MSME Funding in India

PROSPECTS & CHALLENGES

Mr. Asheesh Pandey
Executive Director
Bank of Maharashtra

We, at Bank of Maharashtra always consider that entrepreneurs are vital partners and growth engine for the Country. The MSME sector is real driver of the economy, as they contribute to around one-third of Country's GDP.

Time to time, the Government have focused on promoting MSMEs through multiple schemes with an objective to increase productivity, attain self-reliance, employment generation & many more. To support the sector, Bank of Maharashtra offer bouquet of products, schemes & services which are competitive in the financial market, not only in terms of features, but in pricing & speed as well.

We believe that MSMEs need to be supported with better infrastructure and access to technology and finance. With this clue, we are using our digital capabilities to rapidly develop solutions for our customers, particularly focussing on reducing the turn-around-time. We are progressing on our digitalization journey, which you will experience as we move along.

Bank's continued performance is an evidence of support and patronage of valued clients like you. We shall continue our efforts & focused approach towards business needs, customers' preferences & changing landscape in technology in servicing customers.

I am sure that, our tailor made MSME Schemes and Products, will appeal you and bring you into our fold, for a seamless & mutually beneficial business journey ahead.

With all my best wishes,

Warm regards,
Asheesh Pandey

Mr. Jyoti Prakash Gadia
Managing Director
Resurgent India Ltd

Over the last few decades, Micro, Small, and Medium Enterprises (MSME) have grown as a remarkably vital and dynamic sector of the Indian economy. They make a substantial contribution to the economic and social development of the country by encouraging entrepreneurship and innovation.

Nonetheless, in order to survive and prosper, MSMEs in India need to contend with a number of funding challenges. Resolving complex funding challenges in India's MSME sector hinges on addressing issues such as a scarcity of low-cost financing. Limited access to finance, a lack of awareness, and a lack of working capital all have an impact on the sector's long-term profitability, competitiveness, and sustainability.

MSMEs have not prioritised capital markets as a source of funding. Though the SEBI has relaxed regulatory restrictions, such as a lower minimum paid-up capital (Rs 1 crore), a smaller number of allottees, and so on (to make it easier for a large number of SMEs to list), not many can afford the costs of listing, even with the assistance of low-cost platforms for SMEs. IPO costs range between Rs. 45 and 50 lakh. The problem could be solved by enlisting the help of institutional investors, who would be given a stake in the company in exchange for the funds required to cover the costs.

This report will provide insights into new and diverse investment alternatives for MSMEs and assist in identifying approaches and strategies to help small businesses finance their growth and prosper.

Mr. K K Gupta
CAIIB, PGDBM (NIIBM), DFM, DAM,
DIBM, DMA, DEXIM, B.A (ECO.)
Director
Resurgent India Limited

As a developing economy, India relies heavily on MSMEs for its long-term economic success. Despite being an integral part of the country's economic ecosystem, MSMEs face enormous challenges in funding their businesses. Inadequate resources and poor financial management have impeded the growth of MSMEs in India.

The most significant impediment to MSME's expansion plans has been a lack of sufficient and timely access to credit. Loans to MSMEs entail difficult paperwork processes, stringent lending norms, stiff collateral requirements, taxing payback terms, and a high rate of interest. On account of the high cost of servicing loans, small tickets, and the restricted ability of MSMEs to offer security against required financing, financial institutions remain reluctant to increase their exposure to MSMEs.

Aside from funding challenges, MSMEs confront a number of difficulties in managing their finances, which affect their creditworthiness and borrowing ability. The inability to manage and strengthen their balance sheets, the lack of a detailed business plan, and several other factors act as significant barriers to MSMEs struggling to obtain credit from lenders.

The report offers a thorough analysis of the many strategies that could assist small businesses in obtaining capital and bridging the funding gap for MSMEs. It also provides a detailed overview of the multiple measures and initiatives undertaken by the government and regulatory authorities to help MSMEs fund their expansion and become more efficient.

Mr. Ashish Agarwal
Director
Resurgent India Limited

The Micro, Small, and Medium Enterprises (MSMEs) sector makes a crucial contribution to the country's socioeconomic development. The sector's primacy in the country has grown as a result of its substantive contribution to the country's GDP and exports.

However, MSMEs in India face a slew of challenges, notwithstanding their important contributions. Bank credit has traditionally been the primary source of external financing for SMEs. A supply-demand gap in financing MSMEs suggests the limitations of bank lending to SMEs in the absence of adequate collaterals and given the high risks associated with financing small businesses.

