# U.K. Sinha Committee on MSMEs - Recommendations

## Why in News?

The RBI-appointed U.K. Sinha-led committee, set up to study the problems faced by MSMEs, submitted its recommendations recently.

## How significant is the MSME sector?

- Around 63 million MSMEs in India contribute significantly to the country's economic growth; they account for -
  i. about 45% of manufacturing output
  ii. more than 40% of exports
  iii. over 28% of gross domestic product
- More importantly, the MSME sector employs about 111 million people.
- Worldwide, small businesses account for more than 50% of employment.
- They are key engines of job creation and economic growth in developing countries.
- Besides these, the MSME sector is also a true reflection of economics where people really matter.
- Given its employment share, the sector's health is crucial to the economy's vitality and society's well-being.

## Why was the committee formed?

- In India, small businesses have been facing a range of disruptions since the demonetisation decision in 2016.
- This disruptive move was followed by the hasty impslementation of the goods and services tax in 2017.
- Now, there is also the liquidity crunch issue triggered by a series of debt defaults by group companies of Infrastructure Leasing and Financial Services Ltd in 2018.
- All these have made the smooth functioning and development of the MSME sector very challenging.
- Given this, in January 2019, the RBI constituted the expert committee on MSMEs to undertake a comprehensive review of the MSME sector.
- It was tasked to study the problems faced by MSMEs, identify the causes, and propose long-term solutions.

## What are the key recommendations?

- **Distressed Asset Fund** - The committee has suggested a Rs.5,000 crore stressed asset fund for domestic micro, small and medium enterprises (MSMEs).
- The creation of a distressed asset fund will be structured to assist units in clusters.
- This is intended as a relief to small businesses hurt by demonetization, GST and an ongoing liquidity crunch.
- The fund would go into reviving MSMEs in which a change in the external environment has led to them becoming non-performing asset (NPA).
- The fund could work in tandem with RBI-mandated restructuring schemes or bank-led NPA revival solutions for MSMEs.
- The onus of creating this fund would lie with the government.
- **Fund of Funds** - The committee suggested forming a government-sponsored Fund of Funds of Rs. 10,000 crore.
- This is to support venture capital and private equity firms investing in MSMEs.
- **MSME Act** - The committee observed that small industries face problems of delayed payments.
- They hesitate to enforce legal provisions available to them under the MSME Development Act, 2006 due to their weak bargaining power.
- The committee thus recommended an amendment to the Act.
- Under this, it calls for all MSMEs to mandatorily upload from time to time all their invoices above an amount (to be specified by the government) to an information utility.
- This mechanism will entail automatic display of the names of defaulting buyers.
- This will also act as moral suasion on them to release payment to these suppliers.
- Also, many Indian start-ups that are at the forefront of innovation are drawn to look overseas.
- So the new law ought to address the sector’s biggest bottlenecks, including access to credit and risk capital.
- This will go a long way in prioritizing market facilitation and ease of doing business.
- **SIDBI** - The committee has recommended expanding the role of the Small Industries Development Bank of India (SIDBI).
- It called for SIDBI to deepen credit markets for MSMEs in underserved districts and regions.
- It emphasised on the role of private lenders such as non-banking financial companies and micro finance institutions in this regard.

- Further, SIDBI was suggested to develop additional instruments for debt and equity.
- This would help crystallize new sources of funding for MSMEs and MSME lenders.
- **Loan portal** - New entrepreneurs may not necessarily have information like GSTIN, income-tax returns and bank statement.
- The committee thus suggested that the 'PSBLoansIn59Minutes.com' portal also cater to such new entrepreneurs.
- Besides, obtaining regular sanctions from the banks post in-principle approval had not been smooth for entrepreneurs.
- It was thus suggested to fix a timeline of 7-10 days for disposal of applications, which have received in-principle approval.
- The committee also recommended enhancing the threshold of loan up to Rs. 5 crore.
- **Technology** – The committee acknowledged the fact that technology, especially digital platforms, having become inevitable.
- It thus made a case for greater adoption of technology-facilitated solutions to many of the problems encountered by the MSME sector.
- **Other suggestions** include -
    i. introduction of adjusted priority sector lending guidelines for banks to specialize in lending to a specific sector
    ii. doubling the collateral-free loan limit to Rs. 20 lakh
    iii. providing insurance coverage to MSME employees by the government
- The committee also suggested to develop group policies for death and accident cover for MSME entrepreneurs.
- This, it said, should be significantly higher than the cover currently offered by the Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Bima Yojana.
- Another suggestion entails expediting the integration of information on the Government e-Marketplace (GeM) platform with the Trade Receivables Discounting System.
- The objective is to boost liquidity at MSMEs.
- Going forward, the task is now for the RBI and the Centre to act on these recommendations to help actualize the sector's true economic potential.

**Source: Livemint, The Hindu**

**Quick Facts**

**PSBLoansIn59Minutes.com**

- PSBLoansIn59Minutes.com is an online marketplace.
- It enables in-principle approval of MSME loans up to Rs. 1 crore in 59 minutes from public sector banks.

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