ASSOCHAM INDIA

APAS
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2nd Bankers Borrowers Business Meet 2016

Empowering MSME

THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

2nd Bankers Borrowers Business Meet 2016

Empowering MSME

The Associated Chambers of Commerce and Industry of India

ASSOCHAM Corporate Office:

5, Sardar Patel Marg, Chanakyapuri, New Delhi-110 021

Tel: 011-46550555 (Hunting Line) • Fax: 011-23017008, 23017009

Email: assocham@nic.in • Website: www.assocham.org

MESSAGE

The MSME sector is the cradle of entrepreneurship and innovation and it forms the backbone of the India Growth Story. This is the sector which is often the primary source of employment for new job seekers. However, despite their contribution to the nation, MSMEs' access to institutional credit remains limited. In addition, the problems of the large corporates and their impact on banks in terms of stressed assets has a cumulative adverse impact on the MSMEs.

Inadequate availability of institutional finance and high cost of funds from informal sources are major impediments for MSMEs. In times of economic downturns, the ensuing liquidity crunch drives many MSMEs on to the brink of insolvency. The lack of proper insolvency regulations further compounds the problems of MSMEs.

In this backdrop, this Bankers-Borrowers Meet has a special significance. The objective of this event is to drive home the point that traditional methods of lending by banks (and other formal financial sector entities) are not equipped to foster entrepreneurship. This knowledge report analyses the problems of Indian MSMEs in detail and also tries to chart out a way forward in terms of suggestions on the requisite changes in regulations, innovations in financing, leveraging of technology to extend banking services to the unbanked and skilling entrepreneurs to gear up to the needs of changing times.

Sunil Kanoria
President
ASSOCHAM

MESSAGE

First edition of ASSOCHAM Bankers Borrowers Meet- 2015, had received an overwhelming response from the industry, in creating a vibrant platform for encouraging dialogue between the bankers and borrowers. Various issues were discussed and the outcome of this event was published and was circulated to leaders in the industry and the government.

In order to continue to this dialogue, ASSOCHAM is organizing 2nd Bankers Borrowers Business Meet with a theme "Empowering MSMEs" with an aim to ensure timely financial support to Micro and Small enterprises facing financial difficulties during their Life Cycle and suggest measures that can be taken to strengthen the banking industry.

In this context, ASSOCHAM-APAS come out with knowledge report aims at giving an overall view into the challenges faced by the MSME, innovative methods of financial support and focuses on the importance of encouraging entrepreneurial talent. I would like to express my sincere appreciation to Mr. Ashvin Parekh, Managing Partner, APAS and his team for sharing their thoughts, insights and experiences.

I am confident that this report will be useful to readers across different sectors.

D. S. Rawat
Secretary General
ASSOCHAM

MESSAGE

In the first edition of Bankers Borrowers Business Meet-2015, APAS had the great opportunity to partner with ASSOCHAM as their knowledge partners for the event. The agenda for the event being “Business Advances – Issues and Concerns “, the event was received with great enthusiasm and there was an overwhelming response from the industry. In order to continue to this dialogue, APAS and ASSOCHAM have come together again with a new focus on “Empowering MSMEs”. In the current economic scenario in our country the MSME sector’s contribution plays a vital role, which accounts for nearly 37% of the GDP and involving nearly 69 million people in its activity. Yet, this sector is still considered not lucrative by the financial service providers, which makes a discussion on the roadblocks faced and the areas of improvement in this sector all the more significant.

To better understand the predicament faced by the MSMEs, we need to study the structure of the banking industry in India, which is still the primary financial service provider to this sector. The banking industry in our country has a diverse structure, composed of scheduled and unscheduled banks, with unscheduled forming a small component. Under the scheduled banks, there are commercial and cooperative banks. Further nationalized, public sector, private sector and regional rural banks come under the scheduled commercial banks. The cooperative banks composed of banks with rural and urban focus.

Each of these banks were created to cater to specific market segment in different geographical locations, keeping in mind the varied nature of the Indian economic ecosystem. However, the banking system across these structures focused on lucrative urban sector credit and transited to universal banking rather than the niche banking for which the structure was created. This structural issue may now get addressed by the way of the payments banks and the small finance banks. The speed with which the corrections may happen is an issue. This results in a substantial gap between the credit demand from the MSME sector and the supply of banking support.

Somewhere down the line, banks lost their focus on serving the so called “unbanked segment”, due to the limitations of assets available to the MSMEs and the larger emphasis placed by the Indian banks on secured lending. The banks became more oriented towards advancing larger ticket size loans and increasing their overall advances in order to improve their performance. There was more focus on their CASA ratios and a particularly high reliance on credit ratings to make advances, this practice became the norm of the industry. This precedent led to the MSME sector being fairly unattended compared to others, thereby forcing them to seek financial support from different sources ranging from informal sources to personal funds. Lack of funds, high costs from informal sources made them vulnerable to economic downturns and liquidity crunches, pushing them into insolvency hastily. Additionally, lack of clear regulations in our country regarding insolvency processes adds to their burden.

This report attempts to throw light on these issues faced by MSMEs and encourage dialogue between the bankers and borrowers, by focusing on three main parts 1) Ease of doing Business 2) Innovative financing for MSMEs and 3) Skilling of entrepreneur's in the segment. Each part analyses the current scenario in the Indian environment, key initiatives and the scope for improvement. I would like to acknowledge and commend ASSOCHAM in their endeavor. We consider it as our privilege to be partnering with them in this annual dialogue.

In the making of this report as well as designing the business meet between the borrowers and bankers, various people have contributed wholeheartedly. To recognize their effort and contribution, I would like to place my sincere acknowledgement and appreciation. To start with Mr. Chandan Kumar and his team from Assocham provided invaluable support. My team comprising of Gulrez Iqbal, Sujana Hari, Kalpesh Mantri, Ankita Narnaware, Miral Ajmera and Siddarth Sankaran have burnt the midnight oil in creating the report and the event.

In addition Mr. M Narendra, former CMD of Indian Overseas Bank also lent support to the initiative.

Ashvin Parekh, Managing Partner
Ashvin Parekh advisory services LLP

Contents

EXECUTIVE SUMMARY

ASSOCHAM's 2nd Bankers Borrowers Business Meet focuses on the agenda of "Empowering MSME" with an aim to ensure timely financial support to the sector during their life cycle and suggest measures that strengthen the Banking Industry. In order to support this dialogue, the knowledge report aims at giving an overall view into the challenges faced by the MSME, innovative methods of financial support and focuses on the importance of encouraging entrepreneurial talent. The report is mainly divided into three main parts a) Ease of doing Business b) Innovative financing c) Skilling of Entrepreneurs, each of these points have been explored in detail, revolving around the center of axis of MSME sector.

Ease of Doing Business: This section briefly explores various indicators employed by the World Bank in its assessment of ease of doing business in a country. It further picks up the access to credit and resolving insolvency indicators and studies it with regards to the MSME sector in our country. Under the access to credit, the gap in receiving funds, credit flow to the sector, initiatives and challenges are discussed. The resolving insolvency segment talks about the current scenarios, laws involved and initiatives.

Innovative Financing: Innovation in the approaches to MSME financing has long way to go since credit supply demand gap is huge in this group of business entities. This part of the report emphasizes need of fresh approaches to meet funding requirement of MSME. Inferences from global practices have been drawn for different category of lending products and regulatory support. Inputs for improvement of practice to fund MSME through technology and regulation have also been discussed.

Skilling of Entrepreneurs: The section begins with the evolution of entrepreneurship in India, despite the non-availability of resources. It highlights, the gain in momentum in entrepreneurship and India becoming a hotbed for startups. Additionally, it also gives attention to the effort and resources required to augment the spirt of entrepreneurship, challenges faced in securing finances and the lack of training.

The report focuses on the training programs, development initiatives and project "Skill India" started by the government which has set goals for training a large number of individuals in various areas.

Introduction:
Story of Micro, Small and Medium Enterprises

In the Indian economy, the MSME sector serves as the backbone in its growth story. It forms an integral part of the economy, with nearly 29.8 million enterprises involving 69 million people. This especially includes nearly 2.2 million women-led enterprises and 15.4 million rural enterprises. Playing a key role in acting as a catalyst to the socio –economic transformation of the country. The contribution of this sector to the GDP has been growing consistently at 11.5% over the past 5 years outperforming the GDP and IIP growth rates. The sector plays a crucial role in the financial objective of inclusion, generating employment, averting poverty and also balancing the rural-urban migration. These enterprises, help build a thriving entrepreneurial ecosystem, in addition to promoting the use of indigenous technologies.

The contributions of this sector to the overall GDP is nearly 37% and further accounts for nearly 45% of the Indian Industrial Output. Furthermore, it is a major contributor to exports from the country accounting for nearly 40% of the pie. It is important to understand the structure of this segment to better analyze its potential and support for further growth.

Investment in plant and machinery		
Industry	**Manufacturing**	**Service**
Micro	Less than 25 Lakhs	Less than 10 Lakhs
Small	25 Lakhs to 5 Crores	10 Lakhs to 2 Crores
Medium	5 Crores to 10 Crores	2 crores to 5 Crores

Table 1: Definition of MSME by RBI

The composition of MSME sector

With nearly 29 million enterprises, only 1.8 million are registered under the organized sector. This situation gives rise to restrictions, both in access to formal markets and sources of finance, as well as support and effective regulation by the government. On top of that, this sector has an additional 30 million enterprises in the unorganized sector, which are neither governed by any legal provisions nor have any official financial accounts. Most of these units are defined as micro enterprises.

Manufacturing and Services

Broadly, MSME sector is classified by two major activities – manufacturing and services. There is huge diversity within these two categories. The manufacturing accounts for an estimated 29% of the total in the segment and the rest by service providers. Yet, the top ten industries in manufacturing account for nearly 75% of the sectors total output. (Refer Table 2)

Manufacturers are involved in a wide variety of goods, from handmade products to high precision machine parts, contributing to the supply chain of local to large global enterprises. Here, food processing is the key manufacturing industry. It is also characterized by being more capital intensive with longer working capital cycles, and consequently have higher working capital requirements.

Industry	Share of gross output of the MSME sector (%)
Food products & Beverages	19
Textiles	10
Basic metals	10
Chemical & Chemical products	8
Fabricated metal products	7
Machinery & equipment	6
Wearing apparel	5
Rubber & Plastic products	4
Transport equipment	3
Non-metallic mineral products	3
Total	75

Table 2: Top 10 fields in manufacturing
Source: IFC

The service industry is dominated by retail trade, maintenance stores, transport operators and knowledge based enterprises etc. In the recent past the knowledge based industries have experienced a gradual growth in the sector.

Industry	Share of gross output of the MSME sector (%)
Agricultural based activities	1.3
Repair & maintenance of motor vehicles	1.1
Retail	0.7
Professional business activities	0.6
Computers & information technology	0.3
Transport & Travel agents	0.3
Forestry & Logging activities	0.3
Other service activities	0.2
Utilities supply	0.2
Posts & communication	0.1
Total	5

Table 3: Top 10 fields in service
Source: IFC

Export and Import Led

The MSME sector has been a major contributor to exports accounting for nearly 40% of total exports and constantly growing with major export destinations being USA, EU, UAE, etc.

Top products exported by MSME
Pearls, Precious stones, metals, coins, etc.
Electrical, electronic equipment
Pharmaceutical products
Articles of apparels, accessories
Article of iron or steel

Table 4: Top five major exports
Source: IFC

Geographies

Distribution of enterprises in this segment are divided across rural and urban areas, with nearly 45 % in urban and 55% in rural area. It has been also noted that the percentage of enterprises lean toward urban areas when measured against the registered units.

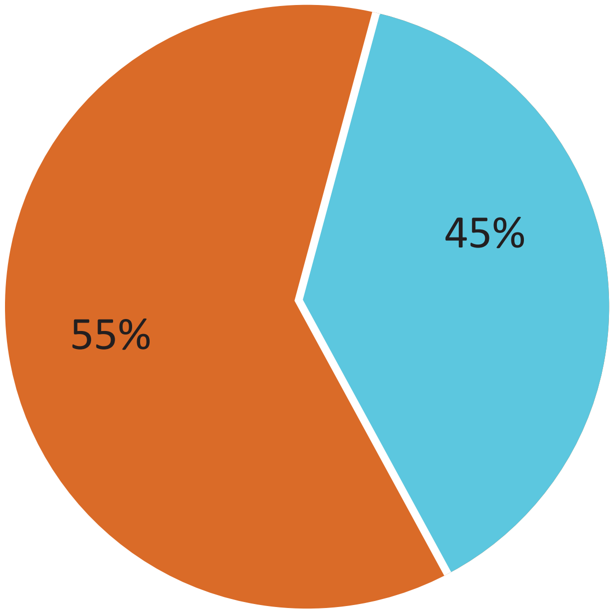
Additionally, based on geographical location this sector is distributed across three main regions:

Low-Income states: Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh

North-eastern states: Assam, Arunachal Pradesh, Nagaland Manipur, Meghalaya, Mizoram and Tripura

Rest of India: All states other than the above.

The distribution among states are generally based on a particular region's characteristics such
as natural resources, connectivity and access to markets.