In a credit-constrained environment, expanding the finance options available and accessible to SMEs is a critical challenge for fostering their development and sustaining the most dynamic enterprises. It also presents a long-term challenge in terms of improving SMEs' capital structure and investment capacity, as well as reducing their over-reliance – and vulnerability – on traditional lending channels.

The objective of this report is to shed light on the Micro, Small, and Medium Enterprise (MSME) sector finance in India. It also outlines alternative options that aid in the mobilisation of funding for SMEs, explores the prerequisites and challenges associated with establishing them, and makes recommendations that will empower the sector to harness varied sources of finance.

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CHAPTER 1

MSMEs : A Brief Overview

Small companies and MSMEs (micro, small, and medium enterprises) are the backbone of the Indian economy and may hold the key to resolving the country's unemployment problem. In India, the MSME sector employs over 111 million people and accounts for 45 percent of industrial production and approximately 40 percent of exports. However, the industry is suffering from a shortage of capital and inadequate access to inexpensive financing. This difficulty has grown in the aftermath of the COVID-19 epidemic, which created supply chain interruptions and credit cycle disparities.

In India, MSMEs have grown in prominence due to their contribution to the country's Gross Domestic Product (GDP) and exports. The industry has also made a significant contribution to the growth of entrepreneurship in India, particularly in semi-urban and rural regions. In fact, these enterprises, which are largely involved in the production, processing, and preservation of goods and commodities, have been, and still are, the main drivers of economic growth.

MSMEs also tend to produce a considerable number of jobs for people from disadvantaged backgrounds. Women and youth from rural and impoverished backgrounds make up the majority of the workforce in MSMEs. This is to suggest that MSMEs are critical to bringing prosperity through fair income distribution at the bottom of the social pyramid. In addition to being crucial to the economy and jobs, MSMEs are often responsive and socially responsible. This capacity was adequately displayed during COVID-19's outbreak. The production of masks, PPE kits, sanitizers, and other items whose demand had unexpectedly increased was led by MSMEs in significant numbers. The objective of Atmanirbhar Bharat was furthered by the agility of MSMEs, which finally significantly decreased India's reliance on the import of these goods.

The MSME Ministry reportedly established a goal to increase the sector's contribution to the GDP to 50% by 2025. The MSME industry contributed around 30% of India's GDP in 2019–20, which was $2.9 trillion (or $1,45,693 billion). At present, MSMEs contribute 30% to India's GDP.

The IMF's most recent projections indicate that it would likely reach $4.1 trillion by 2025–2026. By achieving this ambitious aim, India can lead the world in advancing the MSME sector. However, this will require multifaceted strategies and practical actions.

Its products and services meet the needs of both domestic and international markets. Low investment requirements, flexible operations, and cheap labour provide the agility and scalability required to survive in difficult economic situations. It helps to decrease regional disparities and ensures an equitable national income and wealth distribution.

MSME DEFINITION REVISED

Distinction Between Manufacturing and Service Sector Eliminated

REVISED MSME CLASSIFICARION - Composite Criterion:
Investment in Plant & Machinery/ Equipment and Annual Turnover

MICRO	SMALL	MEDIUM
Investment in P&M/ Equipment: Not more than Rs. 1 crore & Annual Turnover; not more than Rs. 5 crore	Investment in P&M/ Equipment: Not more than Rs. 10 crore & Annual Turnover; not more than Rs. 50 crore	Investment in P&M/ Equipment: Not more than Rs. 50 crore & Annual Turnover; not more than Rs. 250 crore

CHAPTER 2

New Lending Models for MSMEs

MSMEs, over the past two years, have weathered severe challenges they've had and still have in accessing working capital as a result of the market slump while managing supply and labour chain interruptions. It is hardly surprising that MSMEs have become a pillar of the global economy, particularly in developing economies like India. According to the Ministry of MSME's annual report for 2020–21, India has about 6.33 crore MSMEs, many of which make a substantial contribution to the nation's productivity and employment. Despite its importance and scope, the sector's expansion has been limited by the difficulty in obtaining funding.

There are two major types of sources for funding MSMEs in India. Non-institutional loans, such as those with high-interest rates from friends, relatives, and local moneylenders, are one sort of loan; and institutionalised funding. The Reserve Bank of India, which also governs NBFC-MFIs and Scheduled Commercial Banks, regulates institutional lending to MSMEs in India (public sector banks, private sector banks, including small finance banks, foreign banks, cooperative banks, and regional rural banks). Whereas, the Securities and Exchange Board of India (SEBI) regulates organizations like SME Exchanges, Angel Investors, Venture Capital, and Private Equity that lend money to MSMEs or serve as their intermediaries.

