

68

**STANDING COMMITTEE ON FINANCE
(2023-24)**

SEVENTEENTH LOK SABHA

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

[Action taken by the Government on the Observations/Recommendations contained in Forty-Sixth Report (17th Lok Sabha) on the subject 'Strengthening Credit Flows to the MSME Sector']

SIXTY-EIGHTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

February, 2024 / Magha, 1945 (Saka)

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*Presented to Lok Sabha on 06 February, 2024
Laid in Rajya Sabha on 06 February, 2024*



LOK SABHA SECRETARIAT
NEW DELHI

February, 2024 / Magha, 1945 (Saka)

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE.....	iv
INTRODUCTION	v
CHAPTER I Report	1
CHAPTER II Observations/Recommendations which have been accepted by the Government	14
CHAPTER III Observations/Recommendations which the Committee do not desire to pursue in view of the Government's replies	61
CHAPTER IV Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee	62
CHAPTER V Observations/Recommendations in respect of which final reply of the Government is still awaited	63

ANNEXURE

Minutes of the Sitting of the Committee held on 22 December, 2023	64
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APPENDIX

Analysis of Action Taken by the Government on the Recommendations contained in the Forty-Sixth Report (Seventeenth Lok Sabha) of the Standing Committee on Finance on 'Strengthening Credit Flows to the MSME Sector' of the Ministry of Finance (Department of Financial Services) and Ministry of Micro, Small and Medium Enterprises.	66
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COMPOSITION OF STANDING COMMITTEE ON FINANCE (2023-24)

Shri Jayant Sinha - Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Sukhbir Singh Badal
4. Shri Subhash Chandra Baheria
5. Dr. Subhash Ramrao Bhamre
6. Smt. Sunita Duggal
7. Shri Gaurav Gogoi
8. Shri Sudheer Gupta
9. Shri Manoj Kishorbhai Kotak
10. Shri Pinaki Misra
11. Shri Hemant Shriram Patil
12. Shri Ravi Shankar Prasad
13. Shri Nama Nageshwara Rao
14. Prof. Sougata Ray
15. Shri P.V. Midhun Reddy
16. Shri Gopal Chinayya Shetty
17. Shri Parvesh Sahib Singh
18. Dr. (Prof) Kirit Premjibhai Solanki
19. Shri Manish Tewari
20. Shri Balashowry Vallabbhaneni
21. Shri Rajesh Verma

RAJYA SABHA

22. Dr. Radha Mohan Das Agarwal
23. Shri Raghav Chadha
24. Shri Damodar Rao Divakonda
25. Shri Ryaga Krishnaiah
26. Shri Sushil Kumar Modi
27. Dr. Amar Patnaik
28. Dr. C.M. Ramesh
29. Shri G.V.L. Narasimha Rao
30. Shri Pramod Tiwari
31. Dr. Dinesh Sharma*

SECRETARIAT

1. Shri Siddharth Mahajan - Joint Secretary
2. Shri Puneet Bhatia - Deputy Secretary
3. Ms. Yugma Malik - Committee Officer

* Dr. Dinesh Sharma has been nominated to the Standing Committee on Finance (2023-24) w.e.f 25th October, 2023..

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorized by the Committee, present this Sixty-Eighth Report on action taken by Government on the Observations / Recommendations contained in the Forty-Sixth Report of the Committee (Seventeenth Lok Sabha) on 'Strengthening Credit Flows to the MSME Sector'.

2. The Forty-Sixth Report was presented to the Hon'ble Speaker on 8th April, 2022 and presented to Lok Sabha / laid on the table of Rajya Sabha on 26 July, 2022. The updated Action Taken Notes on the Observations/Recommendations were received from the Government *vide* their communication dated 03 August, 2023.

3. The Committee considered and adopted this Report at their sitting held on 22 December, 2023.

4. An analysis of the action taken by the Government on the Recommendations contained in the Forty-Sixth Report of the Committee is given in the Appendix.

5. For facility of reference, the Observations/Recommendations of the Committee have been printed in bold in the body of the Report.

NEW DELHI
22 December, 2023
01 Pausha, 1945 (Saka)

JAYANT SINHA,
Chairperson,
Standing Committee on Finance

REPORT

CHAPTER I

This Report of the Standing Committee on Finance deals with the action taken by the Government on the recommendations/observations contained in their Forty-Sixth Report on 'Strengthening Credit Flows to the MSME Sector' pertaining to the Ministry of Finance (Department of Financial Services) and Ministry of Micro, Small and Medium Enterprises which was presented to Lok Sabha and laid in Rajya Sabha on 26th July, 2022.

2. Updated Action taken notes (consolidated) have been received from Ministry of Finance (Department of Financial Services) on behalf of Ministry of Finance (Department of Financial Services) and Ministry of Micro, Small and Medium Enterprises on 3rd August, 2023 in respect of all the 25 recommendations/observations contained in the Report. The replies have been analyzed and categorized as follows:

- (i) Recommendations/Observations that have been accepted by the Government:

Recommendation No. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 22, 23, 24, 25

(Total 24)
(Chapter- II)

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Recommendation No. 21

(Total 1)
(Chapter- III)

- (iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:

Recommendation No. NIL

(Total NIL)
(Chapter -IV)

- (iv) Recommendations/Observations in respect of which final replies by the Government are still awaited:

Recommendation No. NIL

(Total - NIL)
(Chapter- V)

3. The Committee desire that the replies to the observations / recommendations contained in Chapter-I of this Report may be furnished to them expeditiously.

4. The Committee will now deal with and comment upon the action taken by the Government on some of their recommendations.

Recommendation (Serial No. 10)

5. 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, GeM Sahay, 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.

6. In their Action Taken Reply the Ministry of Finance (Department of Financial Services) have submitted as follows:-

“With regard to collateral free lending, it may be mentioned that two of the Government's flagship schemes viz. Emergency Credit Line Guarantee Scheme (ECLGS) and Credit Guarantee Trust Scheme for Micro and Small Enterprises (CGTMSE) have benefitted the MSME sector to a great extent in the light of headwinds caused by Covid pandemic.

ECLGS was introduced by the Government, as a targeted policy response, to support the most vulnerable category of borrowers i.e. individual borrowers, small businesses and MSMEs and provided them liquidity support required in the wake of disruptions caused due to Covid-19 pandemic. As on 28.7.2023, loans amounting to ₹3.68 lakh crore have been guaranteed benefitting 1.19 crore borrowers under the scheme. Out of the total guaranteed amount, nearly 66% has gone towards benefit of MSMEs. In terms of guarantee numbers, nearly 95% has benefitted MSMEs. There has been a 52 % growth in guarantees approved under Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) in 2021-22 over 2020-21 figures. The amount of guarantee in CGTMSE in 2021-22 crossed Rs. 50,000 crore for the first time and reached Rs. 56,172 crore. The amount of guarantee in CGTMSE in 2022-23 crossed Rs. 1.00 Lakh crore for the first time and achieved Rs. 1,04,781 crore.

DFS is also taking regular reviews for early launch of GST SAHAY app, which is cash flow-based lending model and uses GST invoices for providing credit. This app will be made operational after GSTN integration. Department of Revenue (DoR) has informed that GSTN has been allowed to join the AA framework as Financial Information Provider (FIP) with DoR as the regulator for GSTN. In a recent review meeting held by DFS on 25.7.2023, the representative from GSTN apprised that GSTN as FIP will be live on AA framework shortly. Further, invoice-based lending app is similar to integration of TReDS platform with GSTN e-invoicing portal which requires amendment in GST Act of Centre and States. For this purpose, proposal to amend GST laws to enable such systems is being brought before GST Council.

The Ministry of MSME is working towards developing UDYAM Portal into a one stop central data repository for MSMEs through its integration with other portals, through SIDBI's proposal for developing an UDYAM Assist Platform, and storage on Digilocker platform. The Ministry of MSME has launched Udyam Assist Portal (UAP) on 11.01.2023 for onboarding Informal Micro Enterprises (IMEs) for availing the benefit under Priority Sector Lending.”

7. In response to the observation made by the Committee that only a few MSME enterprises were 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, the Ministry in their action taken reply has given a brief of the two flagship schemes of the Government viz. Emergency Credit

Line Guarantee Scheme (ECLGS) and Credit Guarantee Trust Scheme for Micro and Small Enterprises (CGTMSE). Further, the Ministry has given an update on the launch of GST SAHAY app, which is cash flow based lending model and uses GST invoices for providing credit. However, the Ministry has remained silent on the highlighted issue of collateral requirement by lending institutions from even those MSMEs which are eligible for collateral-free loans. Therefore, the Committee would like to be apprised of the current status of the measures taken to ensure seamless flow of credit to eligible MSMEs. The Committee are also of the opinion that Department of Financial Services (DFS) should put in place a monitoring as well as a grievance redressal mechanism to ensure that the eligible MSMEs do not suffer on the issue of collateral. Further, the Committee had recommended 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. The Committee acknowledge the efforts of the Ministry to develop UDYAM Portal into a one stop central data repository for MSMEs through its integration with other portals. The Committee also note the launch of Udyam Assist Portal (UAP) for onboarding Informal Micro Enterprises (IMEs) for availing the benefit under Priority Sector Lending.

Recommendation (Serial No. 12)

8. 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.

9. In their Action Taken Reply the Ministry of Finance (Department of Financial Services) have submitted as follows:-

“With regard to the improvement in the CIBIL rating for MSMEs, the issue was taken up with TransUnion Cibil (TU Cibil), which has submitted as under:

CIBIL MSME Rank (CMR) is a credit default-predictor model for Micro, Small and Medium Enterprises (MSME). CMR provides insights into the credit behaviour of the borrowing entity (MSMEs) and predicts the probability of default in the next one year horizon. CMR is a robust model which risk differentiates borrowers in the smallest Micro segment having aggregate commercial credit exposure lesser than ₹10 Lakhs to the Medium segment having aggregate commercial credit exposure of ₹50 Crores. CMR is different from corporate ratings in many ways including its objective and coverage. The Company ratings are derived using parameters in the areas of Industry risk, financial risk, business risk and management risk. CMR on the other hand is a completely objective assessment of an MSME. CMR is completely based on the borrowers past credit performance and the rank is derived purely based on company’s performance on the loans taken. Company Ratings also considers broader industry factors whereas CMR is built purely on credit parameters enabling discrimination on assessment of probability of default.

