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12th ANNUAL BANKING SUMMIT-CUM-SOCIAL BANKING EXCELLENCE AWARDS 2016

Inclusive Growth for Sustainable Development

March 2017 – Mumbai

THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

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The Associated Chambers of Commerce and Industry of India

ASSOCHAM Corporate Office:

5, Sardar Patel Marg, Chanakyapuri, New Delhi – 110021

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

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

12th ANNUAL BANKING SUMMIT-CUM-SOCIAL BANKING EXCELLENCE AWARDS 2016

Inclusive Growth for Sustainable Development

ASSOCHAM Social Banking Excellence Award 2016 is a way to recognize to reward and celebrate models of inclusive growth and sustainable development as well as innovative approaches to creating value for society and business together.

The underlying principle is that Banks make social banking an integral part of the way they do business and implement social banking projects or programs that have a significant impact. Equally important is that they are sustainable in all appropriate areas of operation and exert positive influence on their stakeholders, their peers and their communities.

The awards seek to identify and honor companies as well as provide role models of best practices for other companies.

CATEGORIES	CLASSES
Agricultural Banking	**LARGE BANK** Total Business of more than ₹ 400,000 Cr.
Priority Sector Lending – in categories other than agriculture	**MEDIUM BANK** Total Business of ₹ 200,000 - 400,000 Cr.
Participation in Government Schemes	**SMALL BANK** Total Business of less than ₹ 200,000 Cr.
Overall: Best Social Bank	

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Ministry of finance
Government of India

Dr. Kshatrapati Shivaji
Former Chairman &
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SIDBI

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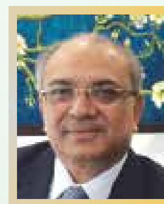

Shri Ashvin Parekh
Managing Partner
Ashvin Parekh
Advisory Services LLP

Shri Ajay Kumar Kapur
Deputy Managing Director
SIDBI

Message

ASSOCHAM over the years has been trying to understand, reward and celebrate Performance of banks in the social sector. Continuing the legacy, ASSOCHAM has called for nominations from banks to analyze, deliberate, compare and reward the best social bank and also the banks contributing significantly to the Agricultural Banking, priority sector lending and Participations in Government schemes.

This year again, ASSOCHAM has received overwhelming responses from the banks. Many banks have nominated in multiple categories of awards. A total of 76 nominations from 34 banks have been received across different categories.

APAS, the knowledge partners of this initiative have developed robust scoring models for the evaluation for shortlisting the winners and runners after applying prudent judgment by the jury.

In this backdrop, ASSOCHAM is organizing 12th Annual Banking summit cum excellence awards to recognize to reward and celebrate models of inclusive growth and sustainable development as well as innovative approaches to creating value for society and business together.

ASSOCHAM-APAS is pleased to release a report at the 12th Annual Banking summit. I would like to express my sincere appreciation to ASSOCHAM-APAS team for sharing their thoughts, insights and experiences.

I am confident that the ASSOCHAM-APAS report will be insightful and useful to all stakeholders.

D S Rawat
Secretary General
ASSOCHAM

Message

It has been a privilege for us, at APAS, to be associated with ASSOCHAM as a knowledge partner for the Social Banking Excellence Awards for the third year in a row. Like the last two times, we have had a rewarding experience, acting as a knowledge partner, writing the knowledge report and evaluating all the nominations from the participating banks.

We expected a larger number of nominations from banks this year compared with earlier years. Due to the impact of demonetization, however, the number of nominations went down nominally compared to last year. We have received a total of 76 nominations from 34 banks. In fact, the number of participating banks has increased from last year and considering the fact that the number of categories has been reduced to 4 compared to 5 last year, the number of nominations is actually higher than last year, in spite of pre-occupation with note-exchange program. So, in terms of participation, it has been a success.

We have received nominations from public and private sector banks of all sizes – large, medium, small, as well as cooperative and regional rural banks in all 4 categories – Agriculture, Priority sector lending with focus on MSME, Government Schemes and Best Social Bank.

There has been an increased agricultural activity in India in the last year due to the ample rainfall received. This increased activity has also led to the increase in agricultural funding from the banks. This is expected to increase further this year with the increase in government funding for the newly introduced crop insurance scheme Pradhan Mantri Fasal Bima Yojana (PMFBY) and irrigation scheme Pradhan Mantri Krishi Sinchayi Yojana (PMKSY).

Priority sector lending, especially MSME lending, has seen a lot of volatility in the last year with many banks not achieving their target of 40% and the average priority sector lending of banks being less than required. However, with the expected growth in GDP, MSME lending is expected to improve this year.

The government schemes, particularly, Pradhan Mantri Jan Dhan Yojana (PMJDY), have led to increased financial inclusion in the country and have brought a lot of customers into the banking system, giving width to the banks. Now the banks can achieve depth by cross sales to these customers. The banks can cross sell loans to these customers holding accounts with them and bring them from unorganized lending into the organized lending system. They

can also cross sell insurance and pension products to these customers. Thus, government schemes have contributed and will further contribute to the growth of the banking sector. New initiatives in digital banking will also provide growth avenues.

The process of inviting nominations, evaluating them and selecting the winners has been completely transparent. Before the nominations from the participants were invited, the jury comprising of eminent thought leaders evolved a framework of parameters with due weightages. The nominations were then evaluated, in the light of this framework. The nominees had an opportunity of looking at the parameters and weightages at time of placing the nominations. The evaluation was closely examined by the jury members and the winners were selected. We are thankful to the Jury for their time and keen participation.

Increasingly, the awards are getting recognized by the media and all the stakeholders. The banks are being rewarded for the work they have done in social banking and the awards aim to motivate the banks to continue doing the good work and keep building on it year after year.

ASSOCHAM and APAS will publish a coffee table book highlighting the efforts of the winners and the runners-up in each class and category, towards social banking. It would include write-ups from the people in the banks responsible for social banking, describing their efforts towards the same. This will ensure not only the recognition for the bank but also provide a platform where the efforts of the banks personnel will be highlighted, over a longer shelf life for the award.