Traditional lenders require MSME borrowers to produce credit history, official records, business vintage, and other information, which may keep many small enterprises out of the formal loan ecosystem. Furthermore, their dispersion creates a reach and penetration issue for larger lending institutions. MSMEs are viewed as high-risk borrowers by the banks due to their low capital and insufficient assets. Furthermore, this industry is significantly impacted by changes in the market and economy.

MSMEs are more impenetrable than large corporations since there is less information about them that is readily available to the public. As a result, it becomes difficult for banks to assess the creditworthiness of MSMEs.

It is safe to say that the apparent disparity between MSMEs that require loans and those that obtain them has not gone unnoticed. And this is where NBFCs come in. NBFCs have become an important element of the mechanism for reducing this gap by expanding the reach of financial services and so increasing the resilience of MSMEs. NBFCs experienced double-digit credit growth, demonstrating their critical position as credit providers in India's financial system. As of 2020, NBFCs maintained a consistent 13% market share in the MSME loans. Borrowers increasingly prefer NBFCs due to their improved ability to reach remote locations, make faster decisions, provide prompt services, and specialize in speciality segments.

In fact, digitally-led NBFCs continue to play an essential role in achieving this goal. They are improving loan availability by utilizing credit models such as the cash flow-based approach. As a result, such NBFCs have become the go-to lenders for borrowers who have the means but are disqualified under the traditional credit assessment processes. Partnership models are evolving between NBFCs employing their distribution strength and superior customer underwriting and larger banks with greater capital and better risk management processes. Such financial availability is bolstered further by digital lenders that have established effective and scalable outreach to credit-starved MSMEs. Digital lenders' data-driven credit algorithms improve risk calibration. This is demonstrated by the lenders' enhanced credit performance following Covid-induced stress.

The Reserve Bank of India (RBI) changed and renamed its framework for co-origination of loans in 2018 into a more adaptable framework of the co-lending model (CLM) in 2020. With the use of this approach, registered non-banking financial organizations (NBFCs) and banks work together more easily, enabling priority sector financing at competitive rates. The goal was to increase the flow of credit to the economically neglected and unserved sectors while utilizing NBFCs' wider distribution and banks' lower cost of capital.

Through a mutually beneficial partnership between digital NBFCs and banks to address the credit needs of underserved or unserved MSMEs, the co-lending model (CLM) may be advantageous for small enterprises. By working together to create loans that are jointly sponsored by both parties and disbursed in a 20:80 ratio, with banks providing the greater portion, CLM enables traditional banks and regulated NBFCs to collaborate.

For all parties involved, CLM is a winning strategy. Fintechs companies and digital NBFCs provide last-mile connectivity, helping banks scale up without incurring the high cost of brick-and-mortar offices, banks have robust balance sheets to supply money at a price that makes lending more accessible. Fintech companies' advanced digital capabilities and a greater grasp of underwriting and collections for these market segments increase operational efficiency while cutting the cost of obtaining small-ticket clients.

CHAPTER 3

Supporting MSME Sectors for better business growth - Strategies and Initiatives

Over the years, the MSMEs sector in our nation has experienced steady and extraordinary growth. Nearly 40% of all exports come from MSMEs, which employ nearly 111 million people, and are concentrated primarily in rural areas. The government of India is eager to boost this industry in order to achieve inclusive growth and achieve self-reliance in the light of the Atmanirbhar Bharat campaign. The government has taken a number of initiatives to support micro, small, and medium-sized enterprises (MSMEs), including a revision to the definition, preferential public sector procurement, a cluster development program, and others. These initiatives will encourage competition and prevent dwarfism among these enterprises.

Individual SMEs that transition from offline to advanced digital engagement could see revenue growth of up to 27 percentage points higher. Despite the benefits, two-thirds of SMEs in India are currently missing out because they are not utilising digital technologies.

The key initiatives and support measures taken by the government are explained below.

Aatma Nirbhar Bhaarat Abhiyaan

"Aatma Nirbhar Bhaarat Abhiyaan," which translates to "Self-reliant India," is concentrated on bolstering the our economy's internal pillars. The initiative seeks to address the poor conditions faced by MSMEs, such as insufficient credit availability, high credit costs, lack of modern technology, and challenging labour laws, among others. These programmes offer benefits like priority lending to cluster financing, exemption from credit facility requirements, and tax relief on exports, while also helping to create an online platform for MSMEs to bring together all of the market players on a local and global scale.