It is further stated by TU Cibil that CMR has enabled Credit Institutions and Consumers take faster and better-informed decisions. CMR is the industry norm for MSME lending risk assessment. More than 1000 credit institutions use CMR in their decision-making process including all public sector banks and leading private sector banks, NBFCs and other financial institutions. CMR currently is available for more than 1 crore MSMEs in India and has been well recognized by both lending Industry as well as the regulator. Credit flow to MSME entities can be further expanded by widening the risk underwriting parameters of MSMEs based on multiple data sources available in the marketplace. Continuing with the mission of supporting banks and financial institutions to sustainably grow MSME credit portfolios while driving access to finance for underserved

and unserved MSMEs, TU Cibil is working in partnership with a large fintech, on developing a Financial, Income and Trade data based Rank (FIT Rank) which leverages the power of Goods and Services Tax (GST), bank statements and Income Tax returns (ITR) information to provide a ranking model for MSME lending. FIT Rank shall benefit MSMEs with a strong track record of healthy GST payments, banking behavior and income tax returns to be able to become more credit eligible. FIT Rank shall be able to help India's credit industry in significantly scaling portfolio growth while also supporting the government's Atmanirbhar Bharat initiative by increasing access to finance for MSMEs.

Even RBI vide circular DBOD.No. CID.BC.127/20.16.056 /2013-14 dated 27.6.2014 on 'Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures' has advised banks/FIs that the CIBIL method of calibrating credit score from 300 to 900 be adopted by the other Credit Information Companies (CICs) also, so that they have a common classification of credit scores.

With regard to the lack of updated data about the MSME sector, RBI has stated that Rule 22 of the Credit Information Companies Rules, 2006 - 'Updating of the credit information by credit institution' already provides the provisions for updation of credit information by Credit Institutions, the same is as under:

"Without prejudice to the provisions of rule 21, if there is any change in the data, information or credit information, already furnished to a credit information company due to change in the liability of the borrower or his guarantor, on account of write off in full or in part of the amount of outstanding dues of the credit institution or the repayment thereof by the borrower or his guarantor, or release of the guarantor, or any scheme of arrangement entered into between the credit institution and the borrower, or the final settlement of the amount payable by the borrower pursuant to any scheme of arrangement with the credit institution, as the case may be, or on account of any such other reason, the credit institution shall,-

- a. continue to update such data, information or credit information promptly or in any event, by the end of each reporting period not exceeding thirty days until the termination of the respective account relating to such credit information; and*

- b. *furnish an updated credit information to the credit information company at the earliest in this behalf.”*

Further, RBI vide circular DBOD.No.CID.BC.127/20.16. 056/2013-14 dated 27.6.2014 on “Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures” has detailed certain best practices to be followed by banks/ financial institutions (FIs)/ CICs, wherein it has been suggested that updation of credit information should take place on a monthly basis or at such shorter intervals as may be mutually agreed upon between the bank/FI and the CIC.

TransUnion Cibil has submitted that it has dedicated teams managing data governance and provide necessary support to lenders for improving their data completeness, accuracy, quality and freshness. Working closely with lenders in last couple of years, they have been able to make significant improvement in data reporting process for most lenders. All of the commercial bureau data is updated at a monthly frequency, out of which over 50% of the data is reported on a weekly frequency. On an average it takes 13 days for lenders to submit commercial data to TransUnion CIBIL. In cases of delays in data submission by lenders, TU Cibil follows the process for regularizing data from inconsistent data contributing lenders. If a lender fails to report data to TU Cibil within defined timelines, then, escalation procedure is followed by them.

With regard to the role that Udyam Portal can play in providing reliable data about MSMEs to the rating agencies, RBI has submitted that CICs operate under the framework of the Credit Information Companies Regulation Act, 2005 (CICRA), CIC Rules and Regulations, 2006 and instructions issued by RBI from time to time. It is pertinent to note the following provisions of CICRA, 2005, viz;

- i. *Section 2(d) which defines credit information and generally includes information pertaining to loans and advances/any credit facility availed by a borrower or any information that determines the credit worthiness of the borrower*
- ii. *Section 14 which specifies the forms of business that a CIC can engage in. CICs can collect, process and collate information trade, credit and financial standing of the borrower of the credit institution which is a member of the CIC.*
- iii. *Section 17(1) which mandates that CIC can collect credit information from its member credit institution only.*

RBI has stated that on combined reading of aforementioned provisions, it can be inferred that the information in Udyam Portal is not Credit Information. Further, at present, Udyam Portal does not fall under the category of a 'Credit Institution' as defined under Section 2(f) of CICRA, 2005. Therefore, as per extant guidelines it may not be possible for CICs to collect data from Udyam Portal.

As regards the correction in Credit Information Report (CIR), RBI has stated that Section 21(3) of CICRA, 2005 already provides for updation of credit information within thirty days, subject to conditions stipulated therein. Further, necessary provisions with regard to grievance redressal has already been provided by RBI, wherein the complainant may lodge a complaint with the CIC, either through physical or online mode, for any correction in CIR. Complainant may also approach the concerned Credit Institution (CI) for correction. If the concerned bank /CI do not make the correction, he/she can approach the grievance redressal authority of the respective CIs and further if the complainant is not satisfied with the action taken by Grievance Redressal authority, then he/she can approach Centralised Receipt and Processing Centre, RBI for redressal of the complaint.

TransUnion Cibil stated that it does direct interaction with commercial entities to help them resolve their credit report concerns through three modes viz. online, email and walk in. It has an established & well-functioning Consumer Grievance Redressal Mechanism which is both physical & online. Consumers can log their grievances on the TU Cibil website or in person. If they find any information reflecting in their report to be inaccurate, they can raise dispute with TU Cibil. The dispute resolution process TAT is 30 days' time from the date the request was received as defined under the Credit Information Companies (Regulation) Act, 2005."

10. The Committee take note of the measures which are being taken for improving the credit rating of MSMEs viz. CIBIL MSME Rank (CMR), Financial, Income and Trade data based Rank (FIT Rank), continuous CIBIL data updation, resolving credit report concerns through direct interaction with commercial entities, Physical and online mechanism for consumer grievance redressal etc. However, the Committee are of the view that inspite of these measures, many MSMEs, in particular, micro and small entities are not able to avail these benefits on time, which results in denial of much needed credit from lending institutions. The process of data updation and grievance redressal is costly as well as time

consuming for smaller entities. As a result, they refrain from accessing the services and continue to borrow from informal sources. Therefore, the Committee are of the view that apart from the systems in place, the authorities should make efforts for handholding and encouraging these entities to adopt formal rating processes. Creating awareness and spreading digital/financial literacy, particularly among the micro and rural entities could increase their confidence to utilize the CIBIL facilities that are specially tailor made for them. TransUnion Cibil stated that it does direct interaction with commercial entities to help them resolve their credit report concerns through three modes viz. online, email and walk in. The Committee are of the opinion that such direct interactions with the entities should be further expanded. The Committee also feel that the implementation of the rules are still not foolproof and there are some attitudinal issues on the part of lenders and credit agencies. Therefore, the Committee urge the Government to work on effective implementation of policies, sensitizing the agencies and their workforce for a more positive approach towards particularly micro and small enterprises.

Recommendation (Serial No. 15)

11. 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.

12. In their Action Taken Reply the Ministry of Finance (Department of Financial Services) have submitted as follows:-

“The Ministry of MSME has signed Memorandum of Understanding (MoU) with the three TReDS Platforms (M1xchange, Invoice Mart and RXIL) and been integrated with Udyam Portal for providing credit facilitation. Further, M/o MSME is in the process of amending the provisions related to delayed payments of MSMED Act.

With regard to penalising the companies which are still not boarded on TReDS platform, Ministry of Corporate Affairs (MCA) has submitted that M/o MSME in exercise of powers conferred by Section 9 of the MSME Development Act 2006 and vide notification no. S.O. 5621 (E) dated 2.11.2018 had mandated all companies registered under the Companies Act, 2013 (18 of 2012) with a turnover of more than ₹500 crore and all Central Public Sector Enterprises to get themselves onboarded on the Trade Receivables Discounting System (TReDS) platform set up as per the notification of Reserve Bank of India, and Registrar of Companies (RoCs) in each State shall be the competent authority to monitor the compliance of these instructions by companies under its jurisdiction.

With regard to the above MSME notification, MCA has stated that there is no provision under the Companies Act, 2013 under which a RoC can be mandated to monitor the compliances under MSME Act. The RoCs have no locus to act against the companies not complying with the MSME notification dated 2.11.2018 with respect to registration and transacting on TReDS. However, notwithstanding the lack of jurisdiction in this regard, RoCs are still constantly persuading companies to comply with the notification.”

13. The Committee noted that it was mandatory for all CPSEs and companies with turnover of more than Rs. 500 crores to join TReDS platform. Yet, many such companies seemed to be defying Government’s order by not onboarding the TReDS. The Committee had recommended the Government to penalize such errant companies. Further, the Committee were of the opinion that the Central Government and State Government entities should be given instructions about penal consequences so that they make prompt payment of MSME receivables, which should remain short term and can be funded by banks under their working capital arrangement. The Ministry of Corporate Affairs (MCA) has submitted that M/o MSME in exercise of powers conferred by Section 9 of the MSME Development Act 2006 and vide notification no. S.O. 5621 (E) dated 2.11.2018 has mandated all companies registered under the Companies Act, 2013 (18 of 2012) with a turnover

of more than ₹500 crore and all Central Public Sector Enterprises to get themselves onboarded on the Trade Receivables Discounting System (TReDS) platform set up as per the notification of Reserve Bank of India, and Registrar of Companies (RoCs) in each State shall be the competent authority to monitor the compliance of these instructions by companies under its jurisdiction. With regard to the above MSME notification, MCA has stated that there is no provision under the Companies Act, 2013 under which a RoC can be mandated to monitor the compliances under MSME Act. The RoCs have no locus to act against the companies not complying with the MSME notification dated 2.11.2018 with respect to registration and transacting on TReDS. The Committee would like to point out the lack of coordination and coherence between two ministries viz. MCA and M/o MSME and would now expect them to sort out this discrepancy without delay. Further, the Committee would like to reiterate their recommendation with regard to penal provisions for companies which are neglecting the mandate of onboarding TReDS and if required, the MSME Development Act 2006 may be amended to include penal provisions for errant companies. The Committee also take note of the work being done by Registrar of Companies (RoCs) in States whereby they are constantly persuading companies to comply with the notification and would further like RoCs to increase their awareness drive at district and block levels also. The Committee also take note of the Memorandum of Understanding (MoU) signed by Ministry of MSME with the three TReDs platforms (M1xchange, Invoice Mart and RXIL) and its integration with the Udyam Portal for providing credit facilitation and the Committee firmly believe that it is an effective step in the right direction for ensuring timely payment to MSMEs.

Recommendation (Serial No. 16)

14. 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.

15. In their Action Taken Reply the Ministry of Finance (Department of Financial Services) have submitted as follows:-

“Department of Revenue has submitted that in respect of sharing of data to the Trade Receivables Discounting System (TReDS), it is mentioned that the process is underway to amend GST laws and place it before the GST Council for its recommendation. After GST council recommendation, the parliament and state legislatures will pass appropriate amendments.”