We will continue with our endeavor with an urge to recognize, reward and celebrate models of inclusive growth and sustainable development of innovative approaches for impact investments in social banking.

Ashvin Parekh
Managing Partner, APAS

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Social Banking and Financial Inclusion

To introduce, social banking is a form of banking which focuses on development of the neglected sectors of the society. It also focuses on developing those lines of businesses, which do not sync in with the societal priorities like profit-making and hence, market development of such businesses becomes an onus of the Government.

The banking system in India, has been a significant contributor to the disbursement of monetary benefits to the poor, and hence development of the bottom of the pyramid. The development is still going on and has not always been a smooth journey. India, as it counts among the developing economies, does not have penetration of the banking services to the extent developed countries have. It has always been the concentrated efforts of Government, Banks, Financial services companies, NGOs and several other components of the society, that have led to the education of the masses on the importance of banking system.

As we continue to focus on two aspects of social banking and financial inclusion, we must understand that these should continue to develop together. This report talks about the development of various sections of social banking like the priority sector lending, the historical context to it, ongoing schemes, the developments in the sector, etc. We also talk about various Government schemes that have been developed for the financial inclusion of the neglected.

Agricultural Banking in India

Agriculture has been an important occupational activity for Indian economy. Agricultural credit has been an important part of Indian financial system since the colonial ages. The British era could be attributed to bringing in formalization of credit sources for agriculture and by introducing formalinstitutions. In this part of report, we take an overall look at the agricultural lending system in India, major components of the system, impact of agricultural lending system on capital formation and covering the risks in agriculture by way of crop insurance schemes in India.

The era gone by:

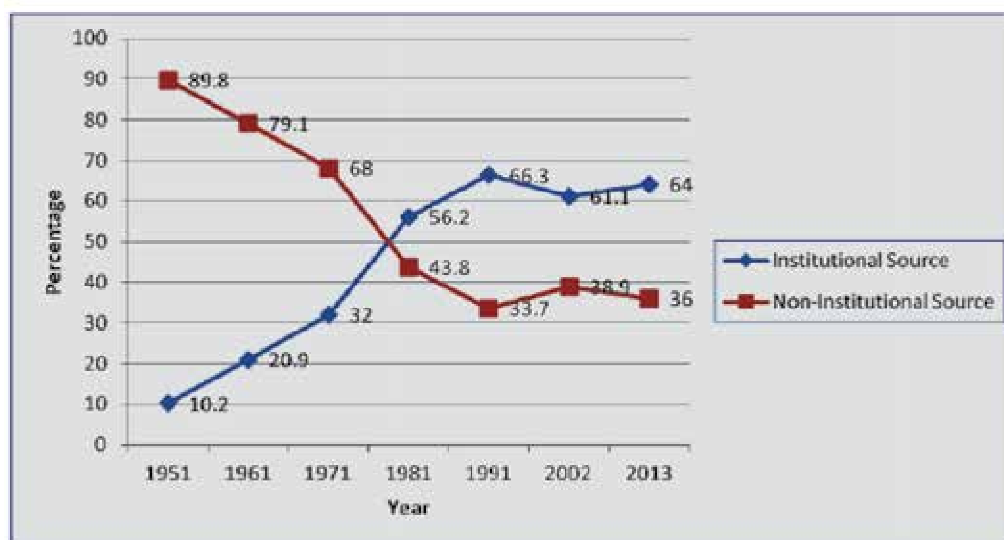
First major step towards development of agricultural funding were in the form of the setting up of an agricultural credit department simultaneously with the establishment of the Reserve Bank of India in 1935 so as to confer a special developmental role for the RBI in the sphere of agricultural credit. Further, reforms included establishment of SBI in 1955, with special allocation of 400 new branches in rural and semi-urban areas dedicated to agricultural lending. Year 1976 saw the establishment of Regional rural Banks (RRBs), whose main motive was to develop the rural economy by providing "credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs". Another major impetus to farming was in the form of establishment

of NABARD, as an apex Development Bank with a mandate for facilitating credit flow for agriculture, rural industries and all other allied economic activities in rural areas in 1982. Post-1991 reforms, Banks had become relatively more stable than before to enhance credit supply to the agricultural sector. In the next few sections, we explain the evolution of agriculture credit institutions and try to capture the classification of agricultural lenders and attempt profiling of the borrowers and the impact created by them on the Indian agriculture sector as well as financial sector.

Explaining the transformational timeline:

Post-independence, non-institutional sources of funding agriculture were dominant in 1951, accounting for 90 per cent of the outstanding debt of cultivator households. This share of non-institutional funding declined rapidly to 79 per cent in 1961 and further to 68 per cent in 1971 and 43.8 per cent in 1981. After 1981, the rate of decline slowed down and the share of non-institutional sources was 33.7 per cent in 1991. There was, however, a reversal of this pattern thereafter and the share of non-institutional debt actually climbed up to 39 per cent in 2002 and dropped to 36 per cent in 2013.

The graph below depicts the distribution of outstanding agricultural credit between institutional and non-institutional sources:



Source: IIBF research report

The share of moneylenders in providing credit rose from 17.5 per cent in 1991, to 26.8 per cent in 2002 and 29.6 per cent in 2013.

Looking at the institutional sources of lending, the funding sources were seeded in the form of co-operative banks. Other sources of institutional funding took roots as explained earlier. Post-1971, the growth in institutional credit came mainly from commercial banks and, by

1991, they had become the dominant agency, leaving co-operative banks well behind. In subsequent years, however, co-operative banks gained some lost ground and, by 2013, there was more or less parity in the standing of these two agencies as far as outstanding loans in the agricultural sector are concerned.

