

MOST IMMEDIATE
BY SPEED POST / E.MAIL

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Government of India
Ministry of Micro, Small and Medium Enterprises (MSME)
Office of the Development Commissioner (MSME)
NB & AC Division

7th Floor, "A" wing
Nirman Bhawan,
New Delhi – 110108
Dated 13th June 2008

Subject: Agenda for the Fifth Meeting of the National Board for Micro, Small and Medium Enterprises (NBMSME) on 27th June 2008 (Friday), New Delhi at 1100 hrs.

Reference: Fifth Meeting of the National Board for Micro, Small and Medium Enterprises (NBMSME) to be held on 27th June 2008 (Friday), at 1100 hrs.

The agenda (English version) of the aforesaid meeting together with short note is enclosed. Hindi version of the agenda will follow.

2. The venue of the meeting has undergone a change. The meeting will now be held at **Hall No. 5 (Second Floor), Vigyan Bhavan, New Delhi.**
3. Kindly make it convenient to attend the meeting. A line in confirmation will be highly appreciated.

Encl.: a/a


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To

1. All the Members, NBMSME
2. Chairman KVIC/Chairman Coir Board/CMD NSIC
3. AS&FA / EA / JS (PK) / JS (SKP) / ADC&EA / ADC (Admn.) / IA (SMA) / AEA/ AIAs / JDC.

Copy to: SENET Division, O/o DC (MSME).

Agenda for the Fifth Meeting of the National Board for Micro, Small and Medium Enterprises (NBMSME) on 27 June 2008 at Vigyan Bhawan New Delhi

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AGENDA ITEM NO. 1: Confirmation of the Minutes of the Fourth Meeting of National Board for Micro, Small & Medium Enterprises (NBMSME) held on 12.03.2008

The minutes of the fourth meeting of NBMSME held on 12 March 2008 were circulated to the members of the Board in English on 27 March 2008 and in Hindi on 04 April 2008 with the request that any discrepancy could be pointed out in fifteen days. A couple of members suggested minor modifications, which were carried out and forwarded to all members. The minutes with these modifications may be taken as confirmed.

AGENDA ITEM NO. 2: Follow up of action / Action Taken Report on the decisions taken and suggestions / recommendations made in the fourth meeting of the National Board for Micro, Small & Medium Enterprises (NBMSME) held on 12-03-2008

S. No.	Para no. of the minutes of 4 th Mtg.	Issues Raised	Action Taken / Comments
1	5, 6, 26, 33	Rising steel prices should be arrested	Hon'ble Minister of MSME and Secretary (MSME) have taken up this matter with the Ministry of Steel to look into it. D.O letters have been addressed to Hon'ble Minister of Steel and Secretary (Steel) in this regard. This office has also taken the issue with the Joint Secretary (Steel). Letters have been issued incorporating the suggestions made by the Industries association on the matter.
2	5	There is a need to conduct a cross country study on the micro sector to understand what has happened in other countries, so that the micro enterprises in India can learn from the shared experience.	The matter is under consideration.

3	7	Raising the limit of collateral free loan up to Rs. 25 lakh instead of Rs. 5 lakh.	<p>***</p> <p>The issues have been taken up with the Department of Financial Services by this Ministry. Their reply is still awaited. They have been reminded vide letter No.E.6 (39) / 2007 dated 5th May 2008.</p>
4	9	RBI guidelines are not being followed for collateral free lending and that Branch Managers seek personal guarantees in contravention of these guidelines. The Minister of MSME desired that RBI should take proactive steps for the enforcement of the guidelines which are being avoided by several branches of banks	
5	16	There is a case for reduction in the interest rates applicable for the MSEs.	
6	17	The time for the clearance of loans should be specified.	
7	18	Need to increase the lending to the MSEs further to achieve its earlier percentage of 16% of the total lending by banks.	
8	21	Information regarding the RBI	

		<p>guidelines does not flow to bank managers and proactive measures on the part of bank authorities are required in this regard.</p>	<p>***</p>
9	27	<p>Enterprises located in the North East need to be bailed out through the provision of bridge loans by banks, particularly for confirmed / sanctioned receivable amounts due to the enterprises, to keep them out of the NPA ambit.</p>	
10	8	<p>Status on Procurement Policy for which the cabinet note needs to be circulated quickly.</p>	<p>A draft cabinet note along with the proposed Government Procurement Preference Policy for MSEs under MSMED Act 2006 has been circulated to Ministries / Departments concerned for seeking their views and comments. A few of them have sent their views. The comments from others are awaited.</p>

11	8, 18	Increasing the excise exemption limit from Rs.1.5 crore to Rs. 3 crore.	The issue has been taken up with the Department of Revenue. Department of Revenue has replied that prior to 2007, the excise exemption limit for SSI was Rs. 1 crore. The same was enhanced to the current limit of Rs 1.5 crore in 2007-08 budget. Further requests / representations for enhancing the said limit beyond Rs. 1.5 crore was also examined as a part of budget 2008-09 exercise and after taking into account all relevant factors, the same was not found possible to accede to.
12	10	The number of assisted units under Credit Guarantee Scheme is low and that the banks, particularly the Indian Banks Association (IBA) need to promote the idea for popularising the scheme	The number of proposals approved during 2007-08 was 30,375 for sanctioned amount of Rs. 1062 crore, registering a growth of 10.62% and 50% respectively over the previous year. Chairman, CGTMSE has written letters to CMDs of all MLIs to increase the coverage under the scheme. Efforts are being continued during the current financial year.

13	11	<p>The nationalised banks like the SBI are not promoting the Credit Guarantee Scheme (CGS) to the desired level and as such agencies like TIIC, Cooperative Bank and local banks should be added as Member Lending Institutions (MLIs) for extending the facilities</p>	<p>Cumulatively, State Bank of India (SBI) has covered the maximum number of proposals under CGS. Regarding inclusion of a few SFCs as MLIs, the matter has been referred to SIDBI and their response is awaited. Cooperative banks have not been considered since only scheduled commercial banks are eligible to be registered as MLI.</p>
14	11	<p>Organisations like the National Small Industries Corporation (NSIC) should not increase the price of raw materials when they have annual agreement for supply and prices with the suppliers like NALCO, etc., NSIC should create an inspection wing of its own and should follow the Report of GM-DIC.</p>	<p>NSIC is an agency for distribution of raw materials like Aluminum, Copper, Iron & Steel to Micro, Small & Medium Enterprises at the prices determined by the producers. The annual agreement / MOU, NSIC signs with producers mention the quantity allocation of the raw material for the distribution to MSMEs. The prices of these materials are linked with the global trend and LME also.</p> <p>NSIC Technical Centres have been authorised as the inspection wing of NSIC for Single Point Registration Scheme apart from MSMEDIs. (called SISIs earlier).</p> <p>GM DIC issues SSI Registration or acknowledgement of submission of</p>

