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EMPOWERING SMALL BUSINESSES

A Deep Dive into the Indian MSME Financing Market



Message from **FICCI**

I would like to extend my warm welcome to the 6th Rajasthan MSME Summit. Through this Summit, we embark on a journey of exploration and collaboration, focusing on the theme paper that will shape our discussions and actions in the days to come.

The theme of this year's summit, carefully curated to address the evolving landscape of MSMEs in Rajasthan, holds immense significance: " Unlocking the Growth Potential for MSMEs in Rajasthan." In this age of rapid advancements, it is crucial that we equip our micro, small, and medium enterprises with the necessary tools and strategies to thrive in an ever-changing business environment.

Within the pages of this theme paper, we delve into the core challenges faced by MSMEs, uncover opportunities for growth, and highlight innovative approaches that can empower our local businesses to flourish. Our aim is not only to gain insights but also to foster actionable dialogue that leads to tangible outcomes. I extend my heartfelt gratitude to Resurgent India Ltd for preparing this Theme Paper.

With optimism and a shared commitment to empowering Rajasthan's MSMEs, let us embark on this transformative journey. Together, let us build a stronger, more resilient, and sustainable ecosystem for our micro, small, and medium enterprises.

Wishing you a fruitful and inspiring summit.



Mr. N.K Jain

Chairman, MSME Sub-Committee
FICCI Rajasthan State Council

Message from **RESURGENT INDIA LTD.**

Effectively addressing the complex funding challenges that confront MSMEs in India requires a multi-faceted approach aimed at mitigating issues such as the scarcity of accessible and cost-effective financing solutions. The limited availability of financial resources, coupled with a lack of awareness, has a direct bearing on the long-term profitability and competitiveness of these enterprises.

To empower the MSMEs, creating an enabling regulatory environment that strikes a balance between systemic risks and facilitating ease of doing business is imperative. The integration of digital platforms, fintech solutions, and initiatives like the Open Network for Digital Commerce and Open Credit Enablement Network can further revolutionize the MSME ecosystem. These initiatives can stimulate interoperability and standardization, and enable MSMEs to access a wider range of financial services, improve operational efficiency, and strengthen their credit profiles.

The report provides valuable insights into the potential benefits of leveraging digital platforms and fintech solutions, along with initiatives like ONDC and OCEN, in overcoming funding challenges faced by MSMEs in India. It emphasizes the need for a comprehensive approach to address issues such as limited access to affordable financing, inadequate working capital, and lack of awareness. It also offers a detailed overview of various government initiatives and highlights the role advanced technology can play in accelerating the growth and resilience of MSMEs.



Mr. Jyoti Prakash Gadia

Managing Director
Resurgent India Ltd

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A Brief
Introduction

Micro, Small, and Medium Enterprises (MSMEs) punch a substantive weight on the economic landscape, acting as powerful engines of growth, employment generation, and innovation. In the case of India, with its diverse and dynamic business ecosystem, MSMEs bind together a wide range of industries. These enterprises serve as a vital link between various sectors, creating interdependencies and fostering synergies across the economy.

In the state of Rajasthan, more than 6 lakh MSME units serve as crucial sources of employment, collectively providing opportunities to over 37 lakh individuals. Rajasthan's MSME sector is estimated to contribute approximately 24.50 per cent to the state's Gross Domestic Product (GDP). This significant contribution highlights the economic significance and substantial impact of the MSMEs in Rajasthan, further underscoring their role in driving economic growth and development in the region.

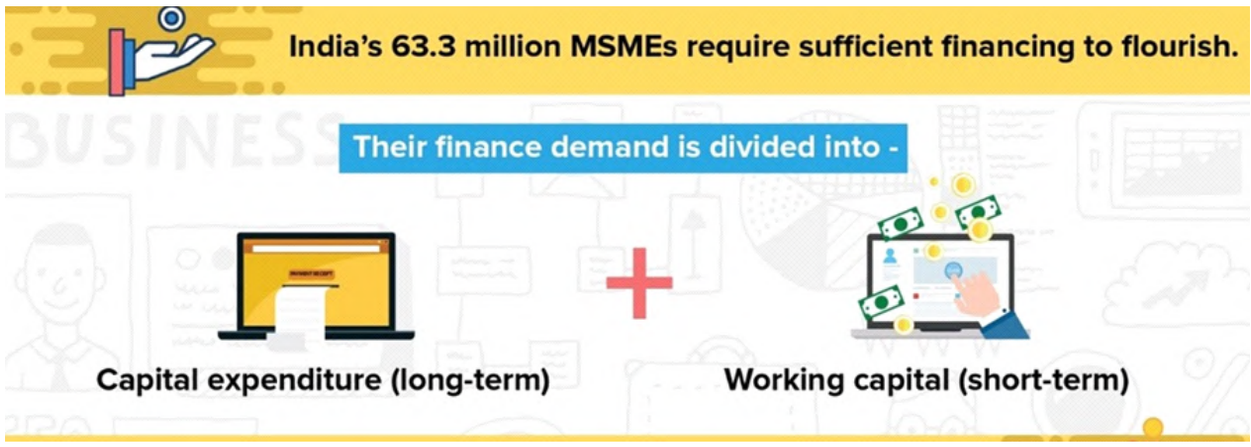
Under the new Rajasthan MSME Act, 2023, the duration of exemption granted to enterprises from approvals, inspections, or related provisions has been extended from 3 to 5 years. This extension applies from the date of issuance of the Acknowledgement Certificate as specified under section 5 of the Act.

The MSME sector in India, the second-largest employment generator after agriculture, provided jobs to over 111 million individuals during the fiscal year 2022. It includes approximately 33 million MSMEs in rural areas and 31 million in urban areas. The sector's contribution to India's GDP currently stands at around 29%. The growth of MSMEs has been fuelled by factors such as favourable government policies, technological advancements, and evolving consumer demand. These enterprises often operate at a local or regional level, catering to the unique needs and preferences of specific communities.

Despite experiencing significant growth in recent years, the MSME sector in India continues to face a substantial credit gap amounting to INR 39.24 lakh crore. Out of the total 6.4 crore MSMEs, only 14 per cent have access to credit. However, approximately 47 per cent of the debt demand remains unaddressed, primarily due to financially non-viable enterprises or those relying on informal sources of financing.

The credit gap in the MSME sector is divided between working capital and capital expenditure, with a ratio of 70:30. Notably, 70% of the credit gap is attributed to the manufacturing sector. Despite recent policy support and increased bank credit to MSMEs, accessing sufficient and affordable credit remains an uphill task. The credit flow from institutional sources does not fully align with and support the economic activities undertaken by MSMEs.





While the average loan size has increased for small and medium enterprises, it has remained stagnant for micro-enterprises, indicating an imbalance in credit allocation between micro and small/medium-sized MSMEs.