Under the Aatma Nirbhar Bhaarat Abhiyaan, the government changed the MSME categorization by including composite investment and annual turnover requirements. Additionally, the MSME definition no longer distinguishes between the manufacturing and service industries. This elimination will bring the sectors closer together. This program offers a collateral-free automatic loan with no guarantee charge, and the credit line limit is 20% of the total outstanding credit. And it is the businesses with outstanding borrowings of up to Rs.25 crore and sales of up to Rs.100 crore that fall under the purview of this scheme.

ATMANIRBHAR BHARAT ABHIYAN ECONOMIC PACKAGE

Rs 20,97,053 Crore

Stimulus Part 1	Stimulus Part 2	Stimulus Part 3	Stimulus Part 4
Rs 5,94,500 cr	Rs 3,10,000 cr	Rs 1,50,000 cr	Rs 48,100 cr

Earlier measures including PMGKP	RBI measures (Actual)
Rs 1,92,800 cr	Rs 8,01,603 cr

Stimulus provided in Part-1

	(Rs Crore)
Emergency W/C Facility for Businesses, incl MSMEs	3,00,000
Subordinate Debt for Stressed MSMEs	20,000
Fund of Funds for MSME	50,000
EPF Support for Business & Workers	2,800
Reduction in EPF rates	6,750
Special liquidity Scheme for NBFC/HFC/MFIs	30,000
Partial credit guarantee Scheme 2.0 for Liabilities of NBFCs/MFIs	45,000
Liquidity Injection for DISCOMs	90,000
Reduction in TDS/TCS rates	50,000

Stimulus provided in Part-2

	(Rs Crore)
Free Food grain Supply to Migrant Workers for 2 months	3,500
Interest Subvention for MUDRA Shishu Loans	1,500
Special Credit Facility to Street Vendors	70,000
Housing CLSS-MIG	5,000
Additional Emergency WorkingCapital through NABARD	30,000
Additional credit through KCC	2,00,000

Stimulus provided in Part-3

	(Rs Crore)
Food Micro enterprises	10,000
Pradhan Mantri Matsya Sampada Yojana	20,000
TOP to TOTAL: Operation Greens	500
Agri Infrastructure Fund	1,00,000
Animal Husbandry Infrastructure Development Fund	15,000
Promotion of Herbal Cultivation	4,000
Beekeeping Initiative	500

Stimulus provided in Part-4 & 5

	(Rs Crore)
Viability Gap Funding	8,100
Additional MGNREGS allocation	40,000

POWERED BY PROJECTS TODAY

Pradhan Mantri Mudra Yojana

Pradhan Mantri MUDRA Yojana (PMMY) aims to offer loans of up to 10 lakh rupees to non-corporate, non-farm small and micro enterprises. According to PMMY, these loans are categorized as MUDRA loans. Commercial banks, RRBs, small finance banks, MFIs, and NBFCs offer these loans. The borrower may contact any of the aforementioned lending organizations or submit an online application at www.udyamimitra.in.

There are three products in PMMY based on the MSME funding requirements.

- Shishu - Provides up to Rs 50,000 in loans to start-ups and new companies.
- Kishor - Covers loans between Rs 50,000 and Rs 5 lakh rupees for the purchase of new machinery and raw materials.
- Tarun - Covers loans for established businesses between Rs 5 lakh and Rs 10 lakh.

Credit Linked Capital Subsidy

In order to increase income creation, MSMEs can benefit from the Credit Linked Capital Subsidy (CLCS). Because they lack the resources to replace their equipment, MSMEs in rural and semi-urban regions sometimes have to deal with outdated technologies. Through a 15% upfront capital subsidy on loans from financial institutions, the CLCS helps MSMEs upgrade their technology. The maximum subsidy is one crore rupees. This MSME program's main goal is to provide MSMEs with cutting-edge technology, whether or not they want to expand. This MSME loan programme also covers khadi, village, and coir manufacturing enterprises.

- With a 15% capital subsidy for investments up to Rs 1 crore in qualified equipment and machinery, the primary goal is to assist in the technological upgradation of small and SSI units in the designated goods and sub-sectors as announced by the Indian government.
- The implementation of this scheme enhanced several unproductive industries.
- This programme covers newly registered SSI units as well as currently registered SSI units.