			Memorandum required for Single Point Registration under Government Stores Purchase Programme.
15	12	Several applications for assistance under the Credit Guarantee Scheme are rejected.	Only applications, which do not fulfil the eligibility criteria, are rejected.
16	12	State Bank of Travancore cites the fact that defaults are not taken care by the CGTMSE leading to hesitation on the part of Bank Managers to lend.	MLIs are to pay the Annual Service Fee (ASF) by 31 May every year. As a special case, time-period for payment of ASF for 2006-07 was extended up to 31 st March 2007. As State Bank of Travancore had not paid the service fee within the time schedule including the extended time period, the guarantee had lapsed in some cases.
17	16	Reduction of service charges levied for loans between Rs.5 lakh and Rs. 50 lakh.	The Ministry will consider the proposal in consultation with CGTMSE.
18	17	Need for revival of the State Financial Corporations	In order to revive the State Financial Corporations (SFCs), tripartite MoU among State Government, SFC and SIDBI has been put into practice that includes concessional funding and initiatives towards skill set improvement of SFCs personnel. Out of 18 SFCs, 11 SFCs and their respective State Governments have executed MOUs with SIDBI. The financial position of 10 such SFCs has registered improvement in the post-MOU period. While SIDBI is

			<p>monitoring the progress made by the SFCs regularly, there is a need for the State Governments to actively support the SFCs through infusion of capital and professionalisation of the top management to ensure their revival and long-term sustenance.</p>
19	18	Waiver of Fringe Benefit Tax (FBT) / Minimum Alternate Tax.	<p>The issue has been taken up with the Department of Revenue. Department of Revenue has replied that FBT has no correlation with the size or scale of operations of the employer. There is no reason to waive the tax in case of MSMEs. In case of MAT, it is levied on corporate entities. Generally MSMEs are not organised as companies. Therefore the impact of MAT on this sector is negligible and there is no justification to waive it.</p>
20	18	Lower income tax rates for the MSEs.	<p>The issue has been taken up with the Department of Revenue. In the recent years, the income tax rates have been rationalised for all categories of taxpayers, including MSMEs. Moreover in the case of firms, surcharge on income tax is leviable only where the total income exceeds one crore rupees. Given the current moderate tax regime, lowering the tax</p>

			rates specifically for the MSMEs will be distortionary and is not feasible.
21	18	Rs. 5000/- charged as registration fee under the SPRS is too high for Micro & Small Enterprises. Insistence on three years experience of the MSE should be done away with for eligibility under free availability to tender sets, etc. Even when the experience of three year is not there, an MSE could be given other facilities except the security free orders	The suggestion has been noted. Change in the registration fee under Single Point Registration Scheme (SPRS) which is presently Rs. 5000/- for all units is under consideration. Presently registration under SPRS is done after one year of existence of the MSEs, whereby monetary limit of the unit is fixed based on the turnover of the unit in one year. Giving provisional registration without monetary limit of the new units which have not completed one year of operation is under consideration.
22	19	The proposed Prime Minister Employment Generation Programme (PMEGP) should be entrusted to the District Industries Centres since DICs are performing effectively in the districts in implementing PMRY schemes and other schemes related to MSMEs.	The draft CCA note on PMEGP interalia suggests DICs as implementing agencies and that separate targets should be allocated to them.
23	19	The Minister of Rural & Small Scale Industries, Government of Tamil Nadu inter-alia stated that proposal for modernising / strengthening and expansion of existing infrastructure including	The proposal for setting up of the EDI by Government of Tamil Nadu will be processed / examined under the EDI scheme as and when it is received in the Ministry.

		<p>provision of teaching aids, computers and equipments in headquarters, four regions and sixteen districts in the State, in order to encourage geographic distribution of the institute [i.e., EDI, Chennai] across the State is under preparation and the same will be sent to Government of India to get the financial assistance. He added that the State Government would provide suitable land worth more than Rs. 30 crores in these places. He requested the Government of India to provide assistance of Rs. 15 crores and extend its continued support including financial assistance of 50% of the expenditure for imparting training through EDI, Chennai on the various schemes announced by Government of India and Government of Tamil Nadu.</p>	
24	20	<p>(i) Upper Assam, consists of more than 6 districts is totally untouched in training programme which is a matter of grave concern..</p>	<p>(i) MSME-DI, Guwahati has been requested to cover all the districts of Assam under the training programme during the year 2008-09.</p>

		<p>(ii) Regarding ISO 9000, North East is totally ignorant for the lack of information and suggested to conduct awareness programmes and training about ISO 9000</p> <p>(iii) TREAD Programme is a highly effective programmes and MSME-DI Guwahati had sent four number of proposals in the year 2006, which are still awaiting for the sanction.</p>	<p>(ii) MSME-DI, Guwahati has been advised to conduct the awareness programme on ISO-9000 by using the sanctions of Industrial Motivational Campaign issued by E&T Division.</p> <p>(iii) Regarding the proposal of TREAD Scheme, the Status of the proposals of 5 NGOs of NER was forwarded vide office letter dt.01.04.2008. The Steering Committee Meeting held on 17.04.2008 approved the proposals of two NGOs. The sanctions are being issued.</p>
25	21	Secretary of Association of Women Entrepreneurs of Karnataka [AWAKE] stated that AWAKE is also submitting a proposal for the establishment of an EDI shortly.	The proposal has not yet been received and will be processed / examined under the EDI scheme as and when it is received in the Ministry.
26	22	Lt. Governor, A&N Islands stated that there is no EDI in A&N Islands and that he would look at the models of Tamil Nadu, Gujarat and would get the assistance of the Government of India for fulfilling the requirements of entrepreneurship development, marketing and	The proposal is yet to be received and will be examined with reference to the guidelines under the EDI scheme.