Private banks have played a prominent role in lending to MSMEs, followed by NBFCs. Public sector banks, with their extensive branch networks, and NBFCs, with their presence on the ground, can contribute much more to enhancing financial inclusion in tier 3/4 towns and villages across the country.

The Ministry of MSME has set an ambitious target to increase the sector's contribution to India's GDP to 50% by 2025. Notably, from January to November 2022, the MSME sector witnessed a significant credit growth rate of 30.5%.

Small businesses commonly adopt a diverse range of financing methods, including personal funds, contributions from acquaintances and relatives, formal and informal external channels such as banks, NBFCs, venture capital funds, trade credit, and factoring. This multifaceted approach grants entrepreneurs flexibility and potentially favourable terms compared to traditional funding approaches. The choice of financing sources for MSMEs is dictated by factors such as the growth stage of the business, market maturity, and policy landscape.

In the Budget for 2023-24, the government introduced a revamped credit guarantee scheme for MSMEs, starting from 1st April 2023, with an infusion of Rs 9,000 crore into the corpus. This scheme aims to provide additional collateral-free guaranteed credit of Rs 2 lakh crore and reduce the cost of credit by approximately 1%.

The previous classification criteria for MSMEs under the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 were based on the investment in plant and machinery/equipment, with separate criteria for manufacturing and service units. However, on May 13, 2020, the government introduced changes to the MSME classification criteria with the aim of enhancing the ease of doing business and providing better support to small-scale enterprises.

Enterprise Size	Investment in Plant and Machinery	Annual Turnover
Micro Enterprises	Up to ₹1 crore	Up to ₹5 crore
Small Enterprises	Up to ₹10 crore	Up to ₹50 crore
Medium Enterprises	Up to ₹50 crore	Up to ₹250 crore

With the right credit interventions, the MSME sector has the capability to enhance its employment and output potential further.

Old definition (Inv.)	New definition (mfg & ser.)			
	Mfg.	**Services**	**Investment**	**Turnover**
Micro	25L	10 L	1 Cr.	5 Cr.
Small	5 Cr.	2 Cr.	10 Cr.	50 Cr.
Medium	10 Cr.	5 Cr.	50 Cr.	250 Cr.

The upward revision of the limits serves two purposes: firstly, to address inflationary effects on the business landscape, and secondly, to prevent the practice of splitting enterprises to maintain a "small" status and continue receiving official assistance. This revision is expected to benefit enterprises that were previously outside the investment limits, as they can now register as MSMEs and avail of the associated benefits and support.

While registered units represent only a small portion of the overall MSME sector, they exhibit significant heterogeneity. To illustrate, micro-units comprise 95% of registered MSMEs, with 90% of them being proprietary concerns. On the other hand, corporate entities make up nearly half of the medium-sized units, despite constituting just 0.2% of the total unit count. Medium-sized enterprises, on average, employ 27 times more workers, possess 73 times more fixed assets, and generate 62 times more gross output compared to the average unit within the registered MSME sector. These disparities highlight the diversity and varying scales of operations within the registered MSME segment.

According to the European Commission's SME definition, meeting the employee criteria is mandatory for classification, while enterprises have the choice to fulfil either of the two financial criteria: annual turnover and annual balance sheet. The World Bank, on the other hand, adopts three quantitative criteria to define SMEs: number of employees, total assets in U.S. dollars, and annual sales in U.S. dollars. However, to facilitate the utilization of research findings and concepts on MSMEs across geographical boundaries and support MSME-related policies with robust research, there is a need for relatively uniform and comparable data about MSMEs globally. Such standardized data would enable researchers worldwide to contribute to the understanding and development of MSMEs more effectively.



EMPOWERING MSMES

Government Initiatives

The government has recognized the importance of supporting the MSME industry and has introduced a diverse array of programs and initiatives to provide comprehensive assistance. One key area of focus is funding and financial support. To address the financing needs of MSMEs, the government has implemented credit guarantee schemes that help mitigate the risk for lenders, encouraging them to provide affordable credit and capital to MSMEs. Subsidies and incentives are also provided to promote access to funding at favourable terms, enabling MSMEs to fuel their growth and expansion.

Chart 1: Top 10 States in Micro Category

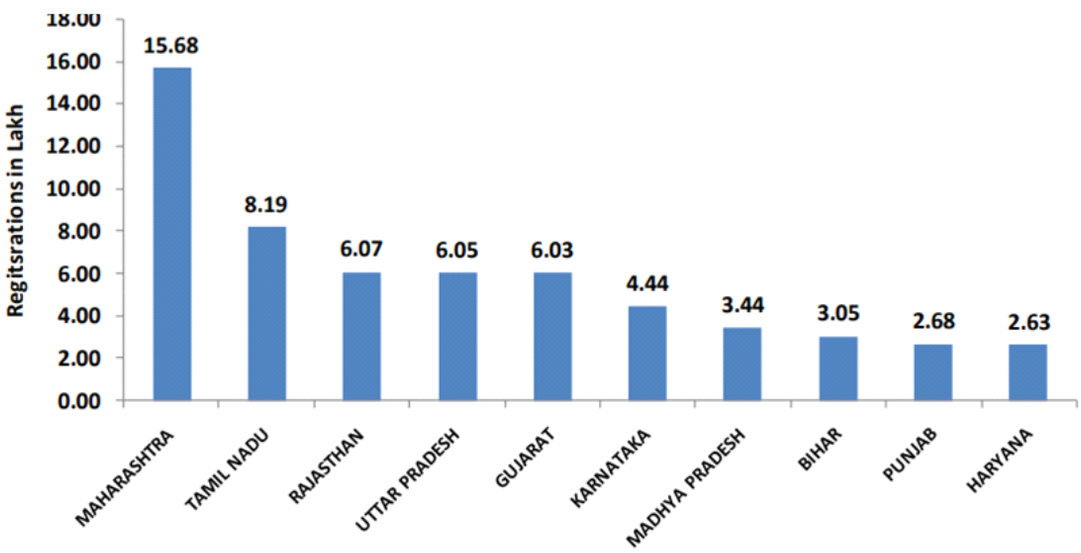
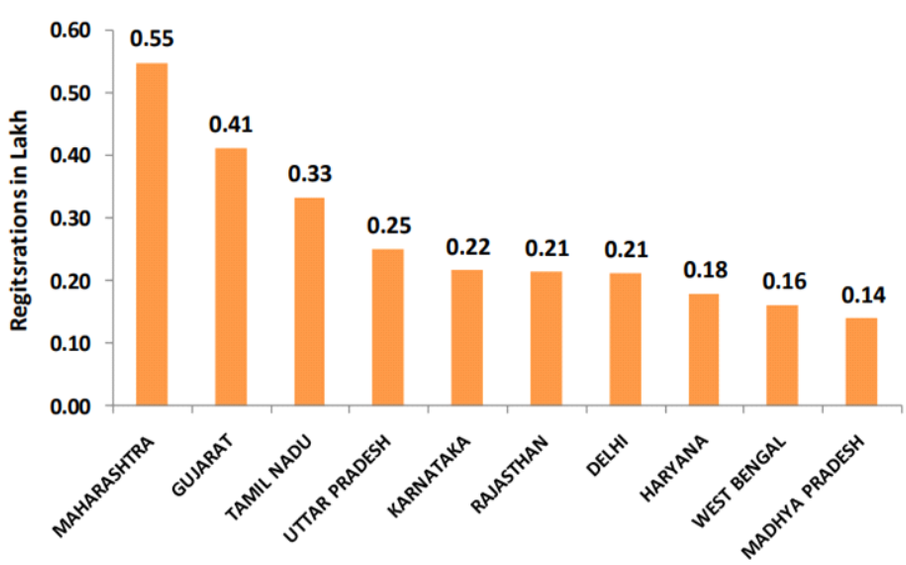