Credit Guarantee Fund Scheme for Micro and Small Enterprises

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) plan was introduced by the Indian government to offer collateral-free credit to this market sector. This trust was established by the Indian government, the Small Industries Development Bank of India (SIDBI), and the Ministry of Micro, Small and Medium Enterprises to administer the Credit Guarantee Fund Scheme for micro and small businesses.

CGTMSE has undertaken radical modifications to broaden the scope of its programmes. It now covers previously unknown areas such as partly collateralized loans, retail trade, and previously unknown lenders such as NBFCs, Small Finance Banks, and Scheduled Co-Operative Banks, with an expanded and devoted focus on MSE financing. The CGTMSE is utilising technology to attain its rising scale. It also distinguished itself in other procedures, such as NPA labelling and claim settlements. The Credit Guarantee Scheme for MSE now handles everything totally online. The trust's continual objective is to keep its technology current in order to increase efficiency, customer service, and satisfaction.

CHAPTER 4

Capital Market Access to SMEs - Advantages and Hurdles

The majority of SMEs in India are debt-financed. The cost of borrowing finance for SMEs is becoming increasingly difficult, both in terms of sufficiency and timeliness, and banks frequently withdraw the umbrella in times of either excessive heat or severe downpours. However, in the digital age, supporting small businesses necessitates investments that provide returns gradually, rather than at the rate that a financial institution giving credit requires.

The main issues that SMEs confront while raising capital are widely documented, and they begin with the initial public offering itself. Because a medium-sized company's share offering cannot be huge, the high issue costs become more onerous. Certain pre- and post-issue expenditures are fixed and do not fluctuate with the extent of the problem. Whether an IPO is worth Rs. 20 crore or Rs. 100 crore, expenditures such as advertising, travel, and stationery would be almost the same.

In reality, a smaller firm may need to spend more on advertising and PR to obtain "visibility." The idea is that SMEs have relatively high entry barriers to the capital market. Banks will continue to be their primary source of funding, but a stock market listing is desired and occasionally even required. A listing facilitates the eventual departure of investors in small businesses that get venture capital or any other type of equity support, including from state government organisations. In any event, a stock market quote is a priceless reference point.

Policymakers, cognizant of the unique demands of SMEs, have attempted to streamline procedures, and brought down some expenses.

Along with the challenges of obtaining credit, SMEs are often uninformed about equity as an alternative source of funding. In addition to equity capital, the enterprise requires financing for working capital. In addition to equity capital, the enterprise requires financing for working capital.

A separate trading platform with fewer entry restrictions has been made available for SMEs (small and medium-sized businesses) to raise capital. Unlike the BSE or NSE, it is not a separate exchange. Instead, shares of SMEs are traded on trading platforms provided by the two national stock exchanges.

The SEBI has loosened regulatory restrictions, such as a lower minimum paid-up capital (Rs 1 crore), a smaller number of allottees, etc., to make it easier for a large number of SMEs to list. In addition, there are fewer compliance requirements for businesses to follow after listing. The Securities and Exchange Board of India has taken a very careful regulatory stance, attracting high-net-worth investors—who typically have a greater tolerance for risk—to make investments in companies listed on the SME exchange.

Even on low-cost platforms for SMEs, not many can afford the costs of listing. Costs for IPOs range from Rs. 45 to 50 lakh. The issue would be addressed by enlisting institutional investors, who are offered a stake in the company in exchange for the money needed to pay the costs.

CHAPTER 5

Trade Finance - An Initiative to Become Competitive in Export Markets

Global trade has bounced back from the Covid-19 pandemic-era slump, but it still faces challenges from causes including anticipated recessionary pressure, a rising protectionism and regionalism tendency, and ongoing supply chain problems. The government's measures to lower trade barriers, promote manufacturing and expand infrastructure have placed India well for ongoing growth momentum despite these new global dynamics. Indian exports have also demonstrated significant growth.

A number of efforts have been launched to aid MSME exporters in expanding their market reach, company accessibility, and access to capital, which has given this industry the needed boost. However, the actual potential of this market to fuel India's aspirations for economic progress is being held back by a problem that hasn't been solved: greater accessibility and enough finance. The difficulties with funding the industry are widely recognised and include a lack of documentation with up-to-date, correct information, a lack of financial literacy, etc. Innovating the whole approach to credit evaluation and monitoring is the key to solving these issues.

The trade finance industry has undergone significant growth during the past ten years, including complexity in transaction structures and a rise in transaction volume. This is now feasible as a result of several legal developments, including new legislation. Trade finance will undoubtedly play a significant role in resource raising in the near future for both large corporations and micro, small, and medium-sized businesses (MSME). Widening the use of trade credit insurance and amending the 2011 Factoring Regulation Act (Factoring Act) are the two key developments in trade finance that unfolded in 2021.

