

66

**STANDING COMMITTEE ON FINANCE
(2012-13)**

FIFTEENTH LOK SABHA

**Ministry of Finance
(Department of Financial Services)**

**THE SMALL INDUSTRIES DEVELOPMENT
BANK OF INDIA (AMENDMENT) BILL, 2012**

SIXTY-SIXTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

March, 2013/Phalguna, 1934 (Saka)

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THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (AMENDMENT) BILL, 2012

Presented to Hon'ble Speaker on 16 February, 2013

Presented to Lok Sabha on 5 March, 2013

Laid in the Rajya Sabha on 5 March, 2013



LOK SABHA SECRETARIAT
NEW DELHI

March, 2013/Phalguna, 1934 (Saka)

CONTENTS

Page No.

COMPOSITION OF THE COMMITTEE (iii)

INTRODUCTION (iv)

REPORT

1.	Introductory	1
2.	Salient features of the SIDBI (Amendment) Bill, 2012	2
3.	Capacity building of SIDBI as a Development Financial Institution (DFI) for MSME Sector	5
4.	Amendment of the long title	6
5.	Substitution of references to certain expressions by certain other expressions	7
6.	Amendment of Section 19	11
7.	Difficulties / constraints faced by SIDBI in performing its functions as a Development Financial Institution (DFI)	12

APPENDICES

- I. Minutes of the sittings of the Committee held on 9th November, 2012 and 11 January, 2013
- II. The Small Industries Development Bank of India (Amendment) Bill, 2012

COMPOSITION OF STANDING COMMITTEE ON FINANCE (2012-13)

Shri Yashwant Sinha - Chairman

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| 3. | Shri Kulmohan Singh Arora | - | Under Secretary |
| 4. | Shri Tenzin Gyaltzen | - | Committee Officer |

**Nominated as Member of the Standing Committee on Finance w.e.f 13th December, 2012*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee, present this Sixty-sixth Report on the Small Industries Development Bank of India (Amendment) Bill, 2012.

2. The Small Industries Development Bank of India (Amendment) Bill, 2012 introduced in Lok Sabha on 22 May, 2012, was referred to the Committee on 28 May, 2012 for examination and report thereon, by the Speaker, Lok Sabha under rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Committee obtained written information on various provisions contained in the aforesaid Bill from the Ministry of Finance (Department of Financial Services).

4. The Committee, at their sitting held on 9 November, 2012 took evidence of the representatives of the Ministry of Finance (Department of Financial Services) and Small Industries Development Bank of India (SIDBI).

5. The Committee, at their sitting held on 11 January, 2013 considered and adopted the draft report and authorized the Chairman to finalise the same and present it to the Hon'ble Speaker/Parliament.

6. The Committee wish to express their thanks to the officials of the Ministry of Finance (Department of Financial Services) and the Small Industries Development Bank of India (SIDBI) for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the Bill.

7. For facility of reference, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

New Delhi;
23 January, 2013
03 Magha, 1934 (Saka)

YASHWANT SINHA
Chairman,
Standing Committee on Finance

REPORT

1. Introductory

Small Industries Development Bank of India (SIDBI) was established under Small Industries Development of India Act, 1989 (SIDBI Act) on April 02,1990 as a wholly owned subsidiary of Industrial Development Bank of India (IDBI) to operate as the principal financial institution for the purpose of promoting, financing, development of 'industrial concerns in the small-scale sector' and coordinating the functions of the institutions engaged in promoting, financing or developing the small-scale sector. SIDBI Act was amended vide SIDBI Amendment Act 2000 wherein the authorized share capital was enhanced, shareholders base enlarged and board of directors restructured. Consequent to this, the shareholding was dispersed among various public sector banks and insurance companies by way of transfer of majority of shareholding by IDBI. Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003, while repealing Industrial Development Bank of India Act, 1964, also amended the definition of 'industrial concern in the small scale sector' in the SIDBI Act and incorporated the activities mentioned in section 2(c) of IDBI Act in section 2(h) of SIDBI Act.