Ownership Structure

Among the various ownership structures, proprietorship (nearly 94%) is the most preferr

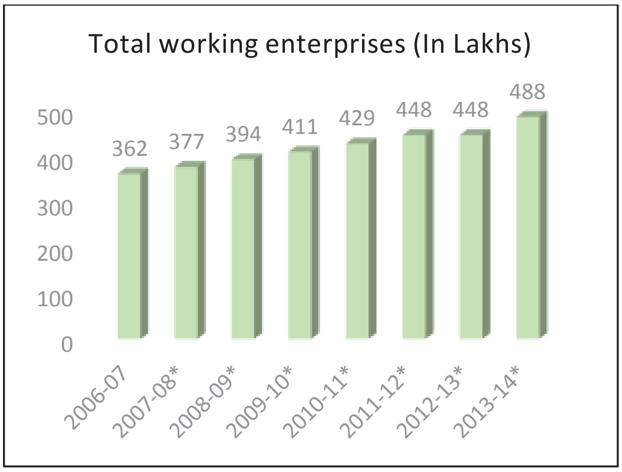
Type of structure	Share of MSME enterprises (%)
Proprietorship	94.5
Partnership, cooperatives	1.2
Private limited, Public limited	0.8
Others	3.5

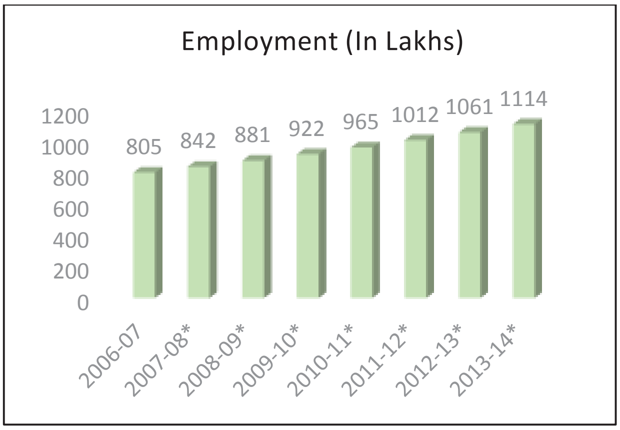
Table 6: Ownership structure
Source: MSME Census

This characteristic ownership of this sector, has been causing constraints in the form of hindrance in access to external equity, as for example proprietorship and partnership cannot accept any form of external equity. This highly impacts the growth potential.

MSME: Successes and Contribution to the Economy

The sector's growth and improvement has been consistent in the past 5 decades due to a combination of governmental support, implementation of technological enhancements and support provided by the banking sector. The opening up of our economy coupled with a high growth rate has been a major stimulus to these developments. Direct indicators of this development are the fixed investment witnessed in the sector, between FY07 and FY11 which has grown at a CAGR of 11.48% and employment also grew more than 5% year- over-year.





(Source: Fourth All India Census, 2006-07, *Indicates projected data)

The growth of this sector has been impressive, it has graduated from the status of small scale industries to becoming a vital component in the manufacturing and services space. In spite of various constraints, these enterprises have made their presence felt both domestically and globally.

MSME: Challenges and Demands for financing

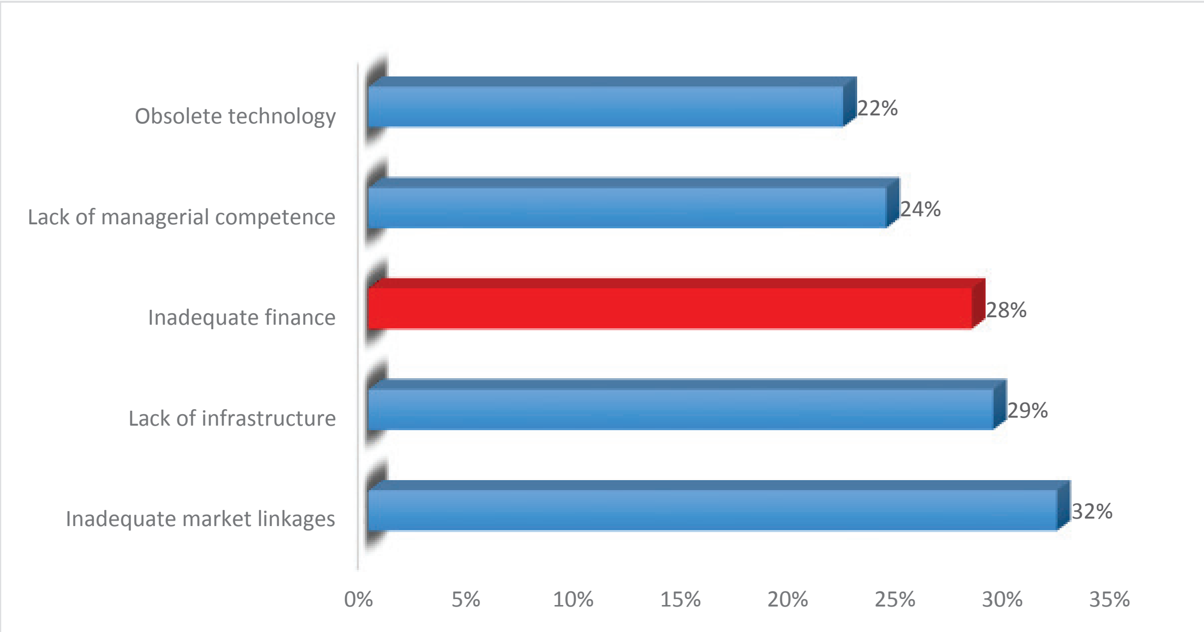


Table 7: Refers to the percentage of respondents attribute to constraints
Source: Report of working group on Rehabilitation of Sick MSMEs, RBI

There have been great strides in the performance of the MSME sector, yet the growth has been restricted by various factors.

It has been facing roadblocks dues to various constraints, listed below:

Inadequate Market Linkages

Inadequate Linkages has been a big problem to MSMEs, as the access to markets domestically and globally has been a challenge. In spite of possessing the required skill set to service various segments, the gaps in linkages isolate enterprises in this sector. This lack of exposure has been a major reason for their hindrance in growing and improving the customer base.

Lack of Infrastructure

Infrastructure being key to any economic development, plays an important role in the success of MSMEs. Enterprises in this segment are more affected by lack of public infrastructure due to the less capital intensive nature of their business.

The lack of roads, water supply, electricity and drainage service etc. affect the smooth running of operations. In some cases, the dependence on power supply is so high that the bills for alternative sources such as generator, spike the working capital requirements of manufacturing enterprises. In another case, the lack of road connectivity in the north-eastern states, have a major role in deterring the growth of MSMEs in the region compared to other states. This region holds only 3.4 % of the total MSMEs in the country.

Such constraints can be removed only with the support and improvement of government schemes in creating infrastructure development projects.

Human Resources

The part played by human resource in this sector is valuable than in other cases. In the case of manufacturing industries, many of these processes are semi mechanized and heavily rely on its laborers in running operations. In case of services, human resource is the main source of income.

The MSMEs face issues on all the fronts in this regard, trouble is attracting and hiring (both skilled and unskilled), retention and find it difficult even to provide basic working environments. Many of them, don’t even have a specified department or concerned personal, and are mostly managed by the owners.

Additionally, they also have problems with attracting and retaining managerial talent, which plays a vital part in its functioning.

Lack of access to technology

Technology these days are not considered mere enabler of productivity but is considered the source of competitive edge among competitors.

In case of MSMEs, they face acute problems of cost inefficiencies, quality standards and customers services due to lack of investment in current technologies. They still plough along with older technologies due to the high costs.

Apart from high costs, limited interactions between technology seekers and providers and minimal knowledge are reasons for slow adoption. In present times, MSMEs are seeking ways to upgrade their systems and processes to tackle challenges of business stagnation and economic overturns.

Laws and regulations

The laws and regulations have played a vital role in creating a favorable ecosystem, in which various industries thrive. Particularly for MSMEs the complexity in this regard is a major hindrance in their functioning.

Each entity deals with three tiers of governance- central, state and municipalities, causing major barriers in the functioning. For example, getting utility connections at the state level is a major challenge.

Multiplicity of labor laws and complicated procedures associated with compliance of such laws has been a deterrent in more manufacturing industries coming up.

Lack of timely finance

It has been citied that most of the above were linked to the problem of lack of timely finance. Making the enterprise vulnerable particularly in periods of economic downturns.

The lack of availability of timely credit and high costs, collateral requirements and access to equity capital are considered the prime causes of concerns for this sector.

The financing needs of the sector depend on the size of operation, industry, customer segment, and stage of development. Financial institutions have limited their exposure to the sector due to a higher risk perception and limited access of MSMEs to immovable collateral.

In the normal source of financing, enterprises in MSMEs still rely on banks as a source of finances. Among these, public sector banks (PSBs) account for a major share, compared to private and foreign banks.

Potential

The sector is unique in its functioning, it supports big industries yet employs a big chunk of unskilled labor. Being manpower intensive, the sector has a great potential to reduce the socioeconomic imbalances. It can support in the development of rural areas by increasing entrepreneurship and also reduce the stress on metros by balancing the inflow of migrant workers.

As stated earlier, the sector contributes to 40% of the country's exports and is expected to improve over the coming years. The sector is further evolving and as stated above has become the vital cog in the wheel of growth. This is bolstered by positive changes such as implementation of newer technologies, international practices, ease of doing business, skilling of entrepreneurs and innovative financing. These additions will improve the sector's efficiency and its output. The importance of all the above points being irrefutable, this report targets three key areas of developments from the above 1) Ease of doing business 2) Innovative Financing and 3) Skilling of entrepreneurs. Even though, each of these areas are applicable broadly to every sector of the economy, our focus will be on the MSME sector.

EASE OF DOING BUSINESS

Ease of doing business, has been given a lot focus by various multi-lateral agencies in assessing the economic environment available in a country, to encourage start and sustenance of businesses. It provides a keen sense of the setbacks and complications faced by entrepreneurs. According to the World Bank, "Ease of doing business" measures how easy or difficult it is for a local entrepreneur to open and operate micro, small and medium size business when complying with the relevant regulations.

The ease of doing business is measured by the World Bank, based on the ranking of various key parameters, which are common and vital to start a commercial enterprise. It depicts on how the conditions in the economy prevail against a near ideal situation in a developed economy. Parameters considered under this study are:

- Starting a business
- Dealing with construction permits
- Getting electricity
- Registering property
- Getting credit
- Protecting minority investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Resolving insolvency

Each of these parameters are unique in their own way, in this report we will venture briefly into all the above parameters and focus more in detail on getting credit and resolving insolvency parameters.

Starting a business

This parameter addresses the primary condition, starting a business in the country. It focuses on the ease of the entire process and assess the current condition in India compared to similar economies. Formal registration of companies has many benefits for the business stakeholders. If government makes registration process easy, more entrepreneurs will start businesses in the formal sector, creating more jobs and revenue for the government. This parameter is measured by procedures, time, cost and paid-in minimum capital to start a company.

Globally, India stands at 155 in the ranking of 189 economies on the ease of starting a business. With a high proportion of MSME enterprises not registered formally in India, in order to encourage registrations, the process was simplified by the government to a one page registration form "Udyog Aadhaar".

In order to improve the conditions in starting the business, the government is planning to remove entry and exit constraints faced by entrepreneurs by rationalizing business procedures and regulations. The time required to set up a venture would be reduced to a maximum of two weeks. To achieve this goal, the government is planning to 1) Introduce Single Unique Enterprise Identity Number (SUEIN) that a new enterprise could use for various registrations including taxes and social security. Once SUEIN is available, all the regulatory and support agencies may use it to hasten the process of setting up an enterprise. 2) Introduce an on-line Single Composite Application Form (SCAF) that will help entrepreneurs file a single application for obtaining all the approvals and clearances from various government authorities. 3) Encourage States to strengthen existing 'Single Window System' with a High Power Committee empowered to give all necessary clearances for setting up a business. Such development when introduced can greatly impact starting of business in a positive light and help improve the ranking.

Dealing with construction permits

The ease of dealing with construction permits lists as one of the top factors in the whole scheme of doing business. Regulation of construction is critical but, it needs to be efficient, toavoid excessive constraints on a sector that plays an important part in every economy. Many builders will opt out if complying with building regulations is costly in time and money. So, compliance should be simple, straightforward and inexpensive to protect interest of public and growth of economy. In the scope of the MSME sector in the country, majority being service providers, construction does list on the top of their priority. Yet, this indicator is very relevant to the small yet significant number of manufacturing enterprises. Many of these units, end up leasing their plants in order to circumvent the high costs and hazards of obtaining permits. Globally, India stands at 183 in the ranking of 189 economies on the ease of dealing with construction permits.

The government has adopted a cluster based approach as its key strategy in enhancing the productivity, competitiveness and the capacity of MSMEs. The scope of this study were diagnostic study, soft interventions, common facility centers and infrastructure developmentprojects. The clusters help in providing infrastructure facilities to MSMEs.

Getting Electricity

Electricity connection plays a main role in the functioning of enterprises, especially in manufacturing sector where consumption of electricity is much higher due to use of heavy machineries in production. It also has a great impact on the services sector which provides IT and knowledge based services. Being a basic resource it is considered as a top contender while deciding the ease of doing business ranking.

This parameter is evaluated based on procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply and the cost of electricity consumption. To counter weak electricity supply, many firms in developing economies have to rely on self supply, often at a prohibitively high cost. Whether electricity is reliable or not, the first step for a customer is always to gain access by obtaining a connection.

Globally, India stands at 70 in the ranking of 189 economies on the ease of getting electricity

Registering Property

Registration of properties is an integral part of the life cycle of a business. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chances of being accepted as a collateral for loans – limiting access to finance.

Globally, India stands at 138 in the ranking of 189 economies on the ease of registering property.

Getting credit

Access to credit is essential for any industry in every sector but when it comes to MSMEs it gains a lot of importance as there is a wide gap in its financing needs.

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and strong collateral & bankruptcy laws. Credit information systems enable lenders' rights to view a potential borrower's financial history — helping in assessing risk in credit approval process. It also permits borrowers to establish a good credit history. Strong collateral laws enable businesses to use their assets, especially movable property, as security to generate capital. Globally, India stands at 42 in the ranking of 189 economies on the ease of getting credit. This position is pretty good compared to the other parameters, yet there is a large scope for improvement. This topic will be discussed further in detail.

Protecting Minority Investors

The ability of companies to raise the capital, enterprises need for expansion and diversification of business is significant, involving both majority and minority investors. Effective regulations define related party transactions precisely, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set detailed standards of accountability for company insiders. Regulations protecting minority investors is paramount to maintain a healthy ecosystem and further encourage more investments.

Economies with the strongest protections of minority investors from self-dealing require detailed disclosure and define clear duties for directors. They also have well-functioning courts and up-to-date procedural rules that give minority shareholders the means to prove their case and obtain a judgement within a reasonable time. Globally, India stands at 8 in the ranking of 189 economies on the strength of minority investor protection.