Chart 2: Top 10 States in Small Category



While Rajasthan has over 6 lakh micro enterprises, the number of small and medium enterprises stand at just a little over 21,000 and 1,700 respectively. To bridge the gap between micro-enterprises and SMEs in the state, the government of Rajasthan has taken several initiatives to promote the growth of SMEs. The government has also set up various industrial parks and clusters across the state to provide infrastructure facilities to SMEs. These parks offer various amenities such as power supply, water supply, roads, and communication facilities.

The initiatives of the state government are reinforced by a slew of programs launched by the government of India.

MSME DATABANK:

The MSME DataBank is a system implemented by the Ministry of MSME to effectively manage and monitor schemes while providing direct benefits to MSMEs. This platform offers convenience to MSME units by enabling them to update their enterprise information without the need for physical visits to government offices.

MY MSME:

The MSME office has launched a user-friendly mobile application called My MSME, which allows enterprises to easily access and take advantage of various schemes. This web-based app empowers businesses to submit applications and check for available schemes directly from their mobile phones, simplifying the process and making it more accessible.

TECHNOLOGY CENTRE SYSTEMS PROGRAMME (TCSP):

The Ministry of MSME introduced the Technology Centre Systems Programme (TCSP) in March 2021, leading to the establishment of 15 new technology centres by the Development Commissioner (DC-MSME). These centres serve the purpose of providing support to industries, with a specific focus on MSMEs operating in sectors such as General Engineering, Automotive, Fragrance & Flavour, and Electronic System Design and Manufacturing (ESDM). The TCSP initiative aims to enhance technological capabilities and competitiveness among MSMEs in these sectors.

DIRECT BENEFIT TRANSFER IN THE M/O MSME:

The Government of India has taken steps to streamline welfare and subsidy schemes through the implementation of the Direct Benefit Transfer (DBT) platform within the Ministry of MSME. This reform aims to improve the delivery system, expedite fund disbursement, target specific beneficiaries, prevent duplication, and minimize fraudulent activities. The schemes offered under DBT are classified as either Cash or Composite benefits, which may include both monetary assistance and non-monetary support.

DIGITAL PAYMENTS:

As part of the Digital India initiative, the Ministry of MSME has undertaken various initiatives to digitally empower the entire MSME ecosystem. These efforts involve the digitization of MSME offices and the promotion of digital payment methods such as BHIM, UPI, and Bharat QR codes. These digital payment methods have gained traction, resulting in a significant number of transactions. From FY23 until December 2022, there were 8,840 crore digital transactions valued at Rs. 2,050 lakh crore.

MSME SAMADHAAN:

The MSME Samadhaan portal serves as a platform for tracking pending payments to Micro and Small Enterprises (MSEs) from various government entities. Authorized users can log in to monitor delayed payment cases, while MSEs can file and track complaints related to delayed payments through the portal. Additionally, the National Scheduled Caste and Scheduled Tribe Hub has been established to provide professional support to SC/ST entrepreneurs, ensuring their active participation in government procurement. The Hub focuses on capacity building, information dissemination, and organizing exhibitions to promote the growth and development of SC/ST enterprises. These initiatives aim to enhance transparency, efficiency, and inclusivity within the MSME sector.

MSME-SAMBHAV

In November 2021, the Ministry of Micro, Small and Medium Enterprises launched SAMBHAV, a nationwide awareness campaign aimed at driving economic growth through the promotion of entrepreneurship and domestic manufacturing. As part of this initiative, the ministry's 130 field offices will embark on a month-long program to encourage and inspire students from colleges and ITIs to explore entrepreneurial ventures. The primary goal of SAMBHAV is to empower and motivate young individuals to seize entrepreneurial opportunities and make meaningful contributions to the growth and development of the MSME sector in India.

The Ministry of MSME also runs numerous schemes targeted at providing credit and financial assistance:



PRIME MINISTER'S EMPLOYMENT GENERATION PROGRAMME

Implemented by the KVIC, this scheme is designed to foster employment opportunities in both rural and urban areas by establishing new self-employment ventures, projects, and micro-enterprises. Its primary objective is to provide sustainable employment to artisans and unemployed youth, while also enhancing the wage-earning capacity of artisans. By doing so, it contributes to the overall growth of rural and urban employment.

Eligibility for the scheme requires individuals to be at least 18 years old. For projects exceeding Rs. 10 lakhs in the manufacturing sector or Rs. 5 lakhs in the services sector, applicants must have completed education up to the 8th standard. Since its launch in 2008-09, this scheme has supported approximately 7.8 lakh micro-enterprises, providing a subsidy of Rs. 19,995 crores. As of May 30, 2022, it has generated sustainable employment opportunities for an estimated 64 lakh individuals.

CREDIT LINKED CAPITAL SUBSIDY SCHEME

The Credit Linked Capital Subsidy Scheme (CLCSS) has been implemented to facilitate the technological advancement of Micro and Small Enterprises (MSEs) in India, many of which operate using outdated machinery and technology. Through this scheme, MSEs are eligible to receive a capital subsidy of 15%, with a maximum limit of Rs. 15 lakhs. Moreover, the scheme offers guarantees to facilitate collateral-free lending to MSEs through banks and other financial institutions.

Under CLCSS, collateral-free credit facilities of up to Rs. 200 lakhs per borrowing unit are covered, with a guaranteed cover of up to 75% of the credit facility. The annual guaranteed fee varies from 1% to 1.80% of the sanctioned credit facility, depending on the loan amount. This scheme is specifically designed to promote technological advancement and enhance access to credit for MSEs, thereby contributing to their overall growth and development. It aims to empower MSEs by enabling them to upgrade their technology, leading to increased efficiency and competitiveness in the market.

CREDIT GUARANTEE TRUST FUND FOR MICRO AND SMALL ENTERPRISES (CGTMSE)

The Government of India has introduced a scheme aimed at providing collateral-free credit to micro and small enterprises (MSEs). This scheme covers both fund-based and non-fund-based credit facilities, including letters of credit and bank guarantees, with a maximum limit of up to Rs. 200 lakhs (US$ 0.28 million) per eligible borrower. The unique aspect of this scheme is that it does not require collateral security or third-party guarantee.