The MSMED Act, 2006 introduced the concept of "enterprise" with further classification into micro enterprise, small enterprise and medium enterprise (MSME). The definition of the micro enterprise, small enterprise & medium enterprises provided in MSMED Act is notwithstanding anything contained in section 11-B of Industries (Development and Regulation) Act 1951 (IDR Act) and is for the purpose of that Act only. Also, subsequent to the introduction of MSMED Act, Ministry of Micro, Small and Medium Enterprises (MoMSME) requested that since SIDBI is the apex financial institution for financing the sector for its promotion and development, it was desirable that SIDBI Act be in consonance with MSMED Act.

Ministry of Commerce and Industry (Department of Industrial Policy and Promotion), vide notification S.O. 563(E) dated February 27, 2009, has rescinded the Government notification dated December 10, 1997 which specified the basis on which any industrial undertaking was regarded as Small Scale Undertaking and was relevant for the definition of 'Industrial concern in the small scale sector' in terms of section 2(h) of the SIDBI Act. Consequently, the definition of 'industrial concern in the small scale

sector' under section 2 (h) is no more valid, as also the relevant provisions relating to business, powers and other matters which are directly linked to the definition.

The Small Industries Development Bank of India (Amendment) Bill, 2012 seeks to amend Small Industries Development of India Act, 1989 (SIDBI Act). Amendment in the SIDBI Act have been necessitated by the enactment of Micro, Small and Medium Enterprise Development Act, 2006 (MSMED Act) and rescinding of Government notification under Industries (Development and Regulation) Act 1951 (IDR Act), which provided the basis of definition of small sector industrial undertaking. There are certain other proposed amendments, which are based on the (i) authorizations given by the Government of India to SIDBI from time to time for undertaking various lending activities, including lending to medium enterprises; (ii) those based on present position and circumstances after certain court pronouncements; and (iii) alignment with current accounting practices for foreign currency transactions to align the provisions with other statutes and developments having bearing on the provision of the Act.

2. Salient Features of the Bill

The Small Industries Development Bank of India (Amendment) Bill, 2012 *inter-alia* provides :-

(a) substitution of the words 'Industrial concern(s) in the small scale sector' with 'industrial concern(s) or micro enterprise(s) or small enterprise(s) or medium enterprise(s)' wherever appearing in the Act [(except in section 2(h) and sub-section (4) of section 38]. This will bring SIDBI Act in consonance with MSMED Act.

(b) to substitute in section 2(h) the words ' "industrial concern" means any concern with an investment limit, as may be specified, by unanimous resolution, by the Board. This will enable SIDBI Board to specify investment limit for industrial concerns. This has been necessitated because of rescinding of relevant notification under IDR Act.

(c) to incorporate the definitions of terms "enterprise", "micro enterprise", "small enterprise" and "medium enterprise" as given in MSMED Act. {insertion of new Clauses (ea), (hb), (hc) and (ld) in section 2 }

(d) to incorporate the definition of "micro finance institution" {insertion of new Clause (hd) in section 2}

(e) incorporation of such activities in sub-section 2(h) itself, which have already been permitted under section 2(h) vide Notification No. SO 2861 dated 05/11/2004. {Insertion of new sub-clauses (xvi a) to (xvi f) in Clause (h) of section 2}

(f) to incorporate micro finance institutions in the list of organizations- (i) to whom SIDBI can grant loans and advances by way of refinance for loans or advances or micro finance services granted by them to MSMEs; (ii) whose stocks, shares, bonds or debentures SIDBI can subscribe / purchase; (iii) to whom SIDBI can grant lines of credit or loans and advances; and (iv) to whom SIDBI can grant loans and advances by way of refinance of loans and advances granted by them for purposes of Export. SIDBI has already been authorized vide authorization F.No.17(13)2001-IF.II dated 14/09/2001 to offer assistance by way of equity support to micro finance institutions and vide authorisation F. No. 17/16/2003-IF.II dated 24/02/2004 to lend to Micro Finance Institutions (MFIs) . This will incorporate the authorizations granted to SIDBI into the Act and broad base the activities and institutions {sections 13(1) (i), 13(1)(iv) & 13(1)(vii)}

(g) to insert in section 13(1) new clauses (xxix a), (xxix b), (xxix c), (xxix d), (xxix e) and (xxix f) specifying various business activities which SIDBI can undertake. This will incorporate various Government authorizations already granted to SIDBI after modifying them in consonance with MSMED Act. {section 13(1)}