Paying taxes

The level of tax rates needs to be carefully chosen and needless complexity in tax rules should be avoided. Globally, India stands at 157 in the ranking of 189 economies on the ease of paying taxes. In order to further improve the situation of MSMEs, the government has been implementing key measures.

The ceiling of turnover limit, for compulsory tax audits of accounts and for presumptive taxation was increased from INR 6mn to 10mn. Furthermore, capital gains tax is exempted on sale of a residential property, if the sale consideration is used for subscription in equity of a manufacturing SME company for purchase of new plant and machinery.

Basic customs duty were reduced to 2.5% with concessional CVD of 6% on specified parts, components and raw materials for the manufacture of medical devices such as disposables and instruments. Specifically, raw materials for the manufacture of coronary stents and heart valves are fully exempted from custom duty. Excise duty has also been decreased from 10% to 6% on matches manufactured by semi-mechanized units.

Trading Across Borders

Easier trading across economies is increasingly important for business in globalized world. Excessive documents requirements, burdensome custom procedures, inefficient port operations and inadequate infrastructure all lead to extra cost and delays for exporters and importers. Globally, India stands at 133 in the ranking of 189 economies on the ease of trading across borders.

This indicator plays a crucial role particularly due to the fact that MSMEs account for nearly 40% of total imports from the country. Ease of trading across borders will go a long way to improve this statistics.

Enforcing Contracts

Effective commercial dispute resolution has many benefits. Courts are essential for entrepreneurs because they interpret the rules of market and protect economic rights. Efficient and transparent courts encourage new business relationships because businesses know they can rely on courts if a new customer fails to pay. Speedy trials are essential for small enterprises, which may lack the resources to stay in business while awaiting the outcome of a long court dispute. Globally, India stands at 178 in the ranking of 189 economies on the ease of enforcing contracts. The current situation is that courts are burdened with cases more than they can handle, legal loop holes and ambiguous laws. This situation is being tackled by the government by trying pass laws which bring more clarity and directly helping courts resolve pending cases faster.

Resolving insolvency

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones. Fast and cheap insolvency proceedings result in the speedy return of businesses to normal operation and increase returns to creditors. By clarifying the expectations of creditors and debtors about the outcome of insolvency proceedings, well-functioning insolvency systems can facilitate access to finance, save more viable businesses and sustainably grow the economy. Globally, India stands at 136 in the ranking of 189 economies on the ease of resolving insolvency. To improve in this area, government has tabled a Bankruptcy law 2015, which will help clearing the ambiguity in laws and speed up the process of insolvency. Based on all above parameters the World Bank's doing business report 2016 has ranked India at 130 among 189 countries, an improvement of four places from last year's ranking.

ACCESS TO CREDIT

The access to credit plays an important role in the ease of doing business, and India has been performing pretty well in this regard compared to other indicator in the ease of doing business. Yet, according to the distance to frontier indicator of the World Bank report which benchmark economies with respect to regulatory best practice, we can say there is still miles to go in order to improve the access to timely credit to entrepreneurs in the MSME sector. The ranking accorded by the World Bank report to India, in this parameter has slipped by six positions from 36 to 42.

In order to further throw light on the issues faced by the MSME entrepreneurs, the gaps of debt servicing in this sector is enumerated below, to get a sense where action is required. Further to the debt gaps, equity gaps are also addressed in this report. The role played by equity position in an enterprise in accessing debt, encourages us to address this issue in detail.

Credit Gap

The overall demand for finances in the MSME sector is estimated to be INR 32.5 trillion. Themajority of these are in the form of debt. In the context of debt demand, what part of this demand is addressable and viable for the formal financial institution needs to be identified.

Debt Gap

The demand for debt varies among enterprises in the sector, with different expectations and capabilities. Let us explore this issue among different players in this sector.

Micro Enterprises

The micro and small sub-segments together account for the majority of the debt demand. As they mostly operate in industries such as retail trade, repair and maintenance, restaurants and textiles among others, have a significant demand for working capital.

Another key characteristics of this sub-segment, is that they largely prefer to transact in cash and do not possess recorded financials.

Small Enterprises

Enterprises in this segment require higher capital investments and tend to operate in value-add manufacturing and knowledge based services. It is estimated that 0.7 million small enterprises are viable for financing by formal sources.

The average credit requirement of this sub-segment is estimated to be INR 4 – 4.5 million and cash continues to be a preferred form of transactions. These enterprises have access to both formal and informal sources of financing, in case of formal it is found to have relationships with one or two institutions. Entrepreneurs here have relatively more knowledge regarding formal sources of finance.

Medium Enterprises

In case of this sub-segment, the enterprises are more structured, have a predictable demand for debt and prefer formal sources of finance. The average credit size tends to be higher and there is access to a traceable credit history. In addition, these organizations are professionally run and form relationships with multiple financial institutions.

Sector-Wise Demand

Among manufacturing and the services sector, even though the latter accounts for more in numbers, manufacturing is more capital intensive. It nearly accounts for 61% of the viable demand in the sector. Hence, higher requirement of working capital is characteristic of this industry. The average requirement for capital expenditure in manufacturing enterprises are INR 0.5 million per year.

The working capital cycle for enterprises, involved in trade finance, export oriented, servicing large supply chains, tend to be longer. In the services industry, enterprises involved in retail trade, repair and maintenance, and restaurants have typically cash business with shorter turnaround. On the other hand, the knowledge based services industry such software development, management consulting and Information Technology, the financing requirements of such are similar to those of manufacturing. The share of working capital as a portion of the average debt demand for service enterprise is estimated to be 30% and rest for the manufacturing.

The knowledge based services require working capital primarily for investing in people. For this, they depend on internal accruals or internal equity investments, as debts from formal financial institutions for financing manpower costs still remain a challenge.

Equity Gap

The equity gap in the sector is a combined result of demand-side challenges such as the legal structures of enterprises, as well as supply-side gaps, such as a lack of investment funds focused on MSMEs. The requirements for the sector are concentrated in the growth-stage enterprises (~70 percent).

One of the primary reasons being, the smaller ticket size per investment size tends to drive the overall transaction and management costs. In addition, it is estimated that all the micro and a big portion of small enterprises are in the proprietorship or partnership structure, making them resistant to external equity infusion.

Excluding the equity demand of INR 1.23 trillion from proprietorship and partnership enterprises, equity gap is estimated to be INR 0.67 trillion. With appropriate policy interventions and support to the MSME sector, a considerable part of the currently excluded demand can be made financially viable for the formal financial sector. Of the viable and addressable demand-supply gap, the debt gap is INR 2.93 trillion and the equity gap is INR 0.64 trillion.

Micro and Small Enterprises

In this sub-segment, there is a low level of willingness and ability of the entrepreneurs to control and mange formal sources of equity. Concerns of ownership and management forms a major deterrent for equity infusion. The equity demand for enterprises in this sub-segment which have ownership structure other than proprietorship and partnership is high.

Medium Enterprises

With a more balanced debt-equity ratio due to increased ability of entrepreneurs to contribute capital, legal structures and scalable business models have a wider horizon in raising equity. The equity demand for medium enterprises is estimated to be INR 0.42 trillion.

The micro, small, and medium enterprise segments respectively account for INR 2.25 trillion, INR 0.5 trillion and INR 0.18 trillion, of the debt gap that is viable and can be addressed by financial institutions in the near term. Nearly 60% of the demand for finance arises from the manufacturing sector. The share of the debt gap in the manufacturing sector is also considerably higher at 73% of the total gap.

Credit flow to MSME sector

Major reforms for the MSME sector have taken place in the form of introduction of schemes which have benefitted the flow of credit to the sector. MSMEs require timely and adequate capital infusion through term loans and working capital loans, particularly during the early and growth stages. Historically the MSMEs have relied on following sources for financing their needs:

- Retained earnings, funding through sale of assets from some other entity
- Ancestral capital, personal savings, loans from relatives, loans from unregulated market
- Institutional financing from scheduled commercial banks
- Venture capital funds/seed funds

Venture Capital is emerging as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. An entrepreneur usually starts the business with his own funds, and those borrowed from banks.

Notwithstanding, other forms of financing mentioned above, the dependency of financing by commercial banks in this sector is very high. Let us further discuss the products offered and understand the debt process flow along with the roadblocks faced by banks in servicing this sector.

Types of Products Offered to MSMEs by Banks

Products offered to MSMEs can be divided into two types:

a) Fund based

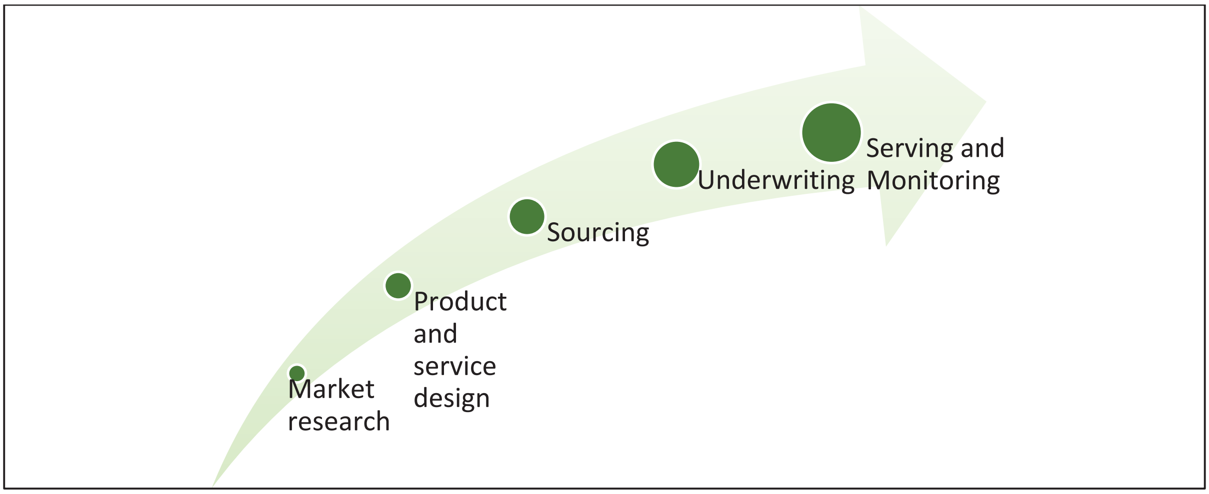
b) Non-fund based

List of key fund based products offered to MSME sector by banks are over-draft, cash credit, short-term loan, long-term loan, asset-based financing and credit cards. List of key non-fund based products offered to MSME sector by banks are letter of credit, bank guarantee, current account, savings account and remittance.

Debt process flowchart and Roadblocks

The financing environment for this sector has traditionally been serviced by the public sector banks, following a one-size-fits-all strategy for credit quality assessment. In addition, fixed assets has been predominantly used as collateral. Furthermore, enterprises in this sector, excluding manufacturing units, do not have large investments in fixed assets. This practice has resulted in a financially underserved sector and with the traditional methods not being successful, banks have adopted different methods to improve this condition.

The process for debt finance to the MSME segment comprises the following: (a) understanding the market (b) product and service design (c) sourcing (d) underwriting (e) serving and (f) monitoring.



Understanding the market

Segmentation of market remains a problem. The MSME sector is extremely heterogeneous and the market needs to be segmented beyond the size criterion of MSMEs. Several parameters such as area of operation, industry segment, vintage, legal structure, cluster operations are used by the financial institutions to judge the creditworthiness of the company and also which can be further leveraged to help banks to serve beyond institutional levels.

a. **Product and Service Design:** The process of product and service design is closely related to understanding the market. Information about key business drivers and cash flow cycle remains a major hurdle in this sector. Clarity in the above mentioned parameters would better help financial institutions develop targeted products and services. Furthermore, interest rate, collateral requirements and repayment cycle can be evaluated while designing products.

b. **Sourcing:** Characterized by smaller ticket size and weak credit history leads to higher transaction costs while servicing an MSME clients. The cost of sourcing micro enterprise is same as that to a medium or small enterprise which is why, financial institutions prefer to serve a larger number of small and medium enterprises than micro enterprises. In order to circumvent this roadblock the government is introducing cluster based infrastructure facilities to MSMEs of the same industry.

c. **Underwriting:** The lack of information required to successfully assess the creditworthiness of the client in the sector poses a major hurdle. In order to overcome, banks instead of relying solely on financials to assess creditworthiness of enterprises, financial institutions can use softer parameters such as relationship with customers and suppliers, background, and the psychometric profile of entrepreneurs. However, while softer aspects may help address informational asymmetry, it also carries the risk of increasing the cost.

d. **Servicing:** A financial institution begins the relationship with an enterprise at disbursement stage, which is either on demand or in tranches, requiring multiple transactions. The main challenge in this part of the segment for the financial institutions lies in managing transaction and operating costs (which includes manpower cots) due to smaller credit size.

e. **Monitoring:** Effective monitoring is essential to manage the asset quality and capture critical data that can be leveraged for future credit assessment of MSME clients. Through monitoring, financial institutions can positively impact portfolio quality, allowing for early warning of potential default. The lack of clear financials, absence of professional management, and seasonal changes in business makes it extremely difficult for financial institutions to monitor these accounts.

Banks have evolved the entire credit assessment process, inculcating new methods such as data mining, risk assessment techniques, credit risk management, and also using statistical methods. Additionally, products offered have also been backed with integrated IT applications and data mining capabilities covering areas such as working capital management, term loans, wealth management, bancassurance, etc. In spite of the improvements, banks still need to invest heavily in automation of risk monitoring processes and events based triggers which would help in ensuring uniformity in responses and in improving cost efficiencies.

Initiatives to Improve the Conditions

Government and the RBI

Bank loans up to Rs.5 crore per borrower per unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006 are eligible to be reckoned for priority sector advances.

RBI has prescribed certain targets for banks for lending to MSME sector. Banks have been advised to achieve a 20% year-on-year growth in credit to micro and small enterprises, a 10% annual growth in the number of micro enterprise accounts and 60% of total lending to MSE sector as on preceding March 31st to Micro enterprises.