The guaranteed cover provided under this scheme ranges from 50% to 85% of the sanctioned credit facility, depending on various factors such as the borrower's category, loan amount, and geographical region. In the event of default, the trust associated with the scheme settles the claim up to 75% of the defaulted amount, reducing the burden on the borrower.

In May 2021, the Emergency Credit Line Guarantee Scheme (ECLGS) was expanded to further support MSEs. This expansion included provisions for onsite oxygen generation, as well as increased coverage and tenor for previous versions of the scheme. These updates were implemented to address the evolving needs of MSEs and provide them with enhanced financial assistance during challenging times.

SPECIAL CREDIT LINKED CAPITAL SUBSIDY SCHEME (SCLCSS) FOR THE SERVICES SECTOR

In November 2021, the Indian government introduced the Special Credit Linked Capital Subsidy Scheme (SCLCSS) specifically targeted at the services sector. This scheme aims to support enterprises in the services sector by providing assistance in meeting their technical requirements. It offers a capital subsidy of 25% for the procurement of plant and machinery as well as service equipment through institutional credit. An important feature of this subsidy is that it is available to MSMEs owned by SCST entrepreneurs, without any sector-specific limitations on technology upgradation.

Furthermore, the government has allocated Rs. 6,062.45 crore (US$ 808 million) for the Raising and Accelerating MSME Performance (RAMP) scheme, which was launched on March 30, 2022. The objective of the RAMP program is to enhance market and credit accessibility for MSMEs, strengthen institutional frameworks and governance at both the central and state levels, promote better collaboration between the central and state governments, address issues related to late payment, and encourage environmentally friendly practices among MSMEs.

These initiatives demonstrate the government's commitment to supporting the growth and development of the MSME sector, particularly in the services industry, by providing financial assistance, promoting accessibility, and fostering a conducive business environment.

SRI FUND:

The SRI Fund, supported by the government, aims to empower MSMEs, promote corporatization, and unlock their growth potential. It operates as a Fund of Funds (FoF), which means it does not directly invest in MSMEs. Instead, it consists of Mother and Daughter Funds, both registered as Alternate Investment Funds (AIFs) with SEBI. The Daughter Funds, categorized as Category I or II AIFs, offer debt and equity financing options. The Government of India acts as the sole anchor investor for these funds. The Mother Fund has an initial budgetary support of ₹10,000 crore and does not accept external investments. Daughter Funds can join the Mother Fund by fulfilling specific requirements and following the necessary procedures. The primary goal of the SRI Fund is to promote equal opportunities for MSMEs throughout the country, even in remote regions.



HARNESSING
TECHNOLOGY

In recent years, there has been a noticeable shift in the financial landscape with the emergence of partnerships between banks and FinTech companies. These FinTech disruptors have played a crucial role in filling the credit gap for MSMEs, which has traditionally been underserved by banks and traditional investors. With the increasing digitization of SME finance and the availability of alternative data, there is an opportunity to address the credit needs of both borrowers and lenders.

Alternative lending providers have the potential to reshape the lending industry by leveraging non-traditional sources of information. Instead of relying solely on traditional methods of assessing creditworthiness, these providers utilize digital data such as bank statements, invoices, receipts, references, and online transaction history. This approach allows for a more comprehensive evaluation of SMEs' creditworthiness, enabling them to access the financing they need.

Financial institutions are recognizing the potential of incorporating FinTech into their operations. By doing so, they can enhance the customer experience, reduce costs, and reach a broader customer base. In order to bridge the credit gap for small businesses, these institutions are reinventing the approval and disbursement process for SME loans by leveraging technologies such as data analytics, big data, and artificial intelligence. Automation plays a significant role in this transformation, enabling the creation of personalized loan packages tailored to the specific requirements of individual business owners. As a result, the lending process becomes faster, more efficient, and more accessible to small businesses.



The digitization of SME finances presents significant opportunities, especially for the vast number of underserved or unserved SMEs in the country. Fintech companies play a crucial role in harnessing digitization to effectively meet the credit requirements of these businesses, thereby promoting their growth and contributing to overall economic development.

The Indian government has embarked on a transformative path to bridge the financial inclusion and lending gap by harnessing the potential of digital technologies. This overarching objective encompasses various initiatives that leverage digital infrastructure and foster innovation within the financial sector.

UNLEASHING THE POWER OF JAM TRINITY AND DIGITAL INFRASTRUCTURE:

The JAM trinity, encompassing Jan Dhan accounts, Aadhaar, and Mobile numbers, has revolutionized the Know Your Customer (KYC) procedures and minimized transaction costs. The government's efforts have concentrated on establishing scalable platforms for UPI-based money transfers and democratizing access to vital government data sources like ITR, GSTN, and MCA. These digital foundations have paved the way for financial inclusion, streamlined payments, and facilitated lending processes.

THE DIGITAL TRANSFORMATION OF LENDING:

India is experiencing a significant transition towards digitizing lending practices, representing the third phase of the digital revolution in financial services. This phase is characterized by the emergence of loan service providers, the rise of Neo Banks, and the establishment of Digital Banking Units, as outlined by the government's initiatives. The expansion of internet access in rural areas and the growing number of subscribers have played a vital role in accelerating this shift.

REVOLUTIONIZING LENDING THROUGH THE UDYAM PORTAL AND DIGITAL ECOSYSTEM:

The Udyam portal and the newly launched Udyam Assist Platform (UAP) serve as a crucial hub for data, enabling lenders to provide timely credit to MSMEs. The digitization of the UDYAM registration process is helping banks and NBFCs establish a digital ecosystem that addresses obstacles such as the need for physical collateral, lengthy verification procedures, and paper-based loan applications. This digital ecosystem not only reduces transaction costs but also enhances trust, competition, and affordability in the lending landscape.

UNLOCKING POTENTIAL WITH THE ACCOUNT AGGREGATOR FRAMEWORK:

The implementation of an account aggregator framework could bring vast opportunities for the financial sector. This framework can facilitate the secure sharing of digital financial data, eliminating the requirement for physical collateral. Embracing this model has the potential to enhance credit accessibility and mitigate fraud risks. The account aggregator model is witnessing substantial week-on-week growth, signalling its increasing prominence in India’s financial landscape.

The utilization of technology in providing financial access to MSMEs has made remarkable strides and continues to experience exponential growth. Internet services and technological advancements have played a pivotal role in enhancing credit accessibility, refining financing systems, and strengthening

financial intermediation. Artificial intelligence (AI) and machine learning (ML) offer valuable insights into customer behaviour and business projections, while alternative data sources can help bridge the gap between traditional and alternative finance, delivering enhanced insights based on dynamic factors. Several risk assessment models now incorporate alternative data sources such as inventory, GST data, repayment trends, and invoices, taking into account time sensitivity and seasonal elements.