(h) to amend section 19(3) allowing repayment of Foreign Currency loans in Foreign Currency and maintaining Foreign Currency loan accounts as required under any law or Accounting Standards. {section 19(3)}

(i) to include the charging clause in section 37A to the effect that the securities charged to borrowing institutions availing refinance from SIDBI shall be treated as charged to SIDBI also. This will enable SIDBI to enforce such securities under SARFAESI Act. {section 37A (2)}

(j) to include the right of takeover of possession of the properties of the guarantors & third party mortgagors also under section 38 of SIDBI Act. This will address the concerns arising from a Supreme Court decision relating to section 29 of State Financial Corporation Act 1951 (*pari materia* with existing section 38 of SIDBI Act wherein it has been held that the section is not applicable to collateral securities). {section 38}

(k) amendment of section 39 so as to, enable the District Magistrate or the Chief Metropolitan Magistrate to authorize any officer subordinate to him to take possession of property, etc. This will facilitate speedier disposal of cases. {section 39(3) & Insertion of new sub-clauses (1A) in section 39}

To sum up, once the Bill is enacted

- This will effect consequential changes in SIDBI Act to bring in the concept of Micro Enterprise, Small Enterprise and Medium Enterprise in consonance with MSMED Act, in addition to the list of activities already allowed to SIDBI and certain other changes to align the provisions with other statutes and developments.
- The Bill shall enable SIDBI to finance, promote and develop all industrial undertakings in the micro, small and medium sector irrespective of the fact that the same are engaged or not engaged in manufacturing of goods pertaining to Industries specified in the First Schedule of IDR Act. The Bill proposes to allow SIDBI to continue to finance, promote and develop industrial concerns based on the activities (as provided in section 2(h) of SIDBI Act) with an investment limit as may be specified, by unanimous resolution, by the Board, in addition to financing, promoting and developing micro, small & medium enterprises (as defined in the MSMED Act).
- This will enable SIDBI to enforce such securities under SARFAESI Act which are charged to the borrowing institutions availing refinance from SIDBI as the same shall be treated as charged in favour of SIDBI.

The Small Industries Development Bank of India (Amendment) Bill, 2012 was introduced in Lok Sabha on 22nd May, 2012 and referred to the Standing Committee on Finance by the Hon'ble Speaker, Lok Sabha on 28th May, 2012 for examination and Report thereon.

3. Capacity building of SIDBI as a Development Financial Institution (DFI) for MSME Sector

Responding to the query whether the proposed amendment Bill would help in capacity building of SIDBI as a development financial institution for the MSME sector. The Ministry of Finance (Department of Financial Services) *inter-alia* furnished their reply as under :

“The Bill proposes to incorporate the definitions of micro enterprises, small enterprises and medium enterprises as defined in the MSMED Act in the SIDBI Act, bringing SIDBI Act in consonance with the MSMED Act, which would enable SIDBI to promote, develop and finance all the MSMEs as provided under the

MSMED Act. The proposed amendments further provide for retention of the concept of eligible activities as provided under section 2(h) of SIDBI Act which shall enable SIDBI to promote, develop and finance such concerns which are engaged in such activities as provided in section 2(h) or such other activities which may be notified under section 2(h) of SIDBI Act by the Central Government from time to time, with an investment limit as may be specified, by unanimous resolution, by the Board. With the majority of Board members (including three whole-time directors) being appointed / nominated by Govt. of India, or by the institutions owned or controlled by the Central Government, SIDBI would be able to leverage provisions of this Act and support / supplement the developmental objectives of the State.

The Bill also addresses certain gaps in the matter of recovery of loans and advances granted to the MSME against third party assets as also refinance provided to PLIs. Besides, as stated above, a number of notifications / authorizations granted to SIDBI by Government of India from time to time with regard to expansion of its business and activities are being incorporated into the Act, with suitable modifications incorporating benefit of such activities for MSME as against only SSI, provided earlier. Thus, provisions of the Bill would help in capacity building of SIDBI and enable it to serve the sector better”.

