

- Two principal channels of operations that restrict the flow of formal finance to MSMEs – the lack of established credit history and sufficient collateral.
- The rise in non-performing assets is restricting banks from extending credit. The lengthy loan process and insufficient level of credit extended further restricts MSMEs from obtaining formal sources of finance.
- Unfavourable interest rates, high collateral requirement, and insufficient size of loan and maturity period are the other impeding factors.
- Another challenge is problem of delayed payments

Some interventions

- RBI had allowed deferment on interest payments on working capital loans earlier in the year
- RBI has introduced Long-Term Repo Operations worth Rs. 100,000 crore, enabling banks to lend at cheaper rate, likely to benefit the MSME sector.
- The public sector banks have set up Covid-19 Emergency Credit Line to ease the liquidity crunch faced by MSMEs.
- SIDBI announced a concessional interest rate loan targeted for MSMEs engaged in manufacturing goods or services related to Covid-19.
- The government is also in the process of delivering a \$1 trillion MSME relief package. While designing the package for the MSME sector, policymakers will have to ensure that funds flows to the regions and industries that require it most.
- To address the issue of delayed payments, RBI introduced the Trade Receivables Discounting System (TReDS) for MSMEs in March 2014. However, the lengthy process and the burden of the discounting fee and other financial charges drove MSMEs towards informal sources of finance.
- The MSME ministry launched the Delayed Payment Monitoring Portal –MSME Samadhaan in 2017. The portal allows MSMEs to register online complaints against delayed payments. Despite this, various applications are still stuck with various agencies. In many instances, despite the Micro and Small Enterprise Facilitation Council (MSEFC) issuing an order for payment of dues, buyers still delay payments.

The Way Forward

- The overlapping nature of these initiatives not only creates administrative difficulties and an increase in costs of such operations but also creates confusion among the beneficiaries. In this regard, the government could introduce **web and an app-based platform**. This would enable the spread of timely and vital information with greater ease. Further, through coordination with various MSME industry associations, such an app could be mandated for all the MSMEs.
- **Mandating the use of payments via UPI** (unified payment interface) would reduce payment delays due to paperwork or other disruptions such as the one created by Covid-19.
- **FinTech services** also offer a solution to the financial woes of MSMEs. These services evaluate the repayment capacity and default risk of a unit through technology that provides a precise understanding of the time needed by MSMEs to convert investments into cash through sales of goods and services. For example, Capital Float, an NBFC, provides collateral-free loans for small units in India. The NBFC assesses the risk profile of the business in real-time by evaluating MSMEs cash flow and, upon meeting its criteria, provides loans to these businesses on the same day with zero paperwork.