Fund Ltd. (NVCFL) has been incorporated to anchor the Mother Fund as SPV. SBI Cap Ventures Ltd. has been selected as Fund Manager/Asset Management Company. Khaitan & Co. has been selected as Legal Adviser for the SRI Fund. Investment policy of the SRI fund has also been approved. For implementation of SRI Fund, Contribution Agreement amongst Ministry of MSME, NSIC, NSIC Venture Capital Fund Ltd. and SBICAP Ventures Limited has been signed.

Other Initiatives to increase the Credit Flow

Monitoring of pending dues through SAMADHAAN Sub-portal

1.32 In AtmaNirbhar Bharat Package, Government had announced that MSME dues should be cleared by the Government agencies and CPSEs within 45 days. To implement it, the MSME Ministry has created a Special sub-portal within SAMADHAAN

portal which was launched on 14th June, 2020, for reporting the dues and monthly payments by Central Govt. Ministries and CPSEs to the MSEs.

This has resulted in clearance of dues of Rs. 77171.82 crore to MSE vendors by Government Ministries/Departments/CPSUs from May 2020 till 24.11.2021.

Champions Portal

1.33 Hon'ble Prime Minister launched "Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength" (CHAMPIONS) Portal on 1st June 2020. The portal is a unified, empowered, robust, and a technology driven platform designed for helping and promoting the MSMEs of the country.

Ministry has setup a Central Control Room in Delhi and 68 State Control Rooms in different States for expeditious redressal of issues faced by MSMEs.

As on 23.11.2021, 40,508 grievances received, out of which 99.50% (40,307) have been replied.

Schemes of Department of Financial Services and SIDBI are:

Pradhan Mantri Mudra Yojana (PMMY)

1.34 PMMY scheme was launched in 2015 to finance income generating small Micro business enterprises. MUDRA, a wholly owned subsidiary of SIDBI, is the monitoring agency for implementation of PMMY.

Performance

1.35 Under PMMY, as on March 31, 2021, cumulative amount of Rs. 14.12 lakh crore has been sanctioned by various lending institutions in more than 26 crore borrower accounts.

Financial Year	No Of A/Cs	Sanctioned Amt (Rs. cr.)	Outstanding Amt (Rs. cr.)
2016-17	39701047	180528.54	138209.31
2017-18	48130593	253677.10	202113.28
2018-19	59870318	321722.79	260128.10
2019-20	62247606	337495.53	267243.58
2020-21	50735046	321759.25	284546.63
Total	260684610	1415183.21	

Standup India (SUI) Scheme

1.36 The scheme aims to extend financial assistance from Rs. 10 lakh to Rs. 1 crore to women and SC/ST entrepreneurs for setting up first green field venture. Every bank branch is mandated to extend assistance at least one woman and one SC/ST entrepreneur under SUI. Under the scheme, Rs.1,768.50 crore have been disbursed to 17,395 Schedule Caste (SC) beneficiaries, Rs. 575.58 crore have been disbursed to 5,890 Schedule Tribe (ST) beneficiaries and Rs.11,451.71 crore have been disbursed to 1,01,896 women beneficiaries. (total Rs. 13795 crore to 1.25 lakh beneficiaries)

Interest Subvention Scheme for MUDRA - Shishu Loans

1.37 As a part of the economic stimulus package, Atmanirbhar Bharat Abhiyaan, on May 14, 2020, Government of India (GoI), had announced 'Interest Subvention Scheme for MUDRA – Shishu loans. The Scheme aims at providing 2% interest subvention to all outstanding Shishu loan accounts under Pradhan Mantri Mudra Yojana (PMMY) that are not NPA category, as per RBI guidelines, as on 31/03/2020. As on November 23, 2021, Rs.556.04 crore granted to Multilateral Instruments (MLIs) benefitting 3.25 crore borrowers.

Fund of Fund for Startups

1.38 Government established Fund of Funds for Startups (FFS) of Rs.10,000 crore with SIDBI for contributing to the corpus of Alternative Investment Funds which in turn would invest to the extent of twice the contribution out of FFS, in startups as defined by Government of India. The FFS is aimed at meeting equity financing gap of small innovation driven enterprises by enabling flow from other sources to startups. As on November 23, 2021, Rs.5,894 crore has been committed to 75 AIFs under FFS. Drawdown of Rs.1,998 crore has been released, which has helped catalyze investment of nearly Rs.7,642 crore in 517 start-ups and generated employment of approx. 2 lakh. The total investment in startups is 3.82 times contribution from FFS as against stipulated 2X.

Snapshot / highlights (Cumulative) as on November 23, 2021

Fund of Funds for Start-ups(FFS)		
Particulars	Amount	No.
	(Rs. Crore)	
Corpus	10,000	--
Commitments	5,894	75 AIFs
Disbursement	1,998	54 AIFs
Total investment in start-ups and no. of start-ups	7,642	517 start-ups
Total Direct and Indirect Employment generated	~2,00,000	

SIDBI Cluster Development Fund Scheme

1.39 As per recommendation of U K Sinha Committee to create a low-cost lending window for State Governments for infrastructure projects in clusters. SIDBI has since launched SIDBI Cluster Development Fund of Rs.6,990 crore to support the State Governments / State Government sponsored Organizations to attend to cluster development from both soft and hard infrastructure. Under the scheme, SIX states and UT viz. Tamil Nadu, Assam, Uttarakhand, Haryana, Bihar & J&K were provided in-principle commitment of Rs.2,297crore. The Bank has setup PMUs in 11 states for smooth implementation of the scheme. Under the soft interventions, diagnostic mapping covering credit and non-financial aspects (skill, marketing, technology, quality, Energy efficiency etc.) of 60 clusters have been completed. Further, 5 clusters [wooden furniture (Jodhpur, Rajasthan), leather (Ambattur, Tamil Nadu), textile (Sambalpur, Odisha), tourism (Jammu & Kashmir) and Innovation start-up (Delhi / NCR) have been adopted for BDS market development, 10 ODOP districts in UP adopted for skilling cum credit cum marketing engagement and 4 Energy Efficiency Cluster in adopted in Bihar.

PM Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi) launched by the Ministry of Housing and Urban Affairs (MoHUA)

1.40 The Ministry of Housing & Urban Affairs (MoHUA) launched the Prime Minister Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi) Scheme on 01.06.2020 to facilitate collateral free working capital loan upto 10,000 to street vendors to restart their businesses, which were adversely impacted during the Covid – 19 pandemic. Further, on timely or early repayment, the vendors are eligible for enhanced working capital loan to 20,000 and 50,000 in second and third tranches, respectively.

Performance

1.41 As on 20.12.2021, 43.56 lakh eligible applications have been received. Out of these, 31.48 lakh loans have been sanctioned and 27.36 lakh loans amounting to Rs. 2,749 Cr have been disbursed to the Street Vendors. W.e.f. 09.08.2021, Street vendors have been allowed to register as Traders on Udyam portal to avail benefits of priority sector lending.

1.42 The Committee deliberated on the subject emphasizing upon the following issues:

(a) Information Gap in the MSME Sector

(b) Providing Collateral Free Loans to the MSME Sector

(c) Credit Gap in the MSME Sector

(d) Delayed Payments to MSMEs and the Solutions

(e) NBFC's Role in Financing MSMEs- Wholesale Financing of NBFCs by SIDBI

The above-mentioned issues have been discussed in detail in the subsequent chapters.

Chapter - II

Information Gap in the MSME Sector

2.1 One of the biggest roadblocks in providing adequate and timely funds to MSMEs is the lack of reliable and consolidated data about this sector. As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there are 6.34 crore unincorporated non-agriculture MSMEs in the country engaged in different economic activities. This means that the government is still working with an MSME data provided to it through a survey that was conducted 5-6 years ago. Worse, since 2017, even these MSME numbers have not been revised, implying India did not add any new entrepreneur or street vendor in these five years, even though, the definition of MSME has been revised in 2020.

2.2 When asked about the lack of updated data on MSME sector, the Department of Financial Services in their post-evidence reply stated as under:

“The MSME survey was conducted 5-6 years ago and in the meantime definition of MSME also underwent changes. In view of this, there is a need for conducting a fresh survey/census so as to estimate number of MSMEs in the country along with assessment of credit requirement for the sector. The last All India MSME census for the year 2006-07 was carried out by the Ministry of MSME in the year 2009 and published in 2011-12.”

2.3 As per data provided by different organizations to this Committee, more than 70% of the enterprises are still not part of the formal economy and functioning as informal entities. This also means that the Government lending schemes are benefitting only a small number of MSMEs and that too with numerous issues. MSMEs which are not borrowing from formal Banking system are either borrowing in proprietor or individual name or are dependent on family, friends or unorganised financiers. Borrowing from unorganised finance market is costly as well as unstable to support growth of MSMEs.

2.4 In this backdrop, a new process of registration of enterprises was started by the Ministry of MSME from 1st July, 2020 known as Udyam Registration, by launching the Udyam Registration Portal.

Udyam Registration Portal

2.5 To facilitate ease of registration, Udyog Aadhar Memorandum (UAM) portal was introduced by the MSME Ministry on 18.09.2015 which replaced the erstwhile process of filing EM-I & II. Total MSMEs Registered, from 18.09.2015 till 30.06.2020, were 1,02,31,452 out of which 89,60,472 (87.58%) were Micro, 12,21,105 (11.93%) were Small and 49,875 (0.49%) were Medium Enterprises. Validity of UAM has been extended up to 31.12.2021.

2.6 To facilitate the process of MSME registration in accordance with the revised MSME definition, Ministry of MSME launched a new portal – Udyam Registration Portal (<https://udyamregistration.gov.in/>), on 01.07.2020. The registration process is free of cost, paperless and digital. As on 30.01.2022, 68,60,854 Enterprises got registered on the portal [65,00,670 were Micro (94.7%), 3,25,521 were Small (4.7%) and 34,663 were Medium (0.5%)].

2.7 With a view to facilitate MSME participation in Government procurement, a link has been provided on the Udyam Registration portal with Government e-Marketplace (GeM) portal. In addition, the portal has linkages with Income Tax, GST and TReDs portals. Government has also provided exemption from the requirement of having mandatory GSTIN as per the provisions of the Central Goods and Services Tax Act, 2017 (12 of 2017).

2.8 Following are some of the incentives to MSMEs for registration on Udyam portal:

- (a) to avail benefits of schemes implemented by the Ministry of MSME;
- (b) to avail benefits of schemes of State Governments/UTs. e.g. Haryana, Bihar, Maharashtra, Jharkhand, etc.;
- (c) to avail benefits of Priority Sector Lending (PSL). RBI has issued a circular dated 21st August 2020, wherein the lending under PSL category is linked to Udyam Registration.

2.9 During the course of Committee meeting with Ministry of MSME which was held on 30 November, 2021, when the Honourable Chairperson asked about the benefits of onboarding Udyam portal for an MSME, Shri B.B Swain, Secretary, Ministry of MSME stated as under:

“Sir, I think that the biggest benefit is that they have started getting the priority sector lending, which definitely is a great benefit. One of the hon. Members raised the issue regarding trades after we have introduced retail trade and wholesale trade into this as to what has been the response? It is almost closing on to 5,00,000 now and it was started just recently. So, we have started registering them in Udyam, and the initial response of 5,00,000 people who have already registered under the trading gate of wholesale and retail. Basically, this means that the priority sector lending again is attractive to them, which is open to them. We will take all actions. Obviously, we understand the concern that this figure has to become much higher. It cannot stop at five. I am hopeful. We will take all actions in this regard.”

UDYAM Assist Platform (UAP)

2.10 SIDBI has proposed a project which envisages ‘UDYAM’ Registration Number (URN) provided by UDYAM portal of M/o MSME to become the fulcrum of formalisation of MSMEs. The URN should be evolved to become Aadhar for MSMEs opening doors for new opportunities for growth and development through access to government schemes and benefits, technology upgradation, process improvement, Market information, more financing options, etc.

2.11 To support the project, SIDBI shall develop an ‘UDYAM Assist Platform’ (UAP) with innovative digital processes and integrations. UAP shall help accelerate by widespread registration of MSMEs (including informal enterprises which constitute more than 95% of the MSMEs in the country) on UDYAM portal. SIDBI is closely connected to a vast ecosystem of Micro Finance Institutions (MFIs), Non-Banking Finance Companies (NBFCs), Business Correspondents (BCs), Banks, Fintech’s, etc. who can support this process. SIDBI also has access to deep data bases viz. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), National Credit Guarantee Trustee Company Ltd. (NCGTC), The SME Rating Agency (SMERA), Prime Minister’s Street Vendor’s Admanirbhar Nidhi (PMSvanidhi) etc. which will be leveraged for this project.

2.12 Thereafter, the registered entities can be provided access to statutory and Governance framework of the country at various levels (Central State and Municipal) using the established platform of UdayamiMitra, thus registering them and making them eligible for benefits under government schemes. They can also be seamlessly connected to the fast-emerging digital ecosystem including platforms like GeM, TReDS,

Invoicemart, other digital marketplaces, etc. The MSMEs can be made KYC and credit ready to allow them access to various options of financial services at various stages of their growth.

2.13 For its above-mentioned project, SIDBI has sought the following support from Ministry of MSME (MoMSME):

- (a) Authorisation to SIDBI for UDYAM Assist Platform: SIDBI has sought necessary authorisation from MoMSME to act as an “Authorised Agency” for MoMSME to enable registration of MSMEs through UAP and providing authority to SIDBI for appointing Designated Agencies (DAs) on UAP.
- (b) Integration of UDYAM Assist Platform with URP: SIDBI has sought necessary approval from MoMSME for integration of UDYAM Assist Platform with URP through two-way APIs to enable smooth data transfer on both sides.
- (c) Financial support for platform development and incentive to DAs: MoMSME has been requested for a budget of Rs 50 crore for implementation of this project by the UDYAM Wing of MoMSME and SIDBI. SIDBI will expend Rs 5 crore to develop the Assist portal and other support for expense towards managing the infrastructure.

2.14 During the course of the Committee meeting with the representatives of CIBIL which was held on 21.12.2021, when an honourable Member inquired about the triangulation of information and asked them as to why they do not do triangulation between availability of information and sanctioning and disbursement of loan applications, Shri Rajesh Kumar, MD & CEO, CIBIL stated as under:

“Out of the whole 6.5 crore MSMEs, what are the digital touchpoints that anybody has? Sure, the small traders will not have GST or be present under GeMSAHAY but these days, all of us are making even the smallest of payments even for street food using a UPI app which means there is a digital touchpoint there. So, we can start looking at payments data. As a credit analyst, I can look at how much transactions happens through UPI and what is the amount, number of transactions, etc. We can start designing small loans for credit limits around that. Then, if you go to a tiny shop also, they are paying some property tax or electricity bill, etc. If we go to the next level where if they have at least ten employees, they file ESIC. If it is more than 20 employees, they file EPF. So, what I would like to propose is, if we look at this whole universe and cut them into data based on their digital touchpoints, and that is what we mean when we say triangulation. I could have somebody who has been filing EPF regularly but if he has a

good two-wheeler loan with the Consumer Bureau, we can put the two together and give confidence to the lender. We spoke about mindset. It has been a bit of self-feeding cycle. The lenders do not have enough confidence because they think that they do not have enough reliable information. It has become a bit of self-feeding cycle. On the other hand, some of the MSMEs do not think it worthwhile that their effort will go through a lot of pains on this side with the large banks. They would rather go the local lender via NBFCs. We also spoke that the small MSMEs may not be taxed heavy. Our proposal would be that if this information is made available regarding utility etc. that I mentioned earlier at the bureau level, we can put all the data together where we do not burden those small MSMEs in sharing that information. Invariably, the most difficult part about getting any loan or a facility from any bank or a lender is a number of things that you have to submit. Times have changed now. We do not have to ask each individual about the pay purse like we used to give when we applied for loans. It is all available in central databases with the right consent architecture. If we have it with regular entities, we should not be troubling those MSMEs. It is very easy then to put it together. Talking about tax heaviness, I think very simple scheme where they run it almost like a regular bank account. They know what limits they are getting; how much they have drawn down. All the rests should be done centrally because this data is available centrally. If we create very easy-to-use Apps just like today we have on the UPI site or in the search engine, we can definitely make it easier if we get this information at a central level and let them just enjoy the small facilities based on the available digital information.”

2.15 Different Organizations/Associations/Banks appearing before the Committee have highlighted numerous issues in current mechanisms to address information gap in the MSME sector and suggested measures to bridge this gap. Some of them are listed below:

(a) HDFC Bank

- (i) Increasing URC registration of MSME's: Out of 6.34 crore MSMEs, only about 69 lakh are currently registered under Udyam portal, as on 30.01.2022. This needs to be increased significantly. MSME's depend on Chartered Accountants or consultants for their administrative work which results into cost for them and their business time involvement. Banks since are lenders to these customers, can be permitted to register MSME's for URC (Udyam Registration Certificate) with their consent which will increase formalisation of MSME's and will also give

opportunity to them to avail benefits available for MSME's. Banks have all requisite information along with document proof.

- (ii) Very Small customers supported by Self Help Group (SHG) group or individuals doing small businesses falling under Micro criterion find it difficult to register for URC and hence are deprived of MSME benefits. 24 lakh SHG accounts were declassified from MSME for want of URC. Hence SHG supported funding can be by default recognized as Micro enterprises.
- (iii) Banks can be given access to government data portal like GST, Income Tax (I-T), Ministry of Corporate Affairs (MCA) through one time consent from customer which is valid till the expiry of the loan. Currently consent is needed every 15 days for pulling information. One time consent-based information flow from GST and I-T portal to the Banks will support GST based and cash flow based lending products for Micro enterprises.
- (iv) Further, some customers have multiple GST numbers under same entity which requires multiple One-time password (OTP) based consent. It is difficult for MSME customers to manage this since they are generally dependent on CA or consultants for filing their returns. GST data download at Pan level instead of each GST number of the entity can be enabled which will smoothen the overall information flow to the Bank to take better calls on proposals. Flow of information from GST, I-T portal and MCA will enable preapproved enhancements or top up loans to customers by Banks to support MSME's growth.
- (v) To smoothen process of lending, digital options will play a major role to make the delivery quicker. Options of digital KYC through Video Customer Information File (CIF) be also permitted for opening accounts and lending to business entities constituted as partnerships firms and private limited companies.

(b) Axis Bank

- (i) GST information for MSMEs is an extremely reliable and useful source of information for underwriting and credit assessment of the MSME borrowers. Currently this data is available through Application Programming Interface (API's), whereby the lender can access the information from the GSTN with the borrower's consent. However, this needs to be done for each instance repeatedly. Hence using this method on a continuous basis for the lender to access the GST information become cumbersome for the borrower. To ease the process, a new process could be developed wherein the MSME borrower could provide a "Standing Instruction" consent, which will allow the lender to get the

GST information from the GSTN on a regular timeframe, till such time as the Standing Instruction consent remains valid.