16. The Committee would like to reiterate their recommendation of integrating TReDS platform with GSTN e-invoicing portal on a timely basis. The Committee had earlier made this recommendation in their 24th Report (Seventeenth Lok Sabha) on examination of the Factoring Regulation (Amendment) Bill, 2020, which was presented to the Parliament in February, 2021. Since then, more than two years have lapsed but it is still not implemented. The Ministry in their reply has stated that major steps of amending GST laws and placing it before the GST Council are yet to be undertaken. The Ministry further informed that if the GST Council recommends it, the Parliament and state legislatures will pass appropriate amendments. The Committee would like to urge the Ministry to take up this matter on a priority basis so that the integration is expedited and seamless financing through factoring of invoices is ensured.

Recommendation (Serial No. 21)

17. 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.

18. In their Action Taken Reply the Ministry of Finance (Department of Financial Services) have submitted as follows:-

“The proposal for equity infusion in SIDBI was examined and it has been observed that presently, SIDBI is well capitalised to achieve their projected business growth.”

19. The Committee observed that the loan portfolio of SIDBI was only Rs. 1.56 lakh crore in FY21 i.e. around one-fourth of NABARD's loan portfolio of Rs. 6.03 lakh crore in FY 21, which made it clear that SIDBI needed to grow its balance sheet so that it can support the various financial institutions that work with MSMEs. To accomplish this, the Committee in their report recommended that SIDBI's equity base should be strengthened. The Committee were of the opinion that the enhanced capital base could massively increase SIDBI's ability to provide wholesale financing to NBFCs that work with the MSME sector. The Ministry in their reply have submitted that presently SIDBI is well capitalized to achieve their projected business growth. The Committee would like to re-emphasize the point that since NBFCs do not have adequate access to wholesale financing and find it difficult to raise money at competitive rates, SIDBI's role as the nodal financial institution for the MSME Sector needs to become larger and more pronounced.

NEW DELHI
22 December, 2023
01 Pausha, 1945 (Saka)

JAYANT SINHA,
Chairperson,
Standing Committee on Finance

CHAPTER II
OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN
ACCEPTED BY THE GOVERNMENT

Recommendation (SI No. 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.

Reply of the Government

Ministry of MSME has submitted that to bridge the credit gap, focused interventions have been envisaged and outputs and outcomes for each scheme have been identified (as conveyed to NITI Aayog). As per the Budget 2022-23 announcement, Udyam Portal has been integrated with National Career Service, and e-Shram Portal for credit facilitation,

skilling, and recruitment. For bridging the credit gap; especially for nano enterprises (smallest of the micro enterprises), an Advisory Committee has been set up under the Chairmanship of Secretary (MSME), with Members from SIDBI and other organisations. The first meeting of the Committee has been held and a Concept Note is being prepared before technical discussions commence. A working group to improve the credit flow to the targeted sectors including MSME sector is also constituted by the Department of Financial Services (DFS) under the chairmanship of Secretary (MSME) to look into the credit related issues of MSMEs. The vision of Ministry of MSME is to bring relatively smaller enterprises, not having PAN, within the formal ambit of MSMEs. For this purpose, the Ministry of MSME has launched Udyam Assist Portal (UAP) on 11.01.2023 for onboarding the Informal Micro Enterprises (IMEs), for availing the benefit under Priority Sector Lending. As on 20.07.2023, more than 30 lakhs IMEs have been onboarded on UAP.

2. Improving credit flow to MSME sector has been a policy priority for Government and Reserve Bank of India (RBI). RBI has undertaken various initiatives to enhance the credit flow to the MSME sector such as no collateral requirements for MSE units upto ₹10 lakhs, simplified method for working capital computation, streamlining flow of credit to MSEs for facilitating timely and adequate credit flow during their 'Life Cycle', target for lending to Micro enterprises under New Priority Sector Guidelines, Priority Sector Lending status for Factoring transactions, introduction of Trade Receivables Discounting System (TReDS), increase in threshold of Regulatory Retail Portfolio, "Co-Lending Model" (CLM) under 'Priority Sector Lending, Lending by Commercial Banks to NBFCs and Small Finance Banks (SFBs) to NBFC-MFIs, for the purpose of on-lending to priority sectors etc.

3. To foster responsible innovation in MSME financing, it has been decided by RBI to have 'MSME Lending' as the theme for the third cohort under the Regulatory Sandbox set up by RBI. RBI has also issued guidelines for Peer to Peer (P2P) lending, Account Aggregator (AA) framework which are expected to facilitate increased flow of credit to the sector. Further, banks have been encouraged to adopt digital and other innovative means of lending to the sector in various fora viz., Standing Advisory Committee (SAC) for MSMEs, Empowered Committee meeting for MSMEs, etc. conducted by RBI.

4. As regard to competitive rate of interest to MSMEs, RBI, has advised banks to link loans to Micro Small and Medium Enterprises to external benchmark so as to improve monetary policy transmissions to them.

5. Under the initiative of DFS where all credit related schemes are being brought together under one National Portal, the Ministry of MSME is in the process of linking the UDYAM Portal and Portals of major credit related schemes with the said National Portal.
6. To address the issue of delayed payments to MSMEs, M/o MSME is in the process of amending the provisions related to delayed payments of MSME Act.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 2)

A major roadblock in the growth of MSME sector is the lack of reliable data about enterprises operating in this sector. The Committee note 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.

Reply of the Government

The Ministry of MSME vide D.O. 42(6)/2022-S and D – DCMSME dated 16.08.2022 has requested Survey coordination Division, M/o Statistics and Programme Implementation to include data collection on “Survey on MSME Sector” in various fields as per the New definition of MSMEs. In addition, SIDBI has stated that in order to partly address the information asymmetry in the MSME sector, it has spearheaded various knowledge products like MSME Pulse, the health tracker of MSME credit; and CriSidEx for gauging the MSE sentiments & aspirations; Fintech Pulse, on emerging technologies causing disruption in the financial sector; Industry Spotlight, focused on credit trends in key Industry sectors; and Microfinance Pulse, providing key insights on Microfinance Sector. These knowledge products are being brought out in collaboration with Credit Rating Agencies or Bureaus and are aimed to provide data support to policy makers. MSME Pulse, published in collaboration with CIBIL; provides the key trends in the MSME credit (classified based on credit exposure up to ₹50 crore).

2. Regarding publishing fact-based Annual Financing Report, it may be mentioned that SIDBI engaged the services of M/s Datawise Management Services India Pvt Ltd (which emerged as the L1 bidder) for preparing “Comprehensive report on MSMEs in India”. The report titled ‘Report on MSME Sector’ has been published in May, 2023, which will provide key insights of the financing trends in the MSME sector at granular level and data on various other parameters *viz;* number and distribution of MSMEs, formalization, export contribution by MSMEs, MSME beneficiaries under various Government Schemes etc.

3. An outcome of the formalisation project for MSMEs (Udyam Assist Platform) undertaken by MoMSME and SIDBI (as given at Recommendation No. 23) shall also lay the formal building blocks for leveraging a digital framework to collate credible data in respect of MSMEs. Over 30 lakh Informal Micro Entities (IMEs) have been registered on the platform.

4. In order to partly address the information asymmetry in the MSME sector, SIDBI has spearheaded various knowledge products like MSME Pulse, the health tracker of MSME credit; Fintech Pulse and Microfinance Pulse, providing key insights on Fintech and Microfinance Sector respectively. These knowledge products are being brought out in collaboration with Credit Bureaus and are aimed to provide data support to policy makers. MSME Pulse, published in collaboration with CIBIL, provides the key trends in the MSME credit (classified based on credit exposure up to Rs 50 crore).

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

Ministry of MSME has revised the definition of MSMEs. With effect from 1.7.2020, MSMEs are defined as per the composite criteria of turnover and investment in plant and machinery / equipment. Further, Government has made registration mandatory, through 'Udyam Registration Portal', for classification of units as MSMEs which is an important step towards promoting formalization in the sector. Moreover, this will bring large number of entrepreneurs under the ambit of formal banking sector which will facilitate flow of credit to the sector.

2. Ministry of MSME has submitted that one of the visions of the Ministry is to bring all relatively smaller enterprises in the formal ambit of MSMEs. For this purpose, the Ministry of MSME has been taking up special drives for facilitating registrations on UDYAM Portal. Within 36 months of the change in the definition of MSMEs, more than 2.10 crore MSMEs have registered on UDYAM Portal. In recent weeks, per day registration has been around 30,000. The Ministry of MSME has been taking up special drives for facilitating registrations on UDYAM Portal. To bring relatively smaller enterprises, not having PAN, within the formal ambit of MSMEs, the Ministry of MSME has launched Udyam Assist Portal (UAP) on 11.01.2023 for onboarding the Informal Micro Enterprises (IMEs) for availing the benefit under Priority Sector Lending. As on 28.07.2023, 31 lakh IMEs have been onboarded on UAP.

3. Banks and Industry associations have been encouraged to create awareness and facilitate registration of MSMEs on the Udyam Portal.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

As per the Budget 2022-23 Announcement, one of the objectives of integration of Udyam Portal with National Career Service (NCS), Atmanirbhar Skilled Employee-Employer Mapping (ASEEM) and e-Shram Portal is credit facilitation. The integration of Udyam with NCS and e-Shram has been completed. For bridging the credit gap, especially for nano enterprises (smallest of the micro enterprises), an Advisory Committee has been set up under the chairmanship of Secretary (MSME), with Members from SIDBI and other organisations. The first meeting of the Committee has been held and a Concept Note is being prepared before technical discussions can commence. The Ministry of MSME is making efforts to bring all relatively smaller enterprises, not having PAN, within the formal ambit of MSMEs. For this purpose, the Ministry of MSME has launched Udyam Assist Portal (UAP) on 11.01.2023 for onboarding the Informal Micro Enterprises (IMEs) for availing the benefit under Priority Sector Lending and as on 28.07.2023, 31 lakh IMEs have been onboarded on UAP.

2. Since UDYAM is linked to ITR and GSTN, it constitutes e-KYC for registered MSMEs. Udyam has been linked to Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) through API in June, 2023. On 3rd July, 2023, the API linkage of Udyam portal with National Single Window System has been completed.

3. DPIIT is in the process of developing a single e-KYC for availing the benefits of Government schemes and credit facilities from Banks.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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, Fintechs 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.

