RECOMMENDATIONS FOR MSME SECTOR

BY U.K.SINHA COMMITTEE ON MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SUBMITTED TO RESERVE BANK OF INDIA

REPORT DATED 25TH JUNE 2019

- The MSMED Act, 2006 be reimagined & simplified as MSME Code with transparent inspection system or inspection system be withdrawn.

- Turnover based definition and mechanism to adjust the definition criteria from time to time in the context of changing economic scenario, the Parliament may consider delegating the power of classifying MSMEs to the Executive.

- PSBLoansIn59Minutes (Online loan from PSBs)
  - Caters to existing entrepreneur on account of its reliance on GST, income tax data, etc. Facility for new entrepreneurs presently under development needs to be expeditiously deployed.
  - Limit of the loans should be enhanced from ₹ 1 Crore to ₹ 5crore.
  - Banks need to ensure that all applications accorded in principal approval are disposed of within a period of 7-10 days.
  - Algorithms leading to initial in-principle sanction but final rejections by the banks' need to be reviewed in a time bound manner

- SIDBI, as a nodal agency, to create platform wherein various Venture Capital Funds can participate and in turn create multiplier effect for providing Equity Support to MSMEs.

- <u>Issues of Delayed Payments</u>
  1. MSMEs to mandatorily upload all their invoices above an amount on Information Utilities (IU) set up under Insolvency and Bankruptcy Code (IBC). To begin with, this could be for invoices above ₹1 crore.
  2. To take care of the situation where the MSME is unable or unwilling to complain, designated authority under the DC MSME will be able to request/ obtain information on unpaid bills, of say, all corporates including PSUs above ₹1000 crore turnover to begin with, on the first working day of each month. For the IU to respond to this request, the Authority set up under the DC MSME will have to be notified under IBBI IU Regulation No. 23. With access to this information, the Designated Authority will write to/ email each of the corporates concerned, bringing to their notice, MSME supplier bills which have remained unpaid beyond the due date.

3. It is likely that on receipt of this communication, the corporate will take steps to clear dues. If it does not do so before the first working day of the next month, when the next statement will be generated, then the Authority may send a communication to both the buyer and the seller that payment has not happened as evidenced by the IU in spite of a communication been sent to the corporate buyer. This communication could then be disclosed on the Authority's website for information of lenders, rating agency and other MSMEs as a means of naming and shaming. The MSME will now also have a stronger basis to initiate action, should it choose to finally do so.

- The scope of Facilitation Council is limited to redress cases of MSEs. Presently, Medium Enterprises supplying to large corporates are deprived of redressal forum. Hence, the ambit of facilitation council may be extended to Medium enterprises also.

- **Government e-Marketplace**

1. More MSEs need to be encouraged to register on the portal.
2. Government may make it mandatory for PSUs / Government Departments to meet their MSME procurement targets through GeM (Government E-Market) portal only.
3. Government may consider making GeM as a full-fledged market place also and permit MSME sellers on-boarded on the portal to procure raw-material as well
4. GeM is now collaborating with TReDS platforms for enabling discounting of bills for orders accepted through GeM. PSEs are required to settle invoices for goods supplied within 10 days of issue of certificate of acceptance. GeM and TReDS platforms have worked out an arrangement whereby such invoices, which already have a certificate of acceptance, will be put up for discounting on that TReDS platform where the PSE and MSME supplier are both registered. This enables the bill to be discounted. The PSE gets time to make the payment and the supplier gets the money. Final IT integration for seamless transition is currently underway between GeM and the three TReDS platforms. The integration of GeM and TReDS needs to be completed within a time bound manner

- Setting up of a Non-profit SPV to support crowd sourcing of investments by various agencies particularly CSR and non-profits to pave the way for conducive business ecosystem for MSMEs. The SPV will also coordinate with NSDC, NSIC and other financial/promotional institutions apart from facilitating impact/angel funds and management support to Government in terms of mobilizing investments form multi-lateral institutions.
- A new Central Scheme to be initiated for supporting setting up of Enterprise Development Centres (EDCs) in DICs. These EDCs while being principally funded by GoI must have the operational flexibility to partner with the private sector, particularly in the areas of skilling and technology development. Contribution of companies to capacity building via EDCs must be eligible for Corporate Social Responsibility (CSR) spending.
- Ministry of MSME be the Nodal Ministry for all interventions pertaining to the MSME Sector, rather than multiple schemes being run by different Ministries for promotion of MSMEs in their respective domain.