Between 1975-76 and 2011-12, the volume of short-term credit from commercial banks (short-term credit has been explained in the subsequent paragraphs), co-operative banks and RRBs rose from INR 1,096 crore to INR 3,46,737 crore, that of long-term credit from INR 499 crore INR 1,07,162 crore and that 9 of the total from INR 1,595 crore to INR 4,53,899 crore at current prices. The growth of credit has been far higher than the growth of agricultural GDP, and in terms of the percentage of agricultural GDP, short-term credit has risen steeply from 3.66 to 23.13, long-term credit from 1.67 to 7.15 and total credit from 5.33 to 30.28 during the period.

The growth has spurred development of institutions which specially focus on the needs of the people in rural and semi-urban areas. The regulator has also now become more open to modern types of banking institutions. Micro-finance institutions, NBFCs, etc. specially focus on particular segments of customers and offer them tailor-made products for their needs. Micro-finance institutions find their penetrations in those parts of the country where commercial banks do not foray.

In this section, we take a look at the major Government schemes-led and institutional credit flow to agriculture sector, different quantum of institutional lending structures and measure their probable impact.

Impact-creating steps:

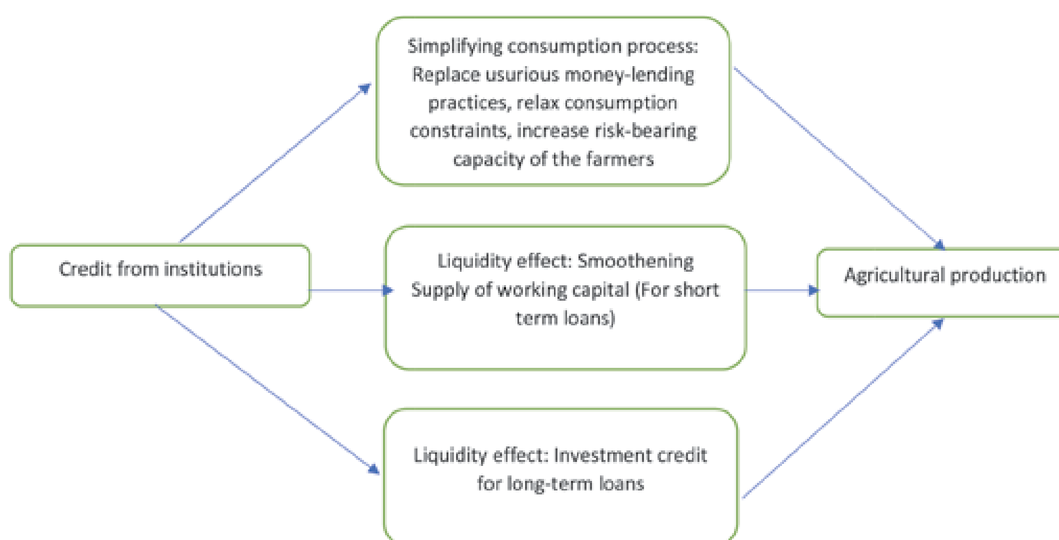
Post 2000, three major policy initiatives have defined the flow of institutional funds to agriculture. The first policy (2004), sought to double the volume of agriculture credit from institutions relative to what it was in 2004-05, over a span of three years. The credit off-take has since then, exceeded the government target. Against a credit flow target of Rs.3,25,000 crore during 2009-10 towards agriculture, the achievement was Rs.3,84,514 crore, forming 118 percent of the target. Similarly, the target for 2010-11 was INR 3,75,000 crore, while the achievement on March, 2011 was INR 4,46,779 crore.

Second policy initiative formed waiving of agricultural debt for small farmers and opportunity for one-time settlement for others. Close on its heels, an interest subvention scheme was introduced to reward prompt repayment of loans, widely perceived has having been vitiated by the debt waiver scheme. Under the existing interest subvention scheme, farmers get short-term crop loans at seven per cent interest. If the loan to the bank is promptly paid, then the effective rate of interest to the farmer works out to four per cent a year due to the

additional interest subvention. The subvention was enhanced subsequently and by 2013-14, an additional subvention of three per cent was available for prompt payment, making a total subvention of five per cent and reducing the effective rate of interest for short-term credit to four per cent. Together, these interventions have both explicitly and implicitly transferred large amounts to the agricultural sector.

Institutional flow of funds to agriculture:

The impact of agriculture credit on agriculture production, efficiency and productivity could potentially occur through multiple channels. To explain the importance of credit flow to agriculture, following diagram is shown:

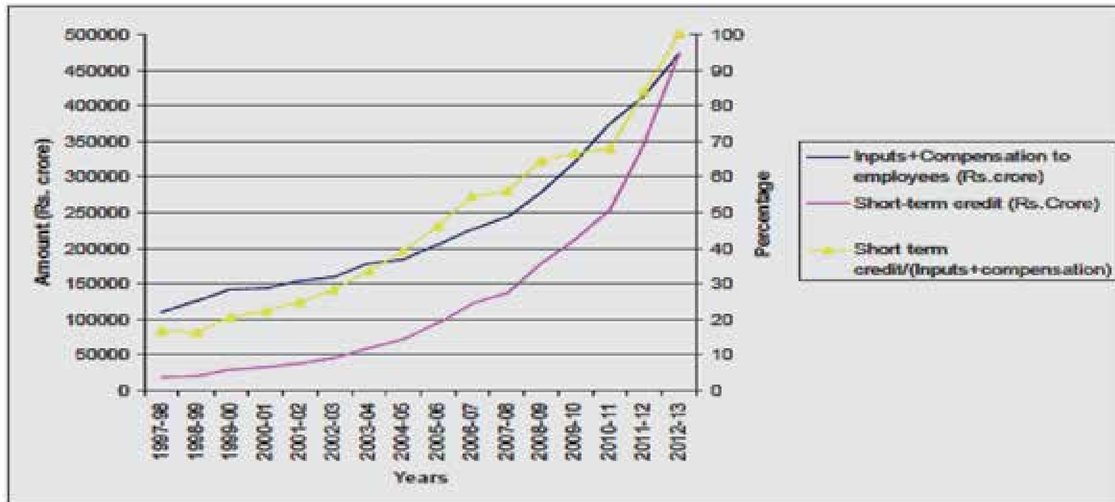


Agricultural loans can be divided in two types: Medium or short term loans and Long-term loans. Medium term loans are used to finance the harvesting-related needs of the farmers. Long-term loans are useful for avenues like equipment-financing for farmers. In this section, we take a look at the impact of both medium and long term loans in terms of various factors.