Reply of the Government

SIDBI is made the nodal agency for onboarding the Informal Micro Enterprises (IMEs) on Udyam Assist Portal (UAP) for availing benefits under Priority Sector Lending.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

The benefits of cash flow-based lending are well appreciated. RBI has facilitated the Account Aggregator (AA) framework under which information related to financial assets of a customer is collected from the holders of such information (Financial Information Providers) and is presented to the customers or specified users (Financial Information Users). Further, it is stated that GSTN has been allowed to join the AA framework ecosystem as a Financial Information Provider (FIP) with Department of Revenue (DoR) as the regulator for GSTN for MSME lending. The approach is to make sharing and aggregation of financial data possible in a secure, transparent, and efficient manner by setting-up an intermediary which will also be responsible for the customers' consent management. Hence, RBI has facilitated the required ecosystem for enabling cash-flow based lending.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

It is an observation.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

The Account Aggregator framework was introduced in September 2016 with the issuance of guidelines for NBFC-Account Aggregator (NBFC-AA). As per the extant regulations, NBFC-AA, Financial Information Providers, Financial Information Users and customers form the part of AA ecosystem.

2. In order to support flow-based lending to MSMEs, GSTN has been permitted to onboard the NBFC-Account Aggregator framework as a Financial Information Provider. Department of Revenue has agreed in-principal to be treated as the regulator of GSTN for this specific purpose. GSTN has coordinated with Reserve Bank Information Technology Pvt. Ltd. to synchronize the information format with the prescribed API specifications.

3. Department of Revenue (DoR) has informed that GSTN has been allowed to join the AA framework as Financial Information Provider (FIP) with DoR as the regulator for GSTN. Further, invoice-based lending app is similar to integration of TReDS platform with GSTN e-invoicing portal which requires amendment in GST Act of Centre and States. For this purpose, proposal to amend GST laws to enable such systems is being brought before GST Council. GST SAHAY app which is based on GST invoices will be made operational after GSTN integration.

4. DFS has also conducted various stakeholders meeting monthly to review the progress of app for invoice-based lending and onboarding of Public Sector Banks on Account Aggregator Ecosystem with all PSBs, NPCI, DoR, DEA, GSTN & Sahmati Foundation. As on 24.7.2023, 64 Financial Institutions (including 49 banks) and SIDBI have onboarded on AA framework. All PSBs are currently live on Account Aggregator Ecosystem both as Financial Information Provider and Financial Information User. In a recent review meeting held by DFS on 25.7.2023, the representative from GSTN apprised that GSTN as FIP will be live on AA framework shortly.

Recommendation (SI No. 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.

Reply of the Government

In order to support flow-based lending to MSMEs, GSTN has been permitted by RBI to onboard the NBFC-Account Aggregator framework as a Financial Information Provider. Department of Revenue (DoR) has informed that GSTN has been allowed to join the AA framework as Financial Information Provider (FIP) with DoR as the regulator for GSTN. On confirmation from DoR on the Financial Information (FI) types for inclusion in the Master Direction for NBFC-AA, RBI on 20.6.2023 had published GSTN FI Type Schema on the ReBIT API website. GSTN has coordinated with Reserve Bank Information Technology Pvt. Ltd. (ReBIT) to synchronize the information format with the prescribed API specifications.

2. The discussion with relevant stakeholders is in progress to build necessary integration for consent-based sharing of data with AA by GSTN. Further, invoice-based lending app is similar to integration of TReDS platform with GSTN e-invoicing portal which requires amendment in GST Act of Centre and States. For this purpose, proposal to amend GST laws to enable such systems is being brought before GST Council.

3. All the regulators and DFS are closely monitoring the boarding status of their regulated entities (REs) on the AA platform. In this regard, the following information has been furnished by different regulators:

3.1 SEBI:

- I. SEBI in August 2022 had issued a circular (copy enclosed) titled 'Participation as Financial Information Providers in Account Aggregator framework' enabling

participation of Depositories and Asset Management Companies (AMCs) through their Registrar and Transfer Agents (RTAs) as Financial Information Providers (FIPs) in AA ecosystem. Consequently, both the depositories have onboarded the AA ecosystem.

- II. Further, with respect to the go-live status of AMCs through RTAs, it is informed that one of the RTAs has gone live with 12 AMCs while the other RTA is in the process of going live on the AA ecosystem.

3.2 PFRDA:

It can be noted that currently, Account Aggregator standards are yet to be adopted by the PFRDA regulated entities. However, PFRDA has facilitated discussion of Central Record Keeping Agencies (CRAs) in NPS Architecture (CRAs - Protean, Kfintech and CAMS) with Sahamati - Industry alliance for promotion of Account Aggregator ecosystem on 13.5.2022. Based on the insights received in the discussion, Sahamati shared a proposed concept note with CRAs as potential Financial Information Providers (FIPs) and content artefact customised for NPS architecture. The documents are currently under perusal of PFRDA and the regulated entities (CRA's) for further engagement towards early adoption of Account Aggregator.

3.3 IRDAI:

3.3.1 KYC information: Once a customer has completed KYC with a financial participant in the Account Aggregator (AA) ecosystem, insurance companies should be able to get this information from other FIPs. This will be useful while insuring MSMEs.

3.3.2 Sharing of Policy and Claims information: Currently insurers require past insurance and claims information from customers for various scenarios such as No Claim Bonus (NCB) in Motor insurance, portability credit in health insurance and general claims experience. The AA ecosystem can facilitate this.

3.3.3 Sharing of fraud information amongst insurers on real time basis: AA ecosystem can be used to transfer details about fraudulent customers across insurers on a real time basis.

3.3.4 IRDAI has advised General Insurance & Life Insurance Councils to encourage and accelerate adoption of Account Aggregator standards across all insurers.

3.4 DFS:

3.4.1 DFS has conducted various meetings with concerned stakeholders to review the progress of app for invoice-based lending and onboarding of Public Sector Banks on Account Aggregator Ecosystem with all PSBs, NPCI, DoR, DEA, GSTN & Sahmati Foundation. On account of these meetings, all PSBs are today live on Account Aggregator Ecosystem both as Financial Information Provider and Financial Information User. It may be mentioned that Union Bank of India became the first PSB to go live on AA in April 2022. SIDBI became first FI to go live as FIU on AA in May 2022.

3.4.2 The details of the entities onboarded on the AA ecosystem as on 30.6.2023 are as under:

- 58 Financial Institutions have gone live both as FIP and FIU, including
 - ✓ all 12 PSBs, 11 Private Sector Banks, 2 Small Finance Bank, 8 Insurance Companies, 23 Regional Rural Bank, 1 NBFC-D and 1 Registrar and Transfer Agent (RTA).
- 17 Financial Institutions have gone live as FIP, including
 - ✓ 9 Asset Management Company, 1 RTA, 2 Depository, 3 Central Recordkeeping Agency, 1 Life Insurance Company and 1 Insurance Company
- 173 Financial Institutions have gone live as FIU, including
 - ✓ 130 RBI Regulated, 32 SEBI Regulated, 9 IRDAI regulated entities, 2 PFRDA regulated entities

3.5 RBI:

3.5.1 In order to support flow-based lending to MSMEs, GSTN has been permitted to onboard the NBFC-Account Aggregator framework as a Financial Information Provider. GSTN has coordinated with Reserve Bank Information Technology Pvt. Ltd. to synchronize the information format with the prescribed API specifications. RBI on 20.6.2023 had published GSTN FI Type Schema on the ReBIT API website.

3.5.2 With regard to encouraging regulated entities to adopt AA standards, Indian Banks Association was advised to sensitize banks to onboard the AA ecosystem as Financial

Information Providers so that, they along with other Financial Information Users can benefit from the ecosystem.

3.5.3 RBI has submitted that recommendations pertain to customer due diligence (CDD) of sole proprietorships. It states that apart from CDD of the proprietor, two documents (physical form / equivalent e-documents) of the proof of the business/activity of the proprietorship shall be obtained by the regulated entities (REs).

3.5.4 It is provided in the Master Directions (MD) on Know Your Customer (KYC) that if two such documents are not available, then the RE can accept one document and undertake contact point verification and collect such other information and clarification as would be required to establish the existence of such firm.

3.5.5 The definition of equivalent e-document is as per that provided in the PML Rules, 2005 – Equivalent e-document” means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer as per rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.

3.5.6 RBI has also stated that while Udyam certificate is currently not one of the activity proof documents that are prescribed in the MD on KYC, the same is already under consideration for incorporation as an activity proof for proprietorship firms. Ministry of MSME may examine the possibility of introducing equivalent e-documents of the Udyam certificate. Such equivalent e-documents should be as per the definition provided in the PML Rules, 2005. This will enable furnishing of the Udyam certificate digitally by the customer. However, MoMSME has stated that the Udyam Certificate has the QR code which can be scanned and as a part of the implementation of Budget 2022-23 announcement regarding integration of UDYAM Portal with other Portals, a Committee has been formed where with GSTN is one of the members.

3.5.7 With regard to API-based machine-readable access, RBI stated that the mechanism should be such as to allow the REs to access and store the documents as per requirements of PML Rules and MD on KYC. Only information flow without flow of KYC documents will not adhere to requirements of PML Rules.

3.5.8 With regard to GST Certificate, it is submitted that while the Reserve Bank has allowed GST Certificate as one of the activity proofs for proprietorship firms, the same is

not prescribed as a KYC document for other type of Legal Entities (LEs) such as companies, etc., in the PML Rules. Necessary amendments in this regard will have to be carried out in the PML Rules by the Government. Regarding API based machine readable access, the comments made above may be referred to.

3.5.9 PML Rules, 2005 and MD on KYC permit REs to rely on KYC carried out by third parties, including relying on the CKYCR database. However, the ultimate responsibility for customer due diligence (CDD) and undertaking enhanced due diligence measures, as applicable, will be with the RE. This is important as the risk categorisation of the customer may change based on various factors, and any change in customer KYC information needs to be updated by the RE. Further, in terms of international standards such as Financial Action Task Force (FATF) recommendations, the KYC document is to be maintained by the RE which is onboarding the customer.

3.5.10 Further, regarding SAHAY GST, representatives from Department of Revenue had reiterated that CDD is the primary responsibility of the entity with which the relationship of the customer is intended. It was also stated that while PML Rules and FATF Standards CDD based on data from third party is permitted, the ultimate responsibility is that of the financial institution concerned and such reliance on third party data includes flow of documents and not just of information.

3.5.11 Restrictions are placed with respect to Accounts opened using OTP based e-KYC, in non-face-to-face mode as part of risk-mitigation measures as non-face to face onboarding is a high-risk scenario.

