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## Digital Initiatives for MSME

### Introduction

Micro, Small and Medium Enterprises (MSME) contribute to the economic growth of the country in several ways, hence forming a part of the priority sector. It contributes to employment generation and this sector is second only to agriculture, creating nearly 12.5 million jobs every year. MSME also contributes handsomely to the tune of about 38% of our country's GDP and more than 40% of exports of the country. Inherent characteristics of the sector like a low capital requirement, the flexibility of operation, integration opportunities attract new budding entrepreneurs for setting up new ventures. It contributes significantly to the total volume of production as well as in the number of enterprises. Their predominant presence in the rural and semi-urban area not only arrests migration but also helps in the utilization of local resources. This in a way alleviates regional imbalance by fostering growth and employment generation.

MSME acts as a cradle of entrepreneurship converting job seekers to potential job creators. The sector though limited in scale as compared to large industries serves as a crucial element in their operations. Large industries are heavily dependent on SMEs (Small and Medium-Sized Enterprises) for their supply of raw material, semi-finished and finished goods. As highlighted above, MSMEs are vital for the economy but they face many challenges. With the advent of information technology, digital initiatives have made inroads in every sector. Information technology is prevalent in every sphere of life. MSME is no exception where it has the potential of disrupting business models and processes. Technology can be

utilized to reduce the cost of production and improve efficiency. MSMEs face a host of problems like delay in sale realization, product marketing, procurement, access to finance, etc. IT has the potential to act as a panacea to many of the issues faced by MSMEs. The thrust of the Government on IT initiatives is well known in the form of the Digital India campaign touching every sphere of governance. MSME is an important sector where the Government has launched several digital initiatives to increase their efficiency and their access to finance and markets.

These initiatives also help in increasing the ability of indigenous MSME units to increase their competitiveness.

Let us discuss some of the important digital initiatives launched by the Government of India for MSMEs.

1. **TReDS** - Trade Receivables Discounting System.
2. **GeM** - Government e-Marketplace.
3. **MSME Samadhan** - Delayed payment monitoring system.
4. **MSME Sambandh** - Public procurement process.
5. **Other initiatives.**

**TReDS** - It is a mechanism for financing trade receivables by RBI to enable MSMEs to manage their cash flows on time. Finance is crucial for MSMEs for running their operations and a major chunk of it is stuck in the form of receivables. SMEs face not only delay in payments but also face the risk of default from their buyers. With this backdrop, RBI launched

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this initiative for ensuring the timely realization of bills/ invoices for MSMEs and eliminating credit risk faced by them. MSMEs as a part of their business, generate receivables, which on delay in realization lead to problems for them. TReDS offers an alternative for these problems by offering a non-cumbersome process for discounting their bills and invoices. The other feature of this is that it is an automated process involving no physical intervention thus reducing cost in the entire process.

Let us now look in detail at the process involved in this system.

**Participants** - There are three parties in TReDS,

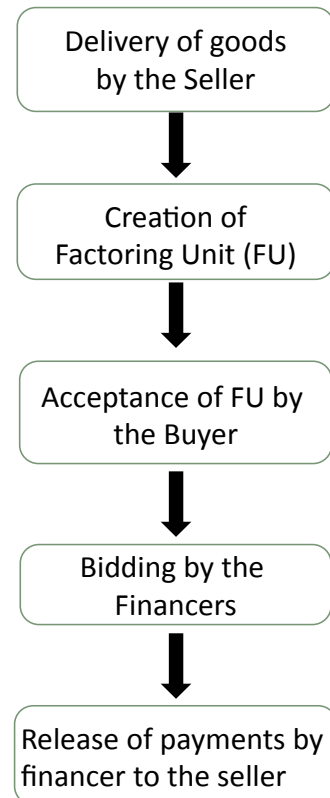
1. **Suppliers:** MSME units that supply either goods or services to their clients.
2. **Buyers:** They are the clients of which produce goods and services from MSMEs. These can be corporates, public sector undertakings Government departments, etc.
3. **Finances:** Include both banks and NBFCs, which provide invoices/bill discounting.

TReDS acts as a platform for bringing all the participants for facilitating the financing of receivables.