Impact measurement of medium-term loans:

Major component of medium-term loans availed by the farmers comprise of financing the sowing-related components like seeds, tools, fertilizers, etc. Hence, an increase in short-term loans points out to increase in borrowing by the farmers for fulfilling short-term capital needs for above items and hence an increase in business-related to farming equipment. We can compare the rise in the demand for this equipment (Input – Value of inputs other than hired labors and value of compensation to employees in the sector) with the actual amount of credit supplied by the institutions, and hence arrive at the difference between the demand and supply of the short-term credit to measure the impact of the short-term credit supplied.

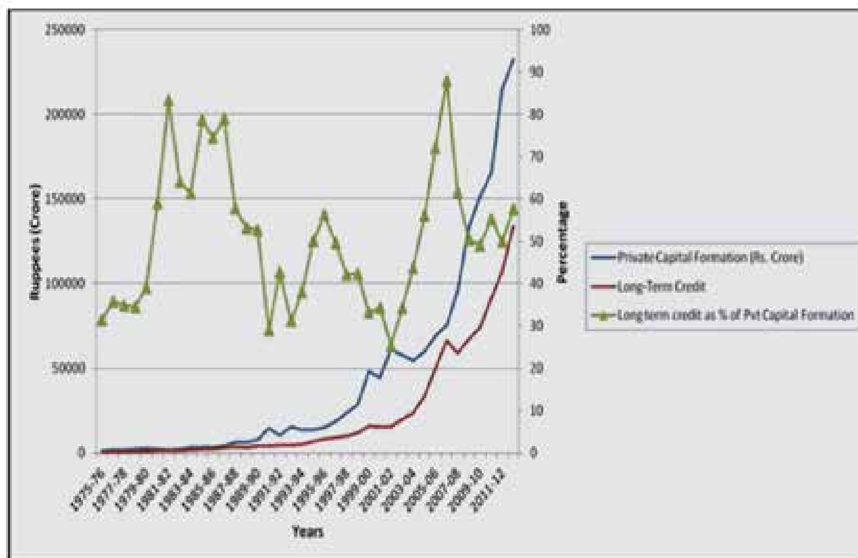
The graph below depicts the short-term credit as a percentage of agricultural inputs:



Source: IIBF research report

Capital formation as a result of long-term lending:

Long-term credit is a major source of financing of private capital formation in agriculture. In the graph given below, we look at the trend in long-term financing, private capital formation and the correlation between the two over the years:



Source: IIBF research report

Profiling borrower class:

As we understand from previous sections, agricultural borrowing is specifically related to financing activities related to agriculture and other allied activities. The borrowings can be either done by two classes of borrowers: 1. Farmers 2. Small and medium sized business-holders who would run farm related processing units

Considering the first class, the farmers here. The borrowings for farmers can specifically happen in two ways:

1. For financing short-term needs
2. For financing the long-term needs.

For financing the short-term needs, the farmers generally borrow at the beginning or during the cultivation season. The farmers, in this class generally borrow to finance needs for sowing related supplies like seeds, fertilizers, etc.

Finance for long-term needs generally arise, when the farmer decides to expand his horizon of activities, and hence decides to expand the land for farming or buy heavy farming equipment.

The quantum of borrowings for short term needs could be divided on the basis of the land-holdings held by the farmers. They could be divided as:

1. Marginal
2. Small
3. Semi-medium
4. Medium

Above classification helps the lenders target the specific needs of the borrowers, and establishing niche classes of lending institutions which benefit both lenders and borrowers. It also helps current lenders design products specifically for the needs of farmers, facilitating repayment options, less interest rate, etc.

Crop Insurance Schemes: An Evaluation

Crop insurance was introduced in India in early 1970s. The concept has had varying results in different parts of the world. But the results have shown different results in the Indian context, each time an effort was made to implement it. Insurance is important in context of agriculture as it fairly helps in reducing the levels of NPAs in the banking system. The diversity in India's agricultural processes and socio-economic activity of the farmers, made it difficult to apply same principle to price the crop-insurance products, and their risk parameters. Several attempts have been made in the past in the form of premium support for farmers, subsidies, etc. and still the crop insurance isn't as successful as it should be. In this section, we take a look at details of crop insurance schemes in India in the past and its current status and the impact created by them.

The time line of various forms of crop insurance schemes in India is given as follows:

Time Period	Crop Insurance Program/Scheme	Salient Features
1971-1978	First individual Approach Scheme	Was introduced on a limited, ad-hoc and scattered scale
		General Insurance Corporation (GIC) of India introduced the scheme
		H-4 cotton and later included groundnut, wheat and potato
		The scheme was implemented in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal
		3,110 farmers were covered for a premium of Rs.4.54 lakh against claims of a massive Rs.37.88 lakh

1979-1984	Pilot Crop Insurance Scheme (PCIS)	Was based on based on the 'Area Approach' for providing insurance cover against a deficit in crop yield below the threshold level
		Rolled out by GIC and the scheme covered cereals, millets, oilseeds, cotton, potato and chickpea
		Was restricted only to the loaned farmers of institutional sources on a voluntary basis
		Implemented in 12 states till 1984-85 and covered 6.23 lakh farmers
		Total premium collected was Rs.195.01 lakh against claims of Rs.155.68 lakh during the entire period
1985-99	Comprehensive Crop Insurance Scheme (CCIS)	Was the first nation-wide Crop Insurance Scheme
		Was linked to linked to short-term credit and was based on the 'homogenous area approach'
		Scheme was adopted by 15 States and 2 Union Territories (UTs)
		It had covered 763 lakh farmers for a premium of Rs 404 crore against claims of Rs 2303 crore
Rabi 1999-2000 to Rabi 2013-14	National Agricultural Insurance Scheme (NAIS)	Was aimed to protect the farmers against the crop losses suffered on account of natural calamities, such as, drought, flood, hailstorm, cyclone, pests and diseases
		Was implemented by the Agriculture Insurance Company of India Ltd. (AIC)
		Available to all the farmers both loaned and non-loaned irrespective of their size of holding and covered all crops
		Implemented by 25 States and 2 Union Territories and covered 2084.78 lakh farmers
		Premium collected was Rs.8,67,121 lakh against the claim of Rs.25,37,558 lakh till 2012-13
		The total area insured was Rs.3137.70 lakh hectares during the same till 2012-13
Rabi 2010-11 season	Modified National Agricultural Insurance Scheme (MNAIS)	Was implemented on pilot basis in 50 districts from Rabi 2010-11 season
		The scheme was thought to be easier and more farmer friendly
		It was implemented in 17 States and covered 45.80 lakh farmers
		Total premium collected was Rs 1,08,800 lakh against the claim of Rs 86,400 lakh until Rabi 2012-13