Public sector banks

Public sector banks have been advised to open at least one specialized branch in each district. Banks have operational flexibility to extend finance or render services to the borrowers. The flow of credit from banks to all kind of MSMEs till March 2014 is summarized as below: The flow of finance from all scheduled commercial banks to MSME exhibits growth. However, the rate of growth has fallen from 28% in 2012-13 to 19% in 2013-14 as shown in the table below. This fall is mainly due to the contribution from private sector banks.

(Outstanding credit amount in INR crore)

Year (last reporting Friday)	Public sector banks	Private sector banks	Foreign banks	All scheduled commercial banks
March 2012	5,33,279.29	1,24,725.66	23,300.71	6,81,305.66
March 2013	6,43,525.02 (20.7%)	1,82,247.82 (46.1%)	43,251.30 (85.6%)	8,69,024.14 (27.6%)
March 2014 (Provisional)	7,54,391.07 (17.2%)	2,46,025.76 (35%)	34,359.17 (-20.6%)	10,34,775.99 (19.1%)

Table 8: Aggregate bank credit flow to MSME
Source: RBI (Numbers in parenthesis represents the growth rate of credit flow)

Private sector banks

Private sector banks too have changed their approach to finance MSMEs, by introducing innovative product and services like receivable financing, factoring, and cash flow based lending and collateralized lending. For example, ICICI bank has created a focused strategic business unit(MSMESBU) to cater to the emerging needs of the sector. The bank formulated a 4-C strategy for MSME financing based on following key business elements: a) customer focus, b) contain risk, c) managing cost and efficiency optimization, and d) cross- sell.

Using a sector specific approach (cluster approach) would help banks to get a better understanding of the sector and develop credit proxies to evaluate their business. Unlike the conventional financial based lending model, the cluster approach captures a 360 degree view of the MSME, bringing out the strengths in terms of its manufacturing capabilities, marketing strengths, position vis-à-vis competitors and other strengths. This gives a true understanding of the MSMEs' potential and the bank is in a better position to take credit views beyond just financial parameters.

Role of SIDBI

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the Principal Financial Institution for the Promotion, Financing and Development of the MSME sector and for Co-ordination of the functions of the institutions engaged in similar activities. This institution plays a vital role in facilitating the access to credit to enterprises in this sector. Let's thoroughly analyze its initiative. This will give us an insight about the credit to MSME ecosystem of the country.

Credit guarantee fund trust (CGTMSE)

CGTMSE, established jointly by SIDBI and the government of India, extends credit facilities to the micro and small enterprises sector.

Credit facilities including term loans, fund and non-fund based working capital are extended up to INR 1 crore to MSME sector. 80% of the total amount in default is guaranteed, subject to a maximum of INR 65 lakh. With regard to loans up to INR 5 lakh to micro units, the coverage is 85%. Loans guaranteed under the scheme carry zero percent risk weight and provision for the lending institution for the guaranteed portion.

The scheme also facilitates lending institutions by the evaluation of the credit proposals on the basis of intrinsic merits of the projects, rather than merely on adequacy of collaterals.

Strategic Business Initiatives and Overall Operations

The business strategy of SIDBI has been reoriented towards filling up the financial and nonfinancial gaps in the MSME eco-system.

SIDBI extends refinance to Banks and Non-Banking Financial Companies (NBFCs) and also extend capacity building support to smaller commercial banks, Regional Rural banks (RRBs), Urban Co-operative banks (UCBs) and District Cooperative Banks (DCBs). Direct finance to MSMEs is being targeted at niche areas to address various financial gaps. This is done through specially designed products like risk capital, sustainable finance, factoring, invoice discounting, services sector financing, etc.

The equity/risk capital assistance supports growth requirements of a number of MSMEs. It includes leveraging of senior loans, funding intangible requirements like expenditure for Research & Development, marketing / brand building, technical know-how, energy efficiency, quality control, working capital margin, etc. SIDBI provides assistance to start-ups and early stage ventures. During Financial Year 2011-12, Direct Risk Capital Scheme (DRCS) has been rechristened as Growth Capital & Equity Assistance Scheme for MSMEs (GEMs), with some modifications and additional features. This will help in assisting greater number of MSMEs.

SIDBI has executed a Memorandum of Understanding (MoU) with Technology Information, Forecasting and Assessment Council (TIFAC) for implementing the Technology Innovation Programme (Srijan Scheme). The main objective of the scheme is to support MSMEs towards development, up-scaling, demonstration and commercialization of innovative technology based projects.

SIDBI has also put in place a scheme to provide risk capital assistance to MSMEs. This has been done by way of line of credit / resource support. It also operates focused lending schemes with Line of Credit (LoC) support from various multilateral/bilateral international agencies. The main objective of these focused lending schemes is enhancing energy efficiency, reducing CO emissions and improving the profitability of the Indian MSMEs in the long run.

In addition to providing credit directly and indirectly, SIDBI has put in place a system for loan facilitation/syndication services to MSMEs. This will help them avail credit from banks/FIs. In order to further enable MSMEs to access credit from banks, SIDBI has taken the initiative to set up Credit Advisory centres (CACs) with industry associations in select MSME clusters. Already 41 such centres covering 150 clusters have been set up by SIDBI.

MSMEs lack the information on how to start a business, Govt. schemes, sources of various finances, marketing, technology, etc. In order to address the information gap, SIDBI has launched a website named as **www.smallB.in** which acts as virtual mentor and handholding tool for entrepreneurs to set up new units and grow the existing ones. Further, SIDBI, along with GIZ, Germany, has initiated financial literacy campaign among MSMEs in different cluster.

Challenges in MSME financing

The following obstacles prevent MSME from obtaining adequate financing-

1. The existence of marked informational asymmetries between small businesses and lenders, or outside investors
2. There is certain amount of inherent risk associated with small-scale activities
3. The existence of sizeable transactions costs in handling SME financing
4. Lack of collateral
5. Certain other Institutional factors

Informational Asymmetries

Informational asymmetry is always present in enterprise financing transactions. Entrepreneurs possess privileged information about their businesses that cannot be easily accessed—or cannot be accessed at all—by prospective lenders or outside investors.

This leads to the following problems –

1. Lenders/investors cannot differentiate between high quality and low quality companies.
2. They may not be able to assess if the enterprise has utilized the funds in an appropriate manner.

Hence investors may adopt precautionary measures. One of them is financing needs to be collateralized. The information that MSME can realistically provide to external financiers (in the form of financial accounts, business plans, feasibility studies, etc.) lacks detail, is not fully accurate and realistic. This problem is often provoked by low level of education. Hence, outside financiers adopt a very cautious attitude towards MSMEs, reduce the amount of financing sought or may refuse it completely. This problem is particularly acute in developing countries.

Risk Profile

MSMEs face difficulties in accessing finance to their higher risk profile. It is regarded as riskier for a number of reasons. Some of them are – uncertain competitive environment, variable rates of return and high rates of failure. They are less equipped in terms of both human and capital resources. Inadequate accounting systems is also one of the major problems faced.

In developing countries, the volatile operating environment has a negative impact on the security of transactions. Also, there is a greater risk that lenders/investors will not get paid, or that assets will not be properly registered.

Transaction Costs

The handling of MSME financing is an expensive business. The cost of appraising a loan application or of conducting a due diligence varies as per the size of financing. Fixed costs include administrative costs, legal fees, costs related to acquisition of information. For smaller loans or investments, it is difficult to recover these costs. The problem is acute in developing countries. This is mainly due to lack of management information systems, undeveloped state of the economic information industry and the poor state of public services.

This problem can be resolved by raising the cost of financing through a higher interest rate or closing fee. This approach is possible only to a certain extent.

Lack of Collateral

Lenders request for collateral to mitigate risks. Now, the lack of collateral is the most widely mentioned obstacle faced by MSMEs in accessing finance. In some cases, the enterprise is not able to provide sufficient collateral either because it is not firmly established or it is insufficient in view of the size of the loan requested. In other cases, the collateral may be insufficient simply because the managers-owners tend to siphon off resources from the company for personal or other purposes. Again, this is closely related to the risk profile. In developing countries, this issue is much more severe.

Institutional factors

Institutional and legal frameworks are undeveloped. This prevents the possibility of pledging the owned assets as collaterals. Many developing countries have highly concentrated and uncompetitive banking sectors. This is due to restrictive government regulations. Hence lending policies are made conservative or high interest rates are charged. If banks can thrive with a stable pool of well-established clients, they have no real incentive to improve the range of financial products—and, in particular, no incentive to go down market, to meet the needs of small businesses.

Based on the engagement with various organizations and experts, following are some other key issues that emerge as constraints in the access of financing to MSME sector:

1. MSMEs in India rely on friends & family as sources of equity. This is due to lack of awareness about MSMEs as well as absence of formal governance structures in small businesses which deter investors.

2. MSMEs face the problem of delayed payments from their buyers, which are mostly large corporates which impacts their working capital as well as their next cycle of production by affecting their ability to service existing debt.

3. The utilization of the available credit guarantee and insurance schemes by banks has been

lower than potential.

4. MSMEs lack adequate information about the various schemes and benefits made available by the government.

5. In some cases, they lack the technical knowhow and the necessary wherewithal to furnish the required information to avail these schemes.

6. Formal financial institutions such as banks face challenges in credit risk assessment of MSMEs, due to absence of financial information including historical cash flows, credit track record and tools to assess credit risk in the absence of the above.

7. Outreach to MSMEs, on-boarding as customers, building up of transaction & credit history and scaling up the utilization of various schemes available is challenged by the lack of formal legal structure/non-corporate nature of much of the sector and the absence of a centralized database and system which can be used to target and track these enterprises.

8. Small enterprises also face challenges in registration and have complex compliance requirements.

In spite of the various policies created to augment financial support to MSMEs and the growth in the credit limits of banks, MSMEs still face challenges when it comes to accessing timely and sufficient credit at a reasonable cost. The credit flow to them is not aligned to the needs of the economic activities undertaken by them. Small businesses rely on multiple sources of financing ranging from internal sources namely personal funds and funds from friends, to external sources, both formal and informal, which include financing from banks, NBFCs, venture capital funds, trade credit factoring, etc. Due to this, importance of alternative source of financing for MSMEs in India has been increasing.

Development of alternate sources of finance like factoring, Supply chain finance and Angel funds or venture capital funds would prove beneficial.

These financial aids and processes will not only give the MSMEs a much needed reprieve from their liquidity crunch, but also help them in instilling the rigor of process, transparency and quality.

RESOLVING INSOLVENCY

A strong insolvency and bankruptcy structure is important in an economy for the speedy recovery of sick units or quick decisions of wind down process. Particularly, MSMEs represent entrepreneurial effort at an individual level, and are often driven by innovation and creativity but are characteristic of limited access to capital and staying power, making them particularly vulnerable to fluctuation in the business environment. Even minor business disruptions can cause firms with otherwise bright and innovative ideas to be driven to insolvency. Therefore there is a need to deal with the insolvency of MSMEs in a manner that would enable viable enterprises bear temporary credit disruptions, while allowing unviable entities to close down speedily, liberating various economic resources – financial or human for alternative deployment in the economy.

The old definition for insolvency is: if the net worth of a unit diminishes under circumstances whereby loss incurred amounts to 50 percent of its net worth in the preceding year, the unit is deemed to be sick, given that its operation at such point had been continuing for a minimum period of 2 years. The changed definition as notified by RBI stands as follows: "An MSE is considered 'sick' when: a) any of the borrowing account of the enterprise remains NPA (Non- Performing Asset) for three months or more OR b) There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth.

The number of enterprises deemed viable compared to the number of sick enterprises, as indicated, is very low. Further, only a small number of these are put under nursing. This indicated a tendency of banks to prefer vying for the closure of MSMEs as opposed to providing financial aid for them and preventing them from becoming insolvent. This is in sharp contrast to the corporates whose loan portfolios are routinely rescheduled. Regardless, since a low percentage of micro enterprises obtain loans through formal sources such as banks, the facilities extended towards the revival of such sick units very often do not impact the most vulnerable section of the segment.

Globally, based on the World Bank report India stands at 136 in the ranking of 189 economies on the ease of resolving insolvency. To understand the current situation and the initiatives implemented, let us start with the current set of laws and regulations enterprises deal with in order to resolve insolvencies.

Laws and regulations involved in insolvency process:

In India, there is a lack of clarity on the insolvency resolution process, with multiple laws and regulations. Some of the laws which govern the entire process are: Companies Act 2013, the Sick Industrial Companies Act 1985 (SICA), SARFAESI Act 2002, Presidency Towns Insolvency act 1909, Provincial Insolvency Act 1920, the Limited Liability Partnerships Act 2008 etc. In these enactments avenues have been provided for revival and rehabilitation of companies or restructuring of the financial assets involved. Speedy recourse to secured lending is provided under the Recovery of Debts by Banks and Financial Institutions Act 1992. The corporate entities thus not only have a diversified legislative framework but this framework has continuously been reformed and developed.

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act:

The SARFAESI Act-2002 is seen as a booster for banks in tackling the menace of NPAs without having to approach the courts. With the steady sophistication of the Indian Financial Services Sector, the structured finance market is also growing significantly, of which Securitization occupies a prominent place. Securitization is seen to be an effective and vibrant tool for capital formation for banks in future.

The Central Government has prescribed Security Interest (Enforcement) Rules, 2002 pursuant to the powers conferred on it under the SARFAESI Act. The foregoing enforcement measures must be exercised by a secured creditor in accordance with the Enforcement Rules and RBI guidelines.

One Time Settlement Schemes:

This scheme covers all sectors sub – standard assets, doubtful or loss assets as on 31st March 2000. All cases on which the banks have initiated action under the SARFAESI Act and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR are covered. However cases of willful default, fraud and malfeasance are not covered. As per the OTS scheme, for NPAs up to Rs. 10 crores, the minimum amount that should be recovered should be 100% of the outstanding balance in the account.

Debt Recovery Tribunals (DRTs):

The DRTs established by the Government of India under an Act of Parliament (Act 51 of 1993) for expeditious adjudication and recovery of debts due to banks and financial institutions. It is also the appellate authority for appeals filed against the proceedings initiated by secured creditors under the SARFAESI Act.

