



Standing Committee Report Summary

Strengthening Credit Flows to the MSME Sector

- The Standing Committee on Finance (Chair: Mr Jayant Sinha) presented its report on ‘Strengthening Credit Flows to the MSME Sector’ on April 8, 2022. The Micro, Small and Medium Enterprises (MSME) sector contributes around 30% to India’s GDP, 45% to its manufacturing output, and 48% to exports. It provides employment to around 11 crore people. The Committee noted that credit gap in the MSME sector is estimated to be around Rs 20-25 lakh crore. Key observations and recommendations of the Committee include:
 - **Bridging credit gap by forming a digital ecosystem:** The Committee noted the progress made by the Finance Ministry, the Reserve Bank of India, Goods and Services Tax (GST) Network, MSME Ministry, National Securities Deposit Limited, Ministry of Electronics and Information Technology, and Unique Identification Authority of India in introducing important digital building blocks that can reduce transaction costs of lending. It also took note of the launch of the Udyam registration portal by the MSME Ministry and the success of public digital infrastructure projects such as BHIM UPI and Aadhaar.
 - The Committee noted that the Udyam portal can act as a central data repository by lenders to extend timely credit. It recommended creating a digital ecosystem for lending to MSMEs. This is expected solve problems such as physical collateral requirements, lengthy verification processes, and paper-based loan applications. The benefits of such a digital ecosystem will include: (i) reduction in transaction costs in making small loans, (ii) increase in the trust and claims made through digital signatures and authentication, (iii) increase in competition and affordability by creating visibility of loan offers and lower interest rates, and (iv) reduction in the need for multiple partnerships in data sharing.
 - **Adopting an account aggregator framework:** The Committee noted that an account aggregator framework can benefit the sector by improving access to credit, preventing fraud, and reducing non-performing assets. The framework allows secure sharing of digital financial data. The Committee noted the pilot success of SAHAY GST. SAHAY is a platform which enables instant digital lending to MSMEs and replaces physical collateral with secure access to GST invoices.
 - **Cash-flow lending:** The Committee recommended that lending to the MSME sector should move to cash-flow based lending. Cash-flow lending replaces lending based on physical asset as collateral, with information-based system. Under a cash-flow lending system, loan requirements are assessed based on information on actual revenue generation and repayment capacities. The Committee recommended various measures to accelerate cash-flow based lending. These include: (i) formally bringing the GST Identification Number into the account aggregator framework to allow regulated entities to access GST data, (ii) encouraging the adoption of account aggregator standards across all regulated entities, and (iii) enabling KYC reforms to shift away from a per-transaction KYC framework to a system-wide KYC.
 - **Accelerating formalisation of MSMEs:** The Committee noted that less than 40% of MSMEs avail credit from formal financial systems and therefore depend on costly and unreliable credit. It recommended accelerating the formalisation of the sector to promote their growth. It also noted that if working capital to MSMEs is provided on the basis of GST invoices, it would spur formalisation, including the GST registration of businesses.
 - **Providing targeted credit guarantees:** The Committee noted that weaker borrowers require higher support during situations of emergency. It recommended targeting: (i) specific industries such as salons and tour agencies, and (ii) specific geographical areas to provide government guarantee programs. The Committee noted that this would provide credit to those who require it the most. It noted the role of a digital ecosystem in providing effective credit guarantee programs.
 - **Support to SIDBI:** The Committee recommended strengthening SIDBI’s equity base by injecting equity between Rs 5,000 crore and Rs 10,000 crore, and building up its organisational capabilities. This would allow it to provide financing to the NBFC sector and lower borrowing rates. The Committee noted the development of Udyam Assist Platform (UAP) proposed by SIDBI to accelerate MSME registration and SIDBI’s connections with pertinent financial institutions. It recommended making SIDBI the nodal agency for Udyam value-added financial applications. It also noted that in 2021-22, the National Bank for Agriculture and Rural Development supported the agricultural sector with a loan portfolio of Rs 6 lakh crore, with the sector contributing about 18-20% to the GDP. SIDBI had a loan portfolio of nearly Rs 1.6 lakh crore in 2021-22 with the MSME sector contributing 30% to the GDP.
 - **Vyapar Credit Card scheme:** The Committee recommended launching a Vyapar credit card scheme along the lines of the Kisan Credit Card scheme. These cards can provide its holders short term loans at low interest rates for meeting working capital requirements.

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