3.1 The Committee note that Small Industries Development Bank of India (SIDBI) was established under Small Industries Development of India Act, 1989 (SIDBI Act) on April 02, 1990 to operate as the principal financial institution for the purpose of promoting, financing, development of ‘industrial concerns in the small-scale sector’ and coordinating the functions of the institutions engaged in promoting, financing or developing the small-scale sector. SIDBI Act was amended vide SIDBI Amendment Act 2000 wherein the authorized share capital was enhanced, shareholders base enlarged and board of directors restructured.

3.2 The Committee further note that the Bill proposes to incorporate the definitions of micro enterprises, small enterprises and medium enterprises as defined in the MSMED Act in the SIDBI Act, bringing SIDBI Act in consonance with the MSMED Act, which would enable SIDBI to promote, develop and finance all the MSMEs as provided under the MSMED Act.

3.3 The Committee hope that proposed amendments would help to address the problems faced by borrowers graduating from micro-finance dispensation to larger loan sizes, promotion of self-employed ventures capable of generating

employment opportunities, especially in rural areas and targeting women, SCs, STs, minorities and economically as well as educationally backward classes. The Committee desire that special thrust should also be given towards the extension of micro-finance in backward districts and North-eastern region to help unemployed youth, budding entrepreneurs, women and minorities to create awareness amongst the small units on technological advancements and process modernization to induce the units to upgrade their technological level and consequently move towards capacity building. Since the proposed Bill seeks to expand the scope and jurisdiction of SIDBI, the Committee desire that in view of its significant role, it is an opportunate time to evaluate its performance.

4. Amendment of the long title

(i) In the Small Industries Development Bank of India Act, 1989 (hereinafter referred to as the principal Act), in the long title, for the words “industry in the small-scale sector”, at both the places where they occur, the words “industrial concerns and micro enterprises, small enterprises and medium enterprises” shall be substituted.

4.1 On being asked as to whether by bringing the SIDBI Act in consonance with the MSMED Act, positive outcomes are expected, the Small Industries and Development Bank of India submitted their written reply as under :

“The Micro, Small and Medium Enterprise Development Act, 2006 was passed with no consequential amendments in the SIDBI Act nor the criteria of SSI under Section 11B of IDR Act was changed. A new concept of “enterprise” was introduced with further classification into Micro, Small and Medium Enterprise. Further, the definition of the MSME provided in the Act is notwithstanding anything contained in section 11-B of IDR Act.

The definitions of MSME under MSMED Act are not *ipso facto* applicable to SIDBI and the definitions of MSME provided in the MSMED Act are for the purpose of that Act only. By bringing the SIDBI Act in consonance with the MSMED Act, SIDBI shall also be able to finance, promote and develop the micro enterprises, small enterprises and medium enterprises as defined in MSMED Act without any limitation. Further, businesses and activities as authorized / notified under Section 2(h) (xvii) and Section 13(1) (xxx) from time to time are being incorporated into the Act with suitable modifications to align them with the concept of MSME as against SSI earlier. The Act also enables Central Government to authorize any activity as eligible activity for support by SIDBI, considering the national priorities”.

4.2 As the Bill mainly proposes to enlarge the scope of operations of SIDBI by aligning the basic provisions with the definitions provided in the MSMED Act, as also by widening the range of activities / vocations under SIDBI's credit ambit, the Committee hope that the proposed Bill serves the desired purpose of addressing the issues of financial and logistic impediments in the small scale and tiny sector and facilitate the sector to adapt to changing global trends and technological changes while maintaining its vibrancy for contribution to the economic growth of the country.

5. **Substitution of references to 'industrial concern(s)/industry(ies) in the small-scale sector'**

To substitute throughout the Principal Act (except in clause (h) of section (2) and sub-section (4) of section 38),

- (a) for the words "industrial concern in the small-scale sector", wherever they occur, the words "industrial concern or micro enterprise or small enterprise or medium enterprise";
- (b) for the words "industrial concerns in the small-scale sector", wherever they occur, the words "industrial concerns or micro enterprises or small enterprises or medium enterprises";
- (c) for the words "industries in the small-scale sector", wherever they occur, the words "industrial concerns or micro enterprises or small enterprises or medium enterprises";
- (d) for the words "industry in the small-scale sector", wherever they occur, the words "industrial concerns or micro enterprises or small enterprises or medium enterprises".