The recovery of debts due to banks and financial institution passed in March 2000 has helped in strengthening the functions of DRTs. Provision for placement of more than one recovery officer, power to attach defendant's property/assets before judgment, penal provision for disobedience of tribunal's order or for breach of any terms of order and appointment of receiver with power of realization, management, protection and preservation of property are expected to provide necessary teeth to the DRTs and speed up the recovery of NPAs in the times to come.

Lok Adalats:

Lok Adalat institutions help banks to settle disputes involving account in "doubtful" and "loss" category, with outstanding balance of Rs. 5 lakh for compromise settlement under Lok Adalat. DRTs have been empowered to organize Lok Adalat to decide on cases of NPAs of Rs. 10 lakh and above. This mechanism has proved to be quite effective for speedy justice and recovery of small loans. The progress through this channel is expected to pick up in the coming years.

SICA:

In the normal course, sick units would either close down or would undergo extensive restructuring to eliminate the operations or activities that are unprofitable. To deal with this concern, Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) was enacted. It aimed to detect Overview of Insolvency Laws in India and provide for speedy remedial measures. Hence, a quasi-judicial body called Board for Industrial and Financial Reconstruction (BIFR) was set up which expedited the process of revival of potentially viable units or closure of unviable units so as to make the investments in such units profitable or release the investments locked up for productive use elsewhere.

Complexities faced due to existing laws:

Due to various laws regulating the insolvency process, there is a lot of ambiguity and overlap which causes delay and financial loss to the entrepreneurs. Looking at some of these issues:

In the SARFAESI act, there are still certain loopholes remaining and banks feel that the act in its present form would not serve the envisaged objective of optimum recovery of NPAs, particularly with the hard-core NPA borrowers dragging the banks into endless litigation to delay the recovery process.

DRTs which have been set up by the Government to facilitate speedy recovery by banks, have not been able to make much impact on loan recovery due to variety of reasons like staggering number of cases, lack of infrastructure, under staffing and frequent adjournment of cases. It is essential that DRT mechanism is strengthened and vested with a proper enforcement mechanism to enforce their orders.

Laws such as the Presidency Towns Insolvency Act, 1909, and the Provincial Insolvency Act, 1920 which governs insolvency resolution, disregard the concept of limited liability, which implies the non-separation of the personal assets of the entrepreneur with those of the enterprise. This results in an intertwining of the insolvency of an enterprise and the bankruptcy of the entrepreneur.

These laws have largely remained static in terms of determining entrepreneurial liability since their inception, and are carried out by district courts, which culminates in a long drawn out, court driven process of seizing debtor assets, and appointing receiver, and initiating punitive action against the debtor. These may very well result in his subsequent imprisonment.

This acts as a hindrance to undertake an MSME in the first place for as long as an entrepreneur possesses within his personal assets the finances to pay off the enterprise's dues, he is culpable and will not be considered an insolvent; this involves a huge financial risk.

Additionally during the period of insolvency, the entrepreneur, alongside struggling to revive his business, further had to face the possibility of being sued or penalized under various regulations. In addition, the stigma attached with owning a failed enterprise has a social impact on the entrepreneur, and severely affects his ability to obtain financing for a future entrepreneurial undertaking.

Initiatives by government:

In order to deal with problems of coordination in terms of rehabilitation and resolving insolvencies in general, the government has undertaken various initiative by introducing new laws and amending old ones to improve the condition. Currently, the most comprehensive initiative undertaken is the proposed Bankruptcy Bill, which will be discuss in the next section of the report.

Focusing on the MSMEs, State level Inter-Institutional (SLIIC) committees were set up and committees are convened by regional Offices of RBI and presided over by the Secretary, Industry of the concerned State Government. It provides a useful forum for adequate interfacing between the state government officials, state level institutions and banks. It closely monitors timely sanction of working capital to units, implementation of special schemes by the government and reviews general problems faced by industries and sickness in the sector. The representatives of the local state level MSME associations are also invited to the meetings of SLIIC which are held quarterly.

Proposed Bankruptcy bill:

The proposed Insolvency and Bankruptcy Code, 2015 which was introduced by the finance minister in December 2015, which when passed would become a panacea for problems faced in the insolvency and bankruptcy resolution in the country, as the proposed code seeks to create a unified framework in the process.

The Code seeks to repeal the Presidency Towns Insolvency Act, 1909 and Provincial Insolvency Act, 1920. In addition, it seeks to amend 11 laws, including the Companies Act, 2013, Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and SICA, 2003 among others.

Let us look at the salient features of the proposed bill and how it can improve the condition of resolving insolvency in the country. The proposed bill will apply to companies, partnerships, limited liability partnerships, individuals and any other body specified by the central government. The insolvency resolution process (IRP) for individuals varies from that of companies. These processes may be initiated by either the debtor or the creditors.

According to the bill, resolution process for companies and limited liability partnerships, the process will have to be completed within a maximum period of 180 days from the date of registration of the case. This period may be extended by 90 days if 75% of the financial creditors agree. The process will involve negotiations between the debtor and creditors to draft a resolution plan.

The process will end under two circumstances, (i) when a resolution plan is agreed upon by a majority of the creditors and submitted to the adjudicating authority, or (ii) the time period for negotiation has come to an end. In case a plan cannot be negotiated upon, the company will go into liquidation.

There will be provision for a fast track insolvency resolution process for companies with smaller operations. The process will have to be completed within 90 days, which may be extended if 75% of financial creditors agree. Resolution process for individuals and partnerships, before going in for insolvency resolution, the debtor may apply for forgiveness of a specified amount of debt, provided that his assets are below a limit set by the central government. This process will have to be completed within six months.

In case of insolvency resolution, negotiations between the debtor and creditors will be supervised by an insolvency professional. If negotiations succeed, a repayment plan, agreed upon by a majority of the creditors, will be submitted to the adjudicator. If they fail, the matter will proceed to bankruptcy resolution.

The bill also proposes the setting up of insolvency professional agencies, information utilities and also the set-up of an insolvency regulator which will oversee resolution in the country.

The professional and agencies will be licensed and will also control the assets of the debtor during the process. The agencies will house the professionals and develop a code of conduct and performance standards. The information utilities will maintain a range of financial information about firms, which will be collated and shared to facilitate the insolvency proceedings.

The proposed regulator will establish the Insolvency and Bankruptcy board of India, which will include 10 members, including representatives from the central bank and the government. It will register information utilities, insolvency professionals and insolvency professional agencies under it, and regulate their functioning.

The Code creates an Insolvency and Bankruptcy Fund. Deposits to the Fund will include: (i) grants made by the central government, (ii) amount deposited by persons, and (iii) interest earned on investments made from the Fund. Any person who has contributed to the Fund may apply for withdrawal, in case of proceedings against him.

The Code proposes two separate tribunals to adjudicate grievances related to insolvency, bankruptcy and liquidation of different entities under the law: (i) the National Company Law Tribunal will have jurisdiction over companies and limited liability partnerships, and (ii) the Debt Recovery Tribunal will have jurisdiction over individuals and partnership firms. Appeals against orders of these tribunals may be challenged before their respective Appellate Tribunals, and further before the Supreme Court.

Thus we can conclude by saying that the various initiatives in resolving insolvencies would assist MSME sector by making the process of winding down sick units quicker, so that financial and human resources can be diverted and utilized to an optimum level. There must be more focused and continuous monitoring to improve legislations in order to avert the risks involved in the resolution process. The bankruptcy bill will also help the government to implement these measures more effectively and thus help creating a favorable investment environment for the MSME sector.

INNOVATIVE FINANCING FOR MSME SECTOR

Innovation is the only way to come out of the challenges and lead the way of doing business at every marketplace. Having the vision of high economic growth in place, MSME contribution and its growth becomes critical. Government and regulator have recognized crucial gap in the demand of credit to MSME and its supply from lending institutions. Meeting credit demand of MSMEs has always been a challenge to various lenders due to various reasons.

A number of factors affect MSME financing. Some developed countries take a capitalistic approach with little government incentives for MSME financing, while others use government guarantees and other measures to reduce risks and costs. In emerging economies, to date, most MSMEs (including formal sector firms) are financed from sources outside the formal financial sector, which is expensive for the enterprise and can hamper the flow of financing, thus hindering its growth. New capital requirements and banking regulations imposed on financial institutions worldwide are making the financing of MSMEs even more difficult and expensive. Against this backdrop, the emergence of alternative, technology-enabled means of financing, such as new business models based on advanced data analytics, supply chain- and e-commerce-based finance, crowdfunding and other innovations may offer a way out of the information/cost trap. Government aims to foster the flow of financing to the real economy, with a particular focus on finance for MSMEs. This will involve, among other things, innovations in supply-chain financing and government procurement, use of technology to reduce risks, enhance efficiency leading to lower costs, securitization and other means of obtaining capital relief for traditional sources of finance, introducing non-traditional sources of long-term capital and capacity building for both financiers and MSMEs.

While asset-based finance is a widely used tool in the MSME financing landscape, alternative forms of debt have had only limited usage by the MSME sector, even within the larger size segment which would be suited for structured finance and could benefit from accessing capital markets, to invest and seize growth opportunities. In fact, alternative debt differs from traditional lending in that investors in the capital market, rather than banks, provide the financing for MSMEs. To foster the development of a corporate bond market for MSMEs, mainly mid-caps, policy makers have especially targeted transparency and protection rules for investors, to favour greater participation and liquidity. Recent programmes have also encouraged the creation of MSME trading venues and the participation by unlisted and smaller companies. In some countries, public entities participate with private investors to funds that target the MSME bond market, with the aim of stimulating its development. Private placements of corporate bonds by unlisted companies, which are subject to less stringent reporting and credit rating requirements. However lack of information on issuers and of standardised documentation, illiquid secondary markets and issues with insolvency laws currently limit the development of these markets.

Debt securitisation and covered bonds, which also rely on capital markets, had increased at high rates before the global crisis, as an instrument for refinancing of banks and for their portfolio risk management. However, in the wake of the crisis, these instruments came under increasing scrutiny and criticism, and markets plummeted. The post-crisis deleveraging in the banking sector, however, has contributed to reviving the debate about the need for an efficient – and transparent – securitisation market to extend MSME lending. In recent years, new measures have been introduced at supra-national and national level to re-launch the securitisation markets and some countries have lifted the limitations that did not permit MSME loans as an asset class in covered bonds.

Crowdfunding (fund pooling) has grown rapidly since the middle of the 2000s, and at an increasing rate in the last few years, although it still represents a very minor share of financing for businesses. One specificity of this instrument is that it serves to finance specific projects rather than an enterprise. It has been used in particular by non-profit organisations and the entertainment industry, where non-monetary benefits or an enhanced community experience represent important motivations for donors and investors. Nevertheless, over time, crowdfunding has become an alternative source of funding across many other sectors, and it is increasingly used to support a wide range of for-profit activities and businesses.

The market for hybrid instruments, which combine debt and equity features into a single financing vehicle, has developed unevenly in many countries, but has recently attracted interest of policy makers across the board. These techniques represent an appealing form of finance for firms that are approaching a turning point in their life cycle, when the risks and opportunities of the business are increasing, a capital injection is needed, but they have limited or no access to debt financing or equity, or the owners do not want the dilution of control that would accompany equity finance. This can be the case of young high-growth companies, established firms with emerging growth opportunities, companies undergoing transitions or restructuring, as well as companies seeking to strengthen their capital structures. At the same time, these techniques are not well-suited for many MSMEs, as they require a well-established and stable earning power and market position, and demand a certain level of financial skills.

Equity finance is key for companies that seek long-term corporate investment, to sustain innovation, value creation and growth. Equity financing is especially relevant for companies that have a high risk-return profile, such as new, innovative and high growth firms. Seed and early stage equity finance can boost firm creation and development, whereas other equity instruments, such as specialised platforms for MSME public listing, can provide financial resources for growth-oriented and innovative MSMEs.

It is also necessary to improve the quality of start-up business plans and MSME investment projects, especially for the development of the riskier segment of the market. In many countries, a major impediment to the development of equity finance for young and small businesses is the lack of "investor ready" companies. Furthermore, MSMEs are generally ill-equipped to deal with investor due diligence requirements. Indeed, in some countries, an increasing concern about the lack of entrepreneurial skills and capabilities and low quality of investment projects is driving more attention to the demand side, such as training and mentoring.

The regulatory framework is a key enabler for the development of instruments that imply a greater risk for investors than traditional debt finance. However, designing and implementing effective regulation, which balances financial stability, investors' protection and the opening of new financing channels for MSMEs, represents a challenge for policy makers and regulatory authorities. This is especially the case in light of the rapid evolution in the market, resulting from technological changes as well as the engineering of products that, in a low interest environment, respond to the appetite for high yields by financiers. Recent regulatory initiatives, which aim at making the financial sector safer, are perceived to be unduly onerous by some investors, who are also affected by the enduring uncertainty arising from expected regulatory revisions.

Alternative Financing Instruments

Traditional debt finance generates moderate returns for lenders and is therefore appropriate for low-to-moderate risk profiles. It typically sustains the ordinary activity and short-term needs of MSMEs, generally characterised by stable cash flow, modest growth, tested business models, and access to collateral or guarantees.

At the one end of the risk/return spectrum are financing instruments that sustain the short and medium-to-long term financing needs of MSMEs, but that rely on different mechanisms than traditional debt. This is the case of asset-based finance, such as asset-based lending, factoring and leasing, whereby a firm obtains cash, based not on its own credit standing, but on the value that a particular asset generates in the course of its business. The close relationship between the liquidation value of an asset and the amount borrowed, as well as the broad range of assets that can be used to access lending, are the key factors that 18 distinguish asset-based lending from traditional secured or collateralised lending, in which the loan amount and conditions also depend on the overall assessment of the firm's credit worthiness. Furthermore, asset based lending generally provides more flexible terms than conventional secured lending, often allowing for revolving funds; as advances are paid off, the borrower can secure additional funds backed by other assets.