		other requirements for the promotion and development of MSME.	
27	24	<p>The President KASSIA has stated for proper monitoring and evaluation of the different schemes / programmes like cluster development, functioning of MSE Facilitation Councils, etc. since some of the State Governments were not implementing them properly. He also stated that there is need to monitor implementation of Credit Linked Capital Subsidy Scheme (CLCSS), after its continuation, with several hundred applications pending for release of subsidy.</p>	<p>For MSE-Cluster Development Programme (CDP): The progress under the MSE-CDP Scheme is monitored at HQ level. The Cluster Development Coordination Committees have been constituted in the cluster for this purpose.</p> <p>In case of projects implemented by the State Governments, their autonomous bodies and SPVs with the State Governments as one of the stakeholders, the responsibility for monitoring the progress is that of the State Governments concerned. Each State Government is required to constitute a Project Steering Committee consisting of representatives of all the stakeholders for this purpose. State Governments / other implementing agencies are required to send quarterly progress reports on physical and financial parameters etc. which is periodically reviewed by the Ministry of MSME for taking necessary corrective action for effective implementation of interventions under MSE-CDP.</p>

		<p>For Credit Linked Capital Subsidy Scheme (CLCSS): The CLCSS is monitored by the Governing & Technology Approval Board (GTAB) under the Chairmanship of Secretary (MSME). Besides, there is a Technical Sub-Committee (TSC) under the Chairmanship of AS&DC (MSME) to examine and decide the suitability of inclusion of the proposals received from industry and other concerned agencies on new sub-sectors and inclusion of the proposals received from them on new technologies under the scheme. Further, the MSME-DIs and their branches cater to the technical needs of the entrepreneurs. The Ministry is also conducting programmes through its MSME-DIs to sensitise and create awareness amongst the entrepreneurs. The nodal banks are also conducting training programmes from time to time to educate their officers for effective implementation of CLCSS.</p> <p>For MSE Facilitation Councils: The process of sending Monthly Progress Reports (MPRs) by the MSMEDIs has been streamlined. The website of the O/o DC (MSME) is being updated</p>
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			regularly. The office directly coordinates the MPRs of Entrepreneures' Memorandum (EM) and Micro and Small Enterprises Facilitation Councils (MSEFCs) with the MSME Development Institutes.
28	9 & 26	RBI guidelines are not being followed for collateral free lending and that Branch Managers seek personal guarantees in contravention of these guidelines. CMD, SIDBI explained that sole proprietors constitute an overwhelming proportion of the MSMEs and personal guarantees could be in order in addition to the hypothecation of the assets. (Para 9). However, it was observed that the intent of collateral free lending was to provide for any hypothecation of the assets created, without any personal or third party guarantee, and that the provisions of the guidelines of RBI should not be circumvented by adding a personal guarantee. (Para-26)	In terms of the guidelines issued by CGTMSE, Member Lending Institutions (MLIs) are required to obtain charge on Primary Security created out of the credit facility extended by them to the enterprises. The issue of 'personal guarantee' has not been specifically stipulated as a condition for obtaining guarantee from CGTMSE and is left to the discretion of the MLIs concerned.
29	27	SIDBI needs to increase exposure in the North East	SIDBI accords special thrust to the development of NER. Special Cell has been set up at Guwahati, which is

			<p>mandated to upscale the promotional and development activities of the bank as also to give a boost to the micro credit activities. SIDBI has introduced a scheme of small loans to the service enterprises in the NER, wherein loans up to Rs. 2 lakh is provided at a concessional rate (PLR-2%). Further, SIDBI has launched in February 2008 a MSE Fund with an initial corpus of Rs. 10 crore in NER to support MSEs with loan requirements up to Rs.50 lakh in consortium/partnership with Public Sector Banks (PSBs).</p>
30	28	<p>The representative of Confederation of Indian Industries (CII), Dr. Sarita Nagpal, congratulated the Ministry of MSME on the extension of the Credit Linked Capital Subsidy Scheme (CLCSS) for the Eleventh Five Year Plan and suggested the constitution of a Task Force to tackle the implementation issues.</p>	<p>The scheme is monitored by the Governing & Technology Approval Board (GTAB) under the Chairmanship of Secretary (MSME). Besides, there is a Technical Sub-Committee (TSC) under the Chairmanship of AS&DC (MSME) to examine and decide the suitability of inclusion of the proposals received from industry and other concerned agencies on new sub-sectors and inclusion of the proposals received from them on new technologies under the scheme. Further, there are field institutes of the Ministry in the name of MSME-DIs and their branches to cater to the technical needs of the</p>

			entrepreneurs. The Ministry is also conducting sensitisation / awareness programmes through its MSME-DIs to sensitise and create awareness amongst the entrepreneurs. The nodal banks are also conducting training programmes from time to time to educate their officers for effective implementation of CLCSS.
31	32	<p>i) There is a need to spread awareness about the recently launched Rajiv Gandhi Udyami Mitra Yojana [RGUMY] and the participating institutes [PIs] in the country.</p> <p>ii) The assistance of Rs. 5,000/- to Rs.6000/- that is provided under the RGUMY for handholding, etc., might not be enough.</p>	<p>i) With a view to spread awareness and give wide publicity about the RGUMY, the M/o MSME has chalked out a programme of conducting regional as well as State workshops during April and May 2008.</p> <p>ii) The scheme “Rajiv Gandhi Udyami Mitra Yojana [RGUMY]” was conceived by the Ministry of Micro, Small & Medium Enterprises only during the last financial year and after approval of the competent authorities, was launched in the month of February 2008 by the Hon. Minister of MSME. During the discussions with the stakeholders, it emerged that for setting up of a service enterprises, the handholding charges may be at the rate of Rs. 4,000/- per trainee and for setting up of a micro manufacturing enterprises, upto Rs. 25.00 lakhs, the</p>

		<p>iii) The insistence on a security of Rs. 2.00 lakhs in the PPP mode should be waived.</p>	<p>handholding charges may be fixed at the rate of Rs.6,000/- per trainee. However, it has been provided in the scheme itself that the progress of the scheme will be reviewed and monitored on regular basis by the Ministry. The scheme also provides for its evaluation by an independent agency to assess its success / impact and to ascertain constraints / shortcomings. The scheme would be suitably modified, if necessary, based on the findings in the evaluation study.</p> <p>(iii) In order to bridge the gap in providing entrepreneurship training and organising the Entrepreneurship Skill Development Programmes as also to encourage establishment of a large network of Entrepreneurship Development Centres [EDCs] in Public Private Partnership mode all over the country, the three national level Entrepreneurship Development Institutions, namely, NIESBUD, Noida; NIMSME, Hyderabad and IIE, Guwahati have launched the schemes of EDCs through partner institutions.</p> <p>The scheme of partner institutions</p>
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			<p>provides for a refundable [non-interest bearing] security deposit of Rs. 2.00 lakhs for general category institutions and Rs. 1.00 lakhs for institutions classified under SC / ST category. As the three national level institutions would be providing the training curriculum, high quality training material including audio-video material, capacity building through training of PIs core faculty / trainers and would also arrange e-classes through video conferences and develop the training programmes including campus training, this refundable security deposit of Rs. 2.00 lakhs for general category institutions and Rs. 1.00 lakhs for SC / ST institutions seems to be just and fair.</p>
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AGENDA ITEM NO. 3: Issues of concern for Micro & Small Enterprises for deliberations by the Board:

3.1: Status of Credit Flow to Micro and Small Enterprises (MSEs)

3.1.1 Credit is one of the critical inputs for the promotion and development of the micro and small enterprises (MSEs). To facilitate timely and adequate credit to the MSEs, credit to the MSEs has been included as a part of the priority sector lending of the banks. The status of credit flow to the MSE sector from the public sector banks (PSBs) since 2000 is as under:

(Rs. crore)

	As at the end of March						
	2001	2002	2003	2004	2005	2006	2007 (P)
Net Bank Credit (NBC)	3,41,291	3,96,954	4,77,899	5,58,849	7,18,722	10,17,614	13,17,705
Credit to MSEs	48,400	49,743	52,988	58,278	67,634	82,492	1,04,703
% to NBC	14.2	12.5	11.1	10.4	9.4	8.1	8.0

Source: RBI (P) Provisional

3.1.2 The quantum of advances from the PSBs to the MSEs has increased over the years in absolute terms from Rs.48,400 crore in March 2001 to Rs.1,04,703 crore in March 2007. However, the share of the credit to the MSE sector in the NBC has declined from 14.2 per cent as at the end of March 2001 to 8.0 per cent as at the end of March 2007.

3.1.3 As a follow-up of the decisions taken in the meeting of the National Board for Micro, Small and Medium Enterprises (NBMSME) held on 20th June 2007, the Ministry of MSME had taken up the issues concerning fixation of a sub-target for credit to MSE sector with the Ministry of Finance (Department of Financial Services) and the Reserve Bank of India (RBI). The Ministry of Finance has informed that in case the credit to service sectors like advances to small road and water transport operators, professional & self-employed persons and small business are

incorporated in the credit to the MSE sector, total credit to MSE sector by the scheduled commercial banks stood at 12.96% of NBC as on March 2007. In order to have a more accurate and realistic position, the Ministry is in the process of reviewing the data on credit flow to the MSE sector with the RBI.

3.2 Role of SIDBI

The Small Industries Development Bank of India was set up in 1990 under an Act of the Parliament, to act as the principal financial institution for financing, promotion and development of small scale sector.

(a) Indirect Finance

The indirect assistance (Refinance) of the Bank consists of refinance and resource support in the form of term loans / line of credit to Primary Lending Institutions (PLIs). The main objective of SIDBI's refinance schemes has been to facilitate the flow of credit in an increasing measure to MSME units by suitably augmenting the resources of the PLIs. The Bank provides refinance to PLIs against the term loans granted by them for setting up new MSME units or expansion, modernisation, diversification, etc. of existing units and for all activities eligible for assistance under the Scheme including professional practice / consultancy, venture and service sector units, such as, tourism related activities / hospitals / nursing homes / polyclinics, hotels / restaurants / marketing and industrial infrastructural projects. SIDBI also extends financial support to scheduled commercial banks in respect of their outstanding portfolio relating to MSME sector against which no financial support has been availed from other institutions.

(b) Direct Finance

SIDBI has evolved itself to meet the requirements of the Micro, Small and Medium Enterprises (MSMEs) Sector by directly offering various financial products and services. Direct credit is provided for (i) setting up new projects and for technology upgradation, diversification, expansion, etc. of existing MSMEs, (ii) service sector entities like hotels, tourism related activities, entertainment parks, hospitals/nursing homes, logistic support services, IT & IT enabled services, etc. and (iii) infrastructure development and upgradation.

(c) Micro Finance

To meet the micro credit demand, SIDBI constituted a specialised department called SIDBI Foundation for Micro Credit (SFMC) to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal and formal sectors to provide micro finance services to the poor, especially women. SFMC provides a complete range of

financial and non-financial services, such as, loan funds, grant support, equity and institution building support to the retailing MFIs so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the sector.

3.2.1 SIDBI's Credit flow to MSMEs

- With a proactive, forward looking business strategy laying greater emphasis on direct, retail credit and supported by economic buoyancy, more so in the SME sector, the Bank recorded improved performance during FY 2008.
- During FY 2008, the Bank recorded highest ever credit sanctions and disbursements at Rs. 16151.22 crore and Rs. 15072.68 crore, respectively, which were higher by 45.9 percent and 47.8 percent than that of FY 2007.
- The Refinance support which is the mainstay of the Bank's operations registered an impressive growth of 76.4 percent in disbursements.
- Direct Credit disbursement increased by 47.8 percent during the year.

3.2.2 Micro Finance

- Micro finance has now emerged as an important tool for accelerating financial inclusion drive and tapping business opportunities at the bottom of the pyramid. In this direction, emphasis is being given by the Bank on creating a network of strong and sustainable Micro Finance Institutions (MFIs) as well as strengthening the capacity building process of micro finance sector so as to cater to the unmet credit demand of the unorganised sector of the economy on a wider scale.
- During FY 2008, the Bank disbursed micro finance assistance of Rs. 713.73 crore as against Rs.376 crore in FY 2007 registering a growth rate of 90%. The cumulative disbursement under SIDBI's micro finance initiatives up to March 31, 2008 aggregates Rs. 1661.77 crore.
- The outstanding micro credit portfolio of the Bank grew by over 73% during the year to close at Rs. 950.38 crore as on March 31, 2008 vis-à-vis Rs. 548.44 crore as on March 31, 2007.
- So far, around 50 lakh poor clients, mostly women, are estimated to have been benefited under SIDBI's micro finance programme.

Particulars	FY 2006	FY 2007	FY '08
Number of beneficiaries	26 lakh	35 lakh	Appx. 50 lakh
Disbursement	259	376	713.73
Outstanding	341	548.44	950.38

3.2.3 Measures to improve credit flow to MSMEs

(a) MSME Credit Rating

- With the objective of augmenting credit flow to MSMEs by way of fair pricing and removing informational asymmetry, SIDBI, along with Dun & Bradstreet, and leading banks of India in both public and private sector as well as certain foreign banks, set up SME Rating Agency of India Ltd. [SMERA], which is the country's first and only rating agency exclusively for the sector in India. SMERA rating enables banks to validate their internal assessment and help their decision making. This not only enables the MSMEs in getting credit from the banking sector at favourable terms, but also assists them in trade and commerce, both domestic and international.
- SMERA has entered into MoU with 22 banks and institutions to rate their MSME clients and has completed 1758 ratings by May 2008.
- SMERA has also completed risk profiling of 9 MSME clusters.
- SIDBI offers an interest rate reduction of upto 1% depending upon the ratings obtained from SMERA.