5.1 The Committee enquired whether substituting SSI with MSME would not limit the mandate and scope of SIDBI, leaving out of its ambit activities as currently provided under section 2(h), thereby diluting the overall object of creation of SIDBI. The Ministry of Finance (Department of Financial Services) in a written note stated as under :

"That if SSI were replaced with MSME and section 2(h) were omitted, it would limit the mandate and scope of SIDBI. It is for this reason that the Bill proposes to retain Section 2(h) so that the ambit of activities covered under it continues to be serviced by SIDBI.

To elaborate, in terms of MSMED Act, an enterprise means that which is engaged in manufacture or production of goods pertaining to industries specified in First Schedule of Industrial (Development & Regulation) Act, 1951 (IDR Act) or

is engaged in providing or rendering of services. On the other hand, in terms of Section 2(h) of SIDBI Act, a concern engaged in any of the activities as mentioned therein, irrespective of the fact that whether or not it pertains to industries mentioned under First Schedule of IDR Act or is a service, is considered as an 'industrial concern'. Further, the intention of the legislature has also been to allow earlier IDBI (1964) and thereafter SIDBI (1989) to finance promote and develop 'Industrial concerns' based on the list of activities as incorporated in the respective Acts, despite there being already in existence the concept of Industrial undertakings/ industries under the IDR Act.

Therefore, it is necessary to retain Section 2(h) of SIDBI Act so that it continues to perform the functions and carry on the activities that it has been doing hitherto".

5.2 Classification of Enterprises : Regarding classification of enterprises the Section 7 of MSMED Act 2006 reads as under :

"Notwithstanding anything contained in section 11B of the Industries (Development and Regulation) Act, 1951, the Central Government may, for the purposes of this Act, by notification and having regard to the provisions of sub-sections (4) and (5), classify any class or classes of enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership firm, company or undertaking, by whatever name called,

(a) in the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951, as –

- (i) a micro enterprise, where the investment in plant and machinery does not exceed twenty five lakh rupees;
- (ii) a small enterprise, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; or
- (iii) a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

(b) in the case of the enterprises engaged in providing or rendering of services, as –

- (i) a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;
- (ii) a small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or
- (iii) a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees".

5.3 The Committee note that the proposed amendment to widen the scope of SIDBI by bringing in more activities or vocations, read with the definition of industrial concerns in Clause 4 of the Bill, will bring in even larger concerns / enterprises within its credit ambit. The Committee are apprehensive that the focus and original mandate of SIDBI to promote and assist the small scale sector could be lost sight of and bigger concerns may end up cornering more benefits in deviation from the original mandate of SIDBI.

5.4 The Committee are of the view that the credit policies and practices of SIDBI should be well delineated so that the micro/tiny enterprises, which do not have adequate access to credit and related extension services, do not get overshadowed by the access enjoyed by bigger units. The Committee would, therefore, recommend that preferential treatment should be accorded by SIDBI to micro and small enterprises by compulsorily earmarking for them not less than 50% of the total disbursements. SIDBI could meanwhile keep on financing such small and medium enterprises say upto 3 or 5 years until their transition into a larger concern and consequently moving towards regular financing options. The Committee believe that micro-credit, being a neglected area, should be accorded priority and thus desire that SIDBI should evolve a pro-active and coherent policy for the development of micro enterprises.

5.5 The Committee note that Clause 4 (b) of the Bill seeks to align the definition of “enterprise” with that in the MSMED Act. However, Clause 4 (c) in the Bill states that the words “industrial concern in the small-scale sector” means any “concern with an investment limit, as may be specified by unanimous resolution by the Board...” In this connection, the Committee however, note that Section 7 of the MSMED Act provides for investment limits in plant and machinery as criteria of classification of enterprises.

5.6 In this context, the Committee would also like to point out that classification of “enterprises” based on investment in plant and machinery limits is too rigid, as it does not take into reckoning inflationary trends and technological changes and therefore requires modification in MSMED Act 2006 to make it more contemporary and in sync with the changing mandate particularly of the SIDBI and otherwise. The Committee thus are of the view that the

classification and criteria should be left to the professional competence of the SIDBI Board as proposed in Clause 4 (c) for ‘industrial concern’ based on a coherent lending policy oriented towards the small and micro enterprises. The Committee desire the Government to address such issues while making amendments to the SIDBI Act.