3.5.12 It is submitted that the Bank has introduced Video based Customer Identification Process (V-CIP) for remote onboarding. Accounts opened using V-CIP do not entail any transaction limits.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

With regard to collateral free lending, it may be mentioned that two of the Government's flagship schemes viz. Emergency Credit Line Guarantee Scheme (ECLGS) and Credit Guarantee Trust Scheme for Micro and Small Enterprises (CGTMSE) have benefitted the MSME sector to a great extent in the light of headwinds caused by Covid pandemic. ECLGS was introduced by the Government, as a targeted policy response, to support the most vulnerable category of borrowers i.e. individual borrowers, small businesses and MSMEs and provided them liquidity support required in the wake of disruptions caused due to Covid-19 pandemic. As on 28.7.2023, loans amounting to ₹3.68 lakh crore have been guaranteed benefitting 1.19 crore borrowers under the scheme. Out of the total guaranteed amount, nearly 66% has gone towards benefit of MSMEs. In terms of guarantee numbers, nearly 95% has benefitted MSMEs. There has been a 52 % growth in guarantees approved under Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) in 2021-22 over 2020-21 figures. The amount of guarantee in CGTMSE in 2021-22 crossed Rs. 50,000 crore for the first time and reached Rs. 56,172 crore. The amount of guarantee in CGTMSE in 2022-23 crossed Rs. 1.00 Lakh crore for the first time and achieved Rs. 1,04,781 crore.

2. DFS is also taking regular reviews for early launch of GST SAHAY app, which is cash flow-based lending model and uses GST invoices for providing credit. This app will be made operational after GSTN integration. Department of Revenue (DoR) has informed that GSTN has been allowed to join the AA framework as Financial Information Provider (FIP) with DoR as the regulator for GSTN. In a recent review meeting held by DFS on 25.7.2023, the representative from GSTN apprised that GSTN as FIP will be live on AA framework shortly. Further, invoice-based lending app is similar to integration of TReDS platform with GSTN e-invoicing portal which requires amendment in GST Act of Centre and States. For this purpose, proposal to amend GST laws to enable such systems is being brought before GST Council.

3. The Ministry of MSME is working towards developing UDYAM Portal into a one stop central data repository for MSMEs through its integration with other portals, through SIDBI's proposal for developing an UDYAM Assist Platform, and storage on Digilocker platform. The Ministry of MSME has launched Udyam Assist Portal (UAP) on 11.01.2023 for onboarding Informal Micro Enterprises (IMEs) for availing the benefit under Priority Sector Lending.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

(For Comments of the Committee, please refer Para No. 7 of Chapter I)

Recommendation (SI No. 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.

Reply of the Government

On 25.2.2022, Ministry of MSME, along with NPCI and Union Bank of India launched, on a pilot basis, MSME RuPay Credit Card for MSMEs. On 10.5.2022, the second phase of the pilot project of MSME RuPay Credit Card was launched with 4 more banks namely; Bank of Baroda, Kotak Mahindra Bank, SBM Bank India and HDFC Bank. Till May 2023, total 76,987 credit cards have been issued by above Banks.

2. DFS also held a series of meetings with various stake holders including banks and RBI to launch a Merchant Credit Card (MCC) to traders on the line of Kisan Credit Card (KCC). Based on the deliberation made in these meetings to finalise the basic features of MCC, IBA formulated the guidelines in consultation with RBI and the same has been issued vide their letter dated 27.02.2023, advising all member banks for implementing the said guidelines and start issuing MCC to all eligible borrowers.

19,856 MCCs were so far issued by some PSBs i.e. Union Bank of India (UBI), Canara Bank and State Bank of India (SBI) as on 03.07.2023 while other have completed

technical integration and pilot testing and are in process of issuing cards to the eligible customers.

3. In addition, RBI has submitted that to enhance the coverage of General Credit Card (GCC) Scheme, to ensure greater credit linkage for all productive activities within the overall Priority Sector guidelines and to capture all credit extended by banks to individuals for non-farm entrepreneurial activity, the GCC guidelines were formulated. The objective is to increase flow of credit to individuals for entrepreneurial activity in the non-farm sector provided through the General Credit Card. Any credit facility extended under the Scheme would include both working capital and term loan requirements of entrepreneurs. Detailed guidelines were issued in terms of circular RPCD.MSME & NFS.BC.No.61/06.02.31/2013-14 dated 2.12.2013 on 'Revised General Credit Card (GCC) Scheme'. Further, in terms of para 7 of circular DoR.AUT.REC. No.27/24.01.041/2022-23 dated 21.4.2022 on 'Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022', card-issuers may issue business credit cards to business entities/individuals for business expenses. The business credit cards may also be issued as charge cards, corporate credit cards or by linking a credit facility such as overdraft/cash credit provided for business purpose as per the terms and conditions stipulated for the facility concerned. Corporate credit cards can be issued together with add-on cards wherever required.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

With regard to the improvement in the CIBIL rating for MSMEs, the issue was taken up with TransUnion Cibil (TU Cibil), which has submitted as under:

1.1 CIBIL MSME Rank (CMR) is a credit default-predictor model for Micro, Small and Medium Enterprises (MSME). CMR provides insights into the credit behaviour of the borrowing entity (MSMEs) and predicts the probability of default in the next one year horizon. CMR is a robust model which risk differentiates borrowers in the smallest Micro segment having aggregate commercial credit exposure lesser than ₹10 Lakhs to the Medium segment having aggregate commercial credit exposure of ₹50 Crores. CMR is different from corporate ratings in many ways including its objective and coverage. The Company ratings are derived using parameters in the areas of Industry risk, financial risk, business risk and management risk. CMR on the other hand is a completely objective assessment of an MSME. CMR is completely based on the borrowers past credit performance and the rank is derived purely based on company's performance on the loans taken. Company Ratings also considers broader industry factors whereas CMR is built purely on credit parameters enabling discrimination on assessment of probability of default.

1.2 It is further stated by TU Cibil that CMR has enabled Credit Institutions and Consumers take faster and better-informed decisions. CMR is the industry norm for MSME lending risk assessment. More than 1000 credit institutions use CMR in their decision-making process including all public sector banks and leading private sector banks, NBFCs and other financial institutions. CMR currently is available for more than 1 crore MSMEs in India and has been well recognized by both lending Industry as well as the regulator. Credit flow to MSME entities can be further expanded by widening the risk underwriting parameters of MSMEs based on multiple data sources available in the marketplace. Continuing with the mission of supporting banks and financial institutions to

sustainably grow MSME credit portfolios while driving access to finance for underserved and unserved MSMEs, TU Cibil is working in partnership with a large fintech, on developing a Financial, Income and Trade data based Rank (FIT Rank) which leverages the power of Goods and Services Tax (GST), bank statements and Income Tax returns (ITR) information to provide a ranking model for MSME lending. FIT Rank shall benefit MSMEs with a strong track record of healthy GST payments, banking behavior and income tax returns to be able to become more credit eligible. FIT Rank shall be able to help India's credit industry in significantly scaling portfolio growth while also supporting the government's Atmanirbhar Bharat initiative by increasing access to finance for MSMEs.

2. Even RBI vide circular DBOD.No. CID.BC.127/20.16.056 /2013-14 dated 27.6.2014 on 'Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures' has advised banks/FIs that the CIBIL method of calibrating credit score from 300 to 900 be adopted by the other Credit Information Companies (CICs) also, so that they have a common classification of credit scores.

3. With regard to the lack of updated data about the MSME sector, RBI has stated that Rule 22 of the Credit Information Companies Rules, 2006 - 'Updating of the credit information by credit institution' already provides the provisions for updation of credit information by Credit Institutions, the same is as under:

"Without prejudice to the provisions of rule 21, if there is any change in the data, information or credit information, already furnished to a credit information company due to change in the liability of the borrower or his guarantor, on account of write off in full or in part of the amount of outstanding dues of the credit institution or the repayment thereof by the borrower or his guarantor, or release of the guarantor, or any scheme of arrangement entered into between the credit institution and the borrower, or the final settlement of the amount payable by the borrower pursuant to any scheme of arrangement with the credit institution, as the case may be, or on account of any such other reason, the credit institution shall,-

- c. continue to update such data, information or credit information promptly or in any event, by the end of each reporting period not exceeding thirty days until the termination of the respective account relating to such credit information; and

- d. furnish an updated credit information to the credit information company at the earliest in this behalf.”

4. Further, RBI vide circular DBOD.No.CID.BC.127/20.16. 056/2013-14 dated 27.6.2014 on “Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures” has detailed certain best practices to be followed by banks/ financial institutions (FIs)/ CICs, wherein it has been suggested that updation of credit information should take place on a monthly basis or at such shorter intervals as may be mutually agreed upon between the bank/FI and the CIC.

5. TransUnion Cibil has submitted that it has dedicated teams managing data governance and provide necessary support to lenders for improving their data completeness, accuracy, quality and freshness. Working closely with lenders in last couple of years, they have been able to make significant improvement in data reporting process for most lenders. All of the commercial bureau data is updated at a monthly frequency, out of which over 50% of the data is reported on a weekly frequency. On an average it takes 13 days for lenders to submit commercial data to TransUnion CIBIL. In cases of delays in data submission by lenders, TU Cibil follows the process for regularizing data from inconsistent data contributing lenders. If a lender fails to report data to TU Cibil within defined timelines, then, escalation procedure is followed by them.

6. With regard to the role that Udyam Portal can play in providing reliable data about MSMEs to the rating agencies, RBI has submitted that CICs operate under the framework of the Credit Information Companies Regulation Act, 2005 (CICRA), CIC Rules and Regulations, 2006 and instructions issued by RBI from time to time. It is pertinent to note the following provisions of CICRA, 2005, viz;

- iv. Section 2(d) which defines credit information and generally includes information pertaining to loans and advances/any credit facility availed by a borrower or any information that determines the credit worthiness of the borrower
- v. Section 14 which specifies the forms of business that a CIC can engage in. CICs can collect, process and collate information trade, credit and financial standing of the borrower of the credit institution which is a member of the CIC.
- vi. Section 17(1) which mandates that CIC can collect credit information from its member credit institution only.

7. RBI has stated that on combined reading of aforementioned provisions, it can be inferred that the information in Udyam Portal is not Credit Information. Further, at present, Udyam Portal does not fall under the category of a 'Credit Institution' as defined under Section 2(f) of CICRA, 2005. Therefore, as per extant guidelines it may not be possible for CICs to collect data from Udyam Portal.

8. As regards the correction in Credit Information Report (CIR), RBI has stated that Section 21(3) of CICRA, 2005 already provides for updation of credit information within thirty days, subject to conditions stipulated therein. Further, necessary provisions with regard to grievance redressal has already been provided by RBI, wherein the complainant may lodge a complaint with the CIC, either through physical or online mode, for any correction in CIR. Complainant may also approach the concerned Credit Institution (CI) for correction. If the concerned bank /CI do not make the correction, he/she can approach the grievance redressal authority of the respective CIs and further if the complainant is not satisfied with the action taken by Grievance Redressal authority, then he/she can approach Centralised Receipt and Processing Centre, RBI for redressal of the complaint.

