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We are hoping to be closer to 25% of MSME lending in India in 2-3 years: SIDBI's Prakash Kumar

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Synopsis

Prakash Kumar, DMD, SIDBI explains the various initiatives being undertaken by them to reform the MSME ecosystem and why bringing more micro enterprises within a formal structure is essential to growth.



If we have to achieve the climate goals we have for net zero goals, MSMEs are a very important cog in the wheel: Prakash Kumar, DMD, SIDBI.

Small Industries Development Bank of India ([SIDBI](#)) has undertaken a number of initiatives to boost the [MSME](#) sector. The MSME [Cluster Development Initiatives](#), for instance, aim to support clusters in addressing skilling, technology, marketing and credit facilitation gaps.

SIDBI has also set up a Cluster Development Fund (SCDF), with support from the Reserve Bank of India (RBI), to extend support to state governments for infrastructure development of MSME clusters.

In a conversation with ET Digital, Prakash Kumar, DMD, SIDBI, talks about how such initiatives are reforming the MSME ecosystem. He also explains why bringing more micro enterprises under a formal structure is essential and why the [green loan](#) portfolio offering is expected to gain further traction. Edited excerpts:

ET: What are the MSME Cluster Development Initiatives that SIDBI has embarked upon?

Prakash Kumar (PK): MSMEs, by their very nature, thrive in clusters because of various reasons like economies of working together, a common market, the transfer of technology, for historical reasons — whatever it may be — and the infrastructure in these clusters becomes a very important issue. Many SMEs complain that the clusters in which they work do not have proper connectivity for taking their goods to ports or do not have proper electricity connection. Many issues bother them.

SIDBI has been working in this area — and thanks to the Reserve Bank of India which allocated funds out of the priority sector shortfall from banks that can actually be utilised for [lending](#) to the state government(s) for improving the condition of these clusters.

So, we have got two allocations from the RBI. First one was Rs 2,000 crore and the second was Rs 5,000 crore. Out of the Rs 7,000 crore, I am happy to say that the entire money has been committed to state governments and the disbursements are happening. And this loan is expected to go a big way to support the state governments in taking up

projects.

On another side, we also take up soft interventions in the clusters by appointing agencies that actually work on the ground. They tried to conduct a diagnostic study. We started with five clusters: including Jodhpur, the wooden furniture cluster; Jammu and Kashmir, tourism cluster; New Delhi, the startup ecosystem cluster. The agencies appointed by us do a diagnostic study and identify the gaps in existence. And, most of the time, it so happens that we find that there is a lack of synergy between the various efforts going on in that cluster. But by putting in a little bit of effort by getting all the stakeholders together and working in synergy with each other, we are able to achieve so much. That has been our experience.

Buoyed by the success of these five cluster development programmes, we have scaled it up. And we have, through a RFP process, selected five more buckets of clusters with four clusters in each bucket. Twenty more clusters have been added to this programme in the last quarter.

We plan to take this engagement forward. And various initiatives are identified, business development services are encouraged to come in and work in those clusters. These initiatives are even otherwise supported by SIDBI. Most of the time we are able to channelise the funding support that is available. Such synergy is the main motto of this cluster development — a soft cluster development initiative of SIDBI.

ET: Tell us more about [GST Sahay](#) and how it helps to encourage micro enterprises to come under the [GST](#) framework.

PK: GST Sahay is a very exciting project SIDBI has taken up. And this project was first conceived by iSPIRT, which is working on digital public infrastructure where they actually conceived the idea of UPI. So their vision was to build an open credit enablement network, what we call OCEN, a common set of protocols that can actually democratise credit. And all the banks use that protocol to dispense credit in an automated or digitised way.

How the GST Sahay app is helping them is by making the process completely digitised, end-to-end. You just have to go and upload your GST data. If you are a GST registered customer, your bank statement data can come through an account aggregator platform. Also, if you connect it to the account aggregator and get some more data, the limit gets approved through a business rules engine immediately.

Now we are talking about small limits here — like Rs 5 lakh, Rs 10 lakh — and once the limit is approved, you accept the sanction, the terms and conditions are shown to you and the documentation is done digitally. E-stamping is done digitally, your eNACH is registered for collections, and then you can use an invoice to get financing. This invoice can be your sales invoice if you are on the GST platform and you are uploading sales invoice on a regular basis. Currently, I think the turnover limit is Rs 5 crore. So maybe these entities will not come in that range.

But whatever purchases you are doing from large enterprises, those invoices are available. You can pick up that invoice and get financing for 60 or 90 days depending on the limits given to you. The payment immediately goes to your seller, and you can then get the credit. NACH debit takes place and collections happen.

So this is actually a very simple method of doing [working capital](#) financing for small enterprises based on their GST invoices. We have done pilots with our customers. Currently, this is available only for proprietary concerns, as there are several constraints that we still have to overcome. But a small MSME that does not have a cash credit account or working capital limit with a bank can come to the platform and get the benefit. We have plans to launch it in eight to 10 clusters

in the coming months, and to try to onboard smaller micro MSMEs to take care of their working capital problems.

ET: What is the kind of interest that you have seen from micro enterprises to get onboarded on to the platform?

PK: They are very excited. I mean, it hardly takes any time to get them onboarded. Obviously, you are working with some loan service providers on the ground that can actually work with these MSMEs, help them complete the onboarding process, teach them how to use this feature to get invoice discounting, and also help us in our collections — because SIDBI has a limited network. But micro enterprises that have seen it are quite excited as the process is completely thorough.