NBFCs have played a vital role in expanding loan access to diverse MSMEs across various regions. By embracing advanced technology, NBFCs have streamlined their credit automation processes, improved operational efficiency, and enhanced the overall customer experience. According to a study by the Reserve Bank of India, NBFCs account for 60% of loans sanctioned through digital platforms. However, effectively managing repayment patterns and conducting risk evaluations remain crucial for NBFCs, given the inherent risks associated with lending to MSMEs. It is imperative for NBFCs to integrate technology into all aspects of their business activities. As technology usage increases, the need for robust data security measures becomes paramount. Digitally agile NBFCs in India have invested significant sums in comprehensive data security measures to protect sensitive information. This not only helps mitigate loan risks but also leads to improved client experiences. Insight-driven lending has enabled NBFCs to establish sustainable and profitable operations.

Despite technological advancements, many SMEs struggle to keep pace with rapid digital acceleration. Limited technology access and inadequate digital adoption hinder small businesses from harnessing technology for economic opportunities. However, the MSME sector has immense potential to benefit from technology-enabled solutions. India's thriving technological startup ecosystem, bolstered by India stack and a growing consumer base, presents opportunities to expand MSME outreach to a broader client base. While encouraging technological advancements, it is crucial to also prioritize governance, financial integrity, and data protection to ensure the sustainable growth of MSMEs.



BOOSTING DIGITAL LENDING

THROUGH THE OPEN CREDIT ENABLEMENT NETWORK (OCEN)

The Open Credit Enablement Network (OCEN) is an open network that can revolutionize the credit ecosystem by establishing a common set of standards for the seamless flow of credit between borrowers, lenders, and credit distributors. It has been developed by iSPIRT, a renowned non-profit think tank that has played a pivotal role in implementing influential digital infrastructures like Aadhar and UPI, benefiting over 1 billion Indians. OCEN empowers platforms and marketplaces to connect with banks and non-banking lenders, enabling them to digitize and streamline the entire loan process, including origination, underwriting, and servicing. By leveraging this technology-driven approach, OCEN aims to democratize access to credit for small businesses and vendors, such as Rajni, operating across India.

The potential impact of OCEN is significant as it has the capability to disrupt the credit market in India. It has the potential to provide the much-needed financing to fuel the growth of MSMEs, propelling them into SMEs or even large corporates. OCEN's standardized and efficient credit flow will foster financial inclusion, unlock entrepreneurial opportunities, and contribute to the prosperity of a broader range of businesses in India.

THE PAIN POINTS ADDRESSED BY OCEN:

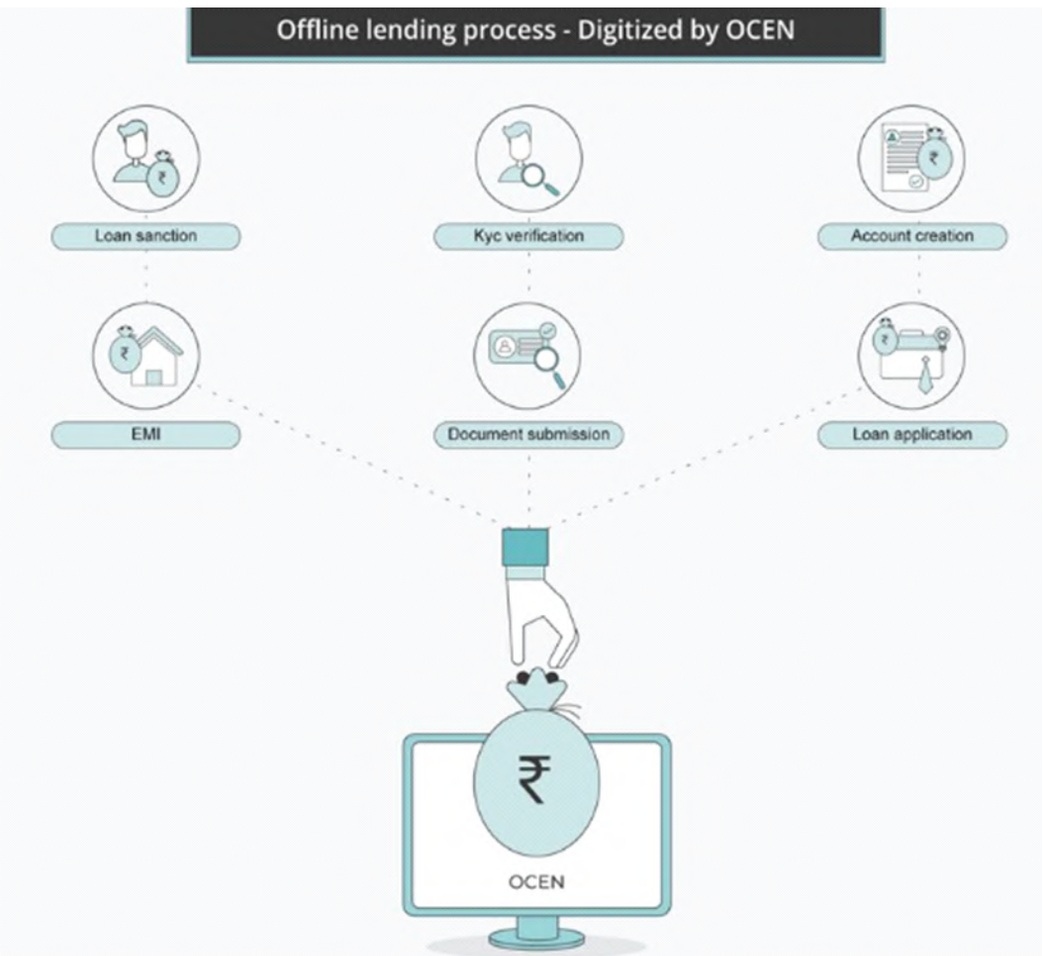
The Open Credit Enablement Network (OCEN) effectively addresses several pain points in the lending ecosystem, benefiting both borrowers and lenders. Here are the key pain points resolved by OCEN:

- Identification of Creditworthy Borrowers: OCEN provides a standardized framework and infrastructure to assess the creditworthiness of borrowers. This helps lenders identify reliable and creditworthy borrowers, reducing the risk associated with lending.

- High Cost of Borrower Acquisition: OCEN simplifies the borrower acquisition process by streamlining and digitizing the credit application and approval process. This reduces costs associated with manual processes, paperwork, and physical verifications, making borrower acquisition more efficient and cost-effective.

- Integration Challenges for Marketplaces: OCEN eliminates the need for complex and custom integrations between marketplaces and lenders. The network provides a unified platform where marketplaces can seamlessly connect with multiple lenders, simplifying the process of connecting customers with appropriate lenders.

- Faster Loan Disbursement: Traditional loan disbursement processes can be time-consuming and inefficient. With OCEN, the turnaround time to deposit loans into customers' accounts is significantly reduced. This ensures timely access to funds, enabling borrowers to meet their financial needs without unnecessary delays.