Trade credit is also an important source of finance for many MSMEs and start-ups, which can substitute or supplement short-term bank lending. This mainly consists of the extension of traditional credit instruments and credit-mitigation tools, such as loans and guarantees, to sustain import and export activities. Guarantees can take the form of letters of credit (L/C), which represent a bank obligation to pay, thereby reducing an export's payment risk on an importer/buyer.

Alternative forms of debt also exist, which can be considered "innovative" in the context of MSME financing because they have had until now limited applicability to the MSME sector. These alternative debt instruments include corporate bonds, securitised debt and covered bonds, in which investors in the capital markets, rather than banks, provide the financing for MSMEs. While corporate bonds are direct instruments of debt finance for MSMEs, securitisation and covered bonds represent "indirect" tools for supporting MSME debt financing, in that the product issued to the firm is a loan. In particular, securitisation of MSME debt allows banks to transfer their credit risk to the capital markets, as MSME loans are sold to a specialised company, which creates a new security backed by the payments of MSMEs. In this way, banks achieve capital relief and free up capacity for new loans to MSMEs. Over the last decade, securitised debt has grown rapidly, although the financial crisis hit this market severely. On the other hand, few MSMEs have succeeded in issuing corporate bonds, because of difficulties that small privately held companies have in meeting investor protection regulations and the high relative cost of bond issuance for small companies.

At the other end of the risk/return spectrum are financing instruments that enable an investor to accept more risk in exchange for a higher return, and are expected to produce a better alignment of the interests of certain kinds of MSMEs and the providers of finance. Hybrid instruments, such as mezzanine finance, form a bridge between traditional straight debt and pure equity. Seed and early stage finance addresses the high risk-return segment of the business financing spectrum, boosting firm creation and development, whereas other equity-related instruments, such as private equity and specialised platforms for MSME public listing, can provide financial resources for growth-oriented MSMEs.

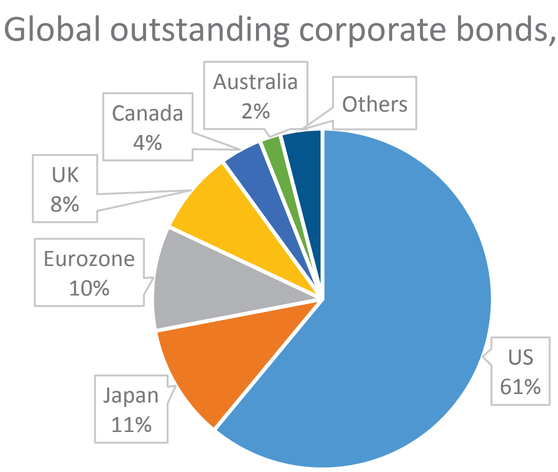
The present study also considers the potential for MSME financing of new instruments, such as crowdfunding or peer-to-peer lending. These have grown rapidly in some countries and have attracted increasing attention by policy makers and regulators, also with a view to address concerns about transparency, investors' risk awareness and consumer protection.

Alternative Debts

Alternative forms of debt differ from traditional lending, in that investors in the capital market, rather than banks, provide the financing for MSMEs. These include "direct" tools for raising funds from investors in the capital market, such as corporate bonds, and "indirect" tools, such as securitised debt and covered bonds. With alternative debt, the MSME does not access capital markets directly, but rather receives bank loans, whose extension is supported by activities by the banking institutions in the capital market.

These instruments have existed for some time, but they can be viewed as "innovative" financing mechanisms for MSMEs and entrepreneurs, to the extent that they have had until now been applied in a limited fashion to the MSME sector. Corporate bonds are debt obligations issued by private and public corporations. By issuing bonds, the company makes a legal commitment to pay interest on the principal, independent of the company's performance, and to return the principal when the bond matures. The terms of the contract can however provide the company with the right to "call", i.e. buy back, the bond before the maturity date. If it calls the bond, the company will pay back the principal and possibly an additional premium, which depends on when the call occurs in relation to the actual maturity date.

Bonds can be classified in relation to several characteristics, such as maturity, type of interest, credit quality, priority claim, and collateralisation. The terms and conditions of the bond contract can combine these dimensions differently, giving rise to a large variety of cases.



(Source: Bank for International Settlements)

The corporate bond market has been traditionally dominated by large firms with long pedigree, stable earnings and relatively low volatility stocks. On the other hand, only a very minor share of MSMEs has approached the market.

Corporate bonds typically require the issuer to have a certain size and scale, an established credit history and earnings record, and limited volatility on revenues and earnings. As most MSMEs do not meet these criteria, in the bond market they would attract low rating and high coupons and have limited dividends to cover these regular payments. Also, bonds are a relatively costly instrument to raise finance. In fact, the costs of bonds may be as high as 10% of issuance. Beside the costs of issuance, another relevant unattractive feature of corporate bonds for MSMEs is the rigidity implied by the fixed schedule of interest and principal repayments, which requires a relatively stable cash flow pattern. If payments are missed, the company defaults and becomes vulnerable to bankruptcy. Also, the amount of debt enters the firm's balance sheet, which could affect future borrowing costs.

Debt Securitization and Covered Bonds

MSME loan securitization, a bank ("the originator") extends loans to its MSME customers (the "primary market"), bundles them in a pool (the "portfolio") and sells the portfolio to capital market investors through the issuance of notes, by a Special Purpose Vehicle (SPV) backed by the loan portfolio (Asset-Backed Securities, ABS). These asset-backed notes, rated by agencies, are placed with capital market investors, but can also be retained, at least in part, by the originator banks. Securitisation allows banks to transform MSME loans in their balance sheets into liquidity assets, which can be used to increase lending itself.

Covered bonds work similarly to securitised debt, as they are debt securities (corporate bonds) backed by the cash flows from mortgages or loans. In the European Union, the Capital Requirements Directive (CRD) limits the range of accepted collateral to debts of (highly rated) public entities, residential, 50 commercial and ship mortgage loans with a maximum loan-tovalue ratio of 80% (residential) or 60% (commercial), and bank debt or mortgage-backed securities.

Crowdfunding

Crowdfunding is a technique to raise external finance from a large audience, rather than a small group of specialized investors (e.g. banks, business angels, venture capitalists), where each individual provides a small amount of the funding requested.

The concept of "crowdfunding" is related to the one of "crowdsourcing", which refers to the outsourcing to the "crowd" of specific tasks, such as the development, evaluation or sale of a product, by way of an open call over the internet. Through online platforms, the task, traditionally performed by contractors or employees, can be undertaken by individuals for free or in exchange for some specified return, whose value is however generally lower than the one of the contribution made to the firm.

Crowd sourcers may in fact have intrinsic motivations, such as the pleasure of undertaking the task or participating to a community, as well as extrinsic motivations, related to monetary rewards, career benefits, learning or dissatisfaction with the current products.

Over time, crowd-lending has become increasingly mediated by online intermediaries. In the case of lending platforms, typically the lenders purchase notes issued by the sites, which use those funds to lend through Paypal or WebBank to borrowers. Thus, the online platform acts as an intermediary, for instance, collecting loan pledges from the crowd for private projects, releasing them at the moment a target is reached, according to a threshold principle, collecting repayment instalments from the debtor, and forwarding them to each crowd-lender. In some business models, the pledged amounts are transferred to an escrow account, which is managed by the platform or a partner bank. Once the threshold pledge is reached, payments are transferred from the escrow account to the project's account.

Peer-to-peer loans are usually unsecured loans, i.e. no collateral is required on borrowers, although, in some cases companies may offer secured loans. Nevertheless, transaction fees and interest on loans are charged by the online intermediary, which depend on the borrowers' credit risk, as assessed by accessing credit information from third parties or on the basis of information submitted by the borrowers themselves. The online platforms typically develop credit models for loan approvals and pricing, and perform credit checks of borrowers. Indeed, P2P platforms make profits from commissions instead of the spread between deposit and loan. The longer repayment period that a loan lasts, the higher fees the borrower has to pay.

In the case of equity or investment crowdfunding, a firm offers a certain proportion of its equity for a set amount of capital it is aiming to raise. Crowdfunded businesses do not have to adhere to the strict accounting standards required of public companies and, at the same time, unlike other risk capital providers, crowdfunding investors may have no experience in making such investments. As the model taps into the sub–section of the public with an interest in entrepreneurship, in many cases investment will also be motivated by non–financial aims, such as becoming part of an entrepreneurial venture or supporting a particular individual or business In recent years, crowdfunding has been the object of important regulatory attention in some countries. The regulatory efforts have aimed to ease the development of this financing channel, while addressing concerns about transparency and protection of investors. However, for the reform to be effective, regulators must issue its regulations.

Hybrid Instruments

Hybrid financing instruments lie in the middle of the investors' risk/return spectrum, from "pure" debt to "pure" equity, combining features of both debt and equity into a single financing vehicle. These instruments differ from straight debt finance, in so far as they imply greater sharing of risk and reward between the user of capital and the investor. The latter accepts more risk than a provider of a senior loan and expects a higher return, which implies a higher financing cost for the firm. However, the risk and the expected return are lower than in the case of equity, which thus implies the cost of financing for the enterprise is lower. In the event of insolvency, where the firm is unable to meet all its contractual obligations, investors in hybrid instruments have lower rankings than other creditors, but higher ranking than investors in "pure" equity capital. 286. Some of the most commonly used hybrid instruments include: i) subordinated debt (loans or bonds); ii) participating loans, with profit or earning participation mechanisms; iii) silent participation; iv) convertible debt and warrants, whereby investors can convert debt into stock, thus receiving a reward that reflects the increased value of the company enabled by the capital provision, and; v) mezzanine finance, which combines two or more of these instruments within a facility.

Despite the growing importance of mezzanine finance for financial institutions and MSMEs, the evidence about the volume of the overall market for commercial mezzanine finance is still patchy. The main reason is that definitions of mezzanine finance differ across countries. Furthermore, not all mezzanine finance is registered, as in the case of silent participation.

New proxies for Credit information

Alibaba in China has overcome the lack of reliable third-party credit information on MSME borrowers by relying on the transaction and payment data that Alipay, its proprietary payments system, collects. This has allowed it to build a predictive model for assessing credit risk among its pool of potential borrowers. Similar strategies are being pursued in the US and elsewhere by lenders that harvest user data from sources such as eBay, Amazon, PayPal and UPS in order to build similarly predictive models. In addition, other approaches to using alternative data sources are beginning to appear. For example, in the US, debt crowdfunding platforms assess credit risk by using a range of alternative measures, such as buyer ratings on trading platforms such as eBay or Amazon, shipping information collected from DHL and utility consumption (to verify whether a business is operating as claimed). They also check the business owners' online social reputation via sources such as their Klout Score, which assesses an individual's online presence, number of social networking connections and how close those connections are geographically. This helps to indicate whether a business that seeks to raise money via a crowdfunding site will be successful in fundraising from its own friends and family networks. In addition, platform owners say that the more tightknit a business's network is in geographical terms the greater will be the social pressure on borrowers to repay their loans.

Legal and Regulatory Infrastructure

Frequently, the really effective innovations in a particular sector are not new ideas. Nonetheless, their introduction can provide the legal and/ or regulatory certainty necessary to underpin trust on both sides of a transaction. It is the absence of trust that tends to make the costs of doing business prohibitive. In the absence of trust, finance providers rely disproportionately on collateral; small businesses can rarely provide collateral and when they can its quality can easily come into question. The creation of moveable asset registries is a good example of policies to address this failure and is being pursued in a number of countries: a recent review by the World Bank found that such policies tend to improve MSME access to bank loans, especially among smaller businesses.

Barriers to Innovative Finance for MSME's

1. Lack of Financial Education amongst MSME's

Undoubtedly the greatest challenge facing any financial innovator seeking to target the MSME market is the generally low level of financial awareness among those running small businesses. This encompasses both a lack of awareness of the range of options available and a lack of understanding of how those options work in practice, even after the business becomes aware of them. Often today, it falls to development banks and other public sector institutions to provide the necessary technical assistance and financial education. Although great efforts have been made in many countries to improve financial literacy among the business community, success to date has been very limited.

2. Limited Financial Infrastructure

Both innovative and traditional approaches to providing finance to MSMEs depend on access to effective financial infrastructure – from credit databases to payment systems. The experience of China after the PBoC's introduction of asset registries for receivables and leases shows very clearly how vital these developments have been. Equally, the record of financial innovators in developing new sources of data to aid in assessing credit risk where traditional public credit databases are not available demonstrates the key role that basic financial infrastructure plays in enabling the flow of funds to MSMEs. A keener focus by policymakers on ensuring improved access to financial information and encouraging the creation of basic infrastructure such as asset registries, credit bureaux or credit risk databases, such as the International Chamber of Commerce (ICC) Trade Register, is vital in enabling credit to flow.

3. Legal, Regulatory and Accounting Uncertainties

There are numerous instances where 'grey areas' of law and regulation can create barriers to innovation in financial services and obstruct the flow of funding to MSMEs. Examples include:

- Weak protection of minority shareholder rights in some jurisdictions, which discouragesequity investment
- Uncertainty over the classification of receivables under accounting rules where payment terms are extended, for example in multi-lender platforms; also, some large companies have expressed concerns that these liabilities might need to be reclassified as loans rather than trade payables, which would affect key financial ratios
- Uncertainty in some jurisdictions as to the status of factored receivables in bankruptcy,

depending on whether the transaction is viewed by regulators as borrowing or the sale and repurchase of an asset.

- The need for clarification of the regulatory risk weightings to be applied to bank payment obligations
- Doubts over the regulatory status of new entrants, which can make it difficult for them to operate.

These issues all require detailed efforts by policymakers, regulators and interested parties, including ACCA, to ensure that work is done to clarify the rules that govern key financial intermediaries. To this end, an international effort to collate items that require clarification and agreement would provide a valuable first step in this necessary process, as also would efforts to identify and promote examples of legal and regulatory 'best practice' in regulating financial services for MSMEs between different jurisdictions.