9. TransUnion Cibil stated that it does direct interaction with commercial entities to help them resolve their credit report concerns through three modes viz. online, email and walk in. It has an established & well-functioning Consumer Grievance Redressal Mechanism which is both physical & online. Consumers can log their grievances on the TU Cibil website or in person. If they find any information reflecting in their report to be inaccurate, they can raise dispute with TU Cibil. The dispute resolution process TAT is 30 days' time from the date the request was received as defined under the Credit Information Companies (Regulation) Act, 2005.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

(For Comments of the Committee, please refer Para No. 10 of Chapter I)

Recommendation (SI No. 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.

Reply of the Government

RBI has submitted that credit related matters have been largely deregulated and banks are expected to put in place Board-approved lending policy within the overarching regulatory guidelines. The extant regulations provide adequate flexibility to fix margins for working capital limits in consultation with the borrowers; however, banks have to ensure that double financing is avoided. Banks are expected to take credit decisions including stipulating margins based on their commercial judgement on the viability of the loan. Any intervention in this regard may not be prudent as it may impact the loss given default of banks which may have unintended consequences such as increased pricing, outright denial of loans to borrowers perceived as high risk, etc. However, to protect the interest of MSEs, as per RBI's instructions, banks are required to provide minimum 20% of the turnover to the business enterprises as bank finance and 5% is to be obtained as margin in terms of the Nayak Committee norms.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

With regard to lowering the interest rates for MSMEs, it is stated that for better transmission of monetary policy, banks have been advised by RBI to link all new floating rate loans to external benchmark, for micro and small enterprises (MSEs) from 1.10.2019 and for Medium Enterprises from 1.4.2020. The RBI's data on Lending and Deposits rates of Scheduled Commercial Banks (SCBs) shows that the weighted average lending rate (WALR) on outstanding rupee loans, has come down from 10.24% in Sept 2019 to 9.76% in April 2023 in line with the reduction in Repo rate. In addition, with a view to increase

flow of funds to MSE sector at reasonable cost, RBI's extant regulatory framework prescribes a lower standard asset provisioning requirement of 0.25% on outstanding bank loans to these sectors, as against 1% for commercial real estate and 0.4% for most of the other sectors.

2. With a view to reduce interest for the exporters including MSME exporters, an Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit has been extended by the Government till 31.3.2024. The revised interest equalisation rates under the Scheme will now be 3 per cent for MSME manufacturer exporters exporting under any HS lines, and 2 per cent for manufacturer exporters and merchant exporters exporting under 410 HS lines (after excluding 6 HS lines pertaining to Telecom Sector)

3. The Ministry of MSME has also prepared a Concept Note for facilitating access of MSMEs to credit at low costs, wherein subvention of guarantee fees is envisaged. Along with this subvention in guarantee fee, various other steps *viz*; making collateral free loan available at lower rates, Budget 2023-24 announced the infusion of Rs. 9,000 crore in the corpus of CGTMSE to enable additional collateral free guaranteed credit of Rs. 2.00 lakh crore with a reduced cost of credit.

4. The following modifications in Credit Guarantee Scheme effective from 1st April 2023 have been introduced:

(i) Increase in ceiling of guarantee from Rs. 2.00 crore to Rs.5.00 crore.

(ii) In order to reduce the cost of credit, new guarantee fee structure has been introduced, annual guarantee fee have been reduced by 50% across segments.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

The Ministry of MSME has signed Memorandum of Understanding (MoU) with the three TReDS Platforms (M1xchange, Invoice Mart and RXIL) and been integrated with Udyam Portal for providing credit facilitation. Further, M/o MSME is in the process of amending the provisions related to delayed payments of MSME Act.

2. With regard to penalising the companies which are still not boarded on TReDS platform, Ministry of Corporate Affairs (MCA) has submitted that M/o MSME in exercise of powers conferred by Section 9 of the MSME Development Act 2006 and vide notification no. S.O. 5621 (E) dated 2.11.2018 had mandated all companies registered under the Companies Act, 2013 (18 of 2012) with a turnover of more than ₹500 crore and all Central Public Sector Enterprises to get themselves onboarded on the Trade Receivables Discounting System (TReDS) platform set up as per the notification of Reserve Bank of India, and Registrar of Companies (RoCs) in each State shall be the competent authority to monitor the compliance of these instructions by companies under its jurisdiction.

3. With regard to the above MSME notification, MCA has stated that there is no provision under the Companies Act, 2013 under which a RoC can be mandated to monitor the compliances under MSME Act. The RoCs have no locus to act against the companies not complying with the MSME notification dated 2.11.2018 with respect to registration and transacting on TReDS. However, notwithstanding the lack of jurisdiction in this regard, RoCs are still constantly persuading companies to comply with the notification.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

(For Comments of the Committee, please refer Para No. 13 of Chapter I)

Recommendation (SI No. 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.

Reply of the Government

Department of Revenue has submitted that in respect of sharing of data to the Trade Receivables Discounting System (TReDS), it is mentioned that the process is underway to amend GST laws and place it before the GST Council for its recommendation. After GST council recommendation, the parliament and state legislatures will pass appropriate amendments.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

(For Comments of the Committee, please refer Para No. 16 of Chapter I)

Recommendation (SI No. 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.

Reply of the Government

Government and RBI is constantly working towards increasing credit flow to the MSME sector. The Government has launched various credit guarantee schemes and RBI has provided various regulatory dispensations and issued the following guidelines/instructions in this regard:

- i. Banks have been encouraged to simplify the processes and adopt technological interventions in lending to Micro enterprises in the Standing Advisory Committee for MSMEs conducted by RBI.
- ii. In terms of circular RPCD.SME & NFS. BC.No. 79 /06.02.31/2009-10 dated 6.5.2010, on 'Working Group to Review the Credit Guarantee Scheme for Micro and Small Enterprises (MSEs) – Collateral free loans to MSEs', banks are mandated not to accept collateral security in the case of loans up to ₹10 lakh extended to units in the MSE sector.
- iii. In terms of circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated 27.8.2015 on 'Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle', banks have been advised to tune their policies for lending to MSME sector by incorporating therein the provisions for sanctioning of, inter alia, Additional Working Capital Limits, Mid Term Review of Regular Working Capital Limits, Timelines for Credit Decisions, so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances.
- iv. Further, with a view to improve monetary policy transmission, banks have been advised to link loans to MSMEs to external benchmark.
- v. The Regulatory Retail Portfolio threshold to a single counterparty was increased from ₹5 crore to ₹7.5 crore in respect of all fresh as well as incremental qualifying exposures vide circular DOR.No.BP.BC.23/21.06.201/2020-21 dated 12.10.2020. Accordingly, banks may assign a lower risk weight of 75% to exposure to MSME entities with counterparty exposure upto ₹7.50 crore as against ₹5 crore earlier.

2. Because of various steps taken by the Government and RBI including credit guarantee schemes and above-mentioned regulatory steps, credit flow to MSME sector by Scheduled Commercial Banks has increased from ₹16.14 lakh cr as on 31.3.2020 to ₹23.99 lakh cr as on 31.3.2023 despite the Covid pandemic (Source: RBI). With regard to collateral free lending, it may be mentioned that two of the Government's flagship schemes viz. Emergency Credit Line Guarantee Scheme (ECLGS) and Credit Guarantee Trust Scheme for Micro and Small Enterprises (CGTMSE) have benefitted the sector to a great extent in the light of headwinds caused by Covid pandemic. ECLGS was introduced by the Government, as a targeted policy response, to support the most vulnerable category of borrowers i.e. individual borrowers, small businesses and MSMEs and provided them liquidity support required in the wake of disruptions caused due to Covid-19 pandemic. As on 28.7.2023, loans amounting to ₹3.68 lakh crore have been guaranteed benefitting 1.19 crore borrowers under the scheme. Out of the total guaranteed amount, nearly 66% has gone towards benefit of MSMEs. In terms of guarantee numbers, nearly 95% has benefitted MSMEs.

3. In a move to boost entrepreneurial sensitivity among banks' field-level functionaries, the Reserve Bank in collaboration with the College of Agricultural Banking (CAB), Pune, launched the National Mission for Capacity Building of Bankers (NAMCABS) for financing the MSME sector. Under the NAMCABS, awareness about the different schemes viz. CGTMSE, latest guidelines for lending to MSE sector, etc. are provided to the banks' personnel attending the programme.

4. Further, to reduce the turnaround time for sanctioning small ticket loans, IBA, vide letters dated 6.11.2019 and 8.1.2020 had released the Simplified Common Appraisal Memorandum and matrix for loans up to ₹25 crore for MSMEs amongst all the member banks for adoption and implementation.

5. With regard to the online loan applications of MSMEs, RBI stated as under:

- i. In terms of circular DBOD.No.Leg.BC.65 /09.07.005/2006-07 dated 6.3.2007 on 'Guidelines on Fair Practices Code for Lenders', banks have been advised that in case of all categories of loans irrespective of any threshold limits, including credit card applications, banks / AIFIs should convey in writing the main reason / reasons which, in the opinion of the bank / AIFI have led to rejection of the loan applications. It has been decided that the loan application forms should be

comprehensive and should include information about the fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non-acceptance of application, pre-payment options and any other matter which affects the interest of the borrower, so that a meaningful comparison with that of other banks can be made and informed decision can be taken by the borrower.

ii. In terms of our circular RPCD. MSME&NFS.BC.No.74/06.02.31/2012-13 dated 9.5.2013 on 'Structured Mechanism for monitoring the credit growth to the MSE sector', banks have been advised

- To strengthen their existing systems of monitoring credit growth to the sector and put in place a system-driven comprehensive performance management information system (MIS) at every supervisory level (branch, region, zone, head office) which should be critically evaluated on a regular basis.
- Put in place a system of e-tracking of MSE loan applications and monitor the loan application disposal process in banks, giving branch-wise, region-wise, zone-wise and State-wise positions. The position in this regard is to be displayed by banks on their websites.

iii. Further, the issue pertaining to disposal of MSME loan applications on time and importance of effective grievance redressal is also discussed in various forums such as Standing Advisory Committee for MSMEs, Empowered Committee meetings on MSMEs etc. conducted by RBI.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

M/o MSME is in the process of amending the provisions related to delayed payments of MSMED Act. However, delay in getting payments from buyers is one of the perennial problems faced by MSMEs. To address this issue, the Reserve Bank had introduced the Trade Receivables Discounting System (TReDS) in 2014. Presently, three entities [viz., Receivables Exchange of India Ltd. (RXIL), A. TReDS, and Mynd Solutions] authorized by RBI are operating the TReDS platforms for more than three years. Further, RBI has allowed 'on tap' authorization to entities desirous of setting up of a platform under TReDS, which will lead to further competition and help sellers to get the best price.

