

New-age digital platforms to ease MSME financing

MSMEs are considered the backbone of the Indian economy. They constitute 99 percent of all enterprises, generate about 45 percent of the manufacturing output, about 40 percent of the exports and are a major contributor to employment in the economy. Despite such an outstanding performance, they face financing challenges.

According to a report by International Finance Corporation (IFC) released in 2018, the estimated demand for finance from the MSME sector is Rs. 87 trillion, of which demand for debt capital is pegged at Rs. 69 trillion and demand for equity capital is estimated at Rs. 18 trillion.

Increase in digital footprint, as witnessed during the COVID-19 crisis, can allow MSMEs to benefit from collateral-free loans provided by fintech companies. The government is encouraging alternative modes of credit such as digital financing platforms which are backed by technology-based loan evaluation parameters that accelerate the application process and accept paperless documentation. These platforms also make the entire process transparent. Thus, with improved digital footprint of MSMEs, the inefficiencies of the informal money lending system are getting eliminated.

The government has initiated some timely reforms such as encouraging registration on the Trade Receivables electronic Discounting System (TReDS) platform, wherein MSMEs can now get a better rate for discounting their bills receivable from competitive bidding of banks for the same on the TReDS exchange. TReDS provides without recourse financing for MSME sellers. Financiers see the strength of the buyer and not the credit rating of the MSME. This is significant for easing the working capital finance requirements of MSMEs.

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.

Transacting in digital currency while trading with international partners can also render our exports competitive, thereby enhancing our participation in foreign trade. New-age digital platforms are bringing down the cost of MSME financing, and hold promise for growth of these enterprises in the times ahead.

Notifications

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India's merchandise exports in November 2021

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