- (ii) MSME borrowers are either Proprietorship concerns or Partnership firms. Though they file their returns and submit their Balance Sheet/P&L while filing returns, access to this information is not available to Banks while processing their loan facilities (unlike Private Limited Companies where the information is updated in the MCA website). Here, Udyam portal could be used for accessing ITR returns and supporting computation documentation using API's, with the borrower's consent. This will help the borrower provide authentic information in a convenient and digital manner to the lender/Bank for processing their loan requests.
- (iii) In order to ensure faster access to credit, government may consider creating a central repository which includes all customer documents at one place which can be accessed with customer authentication – these could include ITR / GST / Utility / Aadhaar / PAN.
- (iv) A single window/sign-off platform should be available for MSME's to generate Legal Entity Identifier (LEI), URC, GSTN, e-way-bills, PAN Card etc seamlessly without logging into different sites.

(c) Shriram City Union Finance Limited

- (i) The biggest impediment for the flow of credit to MSMEs is the lack of availability of credible information/ data for decision making.
- (ii) No business registration.
- (iii) Limited financial information/ books of accounts, as 96% MSMEs are proprietorships and do not maintain separate accounts of business.
- (iv) Lack of transactional history - no previous credit history with bureau, limited use of banking channel, with prevalence of cash.
- (v) Setup a Nationalised Credit Score for MSMEs: Similar to the unique identification number - Aadhaar, or government provided payment backbone of Real Time Gross Settlement (RTGS)/ National Electronic Funds Transfer (NEFT) and now Unified Payments Interface (UPI) which has created a revolution in payments, the government needs to evaluate a "National Credit Score for MSMEs", especially targeted to those which are proprietorships or are still structured as informal businesses. This credit scoring platform will then encourage various banks/ NBFCs/ Fintechs to bring about innovative lending solutions.

2.16 Views/Suggestions from the Public in general and Experts/Stakeholders/Organisations, in particular, were received against the Press Communique on the subject, which was published on 31 December 2021 in leading Hindi and English national newspapers are listed below:

(a) PARY& Co. (Chartered Accountants), Noida

Centralized data of MSME entities on MSME Portal: There should be a centralized data base for the MSME entities, which will save lots of time and money of MSME entities as well as Government agencies on account of same information to be submitted by MSME entities to the various Government agencies and Banks. If this kind of data is available on MSME portal, then the Govt. entities can extract the data of MSME from that MSME portal and do the needful at their end. In that case MSME entities who are interested to apply for Government tenders has to just give their GST or MSME Registration No. and financial quotation.

(b) Manoj Lal, Chief General Manager, The National Small Industries Corporation Ltd. (NSIC)

There is no institution or mechanism in India which offers real time information about the viable projects which the banks or other institutions are keen to finance. India is a tropical country and based on the regions, topography and the vision of the Government, there should be institutions across the country constantly creating and updating database of projects which can be set up in each district. At a given point of time there should be at least one lakh Projects so that the young people or the existing entrepreneurs, MSMEs can plan to set up enterprises in those areas. This would minimize the recovery efforts of the financial institutions and the credit flow would increase both ways as also take care of the market of the products /services.

Chapter - III

Providing collateral free loans to the MSME sector

3.1 As per iSPIRT Foundation, the Indian financial system does not lack liquidity; it lacks an effective mechanism to disburse loans to MSMEs at low-cost, low-ticket sizes, and low risk. Majority of the loans currently forwarded by the financial institutions, including banks and NBFCs are against collateral. These small lenders are unable to meet the collateral expectation many a times, as a result of which they face extreme difficulty in availing collateral free loans. According to UK Sinha Expert Committee on MSMEs Report, underserved small businesses who are excluded from the formal financial system today due to lack of property or assets to offer as guarantees should still be able to access small sized loans if they can prove future income – in the same way that an individual uses a future salary slip to access a personal loan.

3.2 During the course of Committee meeting with some of the leading NBFCs of the country which was held on 09 December 2021, when an Honourable Member asked them if they take collateral, Shriram City Union Finance Limited stated as under:

“Out of my book, about 30 per cent of the book is unsecured and 70 per cent is collateralised. I am forced to do that. I need to get refinanced from the banks to lend. If I default even in one installment, then all banks will stop lending to me. Apart from all this, the biggest constraint in lending or being faced by a small businessman is being treated on par with the AAA rated customer in default. Given the uncertainties, these small businessmen will face cash flow issues. If there is heavy rain in a month or flood or some family emergency, they will miss payments. It is given that they will miss payments. I actually equate them on a 90-day Days Past Dues (DPD) as an NPA with a AAA customer. To be honest to you, in this business of lending to small businesses for 30 years, I think it is not fair to equate them with somebody who is running a multimillion business.”

Some of the existing Government mechanisms to provide collateral free loans to the MSME sector are detailed below:

(a) Prime Minister Employment Generation Programme (PMEGP)

3.3 Prime Minister Employment Generation Programme (PMEGP) is the flagship scheme of Government of India. Under the scheme, collateral free loans are provided up to Rs.10 lakh to all units financed under the Prime Minister Employment Generation

Programme (PMEGP), which is administered by Khadi and Village Industries Commission (KVIC). Further, on the basis of good track record and financial position of the MSE units, collateral requirement for loans up to Rs.25 lakh is also dispensed with, as per the direction of RBI and the same is covered under Credit Guarantee Scheme (CGTMSE).

(b) Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

3.4 CGTMSE aims to facilitate credit guarantee support for collateral free / third-party guarantee-free loans to the Micro and Small enterprises (MSEs). The Scheme was introduced to provide collateral free loans to MSMEs including first generation entrepreneurs who do not have any collateral to offer. The Scheme covers collateral free credit facility (term loan and/or working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 2 crore per borrowing unit. The guarantee cover provided is with a uniform guarantee at 75% of the credit exposure above Rs. 50 lakh and up to Rs. 2 crore (85% for loans up to Rs. 5 lakh provided to micro enterprises, 80% for MSEs owned/ operated by women and all loans to North East Region).

(c) Emergency Credit Line Guarantee Scheme (ECLGS)

3.5 As part of the AatmaNirbhar Bharat Abhiyaan, Emergency Credit Line Guarantee Scheme (ECLGS) was introduced in May, 2020 as an emergency measure to combat the unprecedented crisis caused in the wake of Covid-19 pandemic. Under the scheme, collateral free credit from Scheduled Commercial Banks, Financial Institutions, Non-Banking Financial Companies is provided to eligible Micro, Small & Medium Enterprise (MSME) units, business enterprises and individual loans for business purposes upto 20% of their outstanding credit upto Rs 50 crore as on 29.2.2020, subject to the account being less than or equal to 60 days past due as on 29.2.2020. This additional credit is fully covered by a credit guarantee provided by the Government through National Credit Guarantee Trustee Company Ltd. (NCGTC). The loans provided under ECLGS have a 12-month moratorium on repayment of principal.

3.6 The Scheme was extended through ECLGS 2.0 for 26 sectors. The entities with outstanding credit above Rs. 50 crore and not exceeding Rs. 500 crore as on 29.2.2020 were made eligible under ECLGS 2.0 subject to the account being less than or equal to 60 days past due as on 29.2.2020. The scope of Emergency Credit Line Guarantee Scheme (ECLGS) was further enhanced through introduction of ECLGS 3.0 to cover

business enterprises in Hospitality, Travel & Tourism, Leisure & Sporting and Civil Aviation sectors. ECLGS 3.0 would involve extension of credit of upto 40% of total credit outstanding across all lending institutions as on 29.02.2020, subject to a maximum of Rs 200 crore per enterprise, to enterprises in these sectors. To address the increase in demand of Oxygen, the scheme was extended through ECLGS 4.0 to provide 100% guarantee under ECLGS upto a limit of Rs. 2 crore for setting up new oxygen plants. Further, with a view to support businesses impacted by the second wave of COVID 19 pandemic, certain modifications have been made in the Scheme, which inter-alia include, additional credit support of upto 10% of total credit outstanding as on 29.02.2020 or 31.03.2021, whichever is higher, to existing borrowers under ECLGS 1.0 & 2.0; credit support of upto 30% of their credit outstanding as on 31.03.2021 to businesses who have not availed assistance under ECLGS (ECLGS 1.0 or 2.0); credit support up to 40% of their credit outstanding as on 31.03.2021, subject to the maximum of Rs.200 crore per borrower, to businesses in sectors specified under ECLGS 3.0, who have previously not availed ECLGS and Incremental credit can be availed within these limits by existing ECLGS borrowers whose eligibility increased because of change in cut-off date to 31.03.2021 from 29.02.2020.

3.7 In the budget of 2022-23, the validity of ECLGS i.e. ECLGS 1.0, ECLGS 2.0, ECLGS 3.0 & ECLGS 4.0 have been extended upto 31.03.2023.

(d) Using GST data for MSME loans

3.8 The traditional lending system by banks is based on financial statements and collateral of the borrower. In order to utilize the opportunity provided by the GSTN portal's electronic interface for the purpose of sanctioning bank loans raised by MSMEs, GST System had provided an option on its portal from October 2018 for GST Registered MSME taxpayers to provide their consent to share certain data with psbloansin59minutes portal for availing MSME loans.

3.9 These features make it convenient for banks and other financial institutions to appraise the genuineness of the business for sanction of loans or bill discounting. GSTN acquires an important role in the working of these schemes by acting as the provider of GST data, on approval by Central and State tax administration, of which it is the custodian, to banks and other financial institutions gathered during registration and e-invoicing.

(e) GST SAHAY

3.10 The UK Sinha Expert Committee on MSMEs Report outlined the need for a 'TReDS second window' that enables MSME sellers to directly apply for a loan without collateral, paperwork, or involving the buyer (which TReDS or other invoice financing apps require) -- using secure GST data on future cash flows. Based on this approach, a new TReDS Second Window app called 'SAHAY' has been designed by iSPIRT Foundation.

3.11 As per information provided by iSPIRT Foundation, SAHAY is a next generation platform for instant digital lending to MSMEs which replaces physical collateral with secure access to GST invoices, and introduces a fully mobile based, end-to-end 5-10 minute process with multiple lenders simultaneously. In an operational pilot using GeM(GeM SAHAY) purchase orders as information on cash flows, SAHAY has allowed MSMEs using any bank account to generate a single digital loan application sent to many lenders, and choose an offer that gets disbursed immediately into their accounts. SAHAY leverages 2 newly created digital networks for scale: RBI Account Aggregator for secure & instant banking and GST data sharing, and the Open Credit Enablement Network (OCEN) making lenders capable of instant loan processing via a single shared application.

(f) GeM SAHAY

3.12 According to GeM portal, GeM SAHAY is an initiative launched by GeM that aims to bring a complete financing solution to its proprietorship partners by assisting proprietorships to avail instant, frictionless financing to serve the Government orders without any hassle. It is expected to provide an end-to-end digital solution, grant loans instantly, uncollateralized, and without requiring the consent of any buyers. As major lending banks are partners with GeM, it is expected to extend loans to proprietorships at the point of acceptance of an order at the best interest rates with easy registration via Udyam and Aadhar, free of charge. No fee is associated under GeM Sahay, apart from the interest rate charged by the lenders. This should help proprietorships in selecting the orders that they would need to share with the lenders for availing of financing – ensuring lenders to offer loan offers on the shared orders in real-time.

3.13 However, these schemes have not been able to achieve their objectives fully and the MSME sector continues to face difficulty in availing collateral free loans. The major issues faced and suggestions for extending collateral free loans to the MSME sector, as submitted by different Organizations/Associations/Banks, are detailed below:

(a) The Southern India Engineering Manufacturers' Association (SIEMA), Coimbatore

- (i) Enhancing the ECLGS scheme to 40% of total sanctioned fund limit be provided to all. Presently it is 30% of the credit outstanding as on 31.03.2021 and 40% of credit outstanding as on 31.03.2021 for those who have not availed earlier. This has to be amended and be made 40% of the total sanctioned limit for all and the balance deducting the availed amount under ECLGS be disbursed as pre sanctioned loan as done in ECLGS 2.
- (ii) Many of our members have expressed concern that even though they are eligible for the ECLGS scheme as per the norms issued by the Government of India, the Banks and Financial Institutions are not providing these additional funds prescribed. Some banks are reducing the sanctioned limit on some excuses and adjusting the ECLGS sanctioned amount with the secondary collateral property value. We request you to set-up a resolution committee to resolve cases of eligible MSME's which are refused sanction of ECLGS limits by Banks and Financial Institutions.

(b) United Cycle & Parts Manufacturers' Association (UCPMA), Ludhiana:

Ease of Collateral security: Banks need collateral security apart from hypothecation of stocks, receivables etc. Banks sometimes ask for 150% of the borrowed amounts as collateral security. Central Government should provide Guarantee for 25% to 50% as collateral security for funding to MSMEs.

(c) HDFC Bank

- (i) Modifications in CGTMSE scheme for MSME's to increase coverage: To further improve the coverage, below suggestions can be considered.
 - Medium enterprises can be included under CGTMSE
 - CGTMSE coverage can be increased from Rs 2 crore to Rs 5 crore
 - Wholesalers are now included under MSME for Priority Sector Lending(PSL) classification to be included in the scheme
- (ii) Difficulty for startups to borrow from Banks: Startups find it difficult to borrow from banks due to lack of business vintage, difficulty in showing required promoters' capital, need of collateral cover and inherent high risk at the start of business. Government guarantee scheme for registered startups can support and encourage entrepreneurs to set up new businesses, take steps to conceptualize and commercialize the ideas.

(iii) Increase commodity pledge finance market by 4-fold. Potential to increase from Rs 25,000 crores to Rs 1 lakh crores: Farmers and agri processors depend on pledge finance for their funds requirement of crop cycle or raw material stocking during season time. Banks does pledge finance with the support of Collateral Managers, financial outsourced vendors, who manage the stocking and quality of goods under pledge. These collateral management companies are currently unregulated which if comes under regulatory framework can infuse more confidence to Banks to reach out to deeper geographies and support farmers and MSMEs through pledge finance. This is very important for the entire value chain since farmers and agro processors are required to provide collateral security to the Banks to mitigate risk whereas pledge finance is collateral free self-liquidating product which gets cleared with sale proceeds of the goods. Collateral managers under the regulatory framework for monitoring will support banks to take better calls on lending and reduce risk of pilferage, fraud and otherwise.

(iv) Low penetration of licensed warehouse and eNWR: To increase penetration of Electronic Negotiable Warehouse Receipts (eNWR) and get more warehouse licensed under Warehousing Development and Regulatory Authority (WDRA), Guarantee from WDRA for licensed godowns and pledge facility may be introduced. State warehouse to mandatorily issue eNWR and support online lien marking.

(d) Axis Bank

Expanding the central government guarantee scheme for MSME (CGTMSE): Currently CGTMSE cover is available till INR 2cr. Government may consider increasing the same to a higher amount of INR 5 crore & include Supply Chain financing.

(e) Jharkhand Small Industries Association, Ranchi

(i) CGTMSE scheme faces the following deterrent:

- Risk premium fee are very high - First year upto 2.25% and 1.75% for subsequent years.
- Private Banks are reluctant to finance under CGTMSE.
- Startups/First generation Entrepreneurs are not entertained who needs the support and hand holding the most.

Suggestion:

- The risk premium fee should be capped at 1.0%.

- Bank wise target should be fixed and monitored by RBI to make it effective.

3.14 Views/Suggestions from the Public in general and Experts/Stakeholders/Organisations, in particular, were received against the Press Communique on the subject, which was published on 31 December 2021 in leading Hindi and English national newspapers. Some of them are listed below:

(a) Jewel india Jewellers, Mumbai

Credit facility are being provided to MSME by various financial institutions, however no collateral or collateral free credit facility is being provided to jewelers / Diamond or Gold traders. Till date banks refuse to help jewelers registered under MSME or small-scale jewelers. Their policy is to grant credit facility to jewelers who are listed in stock exchange and having business turnover of more than Rs. 100 million or more. This practice won't give expansion potential to small or MSME business traders in jewelry.

(b) Solve Plastic Products Pvt. Ltd, Kollam (Kerala)

- (i) Supply Chain Financing (SCF) gives comfort to financiers as the end use of the funds is determined and it is in the interest of both buyer and seller to honour their obligations. This allows MSME borrowers to access bank finances. Corporates and original equipment manufacturers (OEMs) have understood that their future is dependent on multiple constituents. They need to support SMEs by offering multi-tier supply chain finance (SCF) programs that could be run in-house or managed by a third party. An effective SCF program will help mitigate the risk of unpredictable cash flows. SCF is a solution that would offer multiple benefits to the MSMEs and provide them with the required resilience. SCF allows MSMEs to access larger volumes of bank credit based on the strength and volume of their trade transactions. This credit is available at much lower rates than those availed on the basis of strength of their standalone businesses and finances. Corporates in turn benefit from SCF as larger proportions of their supply chain gain access to cheaper and reliable sources of liquidity. This ensures an uninterrupted flow of materials and services from their smallest suppliers to timely delivery of finished goods.
- (ii) The eligibility criteria under ECLGS should be improved to include new borrowers and those MSMEs which had not availed credit earlier. ECLGS

makes only those entities eligible for incremental financing which had availed credit on 29th Feb 2020.

(c) The Federation of Telangana Chambers of Commerce and Industry (FTCCI), Hyderabad

CGTMSE: The limit of Rs.2crore extended by the Hon'ble Prime Minister in 2015 is made available rarely as non-collateral loan. Bank's recourse to guarantee is constrained by the rule of CGTMSE that it should prove to the CGTMSE that it exhausted all means of realization of the loan that includes legal route. This naturally elongates the process and the account that became NPA systemically and otherwise must wait in the books of banks for the guarantee. CGTMSE should develop trust in the Banks and should act as proper insurance mechanism for failed MSEs.

(d) PARY & Co. (Chartered Accountants), Noida

(i) Relaxation on providing NFBCF facilities to MSME entities: There should not be any requirement of collateral security for issue of Bank Guarantee (BG) and other non-Fund base Facility (NFBCF) to the MSME sector and instead this requirement should be shifted to CGTMSE. Further, the charges for issuance and renewal of same should be reduced to some minimum level for MSME entities or at least there should be some rationale behind charging such a heavy charge, like banks are charging around 1.25 % p.a., which means MSME has to pay Rs. 62,500/- for issuance of a BG of Rs. 10 Lakh for 5 years to the Bank, despite of the fact that it is 100% secured from bank point of view. It takes hardly 30 minutes to issue BG and for that they need Rs.62,500/-. Therefore, we suggest that:

- charges on issuance of Bank Guarantee should be reduced;
- Charges should be charged on yearly basis instead of charging the whole amount of 5 years in one go;
- Charges should be variable on the amount of BG, like it should be gradually reduced if it is of heavy amount;
- Charges should be different for different levels of enterprise viz. Micro, Small & Medium enterprises. If possible, these charges should be taken care by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

(ii) Relaxation in EMD & BG requirement in Government Tenders: The EMD and Bank Guarantees to be submitted with the Government agencies by the MSME registered entities should be taken care of by CGTMSE.

(e) MSMEList.com

What we have observed with the study of Market is, there is lack of trust for Financial Institutions for giving collateral Free loans to MSMEs for fear of default and for some MSMEs it may be an opportunity to default deliberately after taking loans which can only be eased if loan re-payment by MSMEs is linked with either mandatory declaration in Income Tax filing or Quarterly / Monthly GST filings of businesses.