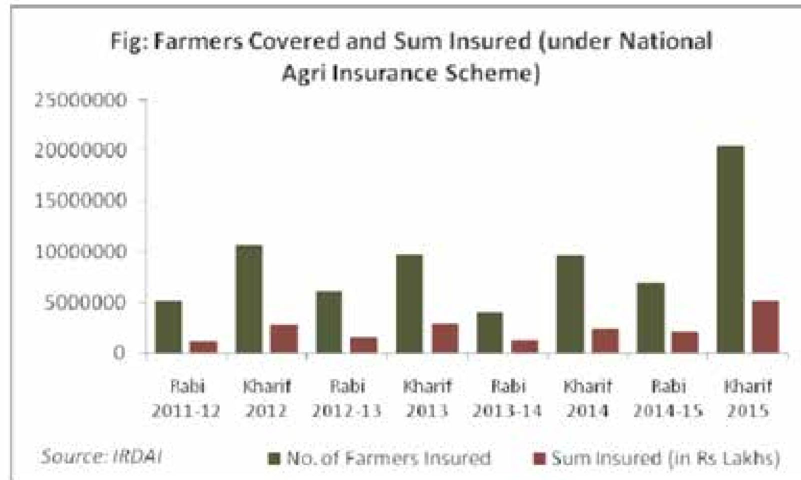
2007-08	Weather Based Crop Insurance Scheme (WBCIS)	Was launched in 20 States and was implemented by Agriculture Insurance Company of India along with some private companies
		The aim of the scheme was to settle the claims within shortest possible time
		WBCIS is based on actuarial rates of premium and premium actually charged from farmers has been restricted at par with NAIS
		Was implemented in 18 States and 469.38 lakh farmers were covered
		Premium of Rs.7,51,920 lakh was collected against the claims of Rs. 52,860 lakh under the Scheme from 2007-08 to 2012-13
2009-10	Coconut Palm Insurance Scheme (CPIS)	Was introduced on a pilot basis in the selected areas of Andhra Pradesh, Goa, Karnataka, Kerala, Maharashtra, Odisha and Tamil Nadu. Later on, it was extended to West Bengal
		The pilot was implemented during the years 2011-12 and 2012-13 and continues to be under implementation
		It has been administered by the Coconut Development Board (CDB)
		Fifty percent of the premium is contributed by Government of India, 25 percent by the concerned State Government and the remaining 25 percent by the farmer
		51,108 farmers were covered for a premium of Rs.167.69 lakh against the claims paid of Rs.214.05 lakh till December 2013
2016	Pradhan Mantri Fasal Bima Yojana	Launched recently in 2016

**Source: ICFA Report India on Crop Insurance*

National Agri-insurance scheme (NAIS):

National Agri-insurance scheme was introduced in 1999, with an aim to tackle the production risk faced by farmers. With 25 million farmers insured, the National Agricultural Insurance Scheme (NAIS) in India was the largest crop insurance scheme in the world. The Indian Government moved from a social crop insurance scheme to a market-based crop insurance program with actuarially sound premium rates, upfront subsidies, and participation of private insurers. NAIS was terminated in 2015, to be replaced by Pradhan Mantri Fasal Bima Yojana (PMFSBY).

Every year since its launch of National Agri Insurance Scheme, huge number of claims were made as losses caused to agricultural production by farmers. When premium collected and total claims are compared to the number of farmers being covered and the area covered by National Agri Insurance Scheme, it reveals quite an interesting trend.

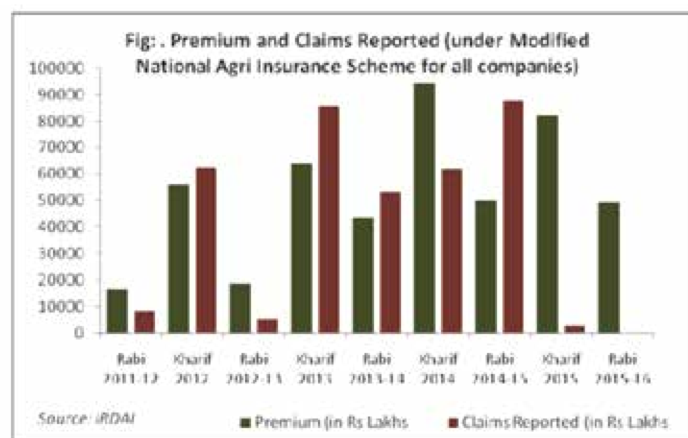


Source: ICFA Report on Crop Insurance in India

Modified National Agri-Insurance scheme (MNAIS):

MNAIS was launched initially in 50 districts during Rabi 2010-11 season. Modified NAIS had several improvements over NAIS like the insurance unit for major crops being lowered down to village / village Panchayat, minimum indemnity level raised to 70%, threshold yield was based on past seven years' yield excluding a maximum of two calamity years, pre-sowing and post-harvest loss are covered. Besides these, On-account payment of claims during the season and payment of claims for sowing failure were also included. The benefit of individual assessment of claims due to localized calamities i.e. hailstorm and landslide were extended to all the notified areas.

