



## **OCEN to ease MSME financing, but measures needed to enhance uptake**

### **Issues with MSME financing in India**

A major challenge faced by MSMEs is access to timely cash-flow based financing. Despite of the presence of bill discounting platforms such as the Trade Receivables Discounting System (TReDS), SMEs find it difficult to avail uncollateralized cash flow-based loans. Delay in receipt of outstanding dues affects their working capital cycle, and can oust many MSMEs from the market owing to fall in revenues due to low demand emanating from the Covid-19 crisis.

### **New Digital Paradigm**

With increased digitization, many MSMEs are getting themselves registered on e-commerce platforms and e-marketplaces. These online aggregators have a digital trail of the financial footprint left behind by the registered MSMEs. Thus, these online intermediaries can synthesize lenders' credit products as part of their core offerings, using the Open Credit Enablement Network (OCEN) and Account Aggregator (AA) framework, and offer working capital finance to MSMEs.

The new digital paradigm based on OCEN and AA frameworks allows easy sharing of data, thereby reducing the compliance time and costs involved in obtaining and verifying data such as KYC. The Government eMarketplace (GeM) SAHAY initiative and ecommerce companies such as Amazon are, therefore, using these frameworks to provide loans to MSMEs against purchase orders.

### **Impact of the New Paradigm**

Financing will be based on continuous cash flows rather than on income and assets.

Targeting will ensure that only deserving entities, that are less likely to default, get financial assistance.

Factors such as availability of cheap smart phones, affordable high-speed data plans and increase in the digital mode of transacting due to the Covid-led disruptions enhance the possibilities of the evolution of a dynamic MSME financing ecosystem in India by utilising fintech solutions.

### **Challenges with the New Paradigm**



Digital frameworks such as OCEN and AA enable easy cash-flow-based lending, and also expedite the process of credit disbursement, while bringing down costs. However, the system is fraught with challenges such as difficulty in doing digital KYC for partnerships, private limited and public limited companies, limits on the maximum permissible amount of UPI eMandate and eKYC for loan approvals etc, which restrict the utility of the OCEN and AA frameworks, and limit the uptake of cash-flow based lending.

Further, there is a compulsion to be registered on the Udyam portal, have a GSTIN etc to avail GeM Sahay loans, which makes it difficult for many micro organizations to avail non-collateralized loans.

### **Suggestions to enhance GeM Sahay uptake**

- The mandatory requirement of registration on the Udyam portal should be relaxed till December 31, 2021 as only few MSMEs have enrolled on the portal, so far.
- MSMEs having a turnover of less than Rs. 50 lakhs should get a rebate on interest payment on the GeM Sahay loans.
- Currently, only sole proprietors are eligible for GeM Sahay loans. This ambit should be widened for greater uptake of the GeM Sahay loans.
- PSU buyers on the GeM portal should be encouraged to pay their outstanding dues in time so that MSME sellers do not incur interest payments towards Sahay loan repayment due to the lax behavior of buyers.
- Considering that FY2021 has been an abnormal year in terms of sales growth and loan repayments for MSMEs, banks and NBFCs underwriting Sahay loans should relax their credit eligibility criteria.
- Considering that we have a Central KYC registry in place which makes document verification easy for lenders, the eKYC limit for loan approval should be raised.