6. Amendment of Section 19

In section 19 of the principal Act, —

- (a) in sub-section (1), for the words and figures “Foreign Exchange Regulation Act, 1973”, the words and figures “Foreign Exchange Management Act, 1999” shall be substituted;
- (b) in sub-section (3), for the words “prevailing at the time of grant thereof, and the amount due thereunder shall be repayable in equivalent Indian currency”, the words, figures and letters “prevailing at the time of such grant and thereafter, based on the exchange rate prevailing as on the 31st March, every year or as may be required under any law for the time being in force or accounting standards, as referred to in subsection (3c) of section 211 of the Companies Act, 1956, as the case may be, and the amount due thereunder shall be repayable in foreign currency or in equivalent Indian currency” shall be substituted;
- (c) in sub-section (4), in clause (a), for the words “repayment thereof by the concern”, the words “repayment thereof by the concern or micro enterprise or small enterprise or medium enterprise” shall be substituted.

6.1 While replying to the query as to why there is need for alignment with current accounting practice of foreign currency transactions as compared to the earlier position, the Ministry of Finance (Department of Financial Services) in a written reply stated as under :-

“Modification in Section 19 (3) relating to foreign currency (FC) loans, is proposed as under :

- As per the existing clause, loans given in FC are to be maintained in the respective currency at the exchange rate prevailing at the time of grant thereof which conflicts with the requirement of Indian Accounting Standard 11 of Institute of Chartered Accountants of India. The proposed modification would align SIDBI’s accounts with these standards. This will have no impact on the terms of individual loans granted to MSMEs and would only result in a more accurate description of foreign loans for the purpose of SIDBI’s balance sheet.
- With the liberalization of FC regime in the country, exporting MSMEs are permitted to retain a part or whole of their earnings in FC. Permitting them to utilize such currency for repayment of FC loans from SIDBI would save them the cost and risk of conversion of instalments into rupees and thus make the FC loans more efficient. It is only enabling provision allowing repayment of foreign currency loan in foreign currency, which will help the borrowers”.

6.2 The Committee have been informed that the modification in Section 19 (3) relating to foreign currency loan would align SIDBI's accounts with the Indian accounting standards and would result in more accurate reflection of foreign loans for the purpose of SIDBI's balance sheet. The Committee expect that this enabling provision would not adversely impact on the terms of individual loans sanctioned by SIDBI and would help the borrowers in repayment of their foreign currency loan in foreign currency whenever required.

7. Difficulties / constraints faced by SIDBI in performing its functions as a Development Financial Institution (DFI)

To the query regarding difficulties/constraints faced by SIDBI in performing its function as a development financial institution and specific measures they would propose for overcoming these difficulties and enhance their capacity to foster and promote the MSMEs, the Ministry of Finance (Department of Financial Services) in a written note commented as under :-

- “As a Development Financial Institution SIDBI is an instrument of the State to help it attain its objectives relating to healthy and well-rounded growth of the sector it serves through its various activities. SIDBI has been playing the role of financing, development and promotion of industries and businesses belonging to its mandated sector as per the directions and guidance from its Board of Directors and Government of India. The sector SIDBI serves faces several challenges due to the nature of its business and size. These include access to credit, access to markets, technology, energy efficiency, risk capital, availability of skilled manpower and high vulnerability to changes in market conditions.
- To have a holistic approach to addressing these, SIDBI has recently reoriented its business model to focus on addressing financial and non financials gaps in the MSME eco system. To this end, SIDBI's business strategy includes upscaling availability of risk capital to MSME, energy efficiency and sustainability finance, financing of Service Sector - particularly where intangibles are involved, factoring and Receivable financing, opening of Credit Advisory Centres at various industrial clusters to render advice to MSMEs, Loan Syndication Services, etc.
- In addition, SIDBI has two subsidiaries, viz., SIDBI Venture Capital Limited (SVCL) and SIDBI Trustee Company Limited (STCL) and four associates, viz., Credit Guarantee Fund Trust for Micro Enterprises (CGTMSE), India SME Asset Reconstruction Company Limited (ISARC), India SME Technology Services

Limited (ISTSL) and SME Rating Agency of India Limited (SMERA). These entities are also engaged in providing their services to facilitate growth of MSME sector.