(f) Pradeep Bhave, Ex-banker, Mumbai

The premium to be paid to CGTMSE is dependent on the parameters of the Bank. There is opaqueness about the premium chargeable. The Banks only say they shall charge premium as applicable without disclosing the exact structure. If the data of premium is pre known, the borrower could approach that bank where lowest premium is chargeable. Currently, the Deposit Insurance and Credit Guarantee Corporation (DICGC) cover availability is being printed on the Fixed Deposit Certificates. CGTMSE premium, as applicable to a Bank must be disclosed on the website of either the Bank or at CGTMSE for every member bank. The choice of lender must be an informed decision.

3.15 During the course of Committee meeting with leading Public Sector Banks and Private banks which was held on 09 December 2021, when an Honourable Member asked them why the loans are not booked under CGTMSE, Shri Dinesh Khara, Chairman (SBI) stated as under:

“Essentially, what happens is that this cost gets passed on to the borrower and he is not interested in taking this cost. So, he is willing to offer 20 per cent collateral. That is, actually, one of the major handicaps for them to really raise the money. As you rightly mentioned, the banker would like to have security because in case of CGTMSE, the security available is 70 to 80 per cent. That is one. The second requirement is that the suit has to be filed before the claim can be lost. That is another very major hinderance which is, actually, coming in the way. So, on this particular aspect, we are engaging with SIDBI also. We are engaging at individual bank level.”

3.16 The UK Sinha Expert Committee on MSMEs Report suggests replacing physical collateral or guarantee requirements (asset-based lending) with high trust information on an MSME's future cash flow that can be the basis for small size loans used to build creditworthiness over time (called Cash flow lending).

Cash Flow-based lending (CFL)

3.17 As submitted by Punjab National Bank, Cash Flow-based Lending (CFL) envisages a shift in bank's appraisal system from traditional balance sheet based funding to a more objective appraisal system of leveraging cash flows of the unit. In CFL, loan requirement is based on actual revenue generation and capacity to repay. Furthermore, the repayment schedule is based on the timing of the MSME's cash inflows. The advantages of CFL are that the loan amount and repayment are based on the MSME's actual cash generation, reduction in credit risk, reduced monitoring costs for banks, reduction in Turn Around Time (TAT) and ability to serve entities that don't have adequate collaterals. Thus, credit flow to the MSME sector can be strengthened with the adoption of cash flow based lending with digitization of products & processes. This will speed up the process of credit underwriting and faster disposal of credit proposal.

3.18 The different ways of CFL can be explored by the Banks for MSME funding. Some of them are as under:

- (a) Turnover ascertained by the bank based on GST data
- (b) E-Commerce transactions (to provide financial assistance to registered sellers engaged in selling products through online portal of e-trailer platforms)
- (c) Turnover ascertained from digital sales on POS machine
- (d) Lending to hospitality industry through aggregator models
- (e) Supply Chain Finance (dealer financing and vendor financing): Supply Chain Finance (SCF) provides short-term credit that optimizes working capital for both the buyer and the seller. Under this model of financing, all the four stakeholders i.e. Registered Manufacturing Company (RMC)/ Anchor Corporate, Dealer, Vendor and Financier/Bank are benefitted as under:

Dealer/Vendor	Manufacturers	Financier/ Bank
✓ Gets much needed working capital to keep the business running.	✓ Increases cash flow which in turn ensures availability of goods to the dealers/ vendors and for end users.	✓ Gets support from manufacturers in case of default.
✓ Lower cost of funds than other working capital products	✓ Increases sales	✓ Gets proper information of Dealer/Vendor for doing due diligence which in turn help in selection of good borrower.
✓ Increases sense of financial discipline due to short duration	✓ Reduces cost of goods sold (COGS)	

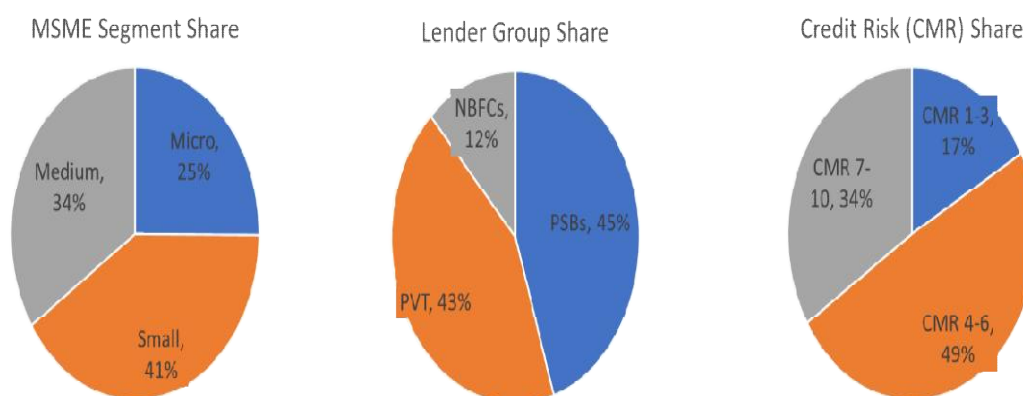
Chapter - IV

Credit Gap in the MSME Sector

4.1 In terms of formalization and access to financial services, the Government data suggest that there are approx. 4.2 crore bank accounts of MSMEs, as in March 2021 and approx. 1.2 crore units are registered under GST. As per data provided by Department of Revenue, out of the estimated 6.34 crore MSMEs, the number of MSME units ever provided credit stood at approx. 2.5 crore. This means that formal credit has ever touched about 39% of the MSMEs. However, as per HDFC and iSPIRT Foundation, out of 6.34 crore MSMEs in the country, only about 1.5 crore (24%) and 0.7 crore (11%) are borrowing from formal Banking system.

4.2 The funding requirement of the MSME sector depends on Working Capital, CAPEX, contingent liability, etc. The MSMEs meet funding needs from Banks/ Financial Institutions (FIs)/ NBFCs, etc. The cost of credit borrowing by MSMEs depends on External Benchmark rate as prescribed by RBI + Spread to be decided by the individual lenders.

4.3 As per CIBIL data as on August 31, 2021, the break-up of Micro (credit exposure upto Rs 1 crore), Small (Credit exposure from Rs 1 to 10 crore) and Medium (Rs 10 to 50 crore) segment share, lender category and credit profile is given below:

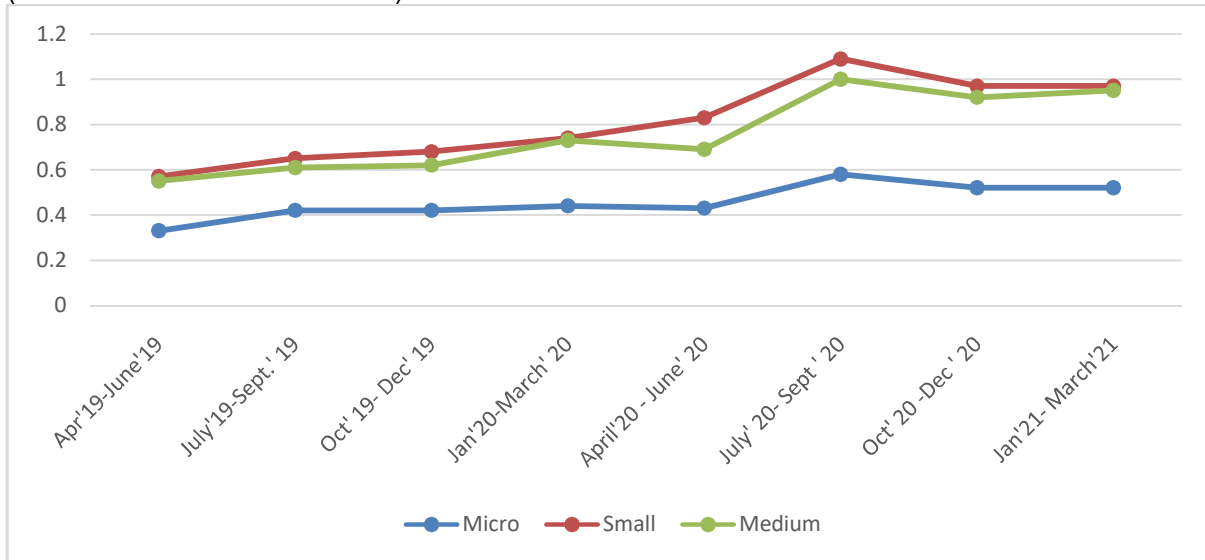


CIBIL MSME Rank (CMR) is credit score for MSMEs. CMR 1-3 are least risk MSME borrowers and classified as Super-Prime, CMR 4-6 are mid-risk borrowers and classified as Prime and CMR 7-10 are highest risk borrowers and classified as Sub-Prime

Source: TransUnion CIBIL and SBI

4.4 As per data provided by Ministry of Finance, in FY 2021, the country disbursed loans worth Rs 9.5 lakh crore to MSME sector, higher than preceding year of Rs 6.8 lakh crore in FY 2020. The rise in MSME lending for FY 2021 was mainly supported by Aatmanirbhar Bharat scheme of Emergency Credit Line Guarantee Scheme (ECLGS) which aims to provide 100% credit guarantee to lenders.

Quarter on Quarter loan disbursed (by value) across MSME segments indexed to Apr-July 2019 quarter (Amount shown in Rs Lakh crore)



(Source: MSME Pulse June 2021)

4.5 Credit Demand and Gap Estimates in the MSME sector

- (a) As per the UK Sinha Expert Committee on MSMEs Report, in India, the total addressable demand for external credit is estimated to be ₹37 trillion (Rs. 37 lakh crore) while the overall supply of finance from formal sources is estimated to be ₹14.5 trillion (Rs. 14.5 lakh crore). Therefore, the overall credit gap in the MSME sector is estimated to be ₹20 – 25 trillion (Rs. 20-25 lakh crore).
- (b) According to International Finance Corporation (IFC) of the World Bank Group Report of November 2018 titled 'Financing India's MSMEs', the addressable credit gap for the MSME sector stood at Rs. 25.8 trillion (Rs. 25.8 lakh crore).
- (c) As per PriceWaterhouseCooper's (PwC) report on "Enhancing the MSME financing ecosystem in India" dated November 2019, MSME overall credit demand and gap by 2024 has been projected at Rs. 98 trillion (Rs. 98 lakh crore) and Rs. 37 - 40 trillion (Rs. 37- 40 lakh crore) respectively, which needs to be bridged by formal finance. Credit gap towards working capital and capex has been estimated to be in the ratio of 70:30. Of this, around 70% of MSME credit gap will be attributable to the manufacturing sector.
- (d) As per CIBIL report, MSME credit outstanding as on March 31, 2021 was about Rs. 20 lakh crore.

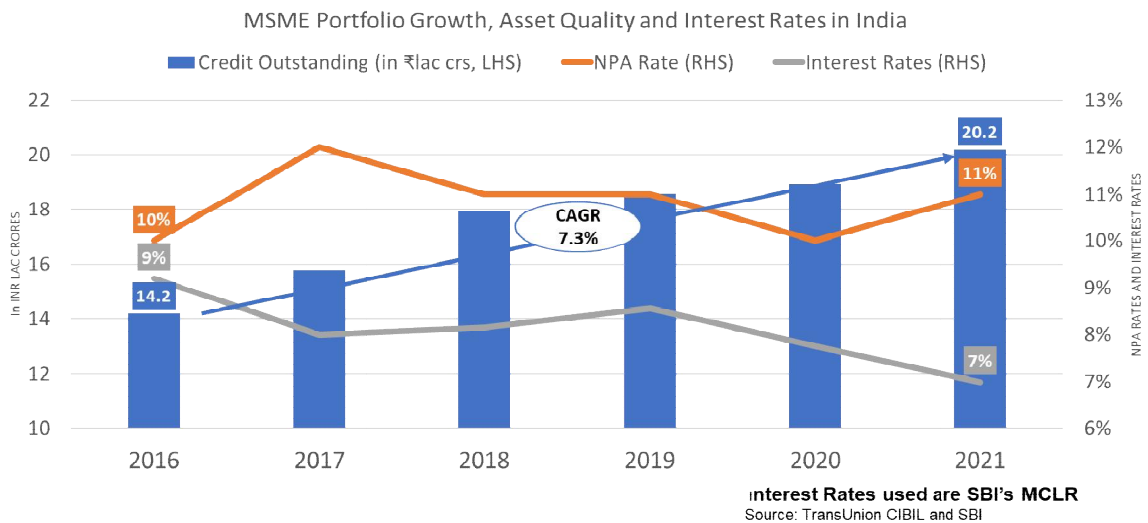
4.6 The above reports highlight the massive credit gap in the MSME sector which is around Rs. 20-25 lakh crore. When asked about the steps being undertaken to address

the credit gap in the MSME sector, the Department of Financial Services in a written submission stated as under:

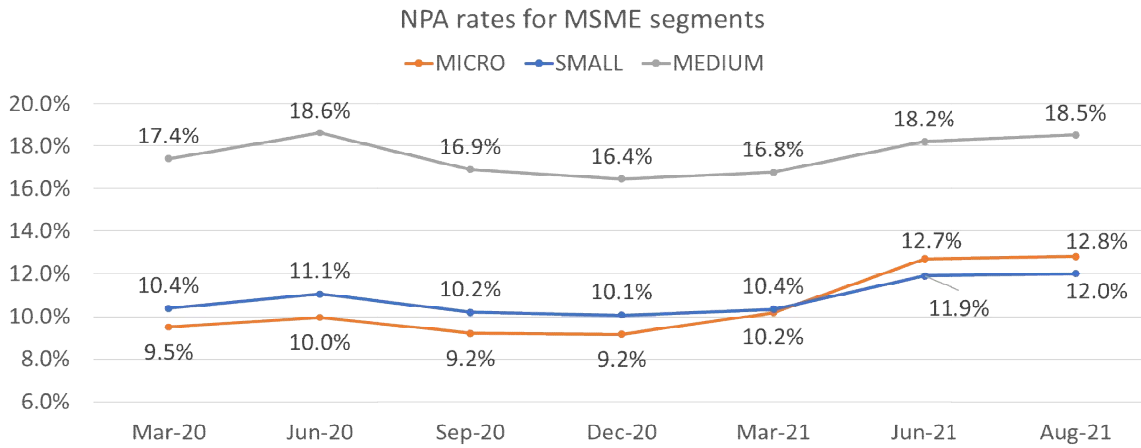
“Emerging digital enablers and Fintechs are expected to help facilitate credit to unserved and underserved needs of MSMEs in all segments. Cash-flow based lending using the public digital infrastructure (Account Aggregators, GSTIN, UIDAI, Credit Bureaus, etc.) is expected to be a big enabler for micro and small businesses. Recent policy changes for TReDS are expected to catalyse operations on all the TReDS platforms and help in increasing volumes on these platforms. National Portal is also proposed to be launched to enable MSMEs to take benefit of credit linked schemes”.

NPA levels in MSME sector

4.7 The trends for MSME credit including outstanding portfolio, Interest rates and NPA for last five years is given below:



4.8 As per TransUnion CIBIL, during two waves of COVID-19 NPA levels of MSME segment were almost same level till March 2021, however, NPA levels have started increasing post second wave of COVID. The increase is more pronounced in the Micro segment. The Government of India and RBI have announced continuation of earlier schemes like moratorium, ECLGS etc. to help MSMEs cope up with the challenges posed by the second wave of COVID.



Source: TransUnion CIBIL

Micro – up to 1Cr, Small – 1Cr-10Cr, Medium – 10Cr-50Cr

4.9 Different Organizations/Associations/Banks appearing before the Committee have highlighted numerous issues in current mechanisms to address the massive credit gap in the MSME sector and suggested measures to bridge credit gap. Some of them are listed below:

(a) The Southern India Engineering Manufacturers’ Association (SIEMA), Coimbatore

- (i) Credit Information Bureau (India) Limited (CIBIL) rating is one of the greatest stumbling blocks. The way rating has been done and the basis of data collection is opaque. A physical and virtual contact mechanism with CIBIL should be established for verification and clarification. This should be with a ticketing system for tracking. For no fault of the applicants, CIBIL scores are shown poor and the applications held up. The applicant has to run from pillar to post to get cleared, this consumes enormous time. The yearly rating of MSME’s by credit rating agencies does not provide any benefit to bank or customers. The credit agency’s work is based on audited financials and provide rating which is always far from reality. With its high cost and minimal benefit, this rating system can be eliminated particularly for MSME’s.
- (ii) Share Capital and Capital through loans from banks remain the options for raising capital. Raising capital through shares remains a tough proposition for MSME’s as the statutory compliances are beyond the present ability of MSME’s. The share capital option can be considered in the long term.

(b) The Coimbatore District Small Industries Association (CODISSIA)

With regard to CIBIL rating, the banks are directly following the report of CIBIL. On our findings, there are number of wrong entries entered in CIBIL, which changes the companies’ overall ratings. When MSMEs approach CIBIL to correct

the wrong entries, it is taking minimum 90 days to correct and after that only banks are ready to accept the new ratings, which is really a hardship for MSMEs.

(c) United Cycle & Parts Manufacturers' Association (UCPMA), Ludhiana

- (i) Higher Drawing Power by Banks: Generally banks keep 25% to 40% as margin money on working capital limits. We suggest these margin money should be reduced to 10% for MSME borrowers, which will help with enhanced credit by 15% to 30%.
- (ii) Mandatory lending to MSMEs: Banks are flooded with liquidity but are not ready to lend money to MSMEs. Banks should be instructed to mandatorily lend a fixed percentage of their big corporate's exposure to MSMEs. This will really help in easing credit availability to MSMEs.
- (iii) LIBOR Interest rates: MSMEs should be allowed to borrow funds like big corporates on London Interbank Offered Rate (LIBOR) interest rates which are presently in the range of 0.10% to 0.20% per annum. After hedging the forex risk, the total cost should not be more than 4.50% for MSMEs.
- (iv) Interest subvention: The MSMEs which are paying their loans and interest on time should be allowed interest rate subvention of 2%-3% like agriculture sector.

(d) Jharkhand Small Industries Association, Ranchi

- (i) MSME's access to comparatively cheaper foreign currency borrowing is limited due to higher default risk premium- Hedging Cost. In order that MSMEs get loans at cheap international rates, we suggest that MSMEs intending to avail foreign currency loans be extended hedging rates at par with top rated large corporate through Government Guarantee/SIDBI/National Small Industries Corporation (NSIC) guarantee so that MSMEs enjoy a level playing field in the business model. This would also help MSMEs to compete effectively in the export front as well. The difference of market hedging rate should be paid through MSME Subsidy.
- (ii) MSME Bank Loan: Personal Guarantee of the Director/ Promoters should be limited to the extent of ratio of shareholding in that company. Promoter insurance with SIDBI support may be explored, like Key Person Insurance at subsidized premium for MSMEs.
- (iii) Interest Subvention Scheme for MSMEs: Government of India had announced Interest Subvention Scheme for MSMEs for the period 01.04.2019 to 31.03.2021 backed by RBI Circular. MSMEs have not been

given the benefit of Interest Subvention Scheme and of late have been informed that in absence of adequate budgetary support the claims are not being entertained. Such action causes mistrust and puts additional strain on MSMEs.