**Process Flow** - Following steps are involved in a typical transaction on TReDs:

1. MSME seller, based on the purchase order of the buyer, delivers goods accompanied with the invoice. The transaction may involve a bill of exchange depending upon the trade practices between the two parties.
2. The seller creates a factoring unit which is an acronym for details of invoices/bills of exchange on the platform.
3. Acceptance of the factoring unit by the buyer.
4. Bidding for discounting of invoices/bills by the financiers.
5. Payment is released by the financiers to the seller based on mutually acceptable terms. The

transaction gets completed by payment from the buyer on the due date.



TReDS offers a win-win proposition to all the participants as enumerated below.

**Sellers** - TReDS offers a number of benefits to the sellers like it reduce dependency on a single financier. The seller can get the best bid for their bill through competitive price discovery without recourse to them. The administrative cost for bill realization is also reduced. The seller can also manage their liquidity and operations efficiently.

**Buyers** - Through TReDS, buyers can negotiate with vendors efficiently. Thus, reducing the cost of input for buyers. TReDS ensure better cash management for buyers also through an extended credit period. Buyers also get uninterrupted supplies by ensuring cash flow to vendors.

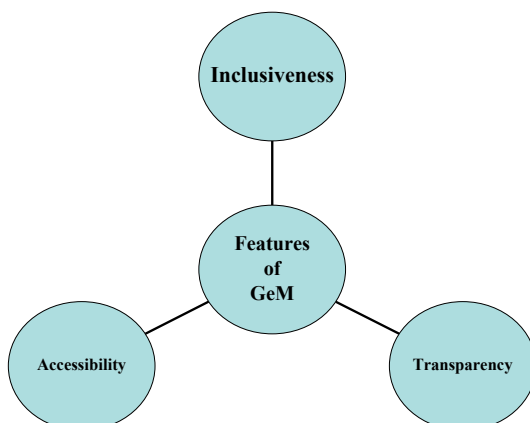
**Financers** - Apart from aiding to the achievement of priority sector lending targets, financiers can acquire

new customers at a low cost through TReDS. Relying on KYC through the automotive process, the platform reduces operation costs for banks.

To sum up, TReDS offers advantages to all participants by bringing transparency to the whole process. Through its paperless and hassle-free operations, it also offers a cost advantage to all participants.

Presently three players RXIL, M1Exchange and Invoicemart are operating TReDS and providing discounting of receivables to MSMEs. All registered companies with turnover exceeding Rs. 500 crores and all CPSEs are now mandated to onboard the TReDS platform as per the directions of Ministry of MSME. As per Annual report of Ministry of MSME for the year 2021-22, 21,643 companies have registered on the TReDS platform.

**GeM Portal** - Government e-Marketplace was launched by the Ministry of Commerce on the 9<sup>th</sup> of August, 2016 for facilitating the procurement of goods and services by Government organizations. It was launched to eliminate deficiencies in the procurement process through integrating different guidelines, thus bringing transparency to the entire process. It brings sellers, buyers, and service providers on one platform offering accessibility and wider options to all participants. GeM also brings consistency to the procurement process. It seeks to eliminate malpractices through a fair and open, transparent & competitive process. Apart from fairness and openness, another significant characteristic of GeM is inclusiveness in accepting all Government buyers and sellers on the same platform.



The platform offers distinct advantages to sellers and buyers which are as under:

**Advantages to buyers** - It offers ease of buying as it through wide options for procurement which is difficult in case of physical process. The other advantage is efficient procurement through price comparison from multiple suppliers. GeM in collaboration with banks offers an integrated system for online transactions. GeM also assists in monitoring by maintaining data of suppliers and payments.

**Advantages to sellers** - MSMEs get direct access to Government departments which is cumbersome otherwise. The suppliers get access to a wide market. GeM offers special provisions for MSMEs and start-ups, thus fostering entrepreneurship. It promotes MSME business by allocation of mandatory targets for procurement from the GeM portal to all Government departments and CPSE (Central Public Sector Enterprises). It offers transparency to sellers as they are given reasons for rejections on the portal. The sellers can offer dynamic pricing as it can change based on market conditions.

**Tools** - GeM offers these advantages through the following tools:

- a) **E-bidding** - Buyers make electronic bids for goods and services full.
- b) **Reverse e-auction** sellers make an electronic bid for goods and services which they are willing to provide.
- c) **Demand aggregation** - It allows Government departments to aggregate demand leading to efficiency in procurement. Buyers can negotiate better through the economics of scale.
- d) **Tracking of Payments** - Apart from special provisions mentioned earlier, the platform ensures timely payment to MSMEs through tracking of payments.