ET: What is the kind of growth seen in the green loan portfolio offering of SIDBI? How do you anticipate this to gain further traction in the new fiscal year?

PK: Green is something that has become very critical these days. We all know about the environmental problems and its effect on climate. All countries realise this issue has to be tackled very seriously.

As MSMEs contribute 30% of India's GDP, it forms a big chunk from an industrial sector perspective. If we have to achieve the climate goals we have for net zero goals, MSMEs are a very important cog in the wheel. They have to bring energy efficiency into their operations. They will have to move to solar energy and decarbonise operations to the extent possible. SIDBI has realised the importance of this area. We had set up a separate green finance vertical around two years ago to have a focused approach to lending for MSMEs to go green.

In fact, SIDBI has for 12 to 15 years been in partnership with multilateral donor agencies. We have been running lending programmes for MSMEs to improve energy efficiency and make such investments. So, if the investments are being made by the MSMEs based on certain identified technologies, then you get some benefit on the interest rate through this programme that we have been running for a very long time.

Six to seven years ago, we ran programmes in clusters to encourage MSMEs to take up energy audits and identify the investments required to make their processes energy efficient. This was a World Bank-supported programme. A number of energy audits were conducted; a detailed project report prepared for MSMEs that showed interest; and incentives were offered to those who made investments. Based on this knowledge, we have automated this energy audit or a basic energy audit protocol for MSMEs.

The second point is that ESG reporting has been made mandatory for the top 1,000 corporates. Now, this has not come to MSMEs so far. But SIDBI is trying to push the idea that if you want a green loan from SIDBI, which makes you eligible for certain concessional terms, then you will have to go through a kind of an assessment separately.

SIDBI has developed a tool for this. Based on that, we identify the weak areas, efforts and investments required. The ESG rating is now getting merged with the internal rating we do for MSMEs to provide them with loans.

Lastly, in partnership with the World Bank, we have created a risk-sharing facility.

So, ESCOs (energy service companies) actually make the investment and their payout is based on the energy saving. These ESCOs are mostly MSMEs. They make an investment and our unit pays them depending on a predetermined criteria or the energy savings. And they recover their investments through this route. But funding was not available to them because no collateral was available. There was nothing tangible that could be funded. So we actually promoted this ESCO

ecosystem in the country by coming out with a risk-sharing facility. Now any bank that wants to support this ESCO will get their loans covered under this risk-sharing facility.

ET: How has the Udyam Assist portal helped in formalisation of micro enterprises? How many such enterprises are registered so far via the portal?

PK: The problem statement here was that you have an Udyam registration that is given to formal enterprises — you need to have a PAN and a GST number to get URC (Udyam Registration Certificate) — but we all know that the large number of micro enterprises in the country are informal and there is no data. We always quote an old NSSO survey which says there are 6.77 crore MSMEs, out of which more than 90% are informal micro enterprises. This becomes a constraint for any policymaker or government to identify the real micro enterprises and make policies for them. No census has been done, perhaps because of the cost it entails.

So, we came up with an idea and worked with the Ministry of MSME to create a parallel platform, what we call the [Udyam Assist Platform](#), wherein informal micro enterprises can be registered.

We launched this platform last year in January. In one year, almost 1.5 crore informal micro enterprises have registered on this platform. And the way it is going, we hope to see at least 7-8 crore informal enterprises getting registered on this platform in the next two to three years.

We are also looking at payment aggregators. Many of the payment aggregators also have a good number of MSMEs registered with them. They may not have any funding from any regulated entities. But this data is very critical for the country to know how many enterprises are there, in what segments they are working, what kind of services they are providing, and how they are distributed geographically. This will help the government to frame the right kind of policies for them.

ET: Lastly, I want to ask you about SIDBI's focus under the MSME loan portfolio for FY25. What is that going to be like?

PK: The key focus now is on growing our direct lending book. Our vision is to take direct lending from the current Rs 25,000 crore to Rs 1 lakh crore. This can be achieved in maybe two or three years. But that is our vision. We are trying to realise it in two ways.

One is through SIDBI branches. We have a limited number of branches; we currently have close to 100 branches. Through these branches, we dispense credit to MSMEs, a slightly bigger size of MSMEs because of the staff limitation. This will also expand our branch network.

We are entering into partnership-based lending. We are partnering with NBFCs (non-banking financial companies) to jointly dispense loans to MSMEs in a pre-defined ratio. It could be the 80-70-20-30 kind. We found this to be an opportunity to increase our direct lending book. We are targeting co-lending — also an arrangement wherein we partner with agencies on the field for what we call a credit delivery arrangement.

We are also active on the TReDS (Trade Receivables E-Discounting System) platform.

GST Sahay is again going to be a big game changer. Last year, our book was around Rs 4 lakh crore. And if you look at the total MSME lending — using different data from different sources — it was close to Rs 24 lakh crore. So, our engagement with the MSME sector was close to 16%. This year, we are closing our book at Rs 5 lakh crore, but the growth has been very

fast. We have grown from less than Rs 1 lakh crore to Rs 5 lakh crore in the last five years. And we plan to continue this growth. The growth is largely being driven by the finance operations of SIDBI. So, we are hoping that in the next two to three years, we should be closer to 25% of the total MSME lending happening in the country. That is our ambition.