(e) Axis Bank

- (i) Easing the process of security creation for MSMEs: Most MSME's use collateral to support the credit requirement. This involves the cost of incurring Mortgage stamp duty and registration charges, which vary across the country. A special treatment could be provided to the MSME sector so that this cost incurred for accessing credit is lowered for them. MSMEs also face lot of challenges for 'Permission to Mortgage' from various government agencies. A digital/ online process, in Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), for application for Permission To Mortgage (PTM)/No Objection Certificate (NOC) and basis the NOC's from Bank can help immensely to simplify the loan application process.
- (ii) Supporting growth of MSME's: MSMEs often get incentives to set up new units. But in many instances, the incentives are for new companies, and may not be available for new units of existing MSME. This leads to setting up of new MSME entities, rather than new units within the existing MSME. This results in more entities that stay small rather than grow into larger units. Allowing MSME's to get benefits of subsidy on capital expansion in the existing entities, as compared to setting up new entities, will allow them to grow bigger and have better access to credit.
- (iii) Supporting financial literacy among the Micro enterprises: Initiatives to support financial literacy which help explain the importance of good accounting, documentation and prudent financial practises to MSME – especially the micro enterprises – could help them get better access to credit and facilitate their growth.

(f) Credgenics

Push for digital lending: Limited geographic reach of banks is one of the key deterrents to a healthy creditecosystem for the SMEs. The digital lending models of fintechs allow them to establish last-mile connectivity with the MSMEs, and enable them to come up with newer ways to assess creditworthiness through use of advanced technologies such as Machine Learning (ML) and Artificial Intelligence

(AI), along with their ability to utilise alternate data points such as cashflows, GSTN, utilities and payroll payments for underwriting. With the jump in internet penetration and high adoption of platforms like Whatsapp, the ecosystem is well positioned to thrive and should be supported, through policy and investment, to come up with innovative ways to make the distribution of credit to SMEs digital-first stand seamless. Also, we believe everyone in the financial services ecosystem has realised that fintech lenders, rather than acting as competition to traditional banks and NBFCs, will actually just act as partners for them, helping them lend in places where they earlier would not have been able to. Banks should be incentivized to partner with fintech lenders both through ways of business and investment.

4.10 Views/Suggestions from the Public in general and Experts/Stakeholders/Organisations, in particular, were received against the Press Communique on the subject, which was published on 31 December 2021 in leading Hindi and English national newspapers. Some of them are listed below:

(a) Solve Plastic Products Pvt. Ltd, Kollam (Kerala)

- (i) The interest rates being charged on lending to MSMEs should be moderated and Banks should refrain from charging any penal or additional interest on over dues or delays in payment of installments of principal or interest.
- (ii) The Banks should be asked to reduce their margin requirement by 10 to 15 percent on cash credit and Overdraft (OD) limits which would automatically result in eligibility of borrowers across the board to draw additional credit facility without the need for any further security or documentation.
- (iii) NPA classification norms should be changed from 90 days to 180 days or at least classification deferred for one year.
- (iv) Restructuring scheme 2.0 announced by RBI should be enlarged to include all MSMEs which became stressed after 31 March 2020 instead of those who were standard on 31 March 2021. Very few MSMEs would be able to take the benefit of restructuring with the current eligibility criteria.
- (v) There needs to be an "alternative rating mechanism" for the cash-starved MSME sector to help boost credit flow to the sector. Rating agencies currently follow the rules devised for corporates for rating MSMEs as well.

(b) The Federation of Telangana Chambers of Commerce and Industry (FTCCI), Hyderabad

- (i) Cluster Lending: In the context of increasing pressure on banks to lend responsibly and adequately as also in time, banks would do well to extend credit in clusters and industrial estates or industrial parks and in special economic zones (SEZs), that would reduce information asymmetry, provide better inter firm comparison, and render cost-effective monitoring of the credit. Such credit should be at least one percent below the credit for stand-alone enterprises in that category.
- (ii) Term Loan Moratorium: The moratorium for term loans for the manufacturing MSEs should be a minimum of 18 months and a maximum of 24 months or at least six months after commencing commercial production.
- (iii) Working Capital Moratorium: Public sector banks (PSBs) in India open working capital accounts ahead of the units' commencing commercial production. They debit quarterly interest on term loan to the working capital account instead of capitalizing interest in the project cost, making the account irregular or nonperforming assets (NPAs) even before those enterprises become productive. Banks should be, therefore, mandated to operate the working capital only after the trial production starts and not to debit interest amount on Term Loan from working capital account of the entrepreneur. This will safeguard the availability of funds when actual production gets started.
- (iv) In 60-70 % of units declared as NPAs, it is because of untimely sanction of loan or inadequacy in the loan amount sought. In most cases, the enterprise is told to take the loan first under branch manager's discretion and he can later seek revision. Such revision is denied with every succession of the field staff/Branch Manager. While reviving the account annually that is mandatory according to the RBI rules, banks do not consider provisional balance sheets and insist on audited balance sheets.
- (v) Access to credit continues to be difficult for the MSEs because lenders consider them high-risk and expensive supervised-credit. It is good to look at a 2004 report of a working group of Reserve Bank of India (RBI) on flow of credit to 551 (small-scale industries) sector that suggested adoption of the 4-C approach: Customer focus, Cost control, Cross-sell and Contain risk.

(c) PHD Chamber of Commerce and Industry

- (i) Pre-Payment Charges: The Banks charge pre-payment charges up to two-three percent on prepayment of term loans by the borrowers. These prepayment charges are levied as penalties for early payments which is contrary to the spirit of efficiency and honesty exhibited by the borrowers towards discharge of their liabilities. Hence it is desirable that no prepayment charges be levied by Banks for early payment of loans by MSMEs.
- (ii) Rationalization of Income Tax Rates: The recent cut in corporate tax for domestic companies is highly appreciable as it will significantly accelerate investments in manufacturing, open up new employment opportunities and kick start economic growth trajectory of the country. Going ahead, we suggest that the Corporate Tax for Proprietorship, Partnership firms and Limited Liability Partnerships (LLPs) which comprise of majority of MSMEs should also be reduced to the level of 22% for old and 15% for newer enterprises in line with similar tax rates announced by the Government for Corporate entities. In addition, special tax rebates should be provided to the MSMEs which create incremental employment opportunities in the country.
- (iii) Personal Guarantee of Promoters/Directors: The Banks also insist for securing personal guarantee of promoters and directors in addition to primary and collateral securities for the loan which puts an undue burden on the promoters. When the promoters have invested their capital in the company their liability should be limited as per the spirit of the provisions in the Companies Act and Limited Liability Partnerships (LLPs). The Banks, in any case, remain secured by way of primary and collateral securities and hence personal guarantee should not be asked as third security when the loan is secured by way of other collaterals.

(d) PARY & Co. (Chartered Accountants), Noida

Performance base incentives to MSME entities: There should be some incentives to the MSME, if their performance is constantly maintained at good level. The yard stick to evaluate it on the various parameters could be like, regular GST payment, Provident Fund (PF)&Employee State Insurance(ESI) payment, Income Tax payments, Bank Loan Repayments, etc. In that case there should be category of MSME entities, like star exporters have and accordingly the preferences/incentives in the form of Income Tax Exemption, relaxation in Rate of

interest, etc. can be offered to them to recognize their contribution to the GDP and growth of India.

(e) MSMEList.com

- (i) Loans to MSME involve complex documentation procedures, stringent laws, the necessity of collateral, strict repayment tenures and a high rate of interest. Financial institutions have limited their exposure to MSMEs because of the small size of loans, higher cost of servicing and the limited ability of MSMEs to provide security against required finance. Even though MSMEs account for a large share of economic activity, banks are reserved about lending capital to this sector. This has made it difficult for MSMEs to opt for a loan and repeal their dreams of financial independence. Asking Banks / Financial Institutions to co-operate with MSME sectors by relaxing the complex documentations, waiving off the necessity of Collaterals, relaxing the strict repayment tenures and lowering the rate of interests. Income tax return filing of MSMEs should also be linked with their performance / declaration of Loan Re-payment which may install confidence in Financial Institutions for giving more loans to MSME Sector.
- (ii) Educating Banks / Financial Institutions to support MSME Sector by conducting workshops and involving all stakeholders/players in this field. At the same time MSMEs should also be educated for adhering to repayment tenures as prescribed by Financial Institutions for minimizing the defaults.

(f) Pradeep Bhawe, Ex-banker, Mumbai

- (i) Credit to MSME comes under Priority Sector for banks. However, over the past 2 decades the definition of Priority Sector has been considerably widened and Banks find it much easier to grant housing loans based on past history rather than consider Loans to MSME which are based on future projections. Hence there must be specific target exclusively for MSME sector just as there is for Agriculture. Considering the favorable ratio of employment generated verses Investments in MSME, the Government / RBI should consider lower risk weight for credit to employment generating segment, which is MSME.
- (ii) Need to find solution for such accounts which slip into NPA due to reasons beyond the control of the borrower. A

restructuring exercise needs to be undertaken. Extra dose of credit could be necessary.

(iii) Currently maximum tenor (door to door repayment period) of Term Loans by banks is 8 years. This stipulation needs to be studied and longer tenor must be provided by lending banks. Surprisingly, NBFCs show more flexibility about tenors though their rates are higher. With lower cost of funds, why banks should not offer long tenor term loans for fixed assets to MSME, when they can provide housing loans spanning 35 years repayment?

(iv) Like the Ministry of Consumer Affairs “Jago Grahak Jago” campaign, the Ministry of MSME, Ministry of Finance and RBI can enhance Financial literacy amongst MSME entrepreneurs about their rights as borrower to make them informed and responsible borrowers.

(g) B L Chandak, Ex-DGM, SIDBI

Trade Credit (TC) constitutes the prime functional base of working capital of businesses; especially for the unorganised sector. These can facilitate free flow of credit - a necessary condition for resurrection of trade and industry and the progress of Atmanirbhar Bharat. Bank credit channel does not have the bandwidth, institutional milieu, capacity and TC advantages in terms of promptness, convenience, informality, collateral-free credit to replace the role of TC to any significant level. Without attending to TC systemic disruptions, strengthening of banks' capital/credit architecture, monetary measures, relief/stimulus packages and NPA management framework are of limited help.

(h) Naresh Kumar Gupta, New Delhi

Government may issue MSME bond to the public to raise funds for financing the MSME sectors and it will effectively raise a huge volume of funds from the public to provide funds to the MSME sectors at a cheap rate of interest and the funds so raised can be infused to the lending sectors to enable them to provide loans/advances to the MSME sectors.

Chapter –V

Delayed Payments to MSMEs and the Solutions

5.1 Apart from access to credit, delayed payment to MSMEs is another big problem, forcing them to take costly credit from informal sources for meeting their needs. Delayed payments include all such funds which are not able to reach MSMEs on time, be it loans, invoice payments by buyers etc.

5.2 When asked about the provisions made by Ministry of MSME for timely payment to MSMEs, the Ministry of MSME in their post evidence reply stated as under:

“When a buyer does not make payment to the supplier for his supplies, within 45 days of the acceptance of the goods/services rendered, then as provided under Section 16 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the buyer is liable to pay a compound interest with monthly rests to the suppliers which are micro and small enterprises (MSEs) on the amount at three times of the bank rate notified by RBI. As provided under Section 18(1) of Chapter V of the MSMED Act, 2006, any party to a dispute in connection with the Delayed Payments to MSEs, may make a reference to the Micro, Small Enterprise Facilitation Council (MSEFC) of the State / UT concerned where the ‘supplier’ is located. The Samadhaan portal is used for monitoring delayed payments made to MSEs. The Ministry of MSME regularly follows up with State Governments, Ministries, Departments, CPSEs, etc. regarding delayed payments.”

5.3 Similarly, when asked about the due amount to MSMEs that was pending with the CPSUs, the Ministry of MSME replied that the unpaid amount as on 24th December 2021 is Rs. 992.66 crore.

5.4 As per the data provided by RBI, a total sum of Rs. 16,31,621.5 crore are the advances that is outstanding to the MSME sector, as on 30.06.2021.

Outstanding Advances to MSME Sector by Scheduled Commercial Banks (SCBs) (Amount in Rs Crore)

	31-03-2018	31-03-2019	31-03-2020	30-06-2020	31-03-2021	30-06-2021
	O/S Advances	O/S Advances	O/S Advances	O/S Advances	O/S Advances	O/S Advances
Micro Enterprises	5,66,137.92	6,75,200.50	7,46,043.67	7,28,139.51	8,21,027.77	7,17,519.51
Small Enterprises	5,83,215.90	6,38,030.79	6,67,734.90	6,45,305.31	6,62,998.50	6,16,917.69
Medium Enterprises	1,74,885.52	1,97,419.22	1,99,803.60	1,89,796.66	2,99,898.53	2,97,184.38
Total MSME	13,24,239.3	15,10,650.5	16,13,582.1	15,63,241.4	17,83,924.8	16,31,621.5
	4	2	7	9	0	8

Source: RBI, Notes - IDBI included in PSB data till 31/3/2018

Some provisions for timely payment to MSMEs, currently in place are as under:

(a) Trade Receivables Discounting System (TReDS)

5.5 TReDS is an electronic platform for facilitating the financing/discounting of trade receivables to Micro, Small and Medium Enterprises (MSMEs) through multiple financiers. Sellers, buyers and financiers are the participants on the TReDS platform. Only MSMEs can participate as sellers in TReDS and avail bill discounting facility.

5.6 Currently, TReDS platform is already doing bill discounting to MSMEs. It is mandatory for all CPSEs and the companies with turnover of more than Rs. 500 Crore to join this platform. In this system, the Seller/Buyer fill invoice data on TReDs Portal. The Invoices/Factoring Unit (FU) goes to counter party for acceptance and after acceptance by counter party, Invoice/Factoring Unit is pushed for bidding to financiers. As on 19.11.2021, a total of 24,38,372 invoices to the tune of Rs. 54,167.40 crore have been discounted on the TReDS platform since inception.

5.7 Ministry of Finance in a written submission to the Committee has stated that, in current flow, seller has to enter complete details of invoices manually on TReDS platform. One of the recommendations of the Standing Committee on Finance in its 24th Report (Seventeenth Lok Sabha) on examination of the bill sought to amend the Factoring Regulation Act, 2011 in pursuance of announcements by the Hon'ble Finance Minister in the Budget Speeches of 2019-20 and 2020-21 regarding the MSME sector's liquidity problem was integration of TReDS platform with GSTN e-invoicing portal leading to automatic uploading of all GST invoices onto the TReDS platform to enable seamless financing to sellers through factoring of invoices and also to help the financier with information about the seller.

(b) Micro and Small Enterprises Facilitation Council (MSEFC)

5.8 The Micro, Small and Medium Enterprise Development (MSMED) Act, 2006 contains provisions of Delayed Payment to Micro and Small Enterprise (MSEs). Section 15- 24 of the Act requires State Governments to establish Micro and Small Enterprises Facilitation Council (MSEFC) for settlement of disputes on getting references/filing on Delayed payments. Any Micro or small enterprise having valid Udyog Aadhar (UAM) can apply under this Act. The Act requires MSEFC of the State after examining the case filed by MSE unit to issue directions to the buyer unit for payment of due amount along with interest as per the provisions under the MSMED Act 2006. The buyer is liable to pay

compound interest with the monthly rests to the supplier on the amount at the three times of the bank rate notified by RBI in case he does not make payment to the supplier for his supplies of goods or services within 45 days of the acceptance of the goods/service rendered. State Governments are also required to notify (i) Authority for filing Entrepreneur Memorandum (ii) Rules of MSEFC and (iii) Constitution of MSEFC.

As per provisions laid in the Act, every reference made to MSEFC should be decided within a period of ninety days from the date of making such a reference. Further, if the Appellant (not being the supplier) wants to file an appeal, no application for setting aside any decree or award by the MSEFC shall be entertained by any court unless the appellant (not being supplier) has deposited with it, the 75% of the award amount. The Department of Expenditure has issued an OM to the effect that the buyer organization will have to pay penal interest of 1% per month for delayed payment beyond prescribed timeline till the date of such payment;

(c) MSME Samadhaan Portal

5.9 Ministry of MSME has taken an initiative in the form of MSME Samadhaan portal for filing online application by the supplier MSE unit against the buyer of goods/services before the concerned MSEFC of his/her State/UT. These are viewed by MSEFC Council for their actions. These are also visible to Concerned Central Ministries, Departments, CPSEs, State Government, etc for pro-active actions. As per the information on this portal, out of 40,541 cases involving an amount of Rs. 13,816.14 crore filed in Micro and Small Enterprises Facilitation Council (MSEFC) after 30.10.2017 (i.e. after launch of MSME-Samadhaan), 12,737 cases worth Rs. 2358.63 crore has been disposed off till now (as on 15.02.2022). A sub-portal within SAMADHAAN portal (<https://samadhaan.msme.gov.in/>) was launched on 14.06.2020 as an online reporting system for reporting the dues and monthly payments by Central Government Ministries and CPSEs to the MSEs. Similar online reporting system has been devised and put in place for the States' reporting also.

(d) Government e-Marketplace (GeM)

5.10 Government e Marketplace (GeM), facilitates online procurement of common use Goods & Services required by various Government Departments / Organisations / PSUs. GeM aims to enhance transparency, efficiency and speed in public procurement. It provides the tools of e-bidding, reverse e-auction and demand aggregation to facilitate the government users, achieve the best value for their money.

Actions taken by GeM to enable timely payments to sellers are as under:

- (i) Auto-generation of PRCs and CRACs: In accordance with the OM dated 23.01.2020 of the Department of Expenditure, the functionality of auto generation of Provisional Receipt Certificates (PRCs) and Consignee Receipt and Acceptance Certificates (CRACs) by GeM in case these are not generated by the buyer on time, have already gone live.
- (ii) In order to promote greater discipline and timeliness in payment to vendors, it has been decided vide OM dated 03.07.2020 of Department of Expenditure, that whenever a Consignee Receipt and Acceptance Certificate (CRAC) is auto generated or issued by a buyer and payment is not made 10 days thereafter, the buyer organization will be required to pay penal interest @1% per month for the delayed payment beyond the prescribed timeline till the date of such payment. The amount collected in this regard shall be deposited in an account maintained by GeM. This interest will be kept by GeM in a separate account which will be used only for the education of sellers/ buyers etc. or other purposes related to GeM or public procurement with the prior approval of the Department of Expenditure. This is applicable for all procurements made from 01.10.2020.
- (iii) Mechanisms to Monitor Delays in Payment: Real time dashboards have been provided to Secretaries/AS&FA/Chief Secretaries/CMDs of CPSEs to review the payments due.
- (iv) GeM Pool Account: Administrative Ministries/Departments/organizations have been directed to open and operate GeM Pool Account by non-PFMS entities for ensuring prompt and timely payment to vendors. Further, the online integration with payment systems or GeM Pool account will ensure timely payment to vendors.