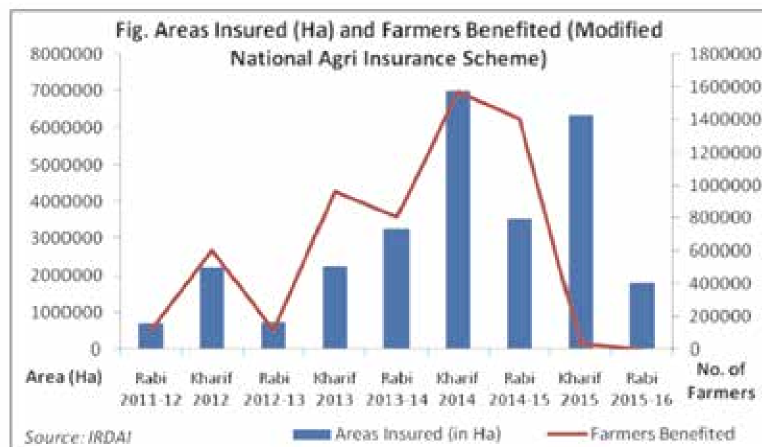
Graph below indicates premium and claims reported under MNAIS:



Source: ICFA Report on Crop Insurance in India

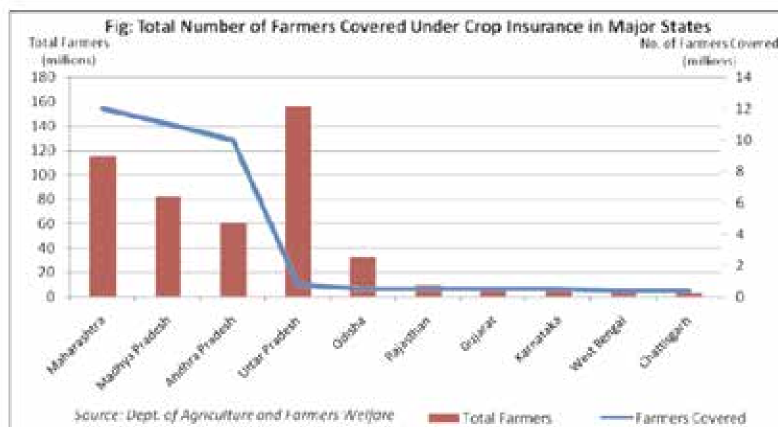
A study of the Modified National Agri Insurance Scheme data in terms of premium vs claims reported reveals that farmers were still becoming aware of the benefits of agri-insurance schemes and were still getting used to insurance, even if it means later that no crop loss or damage occurred due to any natural or biological disasters. In Rabi 2011-12, while the total premium collected was INR 16520 Lakhs, the claims made amounted to just INR 8428 Lakhs. The absurd rise in claims in 2010-11 indicates the claim processing methodology of assessing claims and the transparency of the process.

Graph below indicates the sowed area and farmers thereby insured under MNAIS:



Source: ICFA Report on Crop Insurance in India

Like other agriculture related schemes ranging from fertilizer subsidies to subsidized loans and loan waiver for farmers, crop insurance schemes have witnessed that the benefits are highly skewed in favor of just few states and only the large and wealthy farmers. Number of farmers covered by crop insurance is more in states like Maharashtra, Madhya Pradesh and Andhra Pradesh. Within these states too, it was mostly the large farmers who reaped the benefits of the insurance schemes. Interestingly, as seen in the figure below, state like Uttar Pradesh which has the highest farming population has one of the least numbers of farmers covered by crop insurance.



Source: ICFA Report on Crop Insurance in India

Pradhan Mantri Fasal Bima Yojana (PMFBY)-2016

PMFBY was introduced by the NDA government and is the most recent modification of the earlier crop insurance schemes. The scheme, tentatively pools in the learnings from all the previous forms of crop insurance and has adopted many innovative methods, for risk assessing and claims management. The scheme has been formulated in a way to address the loopholes of all the earlier schemes.

In order to manage the system of PMFBY, an electronic management system has been put in place, which collects the details of all the enrolments. The below given steps of verification explain the depth of bureaucratic intervention in the claim verification process:

- About 5% of the beneficiaries may be verified by the Regional Offices/ Local level Offices of Insurance Companies who will send the feedback to concerned District Level Monitoring Committee (DLMC) and State Government/ State Level Coordination Committee on Crop Insurance (SLCCCI).
- At least 10% of the beneficiaries verified by the insurance company may be cross verified by the concerned District Level Monitoring Committee (DLMC) and they should send the feedback to State Government.
- 1 to 2% of the beneficiaries may be verified by the Head Offices of the insurance company/ Independent Agencies appointed by the Central Government/ National Level Monitoring Committee and they should send the necessary feedback to Central Government.

Some of the salient features of the latest scheme are:

- Farmer's contribution towards premium decreased to as low as 2% to be paid by farmers for kharif crops, and 1.5% for rabi crops making it possible to include the small and medium farmers to avail crop insurance.
- The premium for annual commercial and horticultural crops is 5%.
- Technical Support Unit shall calculate Loss Cost i.e. claims as percentage of Sum Insured based on the latest available yield data for Kharif and Rabi crop.
- There is no capping the premium rate and farmers will get claims against the full sum insured, without any reduction.
- Provision of unlimited subsidy from the government for this scheme and estimated to grow INR 8,800 crore by FY2019.
- INR 5,501 crore in 2016-17 has been allocated for the scheme by the Finance Ministry

- Already, states like Andhra Pradesh, Jharkhand, Odisha, West Bengal, Himachal Pradesh, Uttarakhand and Andhra Pradesh have awarded contracts to the insurance companies to provide crop insurance coverage to farmers.
- Many drought-hit states have increased fund allocation under PMFBY significantly like Maharashtra has allocated INR 1,855 crore in the state budget of 2016-17.
- The banks will play as anchor of this scheme and will be completely responsible for its effective implementation along with the insurance companies.
- Farmers not availing any kind of loans such as share-croppers too will be included within the scheme of PMFBY.