According to GeM portal, 75,6160 MSME sellers and service providers have on boarded the portal contributing to 56.59% of the order value as on 01-03-2022.

**MSME Sambandh** - While GeM is a portal for facilitating procurement from MSMEs, Sambandh is a public procurement monitoring portal. It was launched on the 8<sup>th</sup> of December, 2017 by the Central Government for monitoring progress against mandatory targets allotted to all Government departments and PSEs. Public procurement policy mandates 25% of annual procurement either of goods or services from MSMEs by Central Ministries, departments CPSE including 4% from MSME owned by SC/ST & and 3% from those owned by women entrepreneurs. The portal shares factsheets on public procurement by the Government departments and CPSEs. As per Department of MSME, procurement from MSMEs under Sambandh has reached Rs. 34,145.58 crores benefiting 1,58,008 MSMEs, as on 01-03-2022.

**MSME Samadhan** - One of the critical issues faced by MSMEs is a delay in payments for goods and services rendered by them. According to the MSMED Act of 2006, buyers have to make payments to MSMEs within 45 days of acceptance, else they have to pay interest to the supplier. The buyer is liable to pay compound interest with monthly rests at three times the Bank Rate as notified by RBI on the due amount. For providing a platform for complaints, MSME Samadhan was launched by Ministry of MSME on 30<sup>th</sup> October, 2017. Once the complaint is filed online it is automatically registered with MSEFC (Micro and Small Enterprises Facilitation Council) after 15 days of filing. MSEFC is established by State/UT which undertakes action on the application registered on the portal. To summarize, this initiative of the Government for MSMEs, acts for dealing with the issue of delayed payments of the MSMEs. As per the Department of MSME, 10,156 applications are mutually settled and 13,342 cases disposed by MSEFC as on 01-03-2022.

**Other initiatives** - The other initiative of the Government includes 'My MSME' and 'MSME Sampark'.

**My MSME** - It is basically an information portal that gives MSME access to various mobile apps and links useful for MSMEs.

**MSME Sampark** - Launched on 27<sup>th</sup> of June, 2004, it is a job portal that seeks to match the requirements of job seekers and job providers. The job seekers are trainees/students of MSME technologies centers across India. The recruiters are mostly MSMEs and reputed national and multinational companies.

### Conclusion

MSME is an important sector that helps in the growth and development of the economy through employment generation and job creation. Realizing its importance, this sector was included in the priority sector for giving a fillip to lending to this sector. Although, there is no doubt about the importance of the sector yet MSMEs face a lot of challenges as a part of their business. These range from the availability of finance, markets accessibility, complaint resolution framework to access to Government departments. Their problems have multiplied during COVID-19 for which the Government has initiated several remedial measures for overcoming this situation. For the problems mentioned above, Government has launched many initiatives particularly through the digital medium which becomes essential even more during this post COVID era. Digital initiatives offer ease of operation, fairness, and faster delivery. These initiatives range from improving cash flow to complaint resolution mechanisms for MSMEs. TReDS, as discussed earlier, can help MSMEs in managing their finance efficiently. Another big issue faced by this sector is finding a suitable marketplace for their product. GeM opens the doors to a Government market which is difficult to access otherwise. A similar measure to improve market access is MSME Sambandh, which monitors public procurement by Government departments and CPSEs. MSME Samadhan was launched to assist complaint resolution for issues

related to MSMEs. There are other digital initiatives like My MSME and MSME Sampark which though very simple in concept can be very useful for MSMEs. The essence of these initiatives can be captured in words of N. Chandrasekharan, Chairman, Tata Sons who said “Going digital is no longer an option, it is the default”.

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## BANK QUEST THEMES

The themes for “Bank Quest” are identified as:

1. April - June, 2022: Embedding ESG (Environmental, Social and Governance) into Banks’ strategy
2. July - September, 2022: Fintech challenges for Banking Industry
3. October - December, 2022: Growing importance of co-lending in Financial Intermediation
4. January - March, 2023: Increased footprints of Financial Planning and Wealth Management
5. April - June, 2023: Competence based Human Resources Management in Banks
6. July - September, 2023: Digital disruption - Challenges and Opportunities

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