(e) PSB 59 Minutes Loan Scheme

5.11 It aims to enhance the credit off-take to the MSME sector and individual entrepreneurs. The psbloansin59minutes portal was launched on 2nd November 2018 to facilitate in-principle approval of loans of up to Rs 1 crore (enhanced subsequently to Rs. 5 crore) to small and medium businesses without human intervention.

5.12 GST System had provided an option on its portal from October 2018 for GST Registered MSME taxpayers to provide their consent to share certain data with this system for availing MSME loan. Total 8,31,461 taxpayers have provided their consent to share data under this scheme. As on 21.11.2021, out of the applications processed by

the portal, a total of 2,36,305 loan applications of Rs. 79,149 crore have been finally sanctioned by banks, and in 2,20,106 cases of Rs. 64,544 crore, disbursement has been made.

5.13 The UK Sinha Expert Committee on MSMEs has made certain suggestions with regard to TReDS. These are:

- (a) This Committee deliberated upon scaling up of the TReDS platform and recommended for creation of pooled Application Programming Interface (API) of all TReDS platforms providers that would enable the financiers to understand the past repayment history of buyers, thus enabling them to take more informed decisions. It will also rule out the possibility of dual financing. National Payments Corporation of India (NPCI) which acts as settlement entity for TReDS may consider creating such an API.
- (b) The Committee also observed that reverse factoring has not picked up on the platform, which needs to be promoted due to its inherent advantage. It, therefore, recommended that a second TReDS window should be created for reverse factoring so that supplier financing can be provided easily.
- (c) The Committee had suggested integration between Trade Receivables Discounting System (TReDS) and GeM, whereby invoices which have a certificate of acceptance will be put up for discounting on TReDS platform through an integrated system. This will enable the bill to be discounted, the Public Sector Enterprise (PSE) will get time to make the payment and the MSME supplier will get funds. The integration of GeM and TReDS needs to be completed within a time bound manner.

5.14 Different Organizations/Associations/Banks appearing before the Committee have highlighted numerous issues in current mechanisms to address delayed payments to MSMEs and suggested measures to address such issues. Some of them are listed below:

(a) Jharkhand Small Industries Association, Ranchi

- (i) TReDS is a very effective step for ensuring timely payment to MSMEs on very reasonable terms. However, buyers are reluctant to adopt this technology and route MSME payments through TReDS. It should be mandatorily implemented by all mandated under the law. State Governments, State undertakings and Utilities should be further nudged to implement MSME

payment through TReDS platform. Regular awareness campaigns should be rolled out to increase the usage of the platform.

- (ii) “No Dues of MSMEs” prior to disbursement of subsidy/grant to Large industries/corporates: Disbursement of any subsidy/Grant to large industries/ Corporate house under Central/ State schemes should be linked to clearance of unpaid payment to MSMEs. Prior to disbursement of any subsidy/Grant, it should be ensured that the beneficiary does not have any overdue payment of MSME beyond 45 days. In case of pending overdue payment of MSME, matching amount should be held back till the overdue payment is cleared.
- (iii) Insolvency & Bankruptcy Code (IBC) related to MSME creditors: MSME creditors should be treated as secured creditors and recovered as Government dues when a large industry/corporate undergo IBC. The dues of MSME are already secured under the MSME Development Act, 2006. But under the present provisions of IBC, MSMEs get a very negligible settlement amount. Sometimes this leads to closure or NPA of MSME.

(b) The Southern India Engineering Manufacturers’ Association (SIEMA), Coimbatore

Banking sector particularly the public sector banks’ credit system has to be revamped. The banks need to shun their age old “Approver – Applicant attitude” and consider customers as partner in their progress. This attitudinal change has to be brought in our public sector banks by making them transparent and accountable. A definite timeline for loan application processing and online tracking of applications by the applicant be implemented. This will increase the credit flow considerably, as many applications are kept pending for months by our public sector banks with no reasons assigned. Applicants should be provided the reasons of rejection, reduction of their requested loan amount. An appellate for MSME’s with independent members be created for appeals on rejection or reduction.

(c) United Cycle & Parts Manufacturers’ Association (UCPMA), Ludhiana

- (i) Strict compliance of 45 days payment terms: As per the MSME Development Act of 2006, every buyer is under compulsion to release the payment to its MSME vendors within 45 days. Even Ministry of Corporate Affairs have mandated companies to file its half yearly return on payment of its MSME Vendors but still this has not resulted in payment to MSMEs in 45 days. Sometimes the customer make it compulsory for payment terms more than 45 days say 60 or 75 days which are agreed by the MSMEs out of business

compulsion but MSMEs are not reimbursed with interest cost incurred by them for credit period beyond 45 days. Government need to put more strict control mechanism in place to ensure more liquidity to MSMEs and interest for delayed payment.

- (ii) Availability of 100% financing of Invoices: A credit facility for 100% financing of invoices backed by Guarantee from Central Government should be made available. Under MSME Act, Buyers have been mandated to make payment to MSMEs within 45 days and therefore the MSMEs should be given the facility to discount his invoices for 100% amount of the Invoice without any recourse backed by CG Guarantee. As of now there is no facility like Export Credit Guarantee Corporation of India (ECGC) available to MSMEs to secure their receivables.

(d) Axis Bank

- (i) To ease the issue of regular cash flow through early payment of receivables, government can encourage the adoption of invoice discounting platforms like TReDS, by rolling out awareness campaigns to increase the usage of the platform.
- (ii) Encourage all PSU entities to use the TReDS platform to ease the cash flow of MSME's. Also encourage early payments of MSME receivables from Central Government and State government entities to ensure that the receivables remain short term and can be funded by banks under the working capital facilities. Better cash flows will lead to a reduced burden on borrowed working capital for the MSME's and improve their credit worthiness.

(e) HDFC Bank

Disbursement Turn Around Time (TAT) Reduction from several weeks to less than 2 days for disbursement of loan to MSME's: Banks are able to process digitally from login of documents, credit assessment, issuance of sanction letter and execution of loan documents except for mortgage of property. Digital process of mortgaging and creating digital security creation should be made common across India and should not be dependent on state laws or local jurisdictions. Stamp duties can be collected digitally and over all security creation, if enabled digitally, will reduce time and cost of credit delivery to the customers to a large extent.

5.15 Views/Suggestions from the public in general and Experts/Stakeholders/Organisations, in particular were received against the Press Communique on the subject, which was published on 31 December 2021 in leading Hindi and English national newspapers. Some of them are listed below:

(a) The Federation of Telangana Chambers of Commerce and Industry (FTCCI), Hyderabad

Evangelizing& Accountability: The loan applications of MSMEs should be dealt with in a specific time frame and the date of application should be recorded in a separate register. The entry into such register currently takes place only before the loan is sanctioned. Resultantly, neither the RBI nor the government is aware of the delays in sanctions and the reasons for delay/denial of a loan to MSEs. Instructions relating to delivery mechanism should be made mandatory.

(b) PHD Chamber of Commerce and Industry

Timely release of payments by Govt. departments/PSUs: Payment of bills for goods supplied or services rendered by MSMEs to Government departments and PSUs get considerably delayed. These payments must be remitted well in time without any delays by following strict timelines for the smooth and efficient functioning of MSMEs.

(c) Shreeparasnath Industries

MSME Debtors Payments should be realized within 45 days. If bad debt realization is not completed within 90 days (from the date of bill) the MSME should have power to stop the debtor from Income Tax Credit (ITC) claiming on the G.S.T Portal, which ensures there are no bad debts and MSME also get some relief from bank interest. This will help MSME units to grow.

(d) BhilaiTechneeds, Bhilai

Delayed payment to MSME from PSU as well as large industries is hindrance in the fund flow to MSME. MSME's don't have any access and pressure on the facilitation councils of state and even after submission of all the relevant documents, decisions are delayed for years together due to the reasons best known to the council members and State Governments. There are just no meetings for years together and decisions are held up due to insolvency laws, whose objective is re-organisation of defaulting firm and not recovery of dues of MSMEs.

(e) PARY & Co. (Chartered Accountants), Noida

There are provisions in the MSME Act for compensating the delay payments to MSME but the platform available for the same is practically not very effective and it is time taking process and without any monitoring agencies, which make it merely a facility available on papers. Therefore, we suggest making it more effective, so that MSME entities should get benefited and the matter of delayed payments can be controlled.

(f) Pradeep Bhave, Ex-banker, Mumbai

- (i) Lending against receivables: Banks take 25% to 40% margin while lending against receivables. Thus, it means lending only Rs 60 against a receivable of Rs 100. This Rs 40 kept as margin normally represents 400% of the MSME's profit if we consider that he operates at a decent profit margin of 10% on sales. Invoice discounting on a platform is difficult for a small MSME entrepreneur. Leave aside the idea that once he offers his invoice on the platform, he will get quotes from lenders and that he can choose the best. Adequate post sale funding is a major bottleneck. A comprehensive solution for payment against invoices needs to be found including recourse to invoice funding, which can be backed by Credit insurance.
- (ii) Disclosure by the auditor of a large business entity that there are no overdue payables to MSME is of no use. It has not improved payment velocity. Instead, there appears a standard disclosure by the auditor putting the onus on the owner. If credit/ payment flow to SME is to be improved, it is necessary that the non- MSME sector businesses are mandatorily listed on the receivable trading platform. Unless the name of the buyer appears on the receivable platform, who will discount from the Drawer? Certification has failed to produce results.

(g) Shailesh Bhatia, Delhi

In terms of access to capital, pending or delayed payments to MSMEs should be accelerated. Close monitoring of payments to MSMEs through TReDS needs to be done at a central level and in a well-coordinated fashion. The government is already encouraging MSMEs to on-board TReDS platform, as it offers them an option to discount invoices and raise short-term credit from banks to support their delayed payment issue temporarily. MSMEs should be nudged to go digital and raise all invoices in TReDS to ease liquidity crunches and relieve pressure on their capital constraints.

(h) B L Chandak, Ex-DGM, SIDBI

It is the repayment that completes the recycling of loanable funds and makes the lending activities sustainable. Speed of repayments is critical for a market economy. Disruptions in Trade Credit (TC) channel impact bank credit flows, liquidity funding, velocity of credit circulation and credit creation capacity of the economy. There is a clear relationship between late payment/defaults and the rate of financial sickness.

Chapter - VI

NBFC's Role in Financing MSMEs- Wholesale Financing of NBFCs by SIDBI

6.1 As per RBI Bulletin of October 2017, Non-Banking Finance Companies (NBFCs) have played an important role in the Indian financial system by complementing and competing with banks, and by bringing in efficiency and diversity into financial intermediation. NBFCs have evolved considerably in terms of operations, heterogeneity, asset quality and profitability, and regulatory architecture. As per the RBI Bulletin, NBFCs account for around 9 per cent of total assets of the financial sector, making it the third-largest segment after commercial banks (64%) and insurance companies (14%).

NBFC's role in financing MSMEs

6.2 NBFCs are increasingly being preferred by MSME borrowers as they not only complement but also substitute banks in their ability to reach remote areas, making quicker decisions, prompt services, and expertise in niche segments. Their credit book is about Rs 27 lakh crore and their MSME/ retail trade/ Services/ CV portfolio is about Rs 7 lakh crore. They act as backup institutions when the banking system comes under stress by widening the ambit of financial services and enhancing its resilience.

6.3 Considering the nature of the operation, NBFCs also bear the burden of inherent risks which includes, excess leverage, stripping priority lending sector status from bank to NBFCs, vulnerability to credit risks, inadequate statutory recovery tools, and insufficient benefit from the central banks and amplification of procyclicality. The challenges encountered by NBFCs are several but the RBI has looked into the challenges and made some measurable decisions for non-banking institutions.

6.4 Despite easy accessibility, maximum funding, remote coverage, and improved regulations, NBFCs face a setback of charging a higher rate of interest and processing fees than banks. The interest rates charged by NBFCs vary widely, somewhere between 15-25%, depending upon the rates at which they are able to avail bank loans. This depends upon the viability and credit performance of the NBFCs.

Co-lending by Banks and NBFCs

6.5 According to SIDBI, NBFCs have emerged as an important vehicle for extending credit to MSMEs. Reach and size of NBFCs have increased substantially over the years. Most of the NBFCs use latest technology to generate and underwrite MSME's proposals promptly. However, their cost of funds is relatively higher as compared to banks. On the

other hand, banks follow elaborate processes to extend assistance to MSMEs. Therefore, collaboration between banks and NBFCs was envisaged to extend credit promptly to MSMEs at competitive rates. RBI has introduced guidelines for co-lending by Banks and NBFCs to improve flow of credit to unserved and underserved sectors of economy and make affordable credit. Program has kicked off with partnerships being announced by leading Banks.

SIDBI Operations

6.6 SIDBI is the Apex Development Finance Institution (DFI) for the MSME sector in the country engaged in Institutional Finance, Direct finance and supporting several ecosystems like Micro finance, NBFCs, Venture capital, Ratings, Digital market places, etc. In recent years, SIDBI has been given a bigger role as a vehicle of Government of India for implementing several large programs like PM Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi), Production Linked Incentive(PLI) schemes, National Livestock Mission, Micro & Small Enterprises - Cluster Development Programme (MSE-CDP), Animal Husbandry Infrastructure Development Fund, etc.

6.7 SIDBI as the apex financial institution of MSME sector has undertaken various initiatives in order to address the credit needs of the sector. The total Loans and Advances of the Bank stood at Rs.1,56,233 crore as of March 31/2021, and as of 26/11/2021 stood at Rs.1,57,371 crore.

SIDBI Institutional Finance

6.8 The Institutional Finance book of SIDBI accounts for approx. 10% of the total MSME outstanding credit in country. SIDBI extends assistance to MSMEs through 30 Banks, 9 SFBs, 86 NBFCs and 28 Microfinance institutions (MFIs). Outstanding portfolio under Institutional Finance stood at Rs.1,45,660 crore as on 26/11/2021.

6.9 Need for scaling up of NBFC financing by SIDBI

- (a) SIDBI has been assisting NBFCs for almost 2 decades, albeit on a small scale. Further, only the upper rated NBFCs were targeted under this mainline scheme. In 2018, the Bank had piloted a scheme for Digital/Fintech NBFCs with a corpus of Rs 100 crore wherein NBFCs with rating upto BBB- were assisted. The scheme has since been rolled out as a regular scheme and about 23 Fintech NBFCs have been assisted under the Fintech Scheme. Besides, SIDBI also operates schemes under the Special Liquidity Fund support from RBI wherein NBFCs with 'BBB-' rating and above are being assisted. The Present outstanding in NBFC portfolio

under all schemes stands at Rs 13,000 crore and it is expected to cross Rs17,000 crore by FY 2022.

(b) With the growing need to promote entrepreneurship and job creation in the country, the role of relatively smaller NBFCs and MFIs, which usually operate in remote geographies (including credit deficient, backward and aspirational districts) has come to fore, more than before. These smaller NBFCs, which usually cater to informal MSME sector, especially new to credit (NTC) businesses, small retail trade, micro credit and other small household businesses etc. due to their unique advantage of 'next-door' presence, have always faced challenges in accessing adequate institutional funding. In this regard, SIDBI has already launched a few schemes viz (i) Resource support through double intermediation to NBFCs, MFIs, Banks and SFBs, (ii) Pooled loan issuance, (iii) Financial support to MSMEs through AIF platform, etc.

(c) Addressable NBFC market segment

(i) Non-Deposit taking Systemically Important NBFCs (NBFCs-ND-SI), Investment and Credit Companies (ICCs), Infrastructure Finance Companies (IFCs) and NBFCs-MFI together accounted for 98% of the total asset size in March 2021. In terms of RBI's report – Trend and Progress of Banking in India, certain facts are furnished below:

- Loan and advances by NBFCs – Rs 27 lakh crore
- Loans to MSME, Retail trade, CVs, service sector – Rs 7 lakh crore
- ICCs and IFCs together comprise 96% credit extended by NBFCs
- Bank credit to NBFCs – Rs 7 lakh crore (Loans)
- Borrowings by NBFCs by way of Debentures – Rs 10 lakh crore
- Borrowings of NBFCs from other sources – Rs 7 lakh crore.

(ii) There is, thus, a big scope for SIDBI to have a more scaled engagement with NBFC sector by extending finance to a more diversified category of NBFCs as also capacity building of smaller NBFC players to transform them into strong entities for taking up larger role. In view of the aforesaid, the following portfolio growth strategies are proposed:

- Debt refinancing to other NBFCs: Larger part of borrowings by smaller NBFCs is from other larger NBFCs – either by Term loan (TL) or Non-convertible debentures(NCDs) – which is estimated to be more than Rs 5 lakh crore (out of total of Rs17 lakh crore). Total NBFC credit to eligible sector is about Rs.5 lakh

crore. Assuming 10% of this amount can be refinanced to other NBFCs, it will give fresh business of Rs 50,000 crore. Thus, DI (Resource Support through Double Intermediation) would be the route to scale up assistance to sector.

- Equity infusion in NBFCs (including Fintech NBFCs) – SIDBI can take equity stake in smaller NBFCs with a mission for capacity building of the sector including bringing Corporate Governance in the sector and thereby transforming the smaller and weaker NBFCs into strong and robust financial intermediaries in future. Assuming average Rs10 crore equity in say 100 NBFCs, SIDBI can provide for a corpus of Rs 1000 crore
- Direct lending to smaller NBFCs under Pool Loan Issuance – Rs 5 crore* 100 NBFCs – Rs 500 crore
- Direct lending to larger NBFCs – Rs 10000 crore
- Co-lending – Rs 10000 crore
- Venturing into other areas say Infra financing NBFCs: The outstanding Loans and advances of IFC (Infra Financing NBFCs) was Rs.12 lakh crore as on March 31, 2021. Many of them are also in green segments like solar, renewable energy, etc. There is a strong push by the GOI for infra development and strong linkages of infra development with the MSME sector growth. Hence, if SIDBI could refinance even about 5% of the IFC NBFC portfolio, it would be able to provide assistance to the tune of Rs. 50,000 crore.
- Coverage of Medium scale units under Refinancing to NBFCs.
- Consider on-lending as major channel under the existing mainline scheme of SIDBI for supporting NBFCs
- Considering financing of Housing Finance Companies(HFCs) and Gold loan companies against their MSME portfolio
- Asking Government of India to bring Guarantee scheme for NBFCs (including Fintech NBFCs) operating in smaller and credit deficient areas
- Playing our developmental role, SIDBI may also consider providing first loan default guarantee (FLDG) for financing of NBFCs.

6.10 The UK Sinha Expert Committee on MSMEs has made wide ranging recommendations for expanding the role of SIDBI. These are:

- (a) The Government should deploy the PSL shortfall to SIDBI on the lines of RIDF fund of NABARD, for lending to State Governments as soft loans for infrastructural and cluster development.