- MSME sector is sensitive to cost. In order to enable SIDBI to perform its function as Development Financial Institution (DFI) and in line with new business strategy which aims to fulfill the gaps in non-financial and financial support to MSME sector, SIDBI needs continuous budgetary support in terms of allocation out of RIDF / tax free bonds in larger measure.

In order to enhance the refinance capabilities of SIDBI, Government of India has already been requested to convert Government bonds (₹ 2173 crore together with interest accrued thereon) into equity to enable SIDBI to leverage higher borrowings.

- In the Budget of FY 2012-13, an announcement of setting up of India Opportunity Venture Fund (IOVF) of ₹5000 crore was made. RBI, while advising allocation of ₹2000 crore under IOVF for FY 2013, has indicated the maturity of deposits out of RIDF as three years. This will result in mismatch in the investments which take overall 7 to 10 years after factoring the financial closure period, commitment phase and disbursement thereafter. Hence, a request has already been made to RBI to increase the maturity from three to seven years at least.
- In view of contribution of 40% of industrial production by MSME sector, Government of India/RBI should facilitate banks by setting aside certain percentage of capital market exposure towards investment in equity and equity related instruments of MSME by banks, viz., 40% of 20% direct CME exposure, i.e. 8%.
- As a DFI, SIDBI had in turn supported state level DFIs such as SFCs and SIDCs since its inception. Over a period of time, these institutions are finding difficulties in view of competition and unavailability of low cost resources. Almost 10% of SIDBI's outstanding portfolio is towards such institutions. In order to ring fence SIDBI's balance sheet, the proposal for setting up Stressed Assets Stabilisation Fund (SASF) has been made.
- SIDBI should be made a nodal agency for all Government Schemes and programmes which are designed for the benefit of the MSME sector”.

7.1 The Committee in the course of examination of the Bill, felt that there could be a more comprehensive and broad based amendment encompassing and addressing important issues like access to credit, access to markets, technology, energy efficiency, risk capital, availability of skilled manpower, vulnerability to changes in the market conditions, cap / ceiling on the lending rate etc. faced by MSME Sector.

7.2 The Committee desire that a representative of SIDBI should be present during the District Level Review Committee meetings to facilitate better interface among district level institutions / agencies. Similarly, there should also be better coordination between the State Finance Corporations (SFCs) and SIDBI.

7.3 With a view to ensuring balanced regional development, the Committee recommend better institutional accessibility of SIDBI for traditional cottage industries and the NE region with focus on bamboo cultivation and processing that has picked up as a major movement there and has capacity to play a catalytic role in the development of NE region.

7.4 The Committee would also expect that this Bill would be able to address the issue of cost-sensitivity of MSME Sector and enable SIDBI to fill the existing gaps in non-financial and financial support to MSME sector.

7.5 The Committee, having dealt upon the various provisions off the Bill, recommend for enactment of the Bill, with modifications as recommended in the above paragraphs.

New Delhi;
23 January, 2013
03 Magha, 1934 (Saka)

YASHWANT SINHA
Chairman
Standing Committee on Finance

OF THE FOURTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2012-13)

The Committee sat on Friday, the 9th November, 2012 from 1100 hrs to 1530 hrs.

PRESENT

Shri Yashwant Sinha – **Chairman**

MEMBERS

LOK SABHA

2. Dr. Baliram
3. Shri Nishikant Dubey
4. Shri Gurudas Dasgupta
5. Shri Bhartruhari Mahtab
6. Dr. Chinta Mohan
7. Shri Prem Das Rai
8. Shri S.S. Ramasubbu
9. Shri Adv. A. Sampath
10. Shri Thakur Anurag Singh
11. Dr. M. Thambidurai
12. Shri Shivkumar Udasi

RAJYA SABHA

13. Shri Naresh Agrawal
14. Shri Rajeev Chandrasekhar
15. Smt. Renuka Chowdhury
16. Shri Piyush Goyal
17. Shri Satish Chandra Misra
18. Shri P. Rajeeve
19. Shri Praveen Rashtrapal

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Shri A. K. Singh | – | Joint Secretary |
| 2. | Shri Ramkumar Suryanarayanan | – | Additional Director |
| 3. | Shri Sanjay Sethi | – | Under Secretary |
| 4. | Shri Kulmohan Singh Arora | – | Under Secretary |

Part I
(1100 hrs. to 1330 hrs.)