As processes, trade and finance are inextricably linked, combining them is an obvious step forward. This results in a smooth and effortless experience for those involved. Trade financing and factoring are two more methods for expanding MSMEs to get funding. Process-wise, both methods are essentially similar, although trade finance often comes at a far cheaper price. Trade finance is the most cost-effective strategy that a company can employ to do this. These products may provide a great financial solution that expands as a company grows while also preventing enterprises from being over-indebted.

In an economy with more than 30 million enterprises that are MSMEs in size, the significance of both trade financing and factoring cannot be understated. Trade financing lowers the risks for this industry and provides developing exporting businesses with low-cost liquidity, something that should be supported and encouraged across all industrial sectors.

Importance of Trade Finance in MSME Funding

- Trade finance contributes significantly to economic growth and keeps supply networks' credit flows flowing.
- Trade across borders carries danger. To control this risk, trade finance is employed. Because of this, MSME exporters rely on trade financing.
- Trade financing provides MSMEs with the quick liquidity they need to complete their export-import operations at a cheap cost and in a short amount of time.
- Trade finance contributes to a company's growth by providing the money needed to buy inventory and goods.
- By decreasing payment lags in their trade cycle, a trade financing facility may enable MSMEs to provide more favourable terms to both suppliers and customers.
- It enables MSMEs to maintain higher stock levels or place larger orders with suppliers, which increases economies of scale and bulk pricing.

CHAPTER 6

Private Equity and External Commercial Borrowings

Private Equity

It is safe to say that, without the success of the MSME sector, India's ambition to grow its economy to $5 trillion by 2024-25 will be nearly impossible. That being said, the inability to attract private capital, which results in a persistent lack of funding, is the fundamental issue facing the domestic MSME industry. However, this capital is totally distinct from the money that banks or NBFCs lend.

Private players provide you with genuine funding for long-term growth, whereas lenders just supply temporary financing. The loan can be paid off over a certain length of time at the pre-negotiated interest rate, but private capital looks to sell off its investment at a later time.

Private equity (PE) investment is another way for MSMEs to raise finance. These financial institutions are often interested in supporting a firm early on, adding value to it, and then exiting at a later time. They are reliable sources of finance with a 3-5 year investment horizon, hoping for multiple returns on their investment. PE investors contribute not just to finance but also skills, experience, and knowledge from established firms and worldwide marketplaces. They actively try to ensure that best-in-class practices are adopted by the organisations they are sponsoring and expose their portfolio firms to these practices.

Additionally, they collaborate closely with the management of the portfolio firms and urge them to make operational changes whenever there are business prospects like mergers, acquisitions, and joint ventures. By purchasing shares in a company, private equity investors supply ongoing funding.

Start-ups all across the world have experienced a financial winter in recent months. This is a result of international political unrest, including the current conflict between Ukraine and Russia, growing prices, etc. They care about fair valuation because, in the past, firms that were absurdly valued went bankrupt, resulting in significant losses for investors. PE/VC companies are no longer drawn to funding unprofitable start-ups.

External Commercial Borrowings

The Reserve Bank of India has released new conditions for NBFC funding via external commercial borrowings (ECB). The new laws are a boon for the NBFC sector, which is having difficulty raising financing in the domestic market. The RBI has published new guidelines for NBFC funding via external commercial borrowings (ECB). The new standards are a victory for the NBFC sector, which has struggled to raise funding from the domestic market. The decision was made to make long-term finance available to Non-Banking Financial Companies (NBFCs). External commercial borrowings must be raised from eligible lenders, with the exception of international branches/overseas subsidiaries of Indian banks.

The ECB's financial infusion for NBFCs is anticipated to help NBFCs that are struggling to have a positive working capital ratio. Businesses will be able to operate with more flexibility thanks to the cash. Another advantage was the possibility of using the ECB to pay off bank debt. The goal of this is to balance the default rates for NBFCs. The government plans to give the NBFC industry financial stability and open up a less expensive source of NBFC finance. Sources claim that during the 2019 fiscal year, the NBFC made 4.01 crores through the sale of commercial paper. The availability of ECB money will lessen the need for commercial paper.

It is worth noting that since NBFCs are the main source of funding for the MSME sector, the stability of the NBFC industry is essential for the expansion of MSME. In fact, according to experts, ECB funding would help NBFCs since it would provide them with greater flexibility in their lending activities.