- (b) SIDBI should deepen credit markets for MSMEs in underserved districts and regions by handholding private lenders such as Non-Banking Finance Companies (NBFCs) and Micro Finance Institutions (MFIs).
- (c) Further, they must develop additional instruments for debt and equity which would help crystallise new sources of funding for MSMEs and MSME lenders such as first loss guarantees, Pass Through Certificates (PTCs), etc.
- (d) SIDBI should gradually take on the role of a market maker for SME debt on select platforms.
- (e) SIDBI, as a nodal agency, should ideally play the role of a facilitator to create platforms wherein various Venture Capital Funds can participate and in turn create multiplier effect for providing equity support to MSMEs. A Government sponsored Fund of Funds (FoF) to support VC/PE firms investing in the MSME sector should be set up to encourage them to invest in the MSME segment.

6.11 During the course of Committee meeting with some of the leading NBFCs of the country which was held on 09 December 2021, when the Honourable Chairperson asked them about their thoughts on opportunities for improvement from a policy perspective with regard to NBFC financing, Shriram City Union Finance Limited stated as under:

“One thing definitely is: How do I assess a customer and lend? That is where it comes to lot of my effort that goes in. You go and spend time with the customer, understand his cash flows, work on certain things and then build a score for him. As we have said, if we can try to set up a separate credit scoring mechanism at the national level for MSMEs, it would definitely help us in pushing the credit. When we are lending to these people, the cost of my borrowing is also one factor which is making me to price it slightly higher. So, if the banks can look at lending at a lower rate, specifically to lend to MSMEs, it would definitely help. Today, only after we fund, banks lend money to us. If it can be an onlending process, it will be easier for NBFCs to push credit into the market. Most of the banks lend to us on collateral. They ask us what is the collateral that is backing our loan.”

6.12 Views/Suggestions from the public in general and Experts/Stakeholders/Organisations, in particular, as received against the Press Communique on the subject, which was published in major Hindi and English newspapers on 31 December 2021.

- (a) Solve Plastic Products Pvt. Ltd., Kollam(Kerala)

- (i) Banks provide loans to NBFCs for on-lending to MSMEs with the responsibility of recoveries resting on NBFCs. Such loans to NBFCs were earlier being classified under the Priority Sector by Reserve Bank of India. Since April 1, 2011, the Reserve Bank of India made all loans sanctioned to NBFCs (other than MFIs) for on-lending to Micro and Small enterprises ineligible for classification as direct or indirect finance to MSME sector. On representations from the sector, through the RBI in 2019, RBI allowed restoration of PS classification but only up to credit of Rs 20.0 lacs per borrower. It is therefore recommended that all loans given by banks to NBFCs for the purpose of on-lending to Micro, Small and Medium Enterprises should be treated as indirect finance to MSMEs eligible for classification under the Priority Sector lending of banks as per the policy prevalent prior to 2011.
- (ii) Credit Insurance should be introduced by IRDAI through the Insurance companies to mitigate the risk perception of NBFCs and Micro Finance Institutions in order to accelerate the flow of credit to MSME sector particularly the Micro enterprises.
- (iii) Role of SIDBI: - SIDBI is a dedicated bank for the small businesses since the time IDBI was a large term lending institution. SIDBI announces finest priced schemes for target segments. Live example is SHWAS for medical professional. Rate of interest is 4.5 to 5% not offered by any SCB. However, SIDBI's reach is limited. E.g., in the entire Mumbai Metropolitan Region (MMR), it has just 2 branches. One in Vasai and another in Thane. The role of SIDBI needs to be defined to see if it would serve better purpose if SIDBI acts as a refinance agency for the Banks adopting their scheme terms. Since expansion of network is costly affair, reaching out to target segment can be achieved through refinance/Agency arrangement route.

MSME Credit Card

6.13 As per SIDBI, a branded MSME Credit Card for the MSMEs could be conceptualised to provide them an easy and convenient access to credit on which various benefits like interest subvention of say 2-3 percent by Government of India could be offered. Other benefits could also be planned through the card. A limit of 5-10% of the credit limits of the Institutions could be encouraged through the card for bonafide business expenditure. New to credit (NTC)/ Informal customers, once formalized, could be offered small value limits through the card. Other benefits could also be offered through suitable linkages to the card. A detailed plan could be prepared for this in consultation with leading banks.

6.14 When this Committee suggested that a Kisan Credit Card like card/scheme for MSMEs (Rs. 50,000 - Rs. 1,00,000) should be started, the Department of Financial Services in a written reply stated that several Banks are already providing MSME Credit cards / LaghuUdyami Credit Cards to eligible MSME borrowers, including PMMY borrowers.

PART - II

OBSERVATIONS/RECOMMENDATIONS

1. The Micro, Small and Medium Enterprises (MSME) sector is the backbone of Indian economy. As per MSME Ministry data, this sector consists of a vast set of an estimated 6.34 crore enterprises, contributing about 45 percent to manufacturing output, more than 40 percent of exports, about 30 percent of GDP while creating employment for about 11.1 crore people, which stands next only to the agriculture sector.

This sector is instrumental in growth of the nation, driving exports and creating huge employment opportunities in every nook and corner of India. In view of its significance, the Government seeks to provide adequate and timely financial support to ensure sustainable growth for MSMEs.

The Committee appreciate the increase in budgetary allocation for MSMEs from last year's (FY 2021-22) Rs 15,699.65 crore to Rs 21,422 crore now (FY 2022-23), which is an increase of 26.71%. However, there is still a significant credit gap for the MSME sector and unmet demand remains substantial. As per the UK Sinha Expert Committee on MSMEs Report, the overall credit gap in the MSME sector is estimated to be ₹20 – 25 trillion (Rs. 20-25 lakh crore). The Committee therefore recommend a time-bound road map to accurately estimate and then bridge this credit gap with appropriate policy measures and focused interventions. Along with the credit gap, the MSME sector is often not able to borrow at globally competitive rates since there is not sufficient and affordable financing available

to financial institutions that target the MSME sector. MSME enterprises also have to contend with delayed and erratic payments from their customers, which makes working capital management and financing very difficult. Since few MSMEs have sufficiently predictable cash flows or have substantial collateralisable assets, it becomes difficult for MSMEs to access affordable financing to operate and grow their businesses.

2. A major roadblock in the growth of MSME sector is the lack of reliable data about enterprises operating in this sector. The Committee notes that the last MSME survey was conducted by National Sample Survey Office (NSSO), Ministry of Statistics and Programme Implementation in the year 2015-16 i.e., 6 years ago. In the meantime, the definition of MSME itself has undergone changes in 2020. Therefore, the Committee strongly recommend that survey/census of MSMEs in line with the changed definition, be conducted at the earliest so as to estimate the actual number of MSMEs in the country along with realistic assessments of their credit requirements. This survey should be conducted regularly and, in addition, SIDBI can develop a fact-based MSME Annual Financing Report to guide policies and investments.

3. The Committee note that, as per Government data, out of 6.34 crore MSMEs, less than 40% borrow from the formal financial system. This means that a significantly large number of these enterprises remain outside the ambit of formal finance to meet their credit needs. MSMEs which are not borrowing from the formal financial system are borrowing from the unorganised finance/sector which is costly as well as unreliable. Therefore, the Committee are of the firm

view that formalisation of the MSME sector needs to be accelerated to promote their growth.

4. As per the NSS 73rd Round Survey (2015-16) Report on Micro, Small and Medium Enterprises, micro sector with 630.52 lakh estimated enterprises accounts for more than 99 percent of total estimated number of MSMEs. The Small sector with 3.31 lakh and the Medium sector with 0.05 lakh estimated MSMEs accounted for 0.52% and 0.01% of total estimated MSMEs, respectively. Further, out of the 633.88 lakh estimated number of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural area and 309 lakh MSMEs (48.75%) are in the urban areas. The gap in information about MSMEs is greatest for micro enterprises and those that belong to rural areas.

The Committee note that effective July 2020, the Government of India revised the definition of MSMEs and to facilitate the process of MSME registration in accordance with the revised definition, Ministry of MSME launched a new portal – Udyam Registration Portal. In a written submission to the Committee, the MSME Ministry informed that Udyam Portal has already been linked with the Government e-Marketplace (GeM), Income Tax, GST and Trade Receivables Discounting System (TReDS) portals.

The Committee believe India's public digital infrastructure projects have been an outstanding success over the last decade and can be a powerful enabler for expanding formal MSME lending. India has shown it has the capability to design and build world-class public digital infrastructure over the last decade with

projects like BHIM UPI (enabling 4+ billion instant digital payment transactions per month); Direct Benefit Transfers (Rs. 3.81 lakh crore sent directly to beneficiaries' bank accounts in 2019-20); Aadhaar, eKYC, and Aadhar Enabled Payments System (Digital ID for over a billion adults, 44.7 million new bank accounts opened digitally, and biometric-based money withdrawal for 150 million people in small towns); FastTag (streamlined toll charges & parking collections), COWIN, etc.

The Committee's review into current lending processes brought out that existing MSME credit schemes would benefit from a robust, integrated digital ecosystem. This digital ecosystem would solve multiple challenges associated with MSME financing including physical collateral requirements, lengthy approval/verification processes from buyers or lenders, long bank branch queues despite a digital pre-approved loan, paper-based loan applications, web portals designed for desktop access, a limitation to existing bank customers, etc.

However, the Committee still feel that whatever data is there with regard to MSME sector, they exist in a fragmented manner and there is no real integration across multiple datasets. Hence, the Committee are of the opinion that to bridge the information gap in MSME sector, the Udyam portal could be developed to act as the one-stop central data repository for the MSME sector. Such a database could then be accessed by lenders, after getting MSME borrower's consent, to extend timely credit to them. The Committee are of the view that the Udyam portal should further be linked with other databases such as CIBIL data, Utility bills data etc. to bridge the information gap in the MSME sector.

5. The Committee note that SIDBI has proposed to develop an UDYAM Assist Platform (UAP) with innovative digital processes and linkages to other digital services. This UAP would help in accelerating widespread registration of MSMEs (including informal enterprises which constitute more than 95% of the MSMEs in the country) on Udyam portal. The Committee further note that SIDBI is closely connected to a vast ecosystem of Microfinance Institutions (MFIs), Non-Banking Financial Companies (NBFCs), Business Correspondents (BCs), Banks, Fintech's etc. and it also has access to deep data bases viz. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), National Credit Guarantee Trustee Company Ltd. (NCGTC), The SME Rating Agency (SMERA), Prime Minister's Street Vendor's Admanirbhar Nidhi (PM SVANidhi) etc. Therefore, the Committee are of the opinion that keeping in mind SIDBI's wide network and deep access to data bases, it could be made the nodal agency for Udyam value-added financial applications.

6. The Committee note that the payments sector made the transition from first generation physical processes at bank branches, to second generation processes which combine 'web' and physical processes, to finally third generation mobile-first, simple, and inclusive UPI which has scaled up to 4.5 billion transactions per month as of December 2021. The Committee envision that India needs a 'UPI for MSME Lending' to introduce a similar next generation experience that creates a fully mobile-based, easy, immediate, contact-less, paperless, and low-cost way for all formal MSMEs to access small-ticket working

capital loans. A digital solution could reduce frictions enough to turn the tables, forcing financial institutions to compete for MSME loans.

To enable this digital vision of MSME credit to come to life, the Committee believe that information needs to be used to replace physical collateral: this is 'cash flow lending' or 'flow-based lending'. The Committee acknowledge the insight of the UK Sinha MSME Committee Report of 2016 that India does not lack liquidity for MSME financing; rather the processes and credit distribution methods need to change from asset-based lending that require physical collateral to CFL lending based on information, with low transaction costs. While most lenders may not be comfortable sanctioning large loans to a business over a 5- or 10-year period without collateral, unsecured small ticket loans over a 60- or 90-day period can be profitable if the transaction cost for the lender can be brought down enough. MSMEs can then build the credit history for larger ticket sizes gradually over time.

This digital ecosystem leads to several important benefits. First, it reduces transaction costs of the process to make small ticket loans viable. Second, it increases trust in information and claims made virtually, via digital signatures, authentication, real time data sharing rather than delayed sharing, etc. Third, it creates a single, powerful ecosystem for digital lending with full interoperability across all actors involved in all phases of the lending process to remove entry barriers and proprietary walls. Fourth, it removes the need for multiple bilateral/exclusive partnerships to share data; allowing an individual MSME to use a single deposit account to access loans from multiple institutions, etc. Fifth, it

increases competition, affordability, and choice by creating visibility of loan offers in a remote, real-time manner, lowering interest rates and placing power in the hands of MSMEs selecting an offer rather than financial institutions.

And, finally, it leads to inclusiveness for all kinds of MSMEs. Digitally powered flow-based lending would allow even small shops to access formal credit inclusively. Moreover, the burden of sophisticated technology updates should be on entities (financial institutions, for instance), while the individual or MSME-facing loan applications should be simple to use, and inclusive for individuals at all levels of digital literacy. Open standards ought to allow voice based, assisted, and multilingual experiences.

7. The digital building blocks required to make each step of the process instant & paperless are now largely in place. The Committee welcome the progress over the last 5 years by various departments including the Ministry of Finance, the Reserve Bank of India, GSTN, NSDL, MSME Ministry, MeITY, and UIDAI in introducing key digital building blocks required to reduce the transaction costs of lending and improve access to new alternate data sources that can be the basis for cash flow-based lending for small businesses.

There are various building blocks for the integrated digital ecosystem:

- GSTN owned by the Department of Revenue in the Ministry of Finance is both a digital business identifier (GST certificate) and a trusted central registry of business invoices indicating future cash flows.

- **Account Aggregators** were introduced by the Financial Stability and Development Council and are regulated in the Banking sector by the Reserve Bank of India. The AA framework creates a secure means to digitally share financial data (bank statements, invoices, etc.) between different institutions in a secure manner.
- **Account Aggregators** required introduction of the MeITY Consent Artefact which was a common digital standard of APIs to communicate consent of an individual to share a granular piece of data for a specific purpose.
- **Open Credit Enablement Network (OCEN):** OCEN is a community-based digital standard that enables a person to share a single cash-flow based loan application to multiple lenders and get a personalised loan offer back in real time.
- **Aadhaar eSign:** eSign built by UIDAI is a public digital service allowing an individual to provide a simple, easy to use digital signature for a loan agreement at a low cost using just their Aadhaar number and associated mobile.
- **Unified Payments Interface (UPI) and UPI AutoPay:** UPI managed by NPCI can be used to disburse small ticket loan funds directly into an MSME's bank account. Its scale up to 4.5 billion transactions per month has also resulted in informal cash transactions switching to formal 'digital footprints' in bank accounts, creating further proof of cash flows. UPI AutoPay is a service that allows set up of recurring payments (eg. loan repayments) using a mobile UPI PIN authentication.

- **eNACH is another payments service managed by NPCI which can be used to set up and manage recurring mandates of larger transaction limits.**
- **Udyam is operated by the MSME Ministry and provides a certificate of registration for all MSMEs including their name, sector, key partners/directors, and data corroborated by the IT department on turnover of the business.**
- **PAN is a card-based taxpayer business ID given to individuals and entities registered as partnerships, LLPs, Private Limited Companies, HUFs, etc. As a common identifier collected both by financial institutions and GSTIN, it allows for corroboration that GST invoices and bank statements are referring to the same individual or entity.**

8. The Committee believe the FSDC-led Account Aggregator framework for which RBI introduced Master Directions has a high potential to enable secure and instant sharing of banking data and GST data. The Committee note that the Account Aggregator framework has been growing very rapidly since its launch in September 2021. The Committee believe the Account Aggregator framework can improve many aspects of the MSME Lending system including inclusive access to credit, fraud prevention, and improved monitoring and NPA reduction.

The Committee note that after the Budget announcement of 2020 stating that, ‘an invoice financing app will be launched’, the Department of Financial Services developed a flagship application to increase cash flow lending known as SAHAY GST. The Committee have learned that SAHAY GST combines the digital infrastructure building blocks referenced above to provide instant digital lending

to MSMEs based on secure access to GST invoices and introduces a fully mobile based end-to-end 5–10-minute process with multiple lenders simultaneously. The Committee note that the SAHAY application using the OCEN infrastructure has been built, tested, and piloted with loans disbursed as small as Rs. 160 and as large as Rs. 5.5 lakh, and that it may have a lending potential of 3 lakh crore in the next year alone, going up to 10-15 lakh crore by 2025. The Committee note that RBI and Ministry of Finance (Department of Revenue) have had discussions in 2020 to allow GST information to flow securely to lending institutions by bringing it into the Account Aggregator network. The Committee also note that if working capital lending were to take off based on GST invoices, it would not only allow MSMEs to grow quickly and generate jobs, but also encourage formalisation and GST registration of businesses.

9. The Committee note that now that most of the key digital building blocks required to scale up MSME lending are in place, four policy and technology updates can accelerate scale up flow-based lending via SAHAY GST.

First, the Committee recommend the Ministry (Department of Revenue) and the Reserve Bank of India close out their 2020 discussions with the required technology and regulatory updates to bring GSTIN formally into the Account Aggregator framework to allow regulated entities to access GST data with individual consent. The Committee believe that regulated Entities in the financial sector (Banks, NBFCs, etc.) need to be able to access GST data securely via regulated Account Aggregators to sanction loans based on future revenue. This access would enable many apps such as SAHAY, TReDS, PSB 59, or others to

use GST data for lending with the consent of businesses. This may require RBI to update its definition of Financial Information Providers in the Master Directions on Account Aggregator to include GSTIN and affiliated entities. This may also need the Ministry (Department of Revenue) to authorise GSTIN to make necessary technology changes for GST data access, such as incorporating the Financial Information Provider technology module Version 1.1.2 as per ReBIT specifications.

Secondly, the Committee recommend that the members of the Financial Stability and Development Council (RBI, SEBI, IRDAI, PFRDA, and the Ministry) encourage and accelerate adoption of Account Aggregator standards across all regulated entities, and indirectly monitor progress of adoption as part of financial inclusion efforts.

Third, the Committee recommend that the Ministry (Department of Financial Services) focus on encouraging public sector banks, public sector insurers, public sector pension funds, and public sector depositories to adopt the Account Aggregator standards. The Committee strongly believe that scaling up to universal adoption of Account Aggregator beyond the small set of large financial institutions that have already adopted will create powerful network effects for financial inclusion, access to credit, and economic growth and ensure the benefits reach individuals not banking with the largest institutions. This will allow more individuals and MSMEs to share their financial information with lenders and improve their access to flow-based credit based on their data. Actions taken by

regulators could include setting a time-bound adoption phase for REs, and monitoring progress via industry associations.

Fourth, the Committee believe that small changes to Udyam and GST certificates will allow them to be universally relied on by financial institutions as KYC documents and reduce the cost of MSME due diligence. Unfortunately, businesses do not have access to a fully digital KYC process today; many of their identification documents (e.g., Company articles of incorporation, partnership deeds, etc.) are still physically provided and verified. The Committee believe that updating and digitising KYC processes is key to increasing volumes of safe, small ticket lending at low unit costs for lenders. As per the RBI Master KYC Guidelines (Paras 27, 28 and 29 set forth in Part 2 of the RBI KYC Master Directions 2016) requires in addition to Customer Due Diligence source 2 digitally signed documents, even for sole proprietorships. The documents specified are not available digitally. The Committee recommend that: (1) The Udyam certificate managed by MSME Ministry may be issued in digitally signed form that allows lenders to access it with high trust and may add API-based machine-readable access; (2) in the case of the GST Certificate managed by the GSTIN, the Committee acknowledge that it is already issued in digitally signed form. The Committee recommend adding API-based machine-readable access and including the PAN Numbers of partners and directors in addition to their names so as to enable them to authenticate on behalf of the MSME entity they are affiliated with to enable smoother entity KYC.

