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MSMEs should digitize bookkeeping practices for accessing formal credit

Government of India has taken various measures to promote flow of institutional credit to MSMEs. The government has offered emergency credit line worth Rs. 3 lakh crore for businesses, extended subordinate debt and set up Fund of Fund. Banks and public sector institutions have also taken steps to boost credit flow to MSMEs. In June 2020, SIDBI launched Swavalamban Crisis Responsive Fund to help MSMEs onboard the Trade Receivable System (TReDS) platform free of cost. TReDS is a digital receivable finance platform where MSMEs can convert their invoices into cash at a competitive discount rate.

In July 2020, Government launched Udyam Portal for paperless and free of cost registration of MSMEs based on self-declaration. Between July 1 and September 1, around 4 lakh MSMEs have registered on this platform. This portal has been integrated with the Government eMarketplace and TReDS platform to facilitate invoice financing.

Apart from these government measures, MSMEs can also make use of the innovative products developed by start-up organizations to facilitate their access to credit. Fintech start-up enterprises such as Capital Float, Aye Finance, Indifi Technologies, Lendingkart and FlexiLoans offer hassle free working capital and term loans to MSMEs based on their digital records of cashflows and payments. MSMEs that have digitized their financial transactions are in a better chance to access credit from these start-ups. Digitization of financial transaction enables these lending companies to access the credit worthiness of the borrowers based on their digital records of cashflows and payment history. For instance, recently, fintech start-up Razorpay an innovative product named 'Cash Advance' to provide unsecured line of credit to MSMEs. The company offers collateral free loans upto Rs. 10 lakh to MSMEs within a few hours or instantly based on their credit track record or payments history.

Start-up companies also offer innovative products for MSMEs to digitize their financial transactions. For instance, Raipur-based start-up GimBooks has recently won the government's Aatmanirbhar Bharat App Innovation Challenge in the business category for launching Android app named Easy Invoice Manager. This cloud-based bookkeeping and business management platform enables MSMEs to generate GST-compliant invoices, waybills, quotations, purchase orders and delivery challans. The digital platform also helps small enterprises manage their inventory, payments and receivables, track business reports, and send payment reminders to customers.

One of the major reasons for lack of access to formal credit for MSMEs is their poor or opaque bookkeeping practices. MSMEs should adopt digital technologies to streamline their bookkeeping practices and increase their chances of accessing institutional credit.



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