2. M/o MSME vide Gazette Notification S.O. 5621(E) dated 2.11.2018 has mandated that that all companies registered with the Companies Act, 2013 (18 of 2013) with a

turnover of more than ₹500 crore and all Central Public Sector Enterprises shall be required to get themselves onboarded on the Trade Receivables Discounting System platform.

3. Once the integration of GSTN and TReDS is completed, the suggestion related to rating agencies may be looked into.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

On the recommendations of UK Sinha Expert Committee on MSMEs, RBI has established Cluster Development Fund with SIDBI and has allocated ₹6,990 crore approx. (₹1,990

crore in FY 2021 & ₹5,000 crore in FY 2022) for lending to State Governments as soft loans for MSME infrastructure and cluster development. "SIDBI Cluster Development Fund (SCDF)" scheme guidelines developed on lines of NABARD's RIDF have been shared with the State Governments and necessary handholding to states is being provided by SIDBI. SIDBI has identified cluster and green enterprise promotion as thrust areas. On cluster development theme, a holistic approach is being followed wherein hard infrastructure is being supplemented by soft infrastructure promotion. SIDBI is the nodal agency for onboarding the Informal Micro Enterprises (IMEs) for availing the benefit under Priority Sector Lending.

SIDBI Cluster Development Fund (SCDF)

(i) UK Sinha Committee recommended formation of Cluster Development Fund with SIDBI in line with NABARD's RIDF.

(ii) RBI allocated Rs 7,000 crore approx. (Rs 2000 crore in FY2021 & Rs 5,000 crore in FY2022) for lending to State /UT Governments to develop/create/upgrade infrastructure in & around MSME clusters.

(iii) SCDF scheme covers nearly all segments falling under three broad categories viz (1) Industrial and Agri-allied sectors in the MSME eco-space, (2) Social Sector projects in and around MSME clusters and (3) Connectivity to MSME Clusters to provide competitive advantage to MSME Clusters.

(iv) Sanctions amounting to Rs 5546.58 crore have been accorded to 92 projects in 11 States/UTs. Out of which Rs 1588.57 crore have been disbursed to 7 states for 71 projects as on June 30, 2023.

(v) Further, 10 projects from 3 states are under appraisal for financial assistance of Rs 518.51 crore.

(vi) Suitable handholding support is also being extended to State/UT governments. Bank has placed Project Management Units (PMU) via appointed agency in 20 States and also providing need-based Project Management Consultant (PMC) services through another agency.

Institutional Finance

(i) Through Institutional Finance, the Bank facilitates flow of funds to MSEs by suitably augmenting resources of Primary Lending Institutions. To enhance reach, the Bank has included Scheduled Urban Cooperative Banks (UCBs) and Regional Rural banks (RRBs)

as eligible Primary Lending Institutions (PLIs) and is expected to further support economic growth and bring in more MSMEs in the fold of formal banking.

(ii) SIDBI also augments resources of NBFCs and MFIs to facilitate flow of funds to MSEs.

(iii) During COVID-19 pandemic, the Bank assisted lower rated NBFCs/ MFIs for their liquidity support. Under these three liquidity schemes, SIDBI's assistance supported nearly 27 lakh MSE/ MFI beneficiaries through 46 NBFCs.

(iv) SIDBI also launched various innovative schemes such as Double Intermediation route, Pooled Loan Issuance scheme and investments in AIF for debt investments in lower rated NBFCs, under Special Liquidity Fund support (SLS III), received from RBI, with the objective of reaching out to low rated and unrated rated NBFCs/ MFIs. The objective of channelizing assistance through AIF route was to develop bond markets for well performing lower rated entities for which 'SIDBI MSE Covid Response Fund' (SMCRF) under SLF-3, with target corpus of Rs 1400 crore and a SIDBI's contribution upto 75 % of the corpus i.e. upto Rs 1000 cr. Out of the said corpus, SIDBI has subscribed to 2 debt funds viz. Promising lenders fund -1 (Total Corpus – Rs 300 Cr, SIDBI's subscription – Rs 225 Cr) and Promising Lenders Fund-2 (Total Corpus Rs. 400 crore, SIDBI contribution of Rs 300 crore).

(v) The Bank in FY 2023 has launched a regular mainline scheme of assistance for supporting smaller/ lower rated emerging NBFCs upto BBB- rating. Under this scheme, 22 NBFCs have since been supported. Besides, under the Scheme of Double Intermediation and 2 AIFs (launched with corpus of Rs 1000 crore), assistance to 36 lower rated/ unrated NBFCs was extended.

(vi) In order to further deepen the reach to lower rated/ unrated universe of NBFCs in the current FY, the Bank has launched, Scheme of Developmental Assistance to cater to below investment grade/ unrated NBFCs.

(vii) These efforts have led to portfolio growth of nearly 55% under assistance to NBFCs/ MFIs from Rs 21,053 crore (as on March 2022) to Rs 38,555 crore as on March 31, 2023. During the year ended March 31, 2023, the Bank has disbursed ~ Rs 26000 crore to NBFCs and MFIs.

(viii) SIDBI has commenced co-lending operations (as per RBI scheme) and has partnered with 3 NBFCs. More partners shall be added in due course.

(ix) SIDBI has also constituted an Advisory Committee on NBFCs comprising industry practitioners, representative from FIDC, domain experts, etc. with the objective of providing guidance for strengthening the Indian NBFC ecosystem especially towards the growth and development of lower spectrum of the NBFC sector thereby accelerating the access of such smaller/ lower rated NBFCs to institutional credit.

(x) Guarantee cover (on the lines of CGTMSE/ NCGTC) to support unrated/ lower rated NBFCs act as catalyst in channelising institutional funding to such entities. Further, SIDBI has achieved balance sheet size of Rs 4.02 lakh crore which is about 15% of MSME credit outstanding in the country.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

Ministry of MSME has submitted that applications for Credit Guarantee Scheme for Subordinate Debt (CGSSD), a scheme which targeted weak MSMEs i.e. SMA-2 and NPA MSME borrowers, was launched amidst the first wave of COVID pandemic is completely online. Applications for other schemes like Credit Guarantee Scheme are also completely online. The Government has also made specific schemes/provisions in the existing scheme for the most adversely affected contact intensive sectors. It may be recalled that ECLGS 3.0/3.0 Extension specifically targets hospitality and related sectors and provides much higher credit to these sectors as compared to other sectors. In addition, Ministry of

Tourism had also launched a Loan Guarantee Scheme for the Covid affected Tourism Service Sector (LGSCATSS) specially for registered Tourist Guides and Travel & Tourism Stakeholders.

2. DFS has taken an initiative where all credit related schemes are being brought together under one National Portal. Under the initiative of DFS, the Ministry of MSME is in the process of linking the UDYAM Portal and Portals of major credit related schemes with the said National Portal.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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 mobilize 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.

Reply of the Government

SIDBI actively participates in many programs / seminars organized by DICs, Industry Associations and RBI for MSMEs to make them aware of various financing schemes, availability of subsidies, etc., apart from arranging various skill development programmes for the overall development of MSMEs at State level as part of its Credit Plus function. The Ministry of MSME and field offices of DC(MSME), KVIC, etc. work closely with SIDBI

and its offices in various States for implementation of various credit related schemes like Credit Guarantee Scheme for Micro & Small Enterprises, etc. Udyam Portal has been integrated with CGTMSE portal to extend the benefit of guarantee coverage to Micro and Small Enterprises.

2. SIDBI has geographically positioned its branch network to cater to major industrial clusters across the country including presence of branches at Morbi, Noida, Rudrapur and Ghaziabad, which cater to Morbi and Moradabad clusters. To strengthen the branch network, SIDBI has opened 11 new BOs and 2 Extension of Branch Offices (XBOs) in FY 2024. In order to further extend outreach to MSMEs through direct credit, the Bank is exploring opening of new Branch Offices/ Extension of Branch Offices at potential centres, designing of new schemes for direct credit, simplification of operational processes etc.

3. SIDBI has been actively participating in many programs / seminars organized by District Industries Centres (DICs), Industry Associations and RBI for MSMEs to make them aware of the various financing schemes, availability of subsidies, etc., apart from arranging various skill development programmes for the overall development of MSMEs at State level as part of its Credit Plus function.

4. SIDBI has entered into Memorandum of Understanding (MoU) with various State Governments for accelerating the development of MSMEs in the States, in an organized and structured manner. MSME Outreach Programmes were undertaken in various states followed by setting-up of Project Management Units (PMUs). SIDBI has set up PMUs in 23 states with the objective of strengthening local MSME ecosystem and transferring good practices through learning sessions and closer engagement with states which includes, inter alia, helping State Governments / UT in studying the existing framework available for MSMEs in the respective State and address the gaps and suggest modifications for enhancing efficacy and removal of bottlenecks, design/ develop need-based schemes/ products/ interventions for MSMEs, provide technical/ consultative support to the State Govt. for initiatives planned/to be planned for MSMEs, assist SIDBI/State Govt in conducting training sessions/ workshops for strengthening the MSME ecosystem, maintain regular interface with relevant stakeholders in the State, responsible for collecting data, reporting and analytics and creating and maintaining a knowledge repository for the work done under the project.

5. SIDBI, under the Mission Swavalamban is implementing Swavalamban Connect Kendras [SCKs] in districts, pan India, for promoting Enterprise Creation. Aimed at

supporting potential entrepreneurs, SCKs guide aspiring entrepreneurs to become job creators through awareness, mapping gaps, skill connect, pre-handholding support, create localized project profiles, credit connect, post-handholding support like market connect. SCKs are also helping in strengthening their business plans, accessing skill trainings as well as credit requirements. In FY 2023, total 3879 enterprises were set-up/scaled-up under this intervention. Cumulatively, 50301 profiles were created, 6200 enterprises set-up / scaled-up and 5066 beneficiaries were credit-linked with total loan amount of Rs 53 crore. Going forward, in FY 2023, the phase II of the intervention (SCK 2.0) has since been rolled out for 10,000 new enterprises creation through setting-up of 100 SCKs in 5 States viz., Tamil Nadu, Madhya Pradesh, Chhattisgarh, Uttarakhand and West Bengal. These SCKs will adopt an End-to-End digital approach for enterprise creation.

6. SIDBI has launched a special scheme viz., SIDBI Cluster Development Fund (SCDF) Scheme for the purpose of facilitating interventions at cluster levels (Details given at Recommendation No. 19).