(b) Simplified Rating for Smaller Loans

The Bank effectively leverages its technology platform/infrastructure to enhance the robustness of the Risk Management System. One such notable area pertains to the upscaling of in-house developed rating mechanism called 'Credit Appraisal and Rating Tool (CART)' for small SME loans. As against loans up to Rs. 50 lakh being covered hitherto, the up-scaled model would now

cover loans up to Rs. 1 crore. Due to its simplicity and effectiveness, the CART model has received wide recognition from banks and RBI. The upgraded CART model has been made available to partner MoU banks under the scheme of Small Enterprises Financial Centre (SEFC) of RBI and also to MoU SFCs.

(c) Cluster-based Financing

In order to meet the complete financial requirements of MSMEs, particularly working capital in identified clusters, the Scheme for Small Enterprises Financial Centres (SEFC) has been operationalised to take up co-financing or exclusive financing of term loan requirements of MSMEs along with the commercial banks, while the working capital requirements to these units will be met by the banks in identified clusters. The branches of SIDBI in the clusters are designated as SEFCs. Under the Scheme, SIDBI has entered into MoU with 15 commercial banks covering 214 clusters for Joint / co-financing of projects including working capital and non-fund based facilities for the MSME sector.

(d) Energy Efficiency and Clean Development Measures

MSMEs in India have a good potential for improving productivity and competitiveness through energy efficiency (EE) measures/investments both in retrofits and technology change. Energy being a significant variable in the production economies, EE projects can contribute towards increasing the competitiveness of MSMEs through improvement of the bottom line. Further, EE is significantly correlated to reduction in pollution and production of greenhouse gases. If the EE projects get registered under the Clean Development Mechanism (CDM), MSMEs could be eligible for Certified Emission Receipts (CERs) or Carbon Credits, which would further improve the return on EE investments by MSMEs. Despite the apparent benefits, the MSMEs are still not very inclined for EE measures keeping in view the difficult process involved in technical audits, project registration and sale of Carbon Credits.

In this regard, the Bank has taken a significant step towards encouraging new models for EE projects wherein the total effort and cost for the MSMEs is reduced significantly. During the year, the Bank has adopted Ludhiana forging cluster to facilitate CDM project under which MSMEs would be encouraged to implement energy saving initiatives with a “bundling

mechanism”. The resultant reduction in carbon emissions would make the MSMEs eligible for revenues through sale of CERs accruing to them. For this purpose, an MoU between SIDBI and the SPV was signed in November 2007. Nearly 300 MSMEs are expected to benefit from this project. Based on the success in Ludhiana, the model would be replicated in other high energy consumption clusters. The Bank would also provide financial support to Energy Service Companies (ESCOs) undertaking energy audits, etc. and MSMEs to draw benefit from improvement in production economies and the opportunities provided by the CDM including trading in CER (carbon credits).

(e) Guarantee Scheme

Consequent to the GoI approval, SIDBI has launched Guarantee Scheme for industrial units in the MSE sector. Under the scheme, SIDBI would be providing various kinds of guarantees - Financial, Performance and Deferred Payment Guarantees on behalf of the eligible clients in the MSE sector.

(f) Working capital arrangement

Under this arrangement, SIDBI is providing banking facilities (including credit and non-credit needs) to the MSME customers by utilising the IT based banking platform of IDBI Bank.

(g) Inland Letter of Credit

The business under inland letter of credit picked up during the year and is expected to further improve in FY 2009.

(h) Customised Arrangements

After experimenting the co-branding business with two NBFCs in pilot stage, Co-branding Policy was put in place during the year. Arrangements with select NBFCs were scaled up. Apart from this, customised products and arrangements relating to vendors of OEMs, franchisee assistance, cash flow discounting and assistance for raw material purchase were piloted during the year and would be upscaled after gaining sufficient experience.

3.2.4 Initiatives under Micro Finance

(a) SIDBI Growth Fund for MFIs

- “SIDBI Growth Fund for Micro Finance Institutions (SGF - MFI)”, set up with a Corpus of Rs. 50 crore for equity investment in MFIs and dedicated PE Funds exclusively investing in MFIs.
- Diverse range of products including pure equity and equity-linked instruments are proposed to be offered to the MFIs.
- While equity investment aggregating Rs. 13.71 crore has already been committed, equity investment / quasi-equity type support is under consideration in respect of 5 other partner MFIs.

(b) Thrust on underserved States

- Focus on developing MF sector in underserved states particularly in North, East and North-East.
- Allocated budget of Rs. 55 crore exclusively for development of the MF sector in underserved States by way of capacity building.
- Loan assistance being provided on need-basis.
- Bank has been able to nurture, support and develop 17 new MFIs in these States
- Aim to develop 50 institutions before end FY 2009.

3.2.5 Promotional & Developmental Support

SIDBI undertakes various Promotional and Developmental (P&D) activities for the MSME sector in India, which are designed to achieve two prime objectives of national importance viz. (a) enterprise promotion resulting in self employment by way of Rural Industries Programme (RIP), Entrepreneurship Development Programme (EDP) and Small Industries Management Programmes (SIMAP) and (b) strengthening the existing SE sector by way of Cluster Development Programme (CDP), Skill-cum-Technology Upgradation Programme (STUP), Marketing Assistance and Information Dissemination.

➤ **Rural Industries Programme (RIP)**

Recognising the need for development of viable and self-sustaining tiny/small enterprises in rural India by harnessing local entrepreneurial talent, SIDBI operates the Rural Industries Programme (RIP). RIP is a comprehensive and integrated package which provides business development services to potential entrepreneurs such as:

- ✓ identification and motivation of potential entrepreneurs in the rural areas,
- ✓ identifying potential investment opportunities for these entrepreneurs,
- ✓ assistance in project report preparation and securing finance from banks and other lending institutions,
- ✓ helping the entrepreneurs in selection, sourcing, installation and commercial operation of machinery,
- ✓ arranging market support wherever necessary,
- ✓ guiding entrepreneurs till their units commence commercial production, and facilitating skill upgradation.

Since 1994, the programme has been implemented in over 100 districts and cumulatively, about 29,600 units have been promoted under the programme, resulting in the employment generation of more than one lakh persons.