SKILLING THE ENTREPRENEURS

Entrepreneurship in India has evolved to a great extent from being almost negligible to becoming a hot bed for startups in the country. The joint family structure in India's entrepreneurial families has been responsible for setting up and growth of major corporate houses in the country. Predominantly, in India most of the enterprises in the MSME sector are family run. However, the rudimentary political structure in India in past has discouraged the growth of entrepreneurship to a great extent. Until 1991, the entrepreneurship was a virtue enjoyed only by already established entrepreneurs, a luxury denied to common man who aspired to set up his own entity. Creation of such kind of environment could be owed to the rigid licensing system prevalent in India.

Prior to 1991, operating an Indian business holding was an activity successful only if measured in terms of ambition, licenses, government contacts and deeper roots in the bureaucratic system. Every form of important decision making depended on connections rather than national or global demand or competition. Entrepreneurship became a neglected territory because of lack of funds and also due to the government priority to manage foreign reserves. Post 1971, emergency period had imposed traumatic urgency on the typical middle class in the country to have stable employment first, which in turn ended up turning a huge chunk of population becoming risk averse and hence reduced the entrepreneurial spirit amidst them.

During the 1991 reforms phase, India was under a great pressure for managing its limited amount of forex reserves, which led to liberalization reforms were brought in by the then Finance Minister Manmohan Singh and thus changing the competitive landscape. Indian corporate sector which was dominated by public sector and family owned businesses faced a greater amount of competition from multinationals which exceled in their processes and were far more advanced in their mechanization which in turn reduced the cost of goods sold by them. Lower product prices, better quality gave an edge to the multinationals' manufactured products. Thus, it prompted Indian businesses to change their focus and re-orient their outlook outward. A few existing Indian business families could well adopt to the changing environment while a few of them fell behind in absorbing the change. Sensing the huge manpower in the country, a new service oriented sector evolved during this time that focused on ICT (Information and Communication Technology), which extensively created wealth for employees and owners.

Main success factor for the MSME sector, was the close-knit joint family structure that fosters family values, teamwork, tenacity and continuity. Under this structure, generations lived and worked together under one roof, reaffirming the Weberian values and trust that have builtsuccessful businesses. Wealth from the businesses supported the joint family by providing a social safety net for members. In the structure, businesses and families were intertwined though they were also distinct entities with separate rules. Hence, survival of the business became synonymous with the survival of the family. Family engagements in the top positions many a times limited the reach of talent to the top and ended up making the family run business less competitive as compared to multinationals.

Current scenario:

As per 2014 NASSCOM startup report, country has 3,100 startups. This is considered to be world's third largest startup ecosystem, adding 800 startups yearly. An approximate 11,500 startups are predicted to have been evolved by 2020 as per same report, employing over 250 million people. Thus, the roadblocks to entrepreneurship have largely subsided, turning India a hotbed of opportunities and playing a crucial role in shaping up the new economic epoch.

The favorable growth path of startup ecosystem in India is also supported by the current government and there have been many new initiatives, policies and campaigns designed by the government to support the young businesses in our country.

In fact, the government is upbeat in promoting entrepreneurship and self-employment to create a long term positive impact on country's economy. If we look at the developed nations, the startup and SME space contributes close to 50% to the nation's GDP, supporting large part of employment. Therefore, the young business ecosystem in any economy plays a very significant role in the overall growth of a country.

Policies such as Micro, Small and Medium Enterprise Policy, Manufacturing Policy, Competition Policy, Industrial policy, Science and Technology Policy, National Design Policy, etc. have implications for entrepreneurship, directly and indirectly. Yet, the end result of the focus on entrepreneurship, remains deprived of any concrete strategy.

Inculcating entrepreneurship abilities:

Under a stint of 2 years of Modi Government, many reform measures have been taken to inhibit a start-up friendly environment in the country. Most of these initiatives were inclined towards micro-entrepreneurship development, and taking into consideration the upcoming ecommerce trend. In order to encourage entrepreneurial undertakings, many policy reforms also were undertaken. One-window licensing clearance was one of most important reform undertaken by the Government.

However, in addition to all the above policies it is important to take a review of skills possessed by entrepreneurs in order to establish competitive environment in the country. As India moves progressively towards becoming a global knowledge economy, it must meet the rising aspirations of its youth. This can be partially achieved through focus on advancement of skills that are relevant to the emerging economic environment. The challenge pertains not only to a huge quantitative expansion of the facilities for skill training, but also to the much more important task of raising their quality.

Skill development, however, cannot be viewed in isolation. Improved productivity through skill development must be complemented by economic growth and employment opportunities. Skills need to be an integral part of employment and economic growth strategies. Coordination with other national macroeconomic policies and strategies is therefore critical.

A negative perception of uncertainty and insecurity is associated with entrepreneurship that discourages majority of youths from nurturing the ambition of an entrepreneurial career. There is prevalence of necessity based entrepreneurship rather than self-driven entrepreneurship in India.

Social enterprise development in India is not being capitalized to its full potential. Given the level of poverty, unemployment and deprivation among the poor in India, social entrepreneurship has emerged as an important alternate venture form to empower poor. To inculcate sense of entrepreneurship, much efforts are required on the individual's side as well as depends on Government to introduce initiatives to encourage the same. Some factors which are helpful in encouraging entrepreneurship development are given as below:

Creating an Ecosystem for Entrepreneurship Development:

i. Establish an environment which encourages both self-employment and entrepreneurship as viable career through advocacy.

ii. Enhance support for entrepreneurs through mentorship, networks, provision of information, and ease of doing business.

iii. Inculcating entrepreneurial activities in formal education.

iv. Develop framework for innovation driven, cost-friendly social entrepreneurship initiatives to address the needs of population at the 'bottom of the pyramid'.

v. Facilitate access to finance through credit and market linkages.

vi. Address specific needs of the socially and geographically disadvantaged sections of the society to broaden the base of the entrepreneurial supply.

In light of above steps, training entrepreneurs remains a major structural change, which can constructively help in raising the levels of entrepreneurship penetration in the country.

Training to Inculcate Best Practices:

Many countries and international bodies promote growth-orientated entrepreneurship either through direct measures or indirectly through policy instruments. Hence, policy actors are always eager to benchmark and compare the national government policies for entrepreneurship. They find examples of best practices and identify recommendations for national governments. Addressing these crucial issues becomes more complicated. Policy measures, instruments or design do not perhaps determine the success of policies, but it is a matter of finding a proper 'fit' between the policies and the entrepreneurial environment in which the policies are applied. Skills are critically important to enable people to enhance their business. Enterprise support agencies and policy-makers must consider how they can improve public policy, enable access to markets, provide hard and soft supports, create a supportive culture and offer greater access to finance.

Given below enlists the skill development initiatives taken by Government till date and also measure of their success rate:

Skill development of entrepreneurs in MSME sector

MSME sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It plays a crucial role in providing large employment opportunities. This is done at a lower capital cost. It also helps in industrialization of rural & backward areas.

The Ministry of MSME (M/o MSME) promotes the development of micro and small enterprises in the country. The main objective is that of creating self-employment opportunities and upgrading the relevant skills of existing and potential entrepreneurs. In order to promote establishment of new enterprises and creation of new entrepreneurs, M/o MSME has been implementing various schemes.

Entrepreneurship Development is one of the key elements for promotion of the first generation entrepreneurs. Entrepreneurship, and resultant creation of employment and wealth, is a major mean for inclusive development. Hence, entrepreneurship development has been one of the priorities in the world.

Skill development initiatives:

The first attempt to promote skill development in the country was made with the National Policy on Skill Development 2009. Over the last five years, India has made some progress towards developing the assets to drive skills training at scale. Notably, the establishment of the National Skills Development Corporation (NSDC) in 2009 to promote private sector participation via short duration courses has tied up with more than 187 training providers, many of whom have started scaling up their operations. The National Skills Development Agency (NSDA) is working with the State governments to rejuvenate and synergize skilling efforts in the State. This was set up as a society in June 2013.

The National Skills Qualification Framework (NSQF) has been anchored at NSDA and efforts have been initiated to align skilling and education outcomes.

To ensure that the skill development efforts being made by all the stakeholders in the system are in accordance with the actual needs of industry, Sector Skill Councils (SSCs) have been set up. The National Skill and Entrepreneurship Research Institute (NSRI), aims to provide technical and research support. The National Skill Development Fund (NSDF) by the government of India encourages skill development in the country.

Skill development efforts made by the Central government are spread across widely. A Credit Guarantee Fund for skill development and a 'National Credit Guarantee Trustee Company' (NCGTC) has been set up to support the initiative of loans for the purpose of skilling.

Another major initiative which was introduced by the Modi Government to encourage entrepreneurship and self-employment an initiative called "Skill India" was introduced. Skill India is platform which aims to provide training to around 40 crore people in different areas of expertise. The main pillars of this initiative are given as below:

Policy framework of the vision of "Skill India":

The policy framework has been developed to accomplish the vision of Skill India. The framework outlines ten major directions and enablers to achieve these objectives of "Skill India".

1. Aspiration
2. Capacity
3. Quality
4. Synergy
5. Mobilization and Engagement
6. Global Partnerships
7. Outreach and Advocacy
8. ICT Enablement
9. Development of Trainers
10. Inclusivity

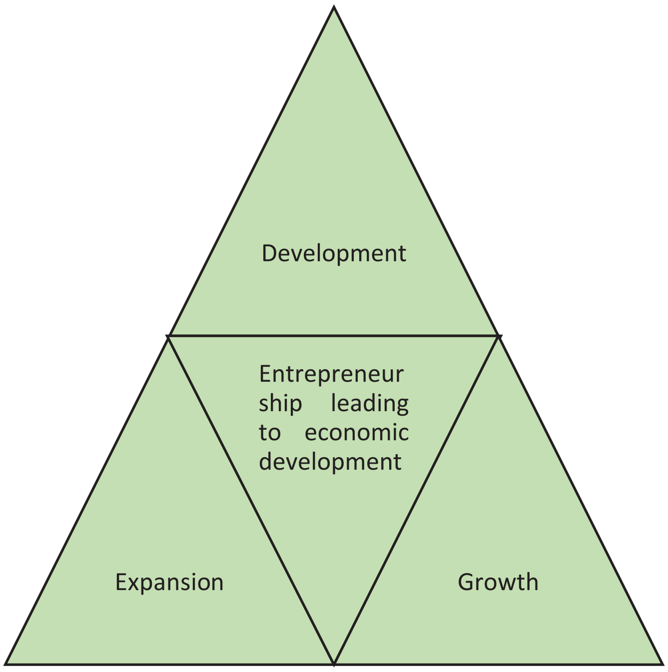
Ministry of Skill Development: A review

Those mentioned above are under the purview of Ministry of Skill Development. The significance of the Ministry was the co-ordination of all skill development efforts across the country, removal of disconnect between demand and supply of skilled manpower, building of new skills and skill upgradation, and encouraging entrepreneurship. Overall approximately 58, 72,800 people were trained by Central Ministries/Departments in the financial year 2014-15.

In order to promote entrepreneurship the National Institute for Entrepreneurship and Small Business Development has engaged in training, consultancy, research and publication. The institute has been financially self-sufficient since 2007-08.

Skill development and entrepreneurship efforts across the country have been highly fragmented so far. Recognizing the need and urgency of quickly coordinating the efforts of all concerned stakeholders, to achieve its vision of a 'Skilled India' the Department of Skill Development and Entrepreneurship was created on 31st July, 2014 which was later made into a full-fledged Ministry of Skill Development and Entrepreneurship on 9th Nov, 2014.

Entrepreneurship and economic development



Entrepreneurship skilling model

A large number of vocational programmes are conducted with a focus on entrepreneurial development coupled with skills which enables the trainees to start their own ventures. The programmes covered include the following:

1. Industrial Motivation Campaigns (IMCs)

2. Entrepreneurship Development Programmes (EDPs)

3. Entrepreneurship Skill Development Programme (ESDPs)

4. Management Development Programmes (MDPs)

These programmes are of a short duration and the curriculum is designed based on the needs of the industry and are customized, if required by the clients. Industrial Motivation Campaigns are organized to identify and motivate traditional / nontraditional entrepreneurs having potential for setting up an MSME so as to lead them towards self-employment. Entrepreneurship Development Programmes are being organized to nurture the talent of youth by enlightening them on various aspects of industrial activity. Entrepreneurship Skill Development Programme are organized to upgrade skills of prospective entrepreneurs, existing workforce and also develop skills of new workers and technicians by organizing various technical cum skill development training programmes. The objective of management development programme is to impart training on management practice system in order to improve their decision-making capabilities resulting in higher productivity and profitability of existing & potential entrepreneurs and developing new enterprises. Inputs on a variety of topics of managerial functions are provided to the participants by experts, which aims at dissemination of knowledge of scientific/modern management techniques /practices.

These development Programmes are designed to provide useful information on product/process design, manufacturing practices involved, testing and quality control, selection and usage of appropriate machinery and equipment, project profile preparation, marketing avenues/techniques, product/service pricing, export opportunities, infrastructure facilities available, finance and financial institutions, cash flow, etc.

Some part of budget would be utilized for providing training aids, equipment and related infrastructure. The progress on training programme will be monitored on monthly basis. These programs should educate and equip potential and early stage entrepreneurs across India, connect them to peers, mentors and incubators, support entrepreneurs through E-Hubs, catalyze a culture shift to encourage entrepreneurship, encourage the same amongst underrepresented groups, promote entrepreneurship among women and also foster social entrepreneurship and grassroots innovations.

Financial Literacy and consultancy support:

Banks have been advised to either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centres (FLCs) set up by them. Through these centers, banks provide knowledge assistance to the MSME entrepreneurs in regard to financial literacy, operational skills, including accounting and finance, business planning etc. Scheme to support entrepreneurial and managerial development of MSME sector has been started by the government. The objective is to provide early stage funding for nurturing innovative business ideas. The funding support would be for infrastructure development and pilot projects. Also a scheme for Building Design expertise of

MSMEs Manufacturing sector has been evolved. The support program aims to enable MSMEs develop new design strategies, get consultancy support from design experts and implement 'Design' projects.

Financial literacy:

There is need of providing financial literacy at various stages of business. Taking a look at the basic literacy required by entrepreneurs at various levels of business.