Source : Digital Lending — Open Credit Enablement Network by M2P

- Custom Financial Product Launch: OCEN overcomes implementation challenges that hinder the launch of custom financial products. By providing a standardized infrastructure, OCEN enables lenders to introduce new financial products more efficiently, expanding their offerings and catering to specific borrower requirements.

- Expanding Credit Reach to MSMEs: One of the major pain points in the lending landscape is the limited reach of credit to MSMEs in India. OCEN addresses this challenge by promoting financial inclusion and extending credit access to a larger segment of MSMEs. This helps bridge the credit gap and supports the growth and development of MSMEs.

- Comprehensive Lending Value Chain: OCEN brings together the complete lending value chain under one entity. From sourcing and identity verification to underwriting, capital arrangement, disbursement, dispute management, payment, and recollection, OCEN ensures a seamless and integrated lending process, enhancing efficiency and reducing operational complexities.

OCEN's efforts to standardize credit processes, foster collaboration, drive digital transformation, promote competition, and enhance financial inclusion are key factors in democratizing credit access for MSMEs in India.

OCEN, the Open Credit Enablement Network, brings together three key market participants within its framework: borrowers, lenders, and loan service providers (LSPs). This innovative network aims to democratize credit access in India and revolutionize the lending landscape. Let's delve into how OCEN transforms the lending flow and empowers each participant:

- Borrowers: OCEN ensures that small businesses and merchants have easier access to credit with lower interest rates, customized credit products, and near-instant loan approvals. Through the network, borrowers can benefit from a digital interface provided by LSPs, enabling seamless interactions with lenders and facilitating the loan origination process.
- Lenders: Banks, non-banking financial companies (NBFCs), and fintechs reap the advantages of OCEN by reducing customer acquisition costs, loan servicing expenses, underwriting complexities, and collection efforts. With real-time data monitoring, lenders can leverage personalized credit products to cater to a wider range of smaller borrowers who were previously underserved.
- Loan Service Providers (LSPs): LSPs, including online marketplaces and internet startups in sectors like e-commerce and food delivery, act as intermediaries representing borrowers within the OCEN ecosystem. They have the ability to embed financial services seamlessly into their existing product or service flows. LSPs play a crucial role in facilitating loan origination, connecting borrowers with lenders through digital interfaces and APIs provided by OCEN.

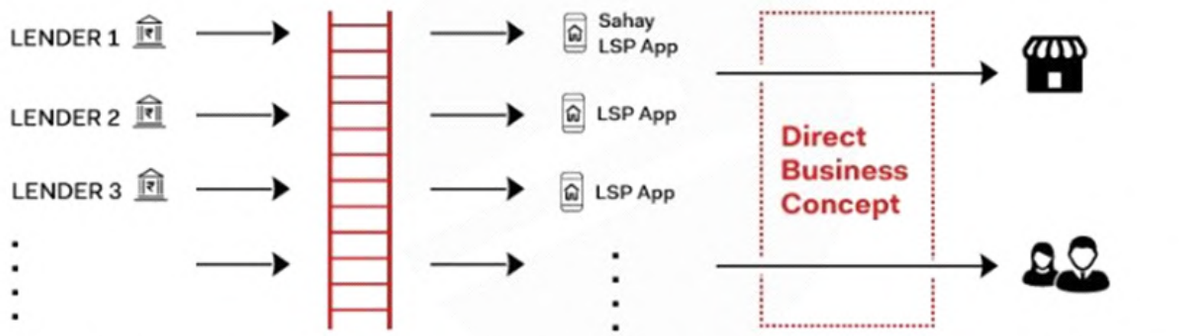
Within the OCEN framework, the entire lending flow is digitized. The process begins with LSPs offering a digital interface for lenders to source and engage with borrowers. Lenders then utilize digital underwriting techniques, leveraging data shared through OCEN APIs, Account Aggregators (Aas), and other electronic sources such as credit bureaus and identity verification platforms. Almost instantaneously, lenders present loan offers to borrowers, who can accept them through the LSP facilitated platform, using OCEN APIs.

Once a loan offer is accepted, borrowers can digitally sign the loan documents using eSign. They have the option to select a repayment schedule and set up auto-repayment. LSPs can forward the lender's repayment link to borrowers for direct payment execution. Finally, lenders can disburse funds to borrowers through online payment rails like UPI (Unified Payments Interface) or IMPS (Immediate Payment Service). This streamlined process enables the entire lending flow to be conducted digitally, leveraging cost-effective public infrastructure.

OCEN represents an ambitious endeavour to reshape India's credit landscape for small businesses, harnessing the potential of open-source public digital infrastructure. To address India's significant credit gap, collaborative efforts are required from the public and private sectors, regulatory agencies, banks, fintech firms, marketplaces, and, most importantly, small business owners. Scaling OCEN to reach hundreds of thousands, and eventually millions, of small businesses is the ultimate goal, and achieving this necessitates the experimentation, adoption, and scalability of the platform by individual market participants across the board.

Open Credit Enablement Network

Open standards-based network to accelerate access to affordable, formal credit



Source: iSPIRT



ONDC: ACCELERATING
E-COMMERCE FOR MSMEs

The e-commerce industry in India has experienced rapid growth, particularly during and after the pandemic, with double-digit growth rates. As of 2023, there are approximately 210 million online shoppers and around 65 million registered sellers on over 19,000 B2C and B2B e-commerce platforms in the country.
However, the increasing number of competing e-commerce platforms has posed a challenge for MSME businesses looking to tap into the digital market. These businesses have had to register on multiple platforms to maximize their e-commerce benefits, which can be time-consuming and cumbersome.
In order to address this issue and make online commerce more accessible to all businesses, the Government of India introduced the ONDC (Open Network for Digital Commerce) initiative.

WHAT IS ONDC:

The Open Network for Digital Commerce is a transformative initiative by the Government of India aimed at revolutionizing the e-commerce landscape in India. With its network-centric approach, ONDC aims to break down the barriers imposed by traditional platform-centric models and empower small enterprises to thrive in the digital economy. By providing a common infrastructure that connects buyers and sellers across various platforms, ONDC fosters a more inclusive and competitive marketplace, unleashing the potential for innovation, growth, and seamless transactions. Through its open and collaborative framework, ONDC paves the way for a new era of digital commerce, enabling businesses of all sizes to flourish and contribute to India's economic development.

OPEN NETWORK FOR DIGITAL COMMERCE (ONDC): AN EXPLAINER

Open Network for Digital Commerce' (ONDC) is a government backed, network- centric, technology infrastructure. In this explainer we expand on what ONDC is, how it works, what the stated promises and potential challenges are, especially regarding ONDC's capability to address market issues.