- Financial incentives and excellent infrastructure facilities must be deployed to retain successful Indian start-ups and to lure the best talent from across the world to start businesses in India.

- Exit Policy for MSMEs

  The IBC provides for a differentiated regime for insolvency/ bankruptcy of firms, proprietary firms and individuals. Delegated legislation/ rules in this regard are currently under discussion. The finalization of these rules can boost lender confidence because lenders will have more certainty and predictability regarding the recovery of defaulted loans. This can increase the amount of credit available to MSME in Indian economy and in turn reduce the credit gap. Having an efficient, expeditious insolvency system in place that helps MSME or swiftly reallocates their productive assets to more efficient activities is paramount.

❖ Trade Receivables Discounting System (TReDS)

1. Create a second TReDS window for reverse factoring so that supplier financing can be provided easily.
2. The scope of Centralised KYC network may be expanded for capturing enterprise level document also. This would reduce the delay in on-boarding of MSMEs and Corporates.
3. Registration of invoice and satisfaction of charge upon it with CERSAI generally takes around 30 days which creates possibility of dual financing. Hence, it is recommended that the time period of 30 days should be reduced
4. Creation of pooled API of all TReDS platforms would enable the financiers to understand the past repayment history of buyers thus enabling them to take more informed decision. Further, it will also rule out possibility of dual financing. NPCI which acts as settlement entity for TReDS may consider creating such API. [Action: NPCI] v. MSMEs also supply to Corporates having lower rating. Such MSMEs find it difficult to discount invoices on the platform. Widening the scope of financiers by permitting NBFCs other than NBFC factors would possibly lead to discounting of such invoices. A minimum rating may be required for these NBFCs.

- Increase the limit for non-collateralised loans to ₹20 lakh, this would address a significant proportion of MSEs needs.

- Revision in loan limit sanctioned under MUDRA to ₹20 lakh from ₹10 lakh

- Adjusted Priority Sector Landing (APSL) mechanism be tried out starting with MSMEs in Phase 1 and evaluating the results of the same. As a default, all banks must continue to achieve 40% of Net Bank Credits (NBC) as PSL lending in the case of Universal Banks and 75% in the case of Small Finance Banks.

- The working group of SIDBI and IBA may also consider ways to reduce Turn Around Time (TAT) especially in the pre LOS (Loan Origination System) or centralised sanction stage.

- Banks should develop customised products to assess the financing requirements based on expected cash flows moving away from traditional forms of assessment.

- An MSME account could be considered for upgrade to “standard” after six months of satisfactory operation, instead of one year at present. In addition to stable performance for six months, the MSME must also have demonstrable additional equity in the business and/or new sources of cash-flow.

- Group policies for death and accident cover for MSME entrepreneurs need to be developed with insurance cover significantly higher than the cover currently offered by PMSBY and PMJJBY schemes.

❖ Financial Architecture for MSME Lending

A. Data for Non-Corporate entity

1. The creation of a unique identifier such as Unique Enterprise ID (UEI), on lines of Corporate data collected by Ministry of Corporate Affairs, wherein all details pertaining to any MSME firm can be integrated. The Committee recommends that the PAN be used as the UEI, and that CBDT may implement the following recommendations.
2. The UEI should be used for creation of comprehensive reports pulled from different data sources that cover

a. Financial information (Ownership structure, Complete Financials, Auditor Comments)
b. b. Non- Financial Information (Registration details; Management details; related entity of the proprietor, partners; status of statutory compliance viz., TDS, GST, Export-Import regulation, etc.)

- Rating of MSME
- Credit Score of Buyers for MSMEs
- online repositories like Ministry of Corporate Affairs website for corporates/LLPs, GST, Shop and Establishment be encouraged to open APIs for verification of documents issued by them.
- Connect GSTN to Account Aggregators (AA) and Upgrade E-Way Bill system to include Proof-of-Delivery (POD). Making GST invoices available to lender is essential for cash-flow lending to take off. For this, GSTN system needs to be connected to the AA system. Dematerializing of POD is essential for inventory financing for MSMEs to grow. The design is already in place. Only an implementation project needs to be created.

In her press meet yesterday, Finance Minister Smt. Nirmala Sitaraman announced that in order to support MSMEs, we are going to implement recommendations of U.K.Sinha Committee. If these recommendations are implemented, it is going to be a game changer for Indian Economy and another big step towards vision of $5 Trillion economy.

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