CHAPTER 7

Resolving the Issues and Grievances of MSMEs

The MSME ministry has linked its recently developed platform for MSMEs to submit their innovations, ideas, and research in various industries for public vetting before releasing them on the Champions portal. It has also created an information and knowledge bank for MSMEs. The government has taken several initiatives to help MSMEs, including RBI relief measures, delayed payments monitoring, all MSME programmes, lists of government notifications, SIDBI support, and grievance redressal for MSMEs. "Champions" has seen a 35 percent jump in the number of grievances redressed. As of July 12, 2022, 48,308 MSME complaints were resolved, in comparison to 35,562 complaints resolved as of July 15, 2021, since the portal's launch on June 1, 2020, by Prime Minister Narendra Modi.

The Champions (Creation & Harmonious Application of Modern Processes for Increasing the Output and National Strength) portal makes the smaller units large by resolving their complaints and providing them with assistance, support, encouragement, and handholding. It offers the MSME Ministry a practical option. In order for MSMEs to benefit from government program, Champion Control Rooms have been established at MSME Development Institutes around the nation. These rooms will assist small enterprises in getting assistance.

According to a ministry statement, the government integrated artificial intelligence (AI) and machine learning (ML) into the portal months after its launch to obtain "social media insights relating to MSME," and "know the pulse of the entire MSME sector without stakeholders going to the portal," "know emotions of people involved with or dependent on MSMEs in real-time," and more. This shows the use of AI by the government for more detailed MSME data.

Common Situations that Result in Grievances

- The buyer approaches the seller in order to purchase products from him. The seller offers the items to the buyer at a suitable price, and the two parties reach an agreement.
- If the buyer and seller enter into a mutual contract for the payment of the products, the buyer will pay according to the terms of the contract.
- And, if the buyer and seller do not enter into a mutual contract, the buyer is obligated to pay the seller within 45 days after acceptance or assumed acceptance, according to Sections 15 to 24 of the MSMED Act, 2006.

Objectives of Champions Portal

- To assist MSME businesses in taking advantage of new opportunities such as producing masks, PPEs, and other medical accessories and items.
- This Grievance Redressal System portal has been designed to help MSME units in difficult conditions, such as the COVID-19 pandemic, in terms of licences, financing, labour, raw materials, and so on.
- The recently launched MSME portal, Champions, seeks promising MSMEs who have the potential to gain assistance on a national and worldwide level.

Steps Taken by the Government for Grievance Redressal for MSMEs

Single-Window System

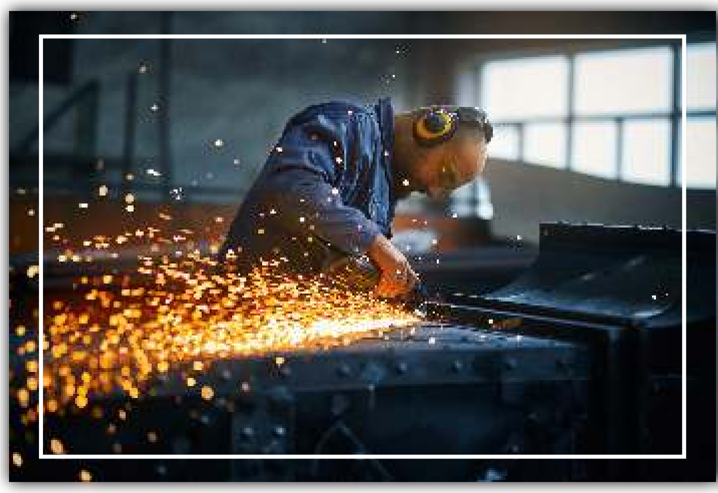
The government can consider creating a single-window system at the district or zonal level to coordinate all MSME-related operations, including maybe connecting MSMEs with other government programmes. These might connect small businesses to various marketing channels, GST rules; loan approval and disbursement; rehabilitation of ill businesses; distributing various MSME-related information; assisting them in becoming more digital; and so on. This window will serve as the government's interface for evaluating the current reality and periodically reviewing it. Building a broad network of various MSME-related agencies, organisations, and institutions is regarded as necessary in order to deliver an inclusive and thorough response.