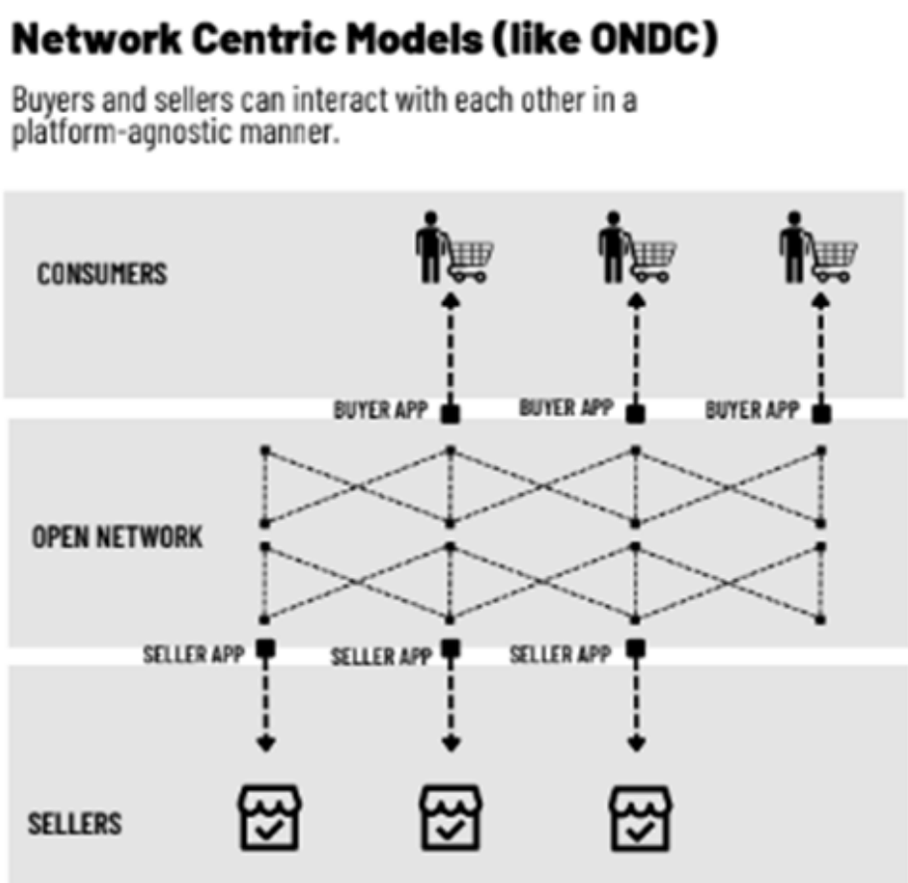
The Open Network for Digital Commerce (ONDC) holds significant promise in empowering Micro, Small, and Medium Enterprises (MSMEs) in India. By shifting from a platform-centric to a network-centric model, ONDC enables MSMEs to transact and engage with buyers and sellers across various platforms, regardless of their individual choices. This expands the market reach for MSMEs, opening up new opportunities for growth and enhancing their competitiveness.
ONDC is anticipated to have a transformative impact on the Gross Merchandise Value (GMV) of India, propelling it from 4.5 lakh crore to 7.5 lakh crore. This significant increase in GMV is expected to set off a chain reaction, leading to the formalization of the economy in the coming decade and generating a substantial number of new employment opportunities.
A multitude of seller platforms are already operational, and numerous others are in the process of being

integrated into the ONDC network. Currently, there are approximately 300-400 seller platforms at various stages of integration, demonstrating the growing momentum and widespread adoption of the ONDC framework.

The government is working on integrating the B2B platform, MSME Global Mart, into the Open Network for Digital Commerce (ONDC) to bolster small businesses. The move would improve the visibility of Indian MSMEs among customers.

HOW DOES ONDC WORK?

ONDC operates through open protocols and aims to establish a public digital infrastructure that facilitates the exchange of information and transactions between providers and consumers. These open protocols enable the creation of open registries and open network gateways, allowing users to utilize any compatible application of their choice for conducting business and exchanging information on the ONDC network.



The standardized ONDC protocols cover various operations of MSMEs, including cataloging, inventory management, order management, and order fulfillment. This empowers small businesses to leverage a wide range of ONDC-compatible applications, giving them the flexibility to conduct business on their own terms and enhancing their discoverability on the network. Furthermore, ONDC encourages the adoption of digital transactions by MSMEs that are not currently connected to any digital commerce networks, opening up new opportunities for their growth and expansion.

REVOLUTIONIZING OPPORTUNITIES FOR MSMES

The Open Network for Digital Commerce (ONDC) is set to revolutionize the landscape for MSMEs, providing them with enhanced visibility and access to the broader economy, thereby driving financial inclusion and fostering growth for these often-marginalized businesses. By leveraging the ONDC's open protocol, small businesses can easily showcase their products or services on e-commerce platforms that follow the same protocol, allowing them to be discovered by consumers. For instance, a consumer searching for a specific product can now opt to purchase from a nearby shop, enabling hyperlocal delivery and faster service compared to larger e-commerce companies.

The advantages offered by the ONDC to MSMEs are numerous. It significantly reduces entry barriers, encouraging healthy competition and fueling market growth, thereby democratizing the digital commerce space. Consequently, channel costs for all players, including industry incumbents, are also reduced.

A key aspect of the ONDC is the establishment of a common seller registry, which will considerably expand the pool of sellers. Moreover, with a shared network, sellers can maintain their reputation across platforms, incentivizing them to deliver superior customer experiences.

Taking cues from the success of the Unified Payments Interface (UPI), the successful implementation of the ONDC holds the potential to reshape the game for MSMEs by creating a virtuous cycle of growth through effective networking. However, it is important to consider certain caveats, such as the active participation of industry incumbents to drive adoption. Overall, if ONDC follows a similar trajectory to UPI, it promises to bring about transformative change for MSMEs, generating a cycle of growth and success.

CHALLENGES ON THE HORIZON

While the Open Network for Digital Commerce (ONDC) holds immense potential for transforming the supply chain and empowering MSMEs, there are significant challenges that need to be addressed for its efficient and long-term success. One primary concern is the inherent complexity of ONDC's ecosystem, which may pose implementation challenges, unlike the relatively smoother journey of the Unified Payments Interface (UPI).

An additional hurdle to overcome is the reluctance of customers to switch from existing e-commerce platforms that they find advantageous or satisfactory. Incumbents may be hesitant to participate in the ONDC rollout without adequate incentives, as they already possess a strong presence in the platform-based market, affording them significant control over the industry.

Furthermore, the lack of clarity regarding the platform's monetization terms creates uncertainty, potentially discouraging participants from making early investments for market development. The absence of clear guidelines on addressing customer complaints and establishing accountability further adds to the challenge, potentially leading to a disconnect between buyers and sellers and impeding adoption.

Many industry experts believe that there are existing barriers to the successful implementation of ONDC, and it may take considerable time for the network to gain significant momentum. Overcoming these challenges and driving substantial growth in the network will require concerted efforts and strategic measures.