➤ **Entrepreneurship Development Programme (EDP)**

EDP has come to be recognised as an effective tool for employment creation through the development of enterprises. Thus, the objective of EDP is to promote entrepreneurship and create avenues for self-employed ventures capable of generating additional employment. The Bank supports general, product and process specific training programmes. Since inception, the Bank has supported 2,561 EDPs for various target groups, wherein 64,000 participants have been trained. Priority is accorded to programmes benefitting SC/ST and minority communities.

➤ **Small Industries Management Programme (SIMAP)**

The objective of the programme is to develop a cadre of industrial managers specifically trained to assist SME entrepreneurs in their multiple responsibilities. It also seeks to open up new

avenues of productive employment for young graduates who may otherwise not be professionally qualified. Thus, the programme serves the twin objectives of offering a second line of trained managers, at affordable cost, to small entrepreneurs and also imparts professional qualification to those seeking employment opportunities. The Bank has supported 281 SIMAPs since inception.

➤ **Cluster Development Programme (CDP)**

Under the programme, the Bank tries to meet the diverse needs of a cluster such as, technology updation, capacity building, environment, marketing, credit, quality, WTO, information dissemination, etc. Under CDP, clusters with homogenous production activities are adopted so as to have the maximum impact and economies of scale. The Bank also involves other financial intermediaries to expand its cluster-based business. As on March, 2008, SIDBI has intervened in more than 45 MSME clusters including 7 clusters level programmes have been taken up in association with UNIDO and 16 clusters under the erstwhile National Programme of Rural Industrialisation (NPRI), a Central Government sponsored programme.

➤ **Skill-cum-Technology Up-gradation Programme (STUP)**

STUPs are structured to improve the performance of existing MSMEs by developing / strengthening managerial skills and technical competence of the entrepreneurs and senior executives of small enterprises. The underlying intention is to enable the participant entrepreneurs/ senior executives to assess their existing performance level and determine ways of enhancing it. It also aims to create awareness amongst the MSME units on process improvements, technological developments, etc. and to induce the units to upgrade their technological level. The Bank has supported 1429 STUPs since inception.

➤ **Marketing Assistance**

Marketing related developmental activities of the Bank aim at strengthening the marketing capabilities of the small scale, cottage and village industries sector. Developmental assistance aims to benefit a large number of units through a focused initiative. Support is provided for participation of MSME units in select trade fairs / exhibitions at national and international levels;

organising trade fair / exhibitions / buyer-seller meets etc.; setting up of retail outlets, development of website / brochure / catalogue etc. and market promotion and exploration trips.

➤ **Support for North Eastern Region (NER)**

The Bank accords special attention to the development of North Eastern Region (NER) in terms of micro finance, rural industrialisation, entrepreneurship development, marketing support, etc. Some of the important initiatives are:

- A new Cell has been set up at Guwahati for the Development of North Eastern Region with the mandate to upscale the promotional and developmental activities in the Region.
- The Bank introduced “Small Loan Scheme for North Eastern Region” to provide direct assistance on flexible terms to small and micro business enterprises in the North Eastern Region. The Scheme, which was initially launched on a pilot basis in Aizawl, now covers 7 States in the Region including Sikkim.
- Preparation of project profiles for the benefit of MSME clients in NER.
- Rural Industries Programme (RIP) has been initiated in 17 districts, covering all seven states in the region.
- Cluster Development Programmes (CDP) initiated in 3 clusters during FY 2008, bringing the total number of Clusters to 18 in NER.

3.2.6 Support through Subsidiary / Associate Institutions

(a) SIDBI Venture Capital Limited

In order to provide venture capital support to innovative, knowledge-based first generation entrepreneurs having neither equity nor collateral, SVCL- an asset management company, established as a wholly-owned subsidiary of SIDBI, for managing venture capital funds sponsored by SIDBI. At present, it manages the National Venture Fund for Software and Information Technology (NFSIT), set up in 1999 with a corpus of Rs. 100 crore and the SME Growth Fund, launched in October 2004 with a corpus of Rs. 500 crore. The Growth Fund has the main focus on growth sectors of the economy, such as, life sciences, retailing, light engineering, food processing, information technology, health care, logistics and distribution, etc.

Under NFSIT, the cumulative sanction of Venture Capital assistance as on March 31, 2008, is Rs. 85.15 crore and disbursement is Rs. 84.40 crore. SME Growth Fund committed VC investments of Rs. 429.07 crore and disbursed Rs. 234.37 crore as on March 31, 2008.

(b) India SME Technology Services Ltd.

India SME Technology Services Limited (ISTSL) was set up in December, 2005 for rendering professional services for technology transfer, joint ventures, business collaboration, finance syndication and attendant support services for the small and medium enterprises and promoting sustainable development. ISTSL has identified CDM and carbon credit as its thrust area and has been working actively in MSME clusters organising awareness campaigns, seminars and guiding MSMEs to take advantage of the opportunities existing in carbon credit market. It entered into a Memorandum of Understanding (MoU) with KfW, a German Development Bank, for co-operation in the area of trading of Certified Emission Receipts (CERs) or Carbon Credit. The company is also working with multilateral institutions like GTZ to establish a program for CDM activities for energy efficiency in various MSME clusters in India.

(c) Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

In order to help Micro and Small Enterprises (MSEs) in accessing institutional credit, both term loan and working capital, without facing the difficulty of arranging collateral security and / or third-party guarantee, Ministry of MSME, GoI and SIDBI set up the Credit Guarantee Fund Trust for Small Industries (CGTSI) on July 27, 2000, to operationalise the Credit Guarantee Scheme (CGS). CGTSI was rechristened as Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) w.e.f July 02, 2007. The CGS was launched on August 30, 2000, with initial contribution of Rs. 100 crore by GoI and Rs. 25 crore by SIDBI in the ratio of 4:1. The corpus is now enhanced to Rs. 1584.05 crore as on date with GoI share of Rs. 1267.24 crore and SIDBI's share of Rs. 316.81 crore. CGTMSE provides guarantee cover to the loans extended by 60 Member Lending Institutions (MLIs) comprising 28 PSBs, 13 private banks, 16 RRBs, NSIC, NEDFi and SIDBI. The credit guarantee is provided for 75% of the credit facility for loans upto Rs. 50 lakh. However, a higher guarantee cover of 80% is provided to micro enterprises (loans upto Rs. 5 lakh), MSEs operated and / or owned by women and for all loans in the NER. For

availing guarantee cover, a one-time guarantee fee of 1.5% (0.75% for entrepreneurs in NER including Sikkim) and annual service fee 0.75% per annum is levied on the sanctioned credit amount. Subsequent to the announcement made in Union Budget 2008-09, CGTMSE reduced the One Time Guarantee Fee from 1.5% to 1% and Annual Service Fee from 1% to 0.5% for loans upto Rs. 5 lakh. The Scheme is making good progress with 97,282MSE proposals having been already approved for guarantee cover of Rs. 2701.59 crore as on March 31, 2008.