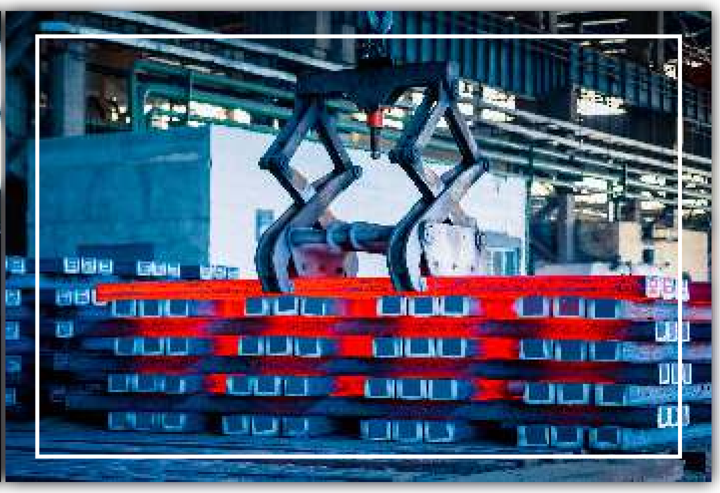
Access to advanced technology

For MSME to rule the market in the near future, technology will be the most important aspect. The government must set up tool rooms around the nation in the shape of '20 hubs and 100 spokes' for this purpose. A small amount of government stewardship, harnessing these resources with the provision of necessary incentives, infrastructure, logistical support, international collaboration, import of need-based high-end technology, etc., may work wonders.

Access to Right Information

Many MSMEs, typically in the most rural areas of the nation, struggle with a lack of knowledge and ignorance regarding the paperwork and other requirements for acquiring licences and registrations. To prevent needless misunderstandings among business owners, government portals and websites should be updated with all the information needed to reach the unreachable in the farthest reaches of the nation. Here, the government might discuss developing a centralized online licensing system with the appropriate application of technology to address the problem.





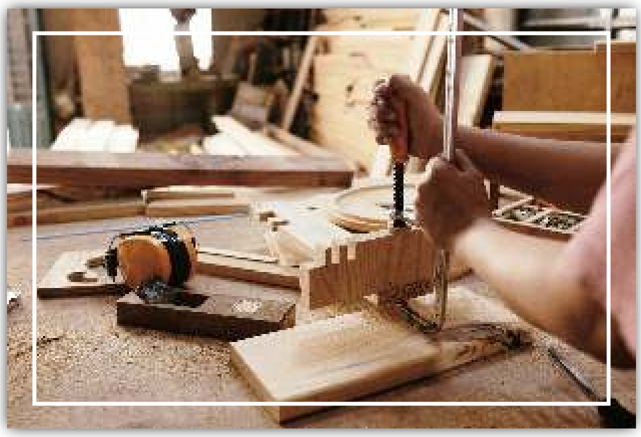
CHAPTER 8

Key Findings

A large number of MSME in the country haven't leveraged digitalization. Individual MSMEs that transitioned from offline to advanced digital engagement have seen a revenue increase of 27 percentage points. Two-thirds of Indian MSMEs are currently losing ground due to a lack of digitalization.

Initiatives launched by the government to assist micro, small, and medium-sized firms, including a definition revision, preferential public sector procurement, a cluster development program, among other strategies will likely be a shot in the arm for small businesses in India and wil help MSMEs become more sustainable and competitive.

Capital markets have never been a preferred source of funding for MSMEs. Part of the reason for this is the lack of an enabling ecosystem where MSMEs could easily raise capital from the markets. Though the SEBI has loosened regulatory restrictions, such as a lower minimum paid-up capital (Rs 1 crore), a smaller number of allottees, etc., (to make it easier for a large number of SMEs to list), even with the help of low-cost platforms for SMEs, not many can afford the costs of listing. Costs for IPOs range from Rs. 45 to 50 lakh. The issue could be addressed by enlisting institutional investors, offering them a stake in the company in exchange for the money needed to pay the costs.



High debt rates and limited credit availability will continue to be a drag on India's MSMEs until innovative lending mechanisms such as collateral-free lending and tools such as surety guarantees take centre stage. Another major issue confronting domestic MSMEs is their inability to attract private capital, leaving them perpetually cash-strapped. MSMEs in India also need to explore largely untapped sources, such as overseas loans or External Commercial Borrowing (ECBs), where interest rates are lower and funds are available for a relatively longer term.

Resolving assorted funding challenges in India's MSME sector also hinges on addressing issues such as a scarcity of low-cost financing. Limited access to finance, a lack of awareness, and a lack of working capital all have an impact on the sector's long-term profitability, competitiveness, and sustainability. However, it also does present a significant opportunity and a multi-pronged approach involving supportive regulations, risk-bearing financing, and awareness building is required.

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