1. SAFEGUARDS FOR PERSONAL DATA

- Network-wide sharing of **"anonymized performance metrics"** is concerning as it can be easily **re-identified** with just a handful of data points.
- In the absence of a data protection law, the exchange of transaction data among and collection of personal data by entities of various sizes raises privacy concerns.

2. GOVERNANCE AND TRANSPARENCY

- ONDC has been designed as a Section 8, **private sector led,** non-profit company.
- ONDC is **not a public authority**, it falls outside the ambit of the RTI Act, 2005. Aggrieved citizens won't be able to avail their right to file a writ petition in case of violation of their rights.



EXPLORING CAPITAL MARKETS FOR
BUSINESS EXPANSION OPPORTUNITIES

The BSE SME and NSE EMERGE platforms offer specialized exchanges that cater to SMEs, providing them with an avenue to raise capital through equity offerings. These exchanges also offer the advantage of facilitating a smooth transition to the main exchange when the timing and conditions are favourable.

Listing on the stock exchange brings an increased level of professionalism to the firm. One key factor contributing to this professionalism is the attraction of institutional investors, which helps strengthen corporate governance standards. As a result, this market has emerged as a genuine alternative for early-stage enterprises seeking to raise expansion capital without incurring interest costs.

While capital markets have not traditionally been a significant source of funding for small and medium-sized enterprises, the current uncertain economic environment and financial constraints faced by these enterprises are leading to a shift. However, a large majority of SMEs are unaware of the requirements and processes involved in listing on stock exchanges. Many SMEs struggle to afford the expenses associated with the listing, even on dedicated and cost-effective platforms like the Bombay Stock Exchange SME and the National Stock Exchange EMERGE.

BSE SME IPOs 2022		
SL No.	**STATE**	**No. of IPOs**
1	Haryana	1
2	Maharastra	34
3	Gujarat	33
4	West Bengal	9
5	Delhi	8
6	Chhattisgarh	5
7	Rajasthan	4
8	Telangana	3
9	Uttar Pradesh	3
10	Punjab	2
11	Kerala	2
12	Karnataka	2
13	Madhya Pradesh	1
14	Tamil Nadu	1
15	Jharkhand	1
16	Bihar	1

CHALLENGES MSMES NEED TO CONTEND WITH IN ACCESSING CAPITAL MARKETS.

Traditional capital markets have not been the go-to option for SMEs to secure funding, primarily due to the absence of a conducive ecosystem that facilitates easy access to markets. SMEs often have specific requirements when it comes to raising funds, particularly in the form of loans to meet their working capital needs. Limited resources, including the lack of a dedicated compliance team and other support functions, pose significant challenges for SMEs in navigating the complex procedures involved in accessing capital markets.

SME IPOs		
Year	**No. of IPOs**	**Amount Raised (in Rs. Crore)**
2015	43	260.21
2016	67	536.68
2017	135	1,752.88
2018	144	2,396.82
2019	54	657
2020	27	168
2021	59	787
2022	109	1980
2023*	47	881

Despite recent efforts, the involvement of small and medium enterprises (SMEs) in the stock market has been underwhelming. It is essential to reassess the existing system for SME initial public offerings (IPOs) and collaborate with stakeholders to establish a more favourable ecosystem for SME listings. One potential solution is to introduce a dedicated window specifically tailored for SMEs to launch their IPOs. Currently, the minimum lot size of Rs 1 lakh presents a significant barrier to the success of an SME IPO. This amount is considerably higher compared to the minimum lot size of Rs 10,000-15,000 for IPOs on the mainboard. As a result, retail investors prefer to spread their funds across multiple IPOs on the mainboard rather than invest a larger sum in an SME IPO. To encourage greater participation from retail investors, regulators should reconsider and adjust the minimum lot size for SME IPOs, making it more accessible and aligning it with market realities.

The lack of readily available information about MSMEs seeking capital market funding is a significant concern for potential investors. However, addressing this challenge falls outside the capabilities of individual MSMEs, as they often lack the resources to adequately prepare themselves for the capital markets. To overcome this hurdle, the government should consider establishing an independent advisory body that could provide consultancy services to MSMEs at a nominal cost, potentially subsidized by the government. Such an initiative would not only assist MSMEs in preparing for the capital markets but also instil confidence in investors, as the data would be vetted by a quasi-governmental entity, thereby enhancing transparency and trust.

Moreover, to promote investments in MSME issuances, it is also important to implement measures that incentivize investor participation. One needs to consider introducing tax exemptions for individuals who invest in these offerings. Since MSME investments are generally perceived as riskier, many investors, especially those with limited experience in this sector, tend to avoid them. However, by combining investor education programs with incentives, we can generate more interest in MSME investments and transform them from a niche market to a mainstream investment option.



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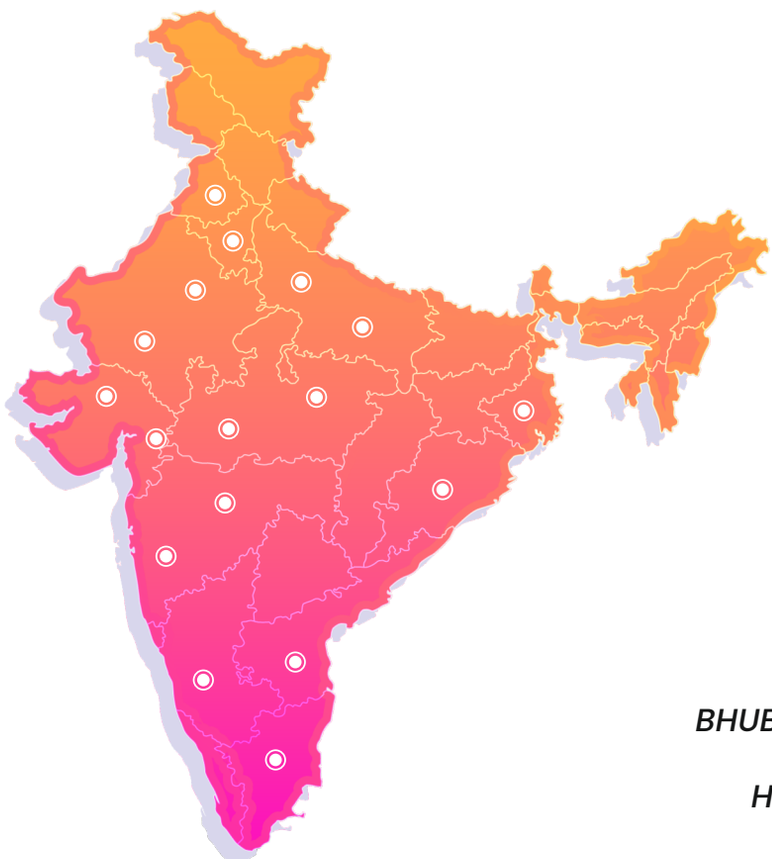
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info@resurgentindia.com

www.resurgentindia.com

Mob. : +91 7840 000 667