3.3 The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

3.3.1 The Government enacted 'The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002' to facilitate recovery of Non-Performing Assets (NPAs) of the banks and financial institutions (FIs). The Act is intended to regulate securitisation and reconstruction of financial assets of banks/financial institutions and enforce security interest. As per section 31 (h) of the Act, the threshold limit of this Act is only Rs.1 lakh - implying that even very small loans taken by micro enterprises after becoming NPAs attract the provisions of the Act. Further, Sub-section (4) of section 13 of this Act provides for secured creditor taking over possession of secured assets (including the right to transfer, assignment or sale) in the event of borrower failing to discharge full liabilities within 60 days of notice.

3.3.2 Several micro and small enterprises (MSE) Associations have reported that the banks/FIs are using drastic recovery procedure under the Act, targeting mainly the small borrowers, which is causing great hardships to MSEs. The Act is seen to be detrimental to the development and growth of the MSE sector. Some of the issues raised by the MSE Associations are: (i) The Act does not make any distinction between wilful defaulters and non-wilful defaulters or between small and large loans. However, there are many instances where the MSEs have genuine difficulties and the defaults in dues are due to reasons beyond their control. Delayed payment by large borrowers is one of the main (and well-known) causes of default by the MSEs and, therefore, default by MSEs could not always be construed as a deliberate act; and (ii) The Act puts the onus entirely on the borrowers, though the banks and FIs have their responsibilities in checking the growth of NPAs. The sweeping powers given to the banks on the mode of enforcement puts rehabilitation or other remedial measures like rescheduling, one-time settlement of debt, etc., particularly in the case of non-wilful defaulters, on a backseat. There is, therefore, a need for differential treatment of such defaulters under the Act.

3.3.3 Keeping the above in view, this Ministry had taken up the issue of exempting MSEs from the purview of this Act with the Ministry of Finance immediately after the enactment of

this Act. However, the Ministry of Finance did not agree to the suggestion stating that it was a conscious decision of the Government that there should be no discrimination/discretion towards defaulters. Further, it is likely that other similar defaulters under priority and other sectors may follow suit with similar requests, vitiating the very objective of this enactment. The Ministry of Finance were of the opinion that if MSEs are excluded from the purview of this Act, then lenders will see increased risk in lending to this sector. This would consequently not only impede credit flow but also increase its cost and prove to be counter-productive.

3.3.4 The Working Group on ‘Rehabilitation of Sick SMEs’, set up by the Reserve Bank of India, under the chairmanship of Dr. K.C. Chakrabarty, CMD, Punjab National Bank has also considered the issue of SARFAESI Act. The Working Group has submitted its report recently and is presently under consideration of the RBI. The report mentions that “In view of the changed circumstances – shareholders expectations, charge on scarce capital, ever tightening prudential norms, peer pressure and financial sector reforms, the field staff tends to initiate the process of recovery immediately after an account is classified as NPA. The normal action plan of any banker when a small unit is in stress is to stop operations in the account, serve a recall notice and initiate action under SARFAESI Act. Efforts for rehabilitation, if any, are adhoc and not properly structured after viability study or analysis of the root causes of sickness”. Accordingly, the Working Group has recommended:

- (i) To account for the increase in the size of micro and small enterprises and neutralize the inflation factor, the threshold limit for taking action under SARFAESI Act should be raised to Rs.5 lakh.**
- (ii) In order to prevent hasty action by banks, it may be made compulsory for the banks to give the promoters an opportunity for revival of the unit before it is declared as unviable. Further, a stipulation of making at least one effort for rehabilitation before initiating action under SARFAESI Act is expected to help in averting hasty action by the branch in initiating recovery without making any efforts for revival.**

3.4 Bank Service Charges

3.4.1 In 1999, the practice of Indian Banks' Association (IBA) fixing the benchmark service charges on behalf of the member banks was discontinued and the decision to prescribe the service charges was left to the discretion of the Boards of individual banks. Banks were then advised that they should ensure that the charges were reasonable and not out of line with the average cost of providing the services and that the customers with low volume of activities were not penalized. However, the RBI continued to receive representations regarding unreasonable and non-transparent service charges. Accordingly, in order to ensure fair practices in banking services, the RBI constituted a Working Group comprising a nominee of the Indian Banks' Association (IBA) and a representative of customers to formulate a scheme for ensuring reasonableness of bank charges, and to incorporate the same in the Fair Practices Code, the compliance of which would be monitored by the Banking Codes and Standards Board of India (BCSBI).

3.4.2 The Working Group, which examined various issues, such as basic banking/financial services to be rendered to individual customers, the methodology adopted by banks for fixing the charges and the reasonableness of such charges, has identified twenty-seven services related to deposit/loan accounts, remittance facilities and cheque collections, as an indicative list of basic banking services to be offered by banks. The RBI has accepted the recommendations of the Working Group with certain modifications. Based on the recommendations of the Working Group, the RBI has issued a circular DBOD. No. Dir. BC. 56/13.03.00/2006-07 dated February 2, 2007 to all scheduled commercial banks.

3.4.3 Banks have been advised to identify basic banking services on the basis of two parameters indicated by the Working Group, namely, (i) banking services that are ordinarily availed by individuals in the middle and lower segments; and (ii) the value of transactions, namely, cheque collections and remittances up to Rs.10,000 for each transaction and up to \$500 for forex transactions. The indicative list of banking services includes services relating to Deposit Accounts (cheque book facility, issue of pass book/statement, ATM Card, Debit Card, stop payment, balance enquiry, account closure, cheque return - inward, signature verification);

Loan Accounts (no dues certificate); Remittance facilities (Demand Draft – issue/cancellation/revalidation, Payment Order - issue/cancellation/revalidation/duplicate, Telegraphic Transfer - issue/cancellation/duplicate, Electronic Clearing Service (ECS), National Electronic Fund Transfer (NEFT)/Electronic Fund Transfer (EFT); Collection Facilities (collection of local/outstation cheques, cheque return- outward). Banks are required to implement the recommendations of the Working Group on making available the basic banking services at reasonable prices/charges.