Finally, the Committee recommend the introduction of enabling business KYC reforms and utilities to create inclusive, frictionless, and safe access to financial services for all at low cost of customer due diligence. The cost of repeating an entity KYC is high, redundant, and precludes small ticket loans from being offered. Enabling KYC reforms by the Ministry could frameworks such as Derived or Foundational KYC (which could be enabled by a PML Rules Update) allow a lender to rely on the KYC done by an existing bank account holder based on KYC parameters shared in digitally signed form. The Committee note that it is important to shift away from per transaction KYC towards system-wide KYC in a way that secures both data and money flow. Alternative frameworks which meet the criteria of solving for real-time, secure, low-cost, and AML risk reducing once-only KYC may also be considered.

The Committee believe that these technology and policy updates will allow the Ministry of Finance (Department of Financial Services) to accelerate the launch of the flagship cash flow lending application known as SAHAY GST in the immediate term to make low-cost small ticket loans based on GST invoices a reality for 5-8 lakh crore of new formal flow-based lending.

In a future phase, additional actions can allow further scale up of MSME Lending to 15-18 lakh crore including: (1) enabling KYC reforms could also include adjustments by the RBI such as increased transaction limits for eKYC; (2) introducing Buyer Ratings for buyers on GSTN will introduce more information on the buyer's payment timelines and history, improving credit decisioning for lenders; (3) enabling entities to sign digital agreements because even if the KYC

problem is solved, the issue of authority to sign on behalf of a non-sole proprietor and the limits of that authority still remain unsolved.

10. The Committee note that the Government has been very successful in implementing many schemes to provide collateral-free loans to the MSME sector, like the Prime Minister's Employment Generation Programme (PMEGP), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Emergency Credit Line Guarantee Scheme (ECLGS), Sahay GST, GeMSahay, PSBloansin59 minutes portal etc. Yet the Committee found in its scrutiny that only a few MSME enterprises are managing to get collateral-free loans under the Government schemes, with majority being compelled to furnish adequate collateral even after being eligible for collateral-free loans. As more than 99 percent of the MSMEs belong to the micro sector they typically have no collateral to offer to banks.

The UK Sinha Expert Committee on MSMEs in its report suggested replacing physical collateral or guarantee requirements (asset-based lending) with high trust information on an MSMEs future cash flows called cash flow-based lending (CFL). The Committee are also of the view that credit flow to the MSME sector can be strengthened with the adoption of CFL with digitization of products and processes and an integrated digital ecosystem described above. This is expected to speed up the process of credit underwriting and faster disposal of credit proposal. The Committee would further like to add that since this form of lending is dependent upon cash flow information of the MSME entity, the role of adequate data acquires critical role. Here again, the Committee would like to reiterate that a

portal like Udyam should be comprehensively developed in a user-friendly manner to function as a one stop central data repository for MSMEs.

11. The Committee believe that like the Kisan Credit Card (KCC) scheme of National Bank for Agriculture and Rural Development (NABARD), a MSME “Vyapar” Credit Card scheme for the MSME sector should be launched nationwide, under the implementing authority of SIDBI. Only MSMEs that are registered on the Udyam portal would have access to this Vyapar credit card. This would create a substantial incentive for even nano MSMEs (such as roadside vendors, kirana shops, and village salons) to sign up on the Udyam portal. There are crores of MSMEs that have not yet entered the formal financial system, the Vyapar credit card would be an excellent mechanism to bring them into the system. Once they are in the Udyam portal, then other targeted programs can also be created by industry, geography, and size. The MSME database can also be used by states and other stakeholders to support the MSME sector.

The Ministry of Finance in a written submission informed the Committee that several banks are already providing their own MSME Credit cards / LaghuUdyami Credit Cards to eligible MSME borrowers, including Pradhan Mantri Mudra Yojana (PMMY) borrowers. However, the Committee feel that bank-specific cards are limited in their reach and benefits, as services offered to the card holder vary from one bank to another. The Committee are of the view that such a scheme could be launched by the Government of India, in consultation with leading banks, so that there is uniformity in the card benefits for each group of MSMEs. This would provide them an easy and convenient access to formal credit. Further,

the Committee would like to recommend that as KCC scheme provides short-term credit limits to farmers for crops and term loans, Vyapar Credit Card can also provide its holders short term loans at low interest rates for meeting the working capital requirements of MSME sector. It can be further extended to provide collateral-free, small loans to MSMEs, like the Rs. 1 lakh collateral-free facility available to KCC holders. Today, the MSME sector is much larger than the agricultural sector; however, it is not getting the benefit of easy, concessional finance that is available to the agricultural sector through KCCs. The Ministry of Finance working with stakeholders can develop appropriate terms and conditions for different types of MSME segments. It may even be necessary to run multiple trials and experiments to understand which type of credit card would be most effective.

12. The Committee feel that CIBIL rating for MSMEs can be improved because their credit rating mechanism is similar to the rating system of corporate entities. As a result, MSMEs in many cases, are assigned low scores. This makes it difficult for them to access formal credit. The Committee believe that lack of updated data about the MSME sector plays a big role in their poor credit ratings. Therefore, the Committee recommend that timely data should be made available to the rating agencies so that ratings can be appropriately updated, as and when necessary. As suggested earlier, the Committee would like to reiterate the role that Udyam Portal can play in providing reliable data about MSMEs to the rating agencies, so that data silos in this sector is bridged. Further, MSME associations appearing before the Committee have pointed out that the basis of data collection

and process of rating is not completely transparent. As a result, there are a number of wrong entries in CIBIL which change the company's overall ratings and consequently their loan applications are held up indefinitely. It was further mentioned that MSMEs are forced to spend enormous time, energy and money in correcting the wrong entries. Therefore, the Committee recommend that a physical and virtual contact mechanism be established with CIBIL for verification and clarification. This should be accompanied with an online ticketing system so that the anomalies can be corrected in a time bound manner.

13. The Committee note that in case of MSME loans, banks generally keep 25% to 40% margin money on working capital limits which leave reduced funds with the MSMEs for their needs. The Committee desire that the Government should give directions to banks to reduce this margin money, so that more funds are available with MSMEs. This would result in enhanced credit flow to the economy in general and MSME sector, in particular.

14. MSMEs usually borrow loans at higher rates as compared to their corporate counterparts, as banks consider them high risk entities. In the case of borrowing from NBFCs, this rate increases manifold with some NBFCs lending at rates as high as 20 to 25 percent. The Government of India had announced Interest Subvention Scheme for MSMEs, for the period 01.04.2019 to 31.03.2021. However, all MSMEs have not been given the benefit of this scheme. In such circumstances, the Committee would suggest that at least MSMEs which are paying their loans and interest on time should be allowed interest rate subvention of 2 to 3 percent like in the agriculture sector.

15. The Committee note that TReDS is an effective step for ensuring timely payment to MSMEs on reasonable terms. However, the Committee observe that many buyers are still reluctant to adopt this technology. Therefore, the Committee recommend that the Government should increase TReDS usage by rolling out awareness campaigns to address stakeholders' grievances so that companies are encouraged to join the platform. Further, the Committee note that it is mandatory for all CPSEs and companies with turnover of more than Rs. 500 crores to join TReDS. Yet, many such companies seem to be defying Government's order by refusing to onboard TReDS. The Committee recommend the Government to penalize such errant companies. Further, the Committee are of the opinion that the Central Government and State Government entities should be given strict instructions with penal consequences to make prompt payments of MSME receivables so that the receivables remain short term and can be funded by banks under their working capital arrangement.

16. Currently on TReDS platform, the seller has to enter complete details of invoices manually and the Committee in their 24th Report (Seventeenth Lok Sabha) on examination of the Factoring Regulation (Amendment) Bill, 2020 sought to amend it by recommending that the TReDS platform be integrated with GSTN e-invoicing portal. The Committee believed that such an integration would lead to automatic uploading of all GST invoices onto the TReDS platform which will enable seamless financing to sellers through factoring of invoices and will also keep the financier with information about the seller. The Committee have been informed that this proposal is under consideration and has already been

agreed, in-principle, in the GST Law Committee consisting of officers from Central and State tax administration. The Committee has been further informed that the proposal to amend GST Laws shall be placed before the GST Council for its recommendation and will then be moved for approval of the Parliament and State Legislatures. The Committee while reiterating their previous recommendation expect the necessary amendments in the GST laws to be made soon so that it can be implemented at the earliest.

17. The Committee note that loans to MSME involve stringent laws, complex documentation procedures, the necessity of collateral, strict repayment tenures and a high rate of interest. Even though MSMEs account for a large share of economic activity, banks/financial institutions (FIs) usually show a lukewarm attitude towards lending capital to this sector. Instead of looking at the viability and merits of the project and the loan proposal, the Bankers' main focus remains on collateral security of immovable property which deprives a large number of MSMEs from access to Bank credit. The Committee are of the opinion that such an attitude by banks/FIs warrants a "naming and shaming" mechanism of those bankers/sanctioning authority who delay the processing of loan applications unnecessarily. Further, applicants should be provided the reasons of rejection or reduction of their requested loan amount. This online platform should also be used to show movement of loan applications through the hierarchy in banking channels and to highlight names of officials with whom loan applications are pending beyond the designated timeline. This will help put pressure on officials and speed up the processes for timely action on MSME's loan applications.

18. The Committee note that under the MSME Development Act of 2006, every buyer is under compulsion to release the payment to its MSME vendors within 45 days. Yet, the Committee observe that in many cases, this timeline is not adhered to and hence, the payments get considerably delayed to much beyond 45 days. As per the Act, when a buyer does not make payment to the supplier for his supplies within 45 days of the acceptance of goods/services rendered, the buyer is liable to pay a compound interest with monthly rests to the suppliers which are Micro and Small Enterprises (MSEs) on the amount at three times of the bank rate notified by RBI. However, the Committee observe that MSMEs are not usually reimbursed with interest cost incurred by them for credit period beyond 45 days. As per MSME SAMADHAAN portal, out of the 40,541 cases involving an amount of Rs. 13,816.14 crore filed in Micro and Small Enterprises Facilitation Council (MSEFC) of different States and Union Territories (UTs) after 30.10.2017 (i.e., after launch of MSME-Samadhaan), only 12,737 cases worth Rs. 2358.63 crore has been disposed off till now (as on 15.02.2022). Therefore, the Committee recommend that Government needs to put in place strict and punitive control mechanisms to ensure that these payments are remitted well in time without any delays and if delayed, with appropriate interest, to the MSME sellers. The Committee further desire that close monitoring of payments to MSMEs through TReDS needs to be done at central level and in a well-coordinated fashion to ensure its smooth and efficient functioning.

Once TReDS and GSTN invoicing are integrated, it will become clear which customers are not paying MSMEs on time. This data can be used by credit rating

agencies to develop 'payment scores' for each company. Just like there are credit scores for companies which provide information on their loan payment performance, there can be payment scores which provide information on their invoice payment performance. Thus, if there is a company that is habitually late in making payments to its vendors, this will get flagged and reported. This 'naming and shaming' will impact that company's business operations because most other companies will not want to work with a company that does not pay its invoices on time. Again, an integrated digital ecosystem which enables full digitisation of invoices and actual payments will highlight and then discourage such behaviour.

19. The UK Sinha Expert Committee on MSMEs has made wide ranging recommendations for expanding the role of Small Industries Development Bank of India (SIDBI). The Expert Committee recommend that the Government should deploy the Priority Sector Lending (PSL) shortfall to SIDBI on the lines of rural Infrastructure Development Fund (RIDF) fund of NABARD, for lending to State Governments as soft loans for infrastructural and cluster development. Further the UK Sinha Committee recommend that SIDBI should deepen credit markets for MSMEs in underserved districts and regions by handholding private lenders such as Non-Banking Finance Companies (NBFCs) and Micro Finance Institutions (MFIs). Echoing the Expert Committee's view, this Committee also feel that the role played by SIDBI in financing MSME sector needs to be further revamped, strengthened and expanded.

SIDBI should be made the nodal agency for MSME financing akin to NABARD for agriculture financing, which would then require a much larger capital base. The Institutional Finance book of SIDBI accounts for approx. 10% of the total MSME outstanding credit in country as it extends assistance to MSMEs through 30 Banks, 9 Small Finance Banks (SFBs), 86 NBFCs and 28 MFIs. However, the Committee feel that there is a large scope and huge untapped potential for SIDBI to have a much more scaled engagement with lending institutions, in particular the NBFC sector. The Committee are of the opinion that SIDBI should extend finance to a more diversified category of NBFCs and also work towards capacity building of smaller NBFC players to transform them into stronger entities for expanding the MSME financing ecosystem.

20. During the Covid pandemic, the Government's various credit guarantee schemes worked well in making credit available to borrowers in good standing. Unfortunately, during emergency situations, it is weaker borrowers and those that are facing uncertain prospects that are most in need of support. Once MSMEs are registered and have established their payments and credit history through a digital ecosystem, it will be possible to provide credit guarantees in a much more focused way. By targeting specific industries (e.g., high-touch industries during the pandemic such as salons and tour agencies) and geographic areas, government guarantee programs can be provided to those that are most in need. Programs can also be rolled out quickly and flexibly ramped up and down depending on circumstances. Thus, an integrated digital ecosystem is vital to efficient and effective credit guarantee programs.

21. NABARD's loan portfolio to support to the agricultural sector was Rs. 6.03 lakh crore in FY21 and it caters to about 18-20% of India's GDP. SIDBI's loan portfolio is about Rs. 1.56 lakh crore in FY21 and it supports about 30% of India's GDP. It is clear that SIDBI needs to grow its balance sheet so that it can support the various financial institutions that work with India's MSMEs. This can be accomplished gradually over the next 5-8 years. However, given RBI's prudential norms, it is necessary that SIDBI's equity base be strengthened so that it can grow its balance sheet. The Committee recommend that the Government could start with an immediate Rs. 5,000 to 10,000 crore equity injection in SIDBI and continue to make contributions of Rs. 10,000 to 15,000 crores for the next few years. These capital contributions will massively increase SIDBI's ability to provide wholesale financing to NBFCs that work with the MSME sector.

NBFC are perennially starved of wholesale financing and find it difficult to raise money at competitive rates. Once SIDBI is able to start providing substantial wholesale financing to the NBFC sector, it should lower their borrowing rates and increase competition to lend to the NBFCs.

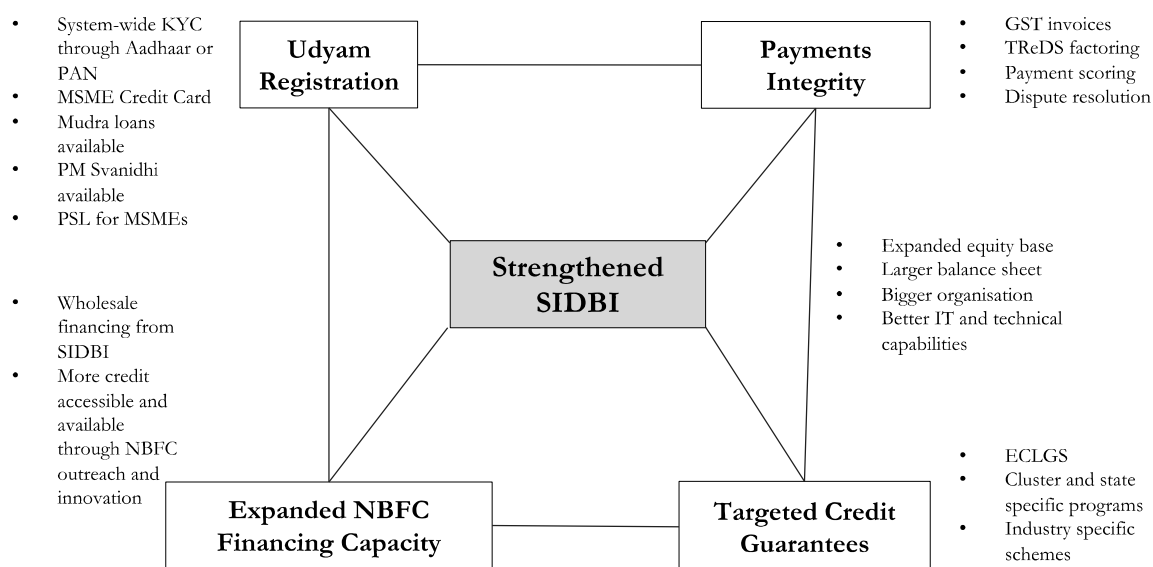
22. Along with expanding financing to NBFCs, SIDBI also needs to build up its organizational capabilities. SIDBI should have adequate, competent staff in every district in the country. SIDBI staff can help guide, train, and mobile the MSME financing ecosystem in each district. Major industry clusters, such as in Morbi or Moradabad, could have even larger SIDBI offices so that adequate financing support is available to the various financial institutions operating there. These field offices will also provide on-the-ground feedback to SIDBI on how various

MSME financing programs are actually working. SIDBI staff should participate in district-level meetings on credit delivery and industry promotion along with other financial institutions and NABARD.

SIDBI should also work closely with the MSME departments of various State Governments. Joint implementation plans for strengthening MSME financing at the district level should be developed between SIDBI, MSME Ministry, and States. These plans must duly consider available State capacities and also focus on capacity development as concrete interventions that will lead to the success of overarching policies. This synergy is currently missing.

23. In conclusion, the Committee find that MSME financing could be vastly expanded and better targeted through an integrated digital ecosystem as shown below:

Integrated MSME Digital Ecosystem



The integrated digital ecosystem proposed in this report should hopefully bring crores of MSMEs in the formal sector. It will then be possible to provide them an affordable line of credit (particularly with the MSME Vyapar credit card) for working capital, ensure trade financing for their revenues, provide capital loans at affordable rates, and necessary credit guarantees. Once the digital ecosystem is in place, these concessional financing and credit guarantee can also be targeted well to those sectors that are experiencing difficult economic conditions due to external factors beyond their control.

NBFC lending rates and therefore financing rates for their MSME customers will also decrease once the integrated digital ecosystem proposed in this report, much faster invoice payments are possible, and various types of credit guarantees are made available. Finally, the Committee believe that it is necessary that the Government of India and the States adopt a comprehensive and holistic whole-of-India approach to strengthen and keep improving the MSME financing ecosystem. This can be achieved by developing a nation-wide plan that is shared with the States and other stakeholders through an annual report and an in-person conference. This will bring together all the key ecosystem participants and build a common understanding of regulations and policies.

24. The Government's various credit guarantee programs have worked well during the Covid pandemic. Unfortunately, it was not possible to extend this support to those MSMEs that were either not lendable due to business conditions triggered by the pandemic and those MSMEs that have not been able to borrow from the formal financial sector.