Coverage of the crops

- Food crops (Cereals, Millets and Pulses)
- Oilseeds
- Annual Commercial / Annual Horticultural crops

Coverage of the Risk

Following stages of the crop and risks leading to crop loss are covered under the Scheme.

- Prevented Sowing/ Planting Risk: Insured area is prevented from sowing planting due to deficit rainfall or adverse seasonal Conditions.
- Standing Crop (Sowing to Harvesting): Comprehensive risk insurance is provided to cover yield losses due to non- preventable risks, viz. Drought, Dry spells, Flood, Inundation, Pests and Diseases, Landslides, Natural Fire and Lightening, Storm, Hailstorm, Cyclone, Typhoon, Tempest, Hurricane and Tornado.
- Post-Harvest Losses: coverage is available only up to a maximum period of two weeks from harvesting for those crops which are allowed to dry in cut and spread condition in the field after harvesting against specific perils of cyclone and cyclonic rains and unseasonal rains.
- Localized Calamities: Loss/ damage resulting from occurrence of identified localized risks of hailstorm, landslide, and Inundation affecting isolated farms in the notified area.

One of the main caution, to be particularly careful about, while implementation of the scheme would be to take care of all the points which proved as roadblocks in all the previous insurance schemes. Fraudulent practices, insufficient promotion of the insurance

schemes and their benefits, etc. were particular reasons which led to the ineffectiveness of the previous schemes. This can be resolved, by paying attention to extensive promotion of benefits of PMFBY, and creating databases which would provide fool-proof evidences of claims.

One of the important challenges for effective implementation of the crop insurance schemes is the disorganized nature of data, and the data verification and hassles in the claim verification processes faced by both companies and farmers. Bringing in more data sources, extensive use of technology, convergence of data sources, creating a single repository and decreasing hassles in claim-verification processes can increase the success of such schemes to a great extent.

Critical factors for success of PMFBY:

- Increasing the pool of crop insurance by bringing in most of the farmers, by explaining them the importance of crop insurance, and eventuality of crop loss, despite of the fact whether the farmer owns a bank account or not.
- Crop insurance products should be designed with a district or region taken as unit, which represent similar crops or cropping patterns. Based on the risks assessments for a crop in a given geography, the bodies regulating crop insurance may determine premiums to be paid in consultation with State Governments, independent bodies and farmers
- To increase competition, instead of selecting one Agri-Insurance player through bid system for a district, all the districts should be made open to all the players (government or private). Mechanism should be developed to pay the government share of premium based on performance of each company.
- For the purpose of settlement of claims, feasibility of technology should be assessed e.g. use of Satellite imagery etc. or Panchayat shall be involved in identification of farmers, who have really lost their crops as well as in defining the claim amount.
- Role of government should be only monitoring the scheme and working of insurance players in the field, instead of executing the scheme. Government may propose a separate Agriculture Insurance Regulatory Authority, which should create level playing field and facilitate participation of large number of insurance companies in agriculture.
- Anational campaign could be launched to enhance awareness of agriculture insurance amongst the farmers. Similar to the Jan-Dhan Yojana, campaign should be launched for agriculture insurance and agri-insurance companies should be engaged directly, instead of running the campaign through Banks. Media, NGOs, KVKs, private companies should be involved to execute promotional and reach out campaigns.

- There is need to develop PPP models for increasing the support infrastructure, such as density of Weather Stations etc. Under Rashtriya Krishi Vikas Yojana, a weather station can be set up in each block, as done in Tamil Nadu state.

- A Toll Free Agri Insurance number should be launched and popularized (as success already seen in Kisan Call Centres). On failure of crop, a farmer may call up this number, and based on his, National Remote Sensing Agency may take satellite pictures of the field and share the same with the district authorities, bank and the concerned company for verification. The claim disbursement may be done within 3 days with the use of this technology system. This system will also help in preventing bogus claims.

Technology for crop insurance schemes:

Technological innovations in crop insurance is being talked about in the industry to bring in transparency in the claims disbursement, monitoring crop growth activity, risk management through monitoring bad weather, etc. Many private sector insurers have initiated efforts for active monitoring of the growth of the crops, monitor weather activities, etc. Government think-tank NITI Aayog has recommended the use of technology such as dedicated satellites, mobile and positioning system (GPS), and even drones technology to ensure better implementation of agriculture insurance system in the country.

Earlier methods of verification by the officials included physical verification by officials, crop cutting method, etc. for management of claims redressal. These methods, however, cause much delay, are prone to fallacies and do not ensure full-proof results.

Development in above areas can lead to considerable transparency in the process of claims management for agriculture insurance.

Conclusion:

Agriculture forms an important part of Indian economy as well as the priority sector lending norms for the banking sector in India. The emphasis on lending to agriculture has been well established above. There has been an altogether decent effort-making from the government and financial institutions and the efforts still have a long way to go. It is commendable that commercial banks contribute to the sector despite the profit-making pressure. In the long run, however, the sustainability of the contribution would depend upon the returns reaped back from the sector. The future policy-formulation process by the government shall have to be balanced between the sustainability of the banking infrastructure and development of the priority sector lending specially agriculture.

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 36 million enterprises involving 80 million people. It is 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 eco-system, in addition to promoting the use of indigenous technologies.

Contribution to GDP	Contribution Indian Industrial Output	Contribution to Exports
37%	45%	40%

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

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.

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.

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.

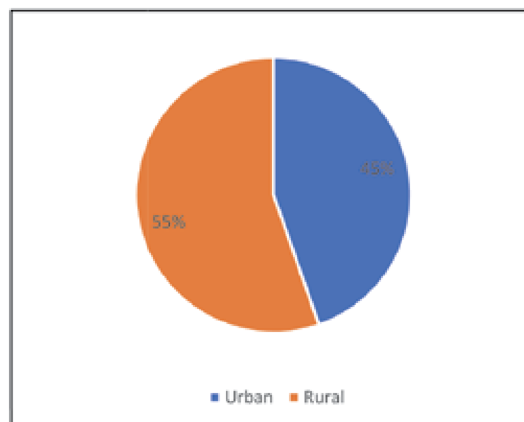
The MSME sector has been a major contributor to exports accounting for nearly 40% of total exports and constantly growing with major export destinations being USA, EU, UAE, etc.

