

Fintech Companies Can Enable Financial Inclusion

Government of India had in May '20 announced a Rs 3 lakh crore-Emergency Credit Line Guarantee Scheme (ECLGS) for the MSME sector, as part of its Atmanirbhar Bharat Package, in an attempt to provide financial support to MSMEs to fight the adverse impact of the lockdown.

Under the scheme, MSMEs are eligible for concessional funding, while also 100 percent guarantee coverage is being provided by the National Credit Guarantee Trustee Company (NCGTC) to eligible MSMEs and interested Micro Units Development and Refinance Agency (MUDRA) borrowers.

However, this scheme will benefit only 45 lakh MSMEs who have availed bank credit or just 6% of the 7 crore MSMEs in the country. Majority of the 7 crore MSMEs are self-employed persons with no access to bank credit.

Consequently, the overall supply of finance from formal sources meets only one-third of the credit demand of the MSME sector. Most micro organizations prefer relying on informal sources for financing owing to their inability to meet documentation and collateral requirements, and poor book-keeping practices. Meeting the credit needs of micro enterprises can go a long way in giving the necessary boost to the informal sector and address the pandemic-led slowdown.

However, the key lies in identifying the needy businesses and handholding them even in the absence of proper book-keeping practices and tax filings. This can be done through financial targeting with the help of fintech companies. This will ensure that only deserving entities, that are less likely to default, get financial assistance.

With increased mobile penetration, individuals and firms leave a huge digital footprint of their receivable and expenditure track record. These enable fintech firms to make informed decisions about the credit worthiness of these firms and offer credit based on the cash flow of these enterprises. Data on online transaction is a reliable source for assessing the creditworthiness of MSMEs and lending based on this data can mark a paradigm shift in credit from collateral-based funding to cash-flow based funding.

Factors such as availability of cheap smart phones, affordable high-speed data plans, convenience of transacting through the digital mode and a tech-savvy young population enhance the possibilities of the evolution of a dynamic fintech sector in India, as also increased digital footprint can enable micro enterprises to benefit from collateral-free loans provided by fintech companies.

Notifications

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