25. Around 17% of the registered MSMEs in India are women-led. In the past decade, their share in the MSME sector has grown by over 7%, from 13.72% in 2011 to 20.37% in 2020. However, for women entrepreneurs, many challenges including the lack of access to finance, business networks and safe public spaces still persist. Around 90% of women entrepreneurs lack access to formal lending institutions. To increase financial inclusion, all women SHGs and Joint Liability Groups could be registered as MSMEs in a campaign mode. Best practices from microfinance can be used to target women led MSMEs for affordable credit. Additional interest subvention could be extended to women led SHG type MSMEs.

**NEW DELHI
30 March, 2022
9 Chaitra, 1944 (Saka)**

**SHRI JAYANT SINHA,
Chairperson,
Standing Committee on Finance.**

Minutes of the Third sitting of the Standing Committee on Finance (2021-22)
The Committee sat on Tuesday, the 30th November, 2021 from 1500hrs. to 1715 hrs.
in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

Shri Jayant Sinha – Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Subhash Chandra Baheria
4. Shri Shrirang Appa Barne
5. Dr. Subhash Ramrao Bhamre
6. Smt. Sunita Duggal
7. Shri Gaurav Gogoi
8. Shri Manoj Kotak
9. Shri Pinaki Misra
10. Shri Gopal Shetty
11. Dr. (Prof.) Kirit Premjibhai Solanki
12. Shri Parvesh Sahib Singh
13. Shri Manish Tewari
14. Shri Bala Showry Vallabhaneni
15. Shri Rajesh Verma

RAJYA SABHA

16. Shri Ahmad Ashfaq Karim
17. Shri Sushil Kumar Modi
18. Shri A. Navaneethakrishnan
19. Dr. Amar Patnaik
20. Dr. C.M. Ramesh
21. Shri G.V.L Narasimha Rao

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Shri V.K Tripathi | - | Joint Secretary |
| 2. | Shri Ramkumar Suryanarayanan | - | Director |
| 3. | Shri Kulmohan Singh Arora | - | Additional Director |
| 4. | Shri Kh. Ginalal Chung | - | Under Secretary |

WITNESSES

LIST OF WITNESSES

MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

1. Shri Debasish Panda, Secretary
2. Shri Pankaj Jain, Additional Secretary
3. Shri Lalit Kumar Chandel, Economic Advisor
4. Ms. M.G Jayasree, DDG

MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSME)

1. Shri B.B Swain, Secretary
2. Ms. Alka Arora, Joint Secretary (ARI)
3. Shri Ateesh Singh, Joint Secretary (AFI)
4. Shri D.P. Srivastava, DDG
5. Dr. Ishita G. Tripathy, Additional Development Commissioner
6. Smt. N. Mohana, Chief General Manager, NDRO
7. Smt. Anita Patnaik, General Manager, FIDD, NDRO

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

1. Shri Sivasubramanian Ramann, CMD
2. Shri Ravi Tyagi, CGM
3. Shri Sanjay Jain, GM
4. Shri Vipul Mahajan, Head, Economic Research, CIBIL

3. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Strengthening Credit Flows to the MSME Sector'. The major issues discussed during the meeting included the need for comprehensive understanding of the MSME universe, their funding requirement and credit gaps, timely compilation of data regarding loan profiles of different lending institutions and categories of loan beneficiaries including those rejected, both overall

and state wise, while at the same time making such data transparent and readily available on a public platform. The Committee also deliberated upon issues such as, the need to redesign Prime Minister's Employment Generation Programme (PMEGP), way forward for loan holders after the end of moratorium period and the difficulties being faced in implementation of various lending schemes that were announced by the Government under its Atmanirbhar Bharat Abhiyan in the wake of Covid-19 pandemic viz. Emergency Credit Line Guarantee Scheme (ECLGS), Subordinate Debt for stressed MSMEs and Fund of Fund scheme for MSMEs. Few other issues discussed during the meeting related to the difficulties being faced by new borrowers, need for new mechanism of credit rating for MSMEs and small NBFCs, need of increasing the number of MSMEs on Udyam and TReDS platform, linking of GST invoices on TReDS, timely payment to MSME suppliers on GeM portal, issue of identification and need of frequent visits to banks under SVANidhi scheme, issue of manpower shortage in banks, need for large-scale awareness campaigns to promote and educate about the various lending schemes of the government, particularly among rural masses and young entrepreneurs, strengthening of monitoring and grievance redressal systems and the need for highlighting cases of successful enterprises that availed Government loans.

4. The witnesses responded to the queries raised by the Members on the subject. The Chairperson directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting.

The witnesses then withdrew.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

Minutes of the Fourth sitting of the Standing Committee on Finance (2021-22)
The Committee sat on Thursday, the 9th December, 2021 from 1500hrs. to 1700 hrs.
in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

Shri Jayant Sinha – Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Dr. Subhash Ramrao Bhamre
4. Shri Gaurav Gogoi
5. Shri Manoj Kotak
6. Shri Gopal Shetty
7. Shri Bala Showry Vallabhaneni

RAJYA SABHA

8. Shri Ahmad Ashfaque Karim
9. Shri Sushil Kumar Modi
10. Shri A. Navaneethakrishnan
11. Dr. Amar Patnaik
12. Shri Mahesh Poddar
13. Shri G.V.L Narasimha Rao

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Shri V.K Tripathi | - | Joint Secretary |
| 2. | Shri Ramkumar Suryanarayanan | - | Director |
| 3. | Shri Kulmohan Singh Arora | - | Additional Director |
| 4. | Shri Kh. Ginalal Chung | - | Under Secretary |

PART I
(1500 hrs - 1615 hrs)

LIST OF WITNESSES

State Bank of India (SBI)

1. Shri Dinesh Khara, Chairman
2. Shri S Salee, Deputy Managing Director (Agri, SME & FI)
3. Shri B Sankar, Chief General Manager (SME)

Punjab National Bank (PNB)

1. Shri CH. S. S. Mallikarjuna Rao, MD&CEO
2. Shri Swarup Kumar Saha, Executive Director
3. Shri Ashok Kumar Gupta, General Manager

Axis Bank

1. Shri Sangram Singh, Executive Vice President Commercial Banking Coverage Group (CBG)
2. Shri Shailesh Choudhary, Vice President Government Coverage Group (GCG)

HDFC Bank

1. Shri Rahul Shyam Shukla, Group Head, Commercial and Rural Banking
2. Shri. Dhanish Kothari, Strategy and Product Head Commercial and Rural Banking
3. Shri Ashey Aggarwal, Head – Inclusive Banking Initiatives Group

3. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Strengthening Credit Flows to the MSME Sector'. The major issues discussed during the meeting included the challenges of bringing large number of informal MSME entities into the formal sector, need for compiling timely data with regard to MSME lending, resolving difficulties faced by new borrowers and start-ups, understanding issues faced by borrowers while migrating from one bank to another, removing roadblocks in accessing collateral-free loans under Emergency Credit Line Guarantee Scheme (ECLGS) by small borrowers and street-vendors and the need for revamping Credit Guarantee Fund Trust for Micro and Small

Enterprises (CGTMSE) in order to increase its coverage. The Committee further deliberated upon the need for increasing participation of Government entities on TReDS platform and encouraging adoption of its invoice discounting system, increasing registration of MSMEs on Udyam portal, ensuring timely payment for MSME suppliers on GeM portal and the issue of low penetration of licensed warehouse and mandatory issuance of negotiable warehouse receipts in electronic form (e-NWR). Some other issues discussed during the meeting included MSME sector's lack of access to knowledge services and technological advances, need for improving their competitiveness, digitization of land records including extension of e-signing and e-stamping facilities across states, raising awareness about Government lending schemes and strengthening their monitoring and grievance redressal system.

4. The witnesses responded to the queries raised by the Members on the subject. The Chairperson directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting.

PART II
(1615 hrs - 1700 hrs)

LIST OF WITNESSES

Shriram City Union Finance Ltd.

1. Shri Y.S Chakravarti, Managing Director & CEO, Shriram City Union Finance Ltd.

CREDGENICS

1. Shri Rishabh Goel, Chief Executive Officer (CEO)
2. Shri Anand Agrawal, Chief Technical Officer (CTO)
3. Shri Mayank Khera, Chief Operations Officer (COO)
4. Shri Sagar Gautam, Head of Business Development (BD)

NeoGrowth

1. Shri Manmeet Singh Sawhney, National Sales Head

6. At the outset, the Chairperson welcomed the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated

the discussion on the subject 'Strengthening Credit Flows to the MSME Sector'. The major issues discussed during the meeting included the need of bringing more MSMEs, particularly micro enterprises, into the formal lending channel, compiling state-wise empirical data about different aspects of MSME loans viz. categories of borrowers, interest rates, NPAs in MSME sector and profits, for banks as well as NBFCs, assessing the total credit gap of this sector and devising plans to meet the gap. The Committee also deliberated upon the need of bringing more NBFCs in MSME lending sphere, lowering interest rates for them as well as allowing them to partner with banks in meeting the credit needs of MSME sector. Some other issues discussed during the meeting included the need for a separate credit rating system for MSMEs, improving digital connectivity in rural areas and promoting fin-techs in such remote areas, promoting digital lending by easy sharing of data from Government portals to banks like GST and ITR data, devising customized loan products as per the needs of sector-specific MSMEs, encouraging cash flow-based lending, digitizing collection methods, developing flexible re-payment models for small borrowers, promoting awareness and financial literacy among rural borrowers, skilling MSME workers, creating markets for MSME products, deepening geographical reach of schemes like One Product One Cluster, wide publicity of MSME schemes and highlighting successful case-studies of MSME enterprises.

7. The witnesses responded to the queries raised by the Members on the subject. The Chairperson directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting.

The witnesses then withdrew.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

Minutes of the Fifth sitting of the Standing Committee on Finance (2021-22)
The Committee sat on Thursday, the 16th December, 2021 from 1500hrs. to 1700
hrs. in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

Shri Jayant Sinha – Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Subhash Chandra Baheria
4. Shri Shrirang Appa Barne
5. Dr. Subhash Ramrao Bhamre
6. Smt. Sunita Duggal
7. Shri Gaurav Gogoi
8. Shri Manoj Kotak
9. Shri Pinaki Misra
10. Shri Gopal Shetty
11. Dr. (Prof.) Kirit Premjibhai Solanki

RAJYA SABHA

12. Shri Sushil Kumar Modi
13. Shri A. Navaneethakrishnan
14. Dr. Amar Patnaik
15. Shri Mahesh Poddar
16. Dr. C.M. Ramesh
17. Shri G.V.L Narasimha Rao

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Shri V.K Tripathi | - | Joint Secretary |
| 2. | Shri Ramkumar Suryanarayanan | - | Director |
| 3. | Shri Kulmohan Singh Arora | - | Additional Director |
| 4. | Shri Kh. Ginlal Chung | - | Under Secretary |

LIST OF WITNESSES

The Southern India Engineering Manufacturers' Association (SIEMA), Coimbatore

1. Shri K V Karthik, President
2. Shri D. Vignesh, Vice President
3. Shri Mithun Ramdas, Vice President

Coimbatore District Small Industries Association (CODISSIA)

1. Shri M.V.Ramesh Babu, President

United Cycle & Parts Manufacturers' Association (UCPMA), Ludhiana

1. Shri D.S Chawla, President
2. Shri Harsimarjit Singh, Chief Advisor

Jharkhand Small Industries Association, Ranchi

1. Shri Philip Mathew, President
2. Shri Anjay Pachariwala, Vice President

Jharkhand Small Tiny Services & Business Enterprise Association, Bokaro

1. Shri Navtej Singh, Vice President
2. Shri Bhubaneshwar Sharma, Joint Secretary

Confederation of All India Traders (CAIT), New Delhi

1. Ms. Smita Ahuja, Head Media PR

3. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Strengthening Credit Flows to the MSME Sector'. The major issues discussed during the meeting included the need of increasing funding to MSME sector adequately and improving timeliness in credit delivery, reducing interest rates and margin money on small loans, providing easy funding to new businesses, especially during their initial critical period, minimizing limit

of collateral requirement for MSME loans, bringing all stakeholders onboard TReDS, need for effective implementation of Factoring Regulation (Amendment) Act, 2021, maintaining transparency in disbursement of MUDRA loans, bringing down premium rates for Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to increase its reach, enhancing sanction limit of collateral-free loans under Emergency Credit Line Guarantee Scheme (ECLGS), increasing MSME registrations on Udyam portal, enhancing limits of working capital loans and capital subsidies in line with revised definition of MSMEs and increasing commodity prices. The Committee further deliberated upon the reasons for high accumulation of NPAs in MSME sector and need of improving financial discipline by them, organizing consultative meetings of MSME associations with SIDBI as well as State Level Bankers' Committee (SLBC) from time-to-time, restructuring Micro and Small Enterprises Facilitation Council (MSEFC), ensuring timely adoption of Government and RBI guidelines by all financial institutions including private banks, devising customized loan products for small borrowers, need for designing a separate credit rating system for MSMEs and correcting anomalies in the current system, faster clearing of cheques and timely payment of GST refunds, undertaking measures to change reluctant attitude of bankers and increasing their confidence towards MSME loans. The Committee also discussed the need of transparency in appraisal and processing of loan application and providing online loan application tracking system, expanding share capital market for MSMEs, strengthening grievance redressal mechanism, raising awareness among borrowers, particularly small and rural borrowers, about new government lending schemes and enhancing value addition through research, technology and quality improvement.

4. The witnesses responded to the queries raised by the Members on the subject. The Chairperson directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting.

The witnesses then withdrew.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

Minutes of the Sixth sitting of the Standing Committee on Finance (2021-22)
The Committee sat on Tuesday, the 21st December, 2021 from 1500hrs. to 1700 hrs.
in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Jayant Sinha – Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Subhash Chandra Baheria
4. Shri Shrirang Appa Barne
5. Dr. Subhash Ramrao Bhamre
6. Smt. Sunita Duggal
7. Shri Gaurav Gogoi
8. Shri Manoj Kotak
9. Shri Ravi Shankar Prasad
10. Prof. Sougata Ray
11. Shri Gopal Shetty
12. Dr. (Prof.) Kirit Premjibhai Solanki
13. Shri Manish Tewari

RAJYA SABHA

14. Shri Ahmad Ashfaque Karim
15. Shri A. Navaneethakrishnan
16. Shri Praful Patel
17. Shri Mahesh Poddar
18. Shri G.V.L Narasimha Rao

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Shri V.K Tripathi | - | Joint Secretary |
| 2. | Shri Ramkumar Suryanarayanan | - | Director |
| 3. | Shri Kulmohan Singh Arora | - | Additional Director |
| 4. | Shri Kh. Ginlal Chung | - | Under Secretary |

PART I
(1500 hrs - 1615 hrs)
LIST OF WITNESSES

Indian Software Product Industry RoundTable (iSPIRT)

1. Shri Sharad Sharma
2. Ms Kamyra Chandra
3. Shri Siddharth Shetty

CIBIL

1. Shri Rajesh Kumar, MD & CEO
2. Ms. Harshala Chandorkar, COO
3. Shri Vipul Mahajan, Director

3. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Strengthening Credit Flows to the MSME Sector'. The major issues discussed during the meeting included the need of improving loan disbursal rate to the MSME sector, widening credit flow to account for inclusion of small traders under the revised definition of MSMEs, need for understanding the credit gap in MSME sector by collating proper data about the unregistered MSMEs in informal sector, ensuring easy flow of reliable data viz GST data, Income tax details, utility bills etc. and accepting them as collaterals for smoothening credit flow to this sector. The Committee also deliberated upon the need for designing right consent architecture for data-sharing, providing adequate safeguards against data breach, need for moving towards cashflow-based lending in place of collateral lending while checking for over-indebtedness, expanding Open Credit Enablement Network (OCEN) enabled GeM SAHAY, increasing registrations on TReDS to further expand its invoice discounting facility, promoting digital lending and faster processing of loan applications of MSMEs.

4. The witnesses responded to the queries raised by the Members on the subject. The Chairperson directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting.

The witnesses then withdrew.

PART II
(1615 hrs - 1700 hrs)

LIST OF WITNESSES

Ministry of Finance

1. Shri Vivek Aggarwal, Additional Secretary, Department of Revenue
2. Smt. Vandita Kaul, Additional Secretary, Department of Financial Services
3. Shri Vivek Johri, Chairman, CBIC
4. Shri Manish Sinha, CEO, GSTN
5. Shri D.P. Nagendra Kumar, Member (GST)
6. Shri Ritvik Pandey, Joint Secretary, Department of Revenue
7. Shri Sanjay Mangal, Commissioner (GST)

7. At the outset, the Chairperson welcomed the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Strengthening Credit Flows to the MSME Sector'. The major issues discussed during the meeting included the need of strengthening credit flows to the MSME sector, expanding GST base, effectively implementing MSME Act, 2006, breaking data silos by ensuring their seamless sharing, amending appropriate laws for easy flow of data while providing adequate safeguards against data frauds, using data within various Government department together to build credit profiles of MSME enterprises, sanctioning bank loans using GSTN data and integration of GST data with TReDS portal, expanding TReDS by bringing all stakeholders onboard and making invoice uploading process on TReDS portal automatic.

7. The witnesses responded to the queries raised by the Members on the subject. The Chairperson directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting.

The witnesses then withdrew.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

**Minutes of the Fifteenth sitting of the Standing Committee on Finance (2021-22).
The Committee sat on Wednesday, the 30th March, 2022 from 1500hrs. to 1615 hrs
in Committee Room 'B', Parliament House Annexe, New Delhi.**

PRESENT

Shri Jayant Sinha - Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Dr. Subhash Ramrao Bhamre
4. Smt. Sunita Duggal
5. Shri Sudheer Gupta
6. Shri Manoj Kotak
7. Shri Gopal Shetty
8. Dr. (Prof.) Kirit Premjibhai Solanki
9. Shri Bala Showry Vallabhaneni
10. Shri Rajesh Verma

RAJYA SABHA

11. Shri Sushil Kumar Modi
12. Shri A. Navaneethakrishnan
13. Dr. Amar Patnaik
14. Shri Mahesh Poddar
15. Dr. C.M. Ramesh
16. Shri G.V.L Narasimha Rao

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Shri Siddharth Mahajan | - | Joint Secretary |
| 2. | Shri Ramkumar Suryanarayanan | - | Director |
| 3. | Shri Kulmohan Singh Arora | - | Additional Director |
| 4. | Shri Kh. Ginlal Chung | - | Deputy Secretary |

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee. The Committee, thereafter, took up the draft Report on the subject 'Strengthening Credit Flows to the MSME Sector' for consideration and adoption. After some deliberations, the Committee adopted the above draft Report with minor modifications as suggested by some Members during the meeting and authorised the Chairperson to finalise them and present the Report to Parliament / Hon'ble Speaker.

3. The Committee also decided to take up the subject 'Regulatory Issues concerning the Capital Market' and call representatives from SEBI in the subsequent meeting to be held in the ensuing week.

4. The Committee also decided to undertake a study visit to Mumbai, Bengaluru and Coimbatore during the first-second week of May, 2022.

The Committee then adjourned.