3.4.4 Further, Banks are required to follow the following principles for ensuring reasonableness in fixing and communicating the service charges:

- (a) For basic services to individuals, banks should levy charges at rates that are lower than the rates applied when the same services are given to non-individuals.
- (b) For basic services rendered to special category of individuals (such as individuals in rural areas, pensioners and senior citizens), banks should levy charges on more liberal terms than the terms on which the charges are levied to other individuals.
- (c) For basic services rendered to individuals, banks should levy charges only if the charges are just and supported by reason.
- (d) For basic services to individuals, banks should levy services charges ad-valorem only to cover any incremental cost and subject to a cap.
- (e) Banks should provide to the individual customers upfront and in a timely manner, complete information on the charges applicable to all basic services.
- (f) Banks should provide advance information to the individual customers about the proposed changes in the service charges.

(g) Banks should collect for services given to individuals only such charges which have been notified to the customer.

(h) Banks should inform the customers in an appropriate manner recovery of service charges from the account or the transaction.

3.4.5 In addition, Banks are required to take steps to ensure that customers are made aware of the service charges upfront and changes in the service charges are implemented only with prior notice to the customers. Banks are also required to have a robust grievance redressal structure and processes, to ensure prompt in-house redressal of all their customer complaints. Further, full-fledged information on bank products and their implications should be disclosed to the customers, so that the customers can make an informed judgment about their choice of products.

3.5 One-Time Settlement Scheme

3.5.1 In line with the 'Policy Package for Stepping up Credit to Small and Medium Enterprises' announced by the Government on 10th August 2005, the RBI circulated the guidelines on One-Time Settlement (OTS) Scheme for MSME accounts to all public sector banks on 3rd September 2005. The guidelines covered all NPAs of the MSME, which became doubtful or loss as on March 31, 2004 or NPAs classified as sub-standard on that date, which subsequently became doubtful or loss with outstanding balance of Rs.10 crore and below on the date on which the account was classified as doubtful. Under the scheme the applications were to be received latest by 31st March 2006 and the processing completed by 30th June, 2006. As per data reported by the RBI as on 30th June 2006, out of the proposals received for 10,262 accounts under OTS Scheme, the settlement has been approved in respect of 8,692 accounts for amount aggregating Rs.607.82 crore.

3.5.2 Recently, the Ministry of MSME has been receiving representation from the MSME Associations regarding introduction of another OTS Scheme for sick MSMEs on the lines of the aforesaid Scheme. Accordingly, the Minister (MSME) has written to the Finance Minister for introducing another OTS Scheme for MSMEs to address the issue of sickness in the sector.

3.5.3 The Working Group on 'Rehabilitation of Sick SMEs' also considered the issue of a simplified OTS Scheme for MSMEs. The Working Group in its report has mentioned: "It is derived from the RBI data on sick MSMEs that 97% of the units have been found unviable. The measures suggested in the report are for growth of healthy MSMEs and for rehabilitation of potentially viable sick MSMEs. However, the number of units found unviable is very large. An opportunity for exit has to be provided to these units so that the promoters could start their businesses afresh with a clean slate". In order to give one more opportunity to units that could not avail the facility, the Working Group has recommended that RBI may come out with a liberal scheme of OTS for MSMEs with the following features:

- (a) All MSME accounts classified in NPA category as on 31-03-2006 should be eligible for settlement under the scheme.

- (b) The settlement amount would be at a discount to the principal outstanding as on the date of NPA.
- (c) The amount should be paid by the borrower within 6 months of approval or such extended time as may be permitted by the banks.
- (d) The promoters of these units would be eligible for obtaining finance after settlement of the dues under OTS.
- (e) With the above arrangement, all the sick units which became NPA more than 2 years ago would be taken care of. However, the new NPA units would still need support. RBI may advise all banks to review accounts that became NPA after 31-03-2006 and declared unviable and to explore the possibility of their rehabilitation. If it is found that there is no possibility of rehabilitation or/and the promoters are also not interested in rehabilitation, they may be offered OTS based on the individual bank's guidelines, before any recovery action is initiated against them. Such units may also be considered eligible for further financing.

3.6 Exemption from Service Tax to MSEs providing Business Auxiliary Services

3.6.1. In the Finance Bill 2005, exemption from Service Tax was provided under two categories. The first related to service providers whose aggregate value of taxable services provided during the preceding financial year was upto Rs.4 lakh. The second category related to exemption to persons producing/processing goods from the inputs received from a manufacturer and sending the resultant product to the same manufacturer for further manufacture of final products, which are cleared on payment of excise duty. Following these announcements, the Ministry of MSME received several representations from the MSE manufacturers, particularly those producing parts for bicycles and sewing machines. The issues raised therein is as under:

- (a) Although activities amounting to “manufacture”, as per Section 2 (f) of Central Excise Act, are excluded from the scope of business auxiliary service tax, a number of activities which are actually manufacturing in nature are not included within the ambit of this section. These include activities like electroplating, zinc-plating, machining, boring, turning, welding, drilling, grinding, powder coating, anodizing, cutting, bending, heat treatment, painting, etc.
- (b) The Notification 8/2005-Service Tax dated 1.3.2005 states that “appropriate duty of excise” shall not include ‘Nil’ rate of duty or duty of excise wholly exempt. In the case of bicycle and sewing machine industries, the final product has been exempted from payment of excise duty. An anomalous situation has thus arisen with the intermediary manufacturers made liable for payment of service tax with this Notification.
- (c) The exemption given for an annual turnover of Rs.4 lakh is totally inadequate. The average turnover in respect of bicycle and bicycle parts alone in the registered segment is estimated at Rs.30 lakh.

3.6.2 From the various representations received by the Ministry, it was evident that the service tax would have an adverse impact on the MSEs that are supplying intermediary services/products to the final assembler exempt from payment of excise duty. Further, the enforcement of the

Notification 8/2005-ST dated 1.3.05 may also reverse the process of ancillarisation, with the final assembler preferring to get the activities organized in-house. Since ancillarisation has been and continues to be one of the main planks for the promotion of MSEs, this Ministry requested the Ministry of Finance to withdraw the aforesaid Notification for protecting the interests of the MSEs providing business auxiliary services. However, the Ministry of Finance did not consider the same favourably.

3.6.3 Subsequently, the Ministry has been taking up the issue of exemption from Service Tax to MSEs providing Business Auxiliary Services in its Pre-Budget Proposals (including the Pre-Budget Proposal 2008-09). While the exemption limit for service tax has been raised from Rs.4 lakh to Rs.10 lakh (to Rs.8 lakh in Budget 2007-08 and then to Rs.10 lakh in Budget 2008-09), the issue regarding exemption from Service Tax to MSEs providing Business Auxiliary Services has not been considered so far.

AGENDA ITEM NO. 4 : Any other point with the permission of chair