WITNESSES

2.	XX	XX	XX	XX
	XX	XX	XX	XX
3.	XX	XX	XX	XX

	XX	XX	XX	XX
4.	XX	XX	XX	XX
	XX	XX	XX	XX

The witnesses then withdrew.

Part II
(1400 hrs. to 1530 hrs.)

WITNESSES

Ministry of Finance (Department of Financial Services)

1. Shri D.K. Mittal, Secretary
2. Shri Sunil Soni, Additional Secretary
3. Shri Arvind Kumar, Joint Secretary

National Housing Bank (NHB)

1. Shri R.V. Verma, Chairman & Managing Director
2. Shri R.S. Garg, Executive Director

Small Industries Development Bank of India (SIDBI)

1. Shri Sushil Muhnot, Chairman & Managing Director
2. Shri N.K. Maini, Deputy Managing Director
3. Shri T.R. Bajalia, Deputy Managing Director

5. The Committee thereafter took oral evidence of the representatives of Ministry of Finance (Department of Financial Services), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) on the (i) National Housing Bank (Amendment) Bill, 2012 and (ii) Small Industries Development Bank of India (Amendment) Bill, 2012. The major issues discussed regarding the National Housing Bank (Amendment) Bill, 2012 included the rural housing, performance of NHB in the north eastern region, credit facility to the economically weaker sections of the society for housing construction, housing price index, land acquisition, minority housing schemes, reasons for clause on foreign currency in the Bill, state of NPAs pertaining to housing loans, secondary mortgage market, etc.

6. The major issues that came up during the discussion regarding the Small Industries Development Bank of India (Amendment) Bill, 2012 included overall functioning of SIDBI, problems of Small Scale Industries (SSI), assistance to Micro and SSI in rural areas and their indebtedness, institutional accessibility in the North Eastern region, sufficiency of this amendment Bill to address various issues. Members also raised questions on percentage of sick units which are awaiting assistance from SIDBI, relevance of repayment of foreign currency loans in foreign currency and co-ordination of SIDBI with the State Governments, etc. The Chairman then directed the representatives of the Ministry of Finance (Department of Financial Services), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) to furnish replies to the points raised by the Members during the discussion within a week's time.

A verbatim record of the proceedings was kept.

The witnesses then withdrew.

The Committee then adjourned.

OF THE EIGHTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2012-13)

The Committee sat on Friday, the 11th January, 2013 from 1130 hrs to 1440 hrs.

PRESENT

Shri Yashwant Sinha – Chairman

MEMBERS

LOK SABHA

2. Dr. Baliram
3. Shri Nishikant Dubey
4. Shri Bhartruhari Mahtab
5. Dr. Chinta Mohan
6. Shri Sanjay Brijkishorlal Nirupam
7. Shri S.S. Ramasubbu
8. Shri Adv. A. Sampath
9. Dr. M. Thambidurai

RAJYA SABHA

10. Shri Naresh Agrawal
11. Shri Rajeev Chandrasekhar
12. Shri Piyush Goyal
13. Shri Satish Chandra Misra
14. Dr. Mahendra Prasad
15. Shri P. Rajeeve

SECRETARIAT

1. Shri A. K. Singh – Joint Secretary
2. Shri Sanjay Sethi – Under Secretary

Part I (1130 hrs. to 1220 hrs.)

2. The Committee took up the following draft Reports for consideration and adoption:

- (i) Small Industries Development Bank of India (Amendment) Bill, 2012;
and.
- (ii) National Housing Bank (Amendment) Bill, 2012.

3. The Committee adopted the above draft reports with some minor modifications as suggested by Members. The Committee authorised the Chairman to finalise these Reports in the light of the modifications suggested and present the same to Hon'ble Speaker / Parliament.

Part II
(1230 hrs. to 1440 hrs.)

WITNESSES

4. XX XX XX XX
 XX XX XX XX

5. XX XX XX XX
 XX XX XX XX

A verbatim record of the proceedings was kept.

The witnesses then withdrew.

The Committee then adjourned.