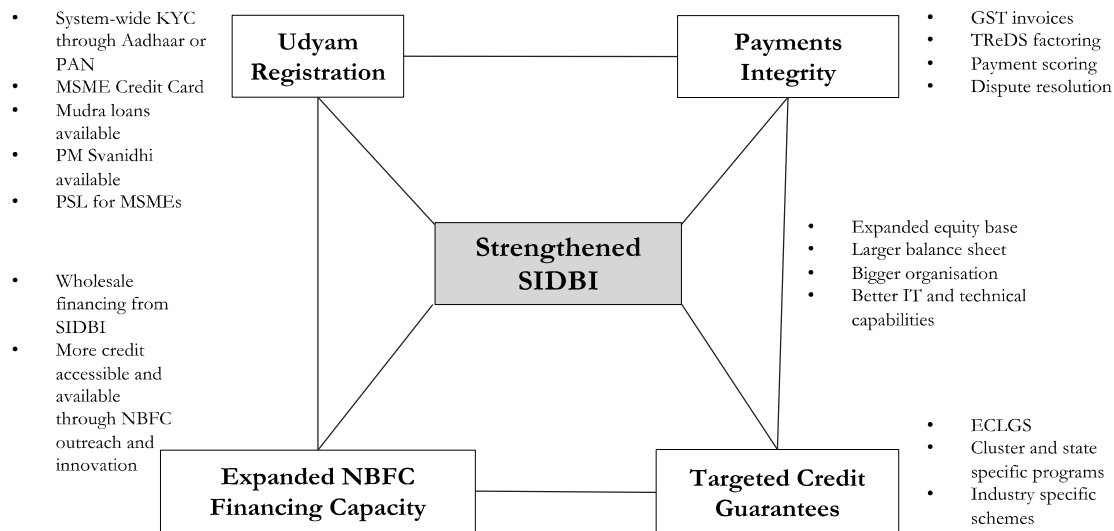
7. Besides the above, SIDBI is developing smart clusters through EE Intervention. Presently, initiative is ongoing in 4 clusters including Moradabad. The initiative, called GRiT (Green Inclusivity), works through ESCO route where ESCOs are deployed to conduct workshop on energy efficiency and also detailed energy audits in MSMEs. This leads the MSMEs to fine tune their operations and invest in energy efficient technology, which are supported by Bank finance. Under GRiT program, clusters in Bihar, Kota, Jalandhar and Moradabad are covered. Work shall start in Belgaum, Rajkot, Tirupur and Kolhapur clusters. It is targeted to scale up the initiative to 100 MSME clusters for adopting green and clean initiatives (within 5 years).

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

SIDBI initiated an MSME Formalisation project to formalise MSMEs and prepare them for engaging with fast emerging digital ecosystem in the country to gain access to governance, market and financial services. This project will be implemented with Udyam Registration as the fulcrum. Udyam registration is a self-registration process and portal is connected to GST and CBDT portals to check the investment and revenue of the MSMEs for their MSME eligibility. As a large number of smaller MSMEs do not have the capability to register directly on the Udyam portal nor many of them have PAN/GST, an Assist methodology is proposed to register them with the help of designated agencies (DAs) which will be regulated entities like Banks, MFIs, NBFCs, etc.

2. Udyam Assist Platform (UAP):

(i) Out of the estimated 6.3 crore MSMEs in India, around 1.30 crore are registered with Udyam portal of MoMSME. About 5 crore unregistered entities are Informal Micro Enterprises (IMEs) and are outside Governance and Statutory framework. The reason for non-registration of IMEs include lack of awareness, incentives, absence of documents, inability to self-register etc.

(ii) Hence, SIDBI has developed an UDYAM Assist Platform (UAP), with support of MoMSME, to provide the UDYAM registration of IMEs on Assist mode. The bulk registration is proposed to be done through Designated Agencies (DAs) i.e., Banks, NBFCs, MFIs, etc.

(iii) IMEs with Udyam Registration Number (URN) qualify as MSMEs and become eligible under Priority Sector Lending (PSL) coverage. Thus, Formalisation project can significantly improve accessibility to formal finance by MSEs. IBA, Commercial Banks, SROs (MFI) are onboard for implementation of project.

(iv) UAP shall use dedupe processes and validate unique IMEs before registration and issue of Udyam Registration Number and Udyam Assist Certificate.

(v) The project has been launched on January 11, 2023. Over 30 lakh IMEs are registered on UAP.

(vi) In the next 12 months, it is expected to register 2 crore IMEs and in the next phase, interventions for access to government schemes, new credit initiatives such as working

capital/revolving credit through UPI (under development), onboarding on ONDC, etc. can be introduced for registered IMEs.

GST Sahay:

SIDBI in association with Online PSB Loans Ltd. (OPL) and Indian Software Products Industry Round Table (iSPIRT), has developed GST Sahay App, an Invoice based Financing application, for providing a completely paperless, presence less, collateral free, cashflow based and straight through small loans to MSMEs. The proposed solution based on OCEN, e-sign, e -NACH, Account Aggregator (AA) framework, De dupe registry, etc. which will reduce the turnaround time and reduce the cost of lending.

2. SIDBI tested the app in RBI Regulatory Sandbox under 3rd Cohort of the Regulatory Sandbox on 'MSME Lending'. SIDBI has tested the app with its customers and is proposing to launch the app shortly.

3. Once the above formalization project and GST Sahay are completed, facilitating lending through digital cash-flow based lending and invoice financing, access to formal financing by MSMEs shall increase considerably.

4. On 25th Feb., 2022, the Ministry of MSME, along with NPCI and Union Bank of India launched on a pilot basis MSME RuPay Credit Card for MSMEs. On 10th May, 2022, the second phase of the pilot project of MSME RuPay Credit Card was launched with 4 more banks namely; Bank of Baroda, Kotak Mahindra Bank, SBM Bank India and HDFC Bank. Till May 2023, total 76,987 credit cards have been issued by the above Banks.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

The scheme of Emergency Credit Line Guarantee Scheme (ECLGS) was launched on 23.5.2020, i.e. within 60 days of the Covid 19 pandemic creating havoc in India and borrowers with days past due upto 60 days were considered eligible. Hence, businesses which were running normal prior to the pandemic were eligible for support under ECLGS. Subsequent reference date of 31.3.2021 (for all businesses) and 31.1.2022 (for hospitality and related sector businesses) were also fixed keeping in view the period when the 2nd and 3rd wave of Covid 19 impacted India. One of the visions of Ministry of MSME is to bring all relatively smaller enterprises in the formal ambit of MSMEs. For this purpose, the Ministry of MSME has been taking up special drives for facilitating registrations on UDYAM Portal. To formalize, Informal Micro Enterprises (IMEs), the Ministry of MSME, along with SIDBI launched Udyam Assist Portal (UAP) on 11.01.2023 for availing the benefit under Priority Sector Lending.

Within 36 months of the change in the definition of MSMEs, more than 2.10 crore MSMEs have registered on UDYAM Portal. In recent weeks, per day registration has been around 30,000.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

Recommendation (SI No. 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.

Reply of the Government

Ministry of MSME has submitted that the extent of guarantee coverage is higher for women led MSEs and the annual guarantee fee is for women led MSEs is lower. Further, to facilitate financial inclusion of women led MSMEs a special campaign of UDYAM

Registration was launched in March, 2022 (around the time of International Women's Day). Within the first three weeks of March, as many as 80,000 women entrepreneurs registered on UDYAM. As on date, 1,28,189 SHGs are already registering on Udyam as MSMEs.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

CHAPTER III

OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (SI No. 21)

NABARD's loan portfolio to support to the agricultural sector was ₹6.03 lakh crore in FY21 and it caters to about 18-20% of India's GDP. SIDBI's loan portfolio is about ₹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 ₹5,000 to 10,000 crore equity injection in SIDBI and continue to make contributions of ₹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.

Reply of the Government

The proposal for equity infusion in SIDBI was examined and it has been observed that presently, SIDBI is well capitalised to achieve their projected business growth.

**[Ministry of Finance (Department of Financial Services),
O.M. No. F.No. 7/26/2022-Parl., Dated 3rd August, 2023]**

(For Comments of the Committee, please refer Para No. 19 of Chapter I)

CHAPTER IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

-NIL-

CHAPTER V

**OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF
THE GOVERNMENT ARE STILL AWAITED**

-NIL-

NEW DELHI
22 December, 2023
01 Pausha, 1945 (Saka)

JAYANT SINHA,
Chairperson,
Standing Committee on Finance

ANNEXURE

Minutes of the Fifth sitting of the Standing Committee on Finance (2023-24) The Committee sat on Friday, the 22nd December, 2023 from 1100 hrs. to 1300 hrs. in Committee Room '2', Parliament House Annexe Extension Block A, New Delhi.

PRESENT MEMBERS

Shri Jayant Sinha – Chairperson

LOK SABHA

2. Shri S.S Ahluwalia
3. Shri Subhash Chandra Baheria
4. Dr. Subhash Ramrao Bhamre
5. Smt. Sunita Duggal
6. Shri Sudheer Gupta
7. Shri Hemant Shriram Patil
8. Shri Gopal Chinayya Shetty
9. Dr. (Prof.) Kirit Premjibhai Solanki

RAJYA SABHA

10. Dr. Radha Mohan Das Agarwal
11. Shri Ryaga Krishnaiah
12. Dr. Amar Patnaik
13. Shri G.V.L Narasimha Rao
14. Dr. Dinesh Sharma

SECRETARIAT

1. Shri Ramkumar Suryanarayanan - Joint Secretary
2. Shri Puneet Bhatia - Deputy Secretary

PART I

2. XX XX XX XX XX XX
 XX XX XX XX XX XX.

(The witnesses then withdrew)

PART II

3. Thereafter, the Committee took up the following draft reports for consideration and adoption:

- (i) Draft Report on the subject 'Performance Review and Regulation of Insurance Sector' pertaining to the Ministry of Finance (Department of Financial Services).
- (ii) Draft Action Taken Report on the observations/recommendations contained in their Thirty-Second Report on the subject 'Implementation of Insolvency and Bankruptcy Code - Pitfalls and Solutions' pertaining to the Ministry of Corporate Affairs.
- (iii) Draft Action Taken Report on the observations/recommendations contained in their Forty-Sixth Report on 'Strengthening Credit Flows to the MSME Sector' pertaining to the Ministry of Finance (Department of Financial Services) and Ministry of Micro, Small and Medium Enterprises.

After deliberation, the Committee adopted the above draft Reports without any change and authorised the Chairperson to finalise them and present to the Hon'ble Speaker / Parliament.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FORTY-SIXTH REPORT OF THE STANDING COMMITTEE ON FINANCE (SEVENTEENTH LOK SABHA) ON THE SUBJECT 'STRENGTHENING CREDIT FLOWS TO THE MSME SECTOR' OF THE MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES) AND MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

	Total	% of total
(i) Total number of Recommendations	25	
(ii) Recommendations/Observations which have been accepted by the Government (vide Recommendation at Sl.Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 22, 23, 24, 25)	24	96%
(iii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies	01	4%
(iv) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee	Nil	0.00
(v) Recommendations/Observations in respect of which final reply of the Government are still awaited	Nil	0.00