At the start of business:

1. At this stage of business, the entrepreneur is exposed to actual hassles of establishing a business, which includes many things ranging from licensing, human resources management, capital management, etc.

2. Hence, at this stage, the entrepreneur must be concerned about basic needs of business like capital, manpower and infrastructure.

3. The main concern of entrepreneur regarding financing the business remains selecting the proper ratio of debt and equity and also raising and managing capital.

4. Thus, in this stage of business, entrepreneurs should be skilled about appropriate financial structures, optimum capital structure etc.

While growing the business:

1. During this stage of business, company is in a life stage where it is improving its products continuously to achieve competitive edge in the market. Hence it also has to pay attention to margins the company earns by selling the products.

2. Therefore, it is here where the company should understand about managing its budget and also managing its cash, managing key financial indicators, understanding key financial risks, and also devising methods to curtail them.

As the business matures:

1. This stage of business involves adding to the growth and value of the company and increasing the product acceptance level of the company.

2. Also managing the capital requirements for the expansion of the business also has to be taken care of.

3. Thus, in this stage entrepreneurs should be skilled in areas like credit appraisal of the company, improving public acceptance of the company and also improvising its credit ratings, sources of capital, methods to grow capital, etc.

Initiatives: Penetration

The main objective of the above initiatives is to empower the individual by enabling them to realize their potential. It has been estimated that only 2.3% of the total workforce in India has undergone formal skill training as compared to 68% in UK, 75% in Germany, 52% in USA, 80% in Japan and 96% in South Korea.

Current skill development efforts by the Central Government are spread across more than 20 Ministries/Departments. There is a lack of coordination and monitoring mechanism to oversee them. The same is replicated in most of the states also. There is no major effort towards convergence. This creates multiplicity of norms, procedures, certifications etc. Further, many of these skill development initiatives often remain un-aligned to demand. This defeats their entire objective. Also information deficit and inadequate mentoring support is a challenge faced by an entrepreneur. The procedural hurdles at entry and exit are also cumbersome and they hamper entrepreneurship. These factors emerge large and hinder the emergence of entrepreneurship.

The availability of good quality trainers is a major area of concern. There is also a lack of focus on development of trainers.

93% of India's workforce is in informal/unorganized sector. This is one of the biggest challenges of skill development with sustainable livelihood. It is difficult to track the workers in the unorganized sector who receive informal training. Creation of jobs for skilled youth is also a major challenge. The lack of financial literacy, operational skills, including accounting and finance, business planning etc. represent formidable challenge for MSE/MSME borrowers underscoring the need for facilitation by banks in these critical financial areas. Moreover, MSE/MSME enterprises are further handicapped in this regard by absence of scale and size. The bank staff should also be trained through customized training programs to meet the specific needs of the sector. Keeping in view the high extent of financial exclusion in the MSME sector, it is imperative for banks that the excluded units are brought within the fold of the formal banking sector.

Funding and financing entrepreneurial ventures:

Financial assistance is available from institutions such as Nationalized Banks, Small Industries Development Bank of India, Regional Rural Banks, National Small Industries Corporation, State Financial Corporations etc. depending upon the project requirement and promoters background. Financial assistance has two components. Loan for fixed capital is used to acquire Plant and Machinery, land and building. Working capital loan is used to meet day to day operational cost of the production. State Financial Corporation and National Small Industries Corporation generally provide working capital. However under a package assistance, State Financial Corporations also provide a composite loan covering plant and machinery and working capital. Financial institution which is in close proximity to the project site is a better option.

Some portion of total investment has to be contributed by the Entrepreneur out of own sources. This is called margin money. Financial Institutions insist on 10 to 25 percent margin money depending upon the category of the entrepreneur, risk factor and existing scheme under which the project will be financed.

The general conditions for getting financial assistance are:

1. Eligibility criteria

2. Technical /Economic viability

3. Promoters contribution

4. Capacity to repay loan

5. Collateral securities/guarantee

RBI has evolved measures for ensuring liquidity within MSME sectors. That bit eased the liquidity issue but however the challenges prevailed. The growth of the MSME sector hinges on availability of funds. Therefore, it is essential that the intended measures should have a lasting impact in both deepening and broad basing credit availability to the sector. RBI had announced a refinance facility of Rs.7000 crore for SIDBI which will be available to support incremental lending directly or indirectly to MSME sector. SIDBI is committed to play the role of a catalyst by augmenting the resources of banks and NBFCs through refinance and resource support for the growth of the sector. SIDBI has been working on addressing identified gaps in the MSME eco system and develop niche products, processes and delivery channels to address various gaps, such as, financing both in debt and equity funding through structured and innovative products.

In addition, the following steps are being taken.

a. To boost collateral free lending, the current guarantee cover under Credit Guarantee Scheme for Micro and Small enterprises on loans will be extended from Rs.50 lakh to Rs.1 crore with guarantee cover of 50 percent.

b. The lock in period for loans covered under the existing credit guarantee scheme will be reduced from 24 to 18 months, to encourage banks to cover more loans under the guarantee scheme.

c. Government will issue an advisory to Central Public Sector Enterprises and request State Public Sector Enterprises to ensure prompt payment of bills of MSMEs. Easing of credit conditions generally should help PSUs to make such payments on schedule.

These measures by RBI improved the credit flow to medium enterprises. Foreign banks were unlikely to play a major role in extending liquidity to MSMEs.

Schemes for providing financial assistance to establish and develop Entrepreneurship development institutes (EDIs)

The Government attached the highest priority to support the MSME sector which is critical for employment generation.

ATI (Assistance to training)

This Scheme envisages financial assistance for establishment of new institutions (EDIs), strengthening the infrastructure of the existing EDIs and for supporting entrepreneurship and skill development activities. The main objectives of the scheme are development of indigenous entrepreneurship from all walks of life for developing new micro and small enterprises, enlarging the entrepreneurial base and encouraging self-employment in rural as well as urban areas. It is do e by providing training to first generation entrepreneurs and assisting them in setting up of enterprises. The assistance shall be provided in the form of capital grant for creation/strengthening of infrastructure and programme support for conducting entrepreneurship development and skill development programmes.

Above mentioned articles have been instrumental in developing entrepreneurs. However, entrepreneurs also need to have knowledge about gauging the quality of their organization and its public perspective. This can be done be skilling entrepreneurs in areas like rating and their impact on organizations.

Rating agencies

Credit rating agencies help entrepreneurs seek better and faster access to finance. These reveal new dimensions of information about entrepreneurs, whether or not they have credit history and collateral. This uncovers new opportunities both within, and outside, entrepreneur's capital mix. New dimensions of information means a more complete and accurate understanding of credit risk. It enables lenders to reduce credit risk, safely increase portfolio size, and decrease costs and time to lend.

Now, entrepreneurs need the right approach to deal with the rating agencies which in turn gets them the right ratings. Some of these strategies may seem like common sense; however, they represent solutions to the most common reasons why the typical entrepreneur develops a less than perfect credit rating. These include late payments which is the most common negative information that appears on credit reports, credit card balances, avoidance of closure of unused accounts, application for credit only when needed, careful review of all credit reports and correction of any erroneous or outdated information that's listed, avoidance of too many hard enquires, avoidance of bankruptcy, avoiding consolidation of balances onto one credit card, negotiation with the creditors or collection agencies.

Government has started a scheme for providing financial assistance for performance and credit rating under PCR scheme (performance and credit rating scheme). The objective of the Scheme was to create awareness amongst micro & small enterprises about the strengths and weaknesses of their operations and also their credit worthiness. The Scheme has been implemented by National Small Industries Corporation (NSIC). The rating under the scheme has being carried out through empaneled rating agencies i.e. CRISIL, ONICRA, ICRA, SMERA, Brickwork, India Ratings (earlier known as FITCH) and CARE. The enterprises are at liberty to select any of the rating agencies empaneled with NSIC. Any enterprise registered in India as a micro or small enterprise is eligible to apply.

Also scheme for providing financial assistance on marketing support under Marketing Assistance Scheme has been started for MSME sector. The assistance is provided for organizing exhibitions abroad and participation in international exhibitions/trade fairs, co-sponsoring of exhibitions organized by other organizations/ industry associations/agencies and organizing buyer-seller meets, intensive campaigns and marketing promotion events.

Entrepreneurship has remained a long neglected area in the country mostly contributed by the regulatory framework and lack of skilled manpower. Creating a world class eco-system to encourage entrepreneurial initiatives in MSME sector remains a big challenge. However, the scenario is expected to bring about a positive change in the coming future with plethora of initiatives taken by the Government in areas of skilling entrepreneurs. An infrastructural framework dedicated to train entrepreneurs has been initiated. The success of these initiatives depends entirely upon their penetration in the society and the degree of receptivity.

THE WAY FORWARD

The Bankers Borrowers Meet- 2015, had received an overwhelming response from the industry, in creating a vibrant platform for encouraging dialogue between the bankers and borrowers. Various issues were discussed and the outcome of this event was published and was circulated to leaders in the industry and the government. ASSOCHAM and Ashvin Parekh Advisory Services (APAS), together have resolved to continue this dialogue in the form of the current event, which focuses particularly on "Empowering MSMEs".

Further to this effort, an active response from the market participants was considered to be relevant in making this effort a grand success. In order to achieve this, it was felt an effective survey would be key in receiving direct knowledge of the issues, obstacles and expectations of market participants.

This survey would adopt a two pronged approach:

1) Survey for Borrowers in the MSME segment
2) Survey for Bankers in lending to MSME segment

The survey for the borrowers would try to capture, the issues faced by the players in this sectors in running their enterprise, problems in accessing finance, the support expected from bankers and resolving insolvency among other things. In the survey to the bankers, the survey would attempt to capture the experience of bankers in lending to this segments, problems faced in assessing the creditworthiness of the borrowers and the non-performing assets issues among other things.

The survey questionnaire will be provided along with the report, and the survey will be kept open for participation till April 25th, 2016. Prior to which the information received from the survey participants would be thoroughly analyzed, and the finding of this would be published along with the on goings of the current report.

Additionally, the findings from the survey of bankers will be posted in ASSOCHAM's website for the benefit of the members of the MSME sector, to give them insights on the areas of improvement from their side, in order to augment their relationship with the bankers. Importantly, this report will be circulated among key leaders in the government, banks and Indian Bankers Association among others. This would be instrumental in carrying the concerns and views of participants to the appropriate authority, who can engender a positive change in the situation. ASSOCHAM and APAS strongly believe that this process will be a continuous effort, in bridging the gap between bankers and the borrowers of the MSME segment.

ABOUT APAS

Ashvin Parekh advisory services LLP founded in June 2013 and is headquartered in Mumbai, the finance capital of India. APAS is a leading financial advisory firm, providing a wide range of consulting services to a diversified client base, including financial conglomerates, business houses, banking companies, life general and health insurers, financial institutions, regulators and the government.

Our focus is primarily on business development through advisory services in strategy, processes, and people areas. In strategy areas we focus on diversification, strategic alliances, mergers and acquisitions and business restructuring. We also offer services in the areas of transformation and value creation. In the operation strategy areas we also render services at product and product design, intermediation and distribution areas, business risk management and governance aspects of the management.

In keeping with the services we offer, we have experts in business and transaction advisory areas. We have teams drawn from the industry to offer services to our clients in business and operation areas in the financial services space.

We have teams focusing on the new banking reforms including the formation of the new banking companies arising out of the new licenses. We will offer operational support in the areas of financial inclusion, holding company structures and project management services. We also have focus on the new reforms in the areas of subsidarisation of foreign banks. In addition we also conduct high level diagnostic studies for public sector and private sector banks.

ASSOCHAM

THE KNOWLEDGE ARCHITECT OF CORPORATE INDIA

EVOLUTION OF VALUE CREATOR

ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 400 Chambers and Trade Associations, and serving more than 4,50,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country.

Today, ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'.

ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally.

ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

VISION

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrierless technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

MISSION

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, Health, Corporate Social responsibility and environment to be the critical success factors.

MEMBERS – OUR STRENGTH

ASSOCHAM represents the interests of more than 4,50,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a Chamber with a difference.

Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Corporate Social Responsibility, Environment & Safety, HR & Labour Affairs, Corporate Governance, Information Technology, Biotechnology, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Mergers & Acquisitions, Tourism, Civil Aviation, Infrastructure, Energy & Power, Education, Legal Reforms, Real Estate and Rural Development, Competency Building & Skill Development to mention a few.

INSIGHT INTO 'NEW BUSINESS MODELS'

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian Corporates, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders Value, Government Policies in sustaining India's Development, Infrastructure Development for enhancing India's Competitiveness, Building Indian MNCs, Role of Financial Sector the Catalyst for India's Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chambers of Commerce & Industry, Cochin: Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi.

Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.

The Associated Chambers of Commerce and Industry of India

ASSOCHAM Corporate Office:

5, Sardar Patel Marg, Chanakyapuri, New Delhi-110 021

Tel: 011-46550555 (Hunting Line) • Fax: 011-23017008, 23017009

Email: assocham@nic.in • Website: www.assocham.org

ASSOCHAM CONTACT DETAILS
DEPARTMENT OF BANKING & FINANCIAL SERVICES

Chandan Kumar **Joint Director** chandan.kumar@ assocham.com	**Rajesh Kr. Singh** **Asst. Director** rajesh.singh@ assocham.com	**Vivek Tiwari** **Executive** vivek.tiwari@ assocham.com	**Saurabh Singh** **Executive (Trainee)** saurabh.singh@ assocham.com	**Kushagra Joshi** **Executive (Trainee)** kushagra.joshi@ assocham.com

FORTHCOMING PROGRAM AND BULLETINS

25th April 2016	**ASSOCHAM's 3rd National Summit on Non-Banking Finance Companies**	**25th April, 2016, Mumbai**
JUNE 2016	**ARCON -2016 Asset Reconstruction companies**	**New Delhi**
ASSOCHAM Banking Bulletin	**VOL 10, April 2016**	**10th April , 2016**
ASSOCHAM Insurance Bulletin	**VOL 3, April , 2016**	**10th May 2016**

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Email: assocham@nic.in • Website: www.assocham.org