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

(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.



Source: Fourth All India Census of MSME, 2006-07

Ownership Structure

Among the various ownership structures, proprietorship (nearly 94%) is the most preferred among the others.

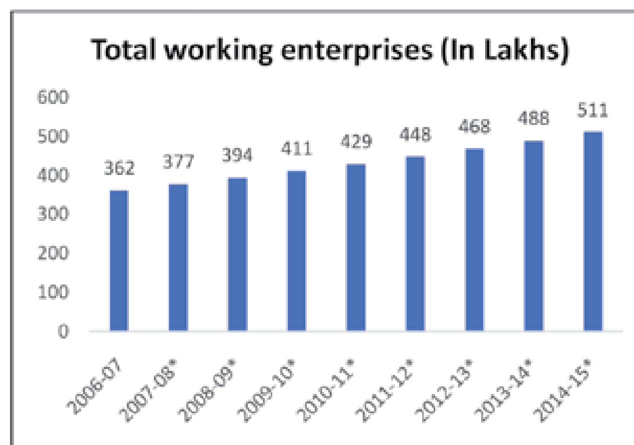
Type of structure	Share of MSME enterprises (%)
Proprietorship	94.5
Partnership, cooperatives	1.2
Private limited, Public limited	0.8
Others	3.5

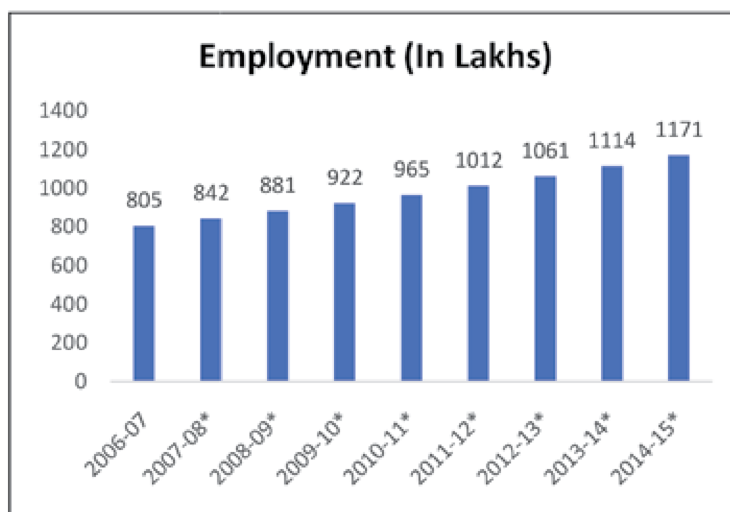
(Source: MSME Census)

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 number of enterprises and employment in the sector, between FY07 and FY15 which has grown at a CAGR of 4.40% and 4.80% respectively.





(Source: MSME annual report 2015-16)**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.

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 socio-economic 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.

MSME: Access to Credit

The access to credit plays an important role in the growth of MSME sector and India has been performing pretty well in this regard if we go by World Bank ranking on various parameters of ease of doing business. Yet, 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 two positions from 42 to 44.

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.

Credit Gap

The overall demand for finances in the MSME sector is estimated to be INR 32.5 trillion. The majority 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 characteristic 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 is 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

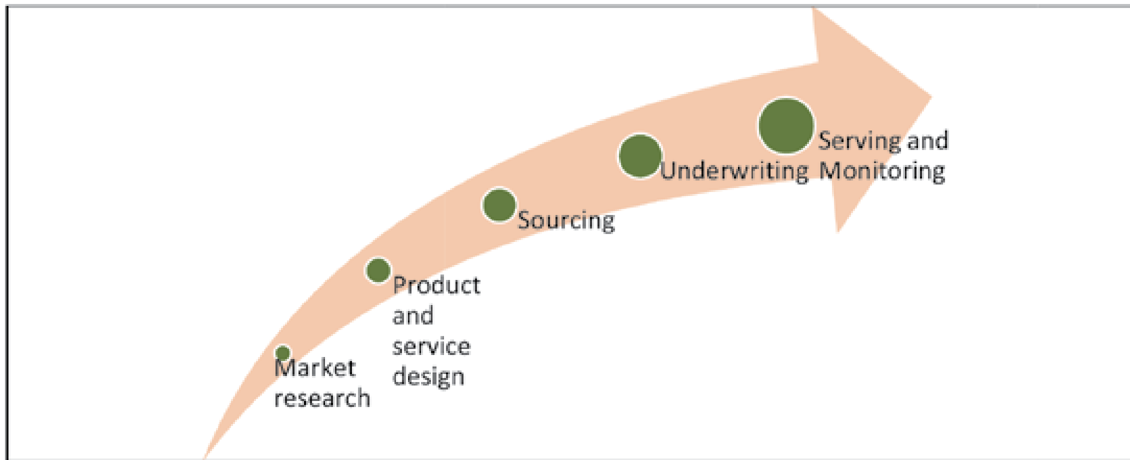
b) Non-fund based

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 have 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, banksinstead 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.

MSME: Challenges and Demands

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

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.

Challenges in MSME financing

The following obstacles prevent MSME from obtaining adequate financing-

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, isnot fullyaccurate 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 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.

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, crowd funding and other innovations may offer a way out of the cost trap.

Government aims to foster the flow of financing to the real economy, with a 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 standardized documentation, illiquid secondary markets and issues with insolvency laws currently limit the development of these markets.

Debt securitization 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 – securitization market to extend MSME lending. In recent years, new measures have been introduced at supra-national and national level to re-launch the securitization 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 organizations 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.

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 characterized 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 distinguish asset-based lending from traditional secured or collateralized 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, securitized 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, securitization and covered bonds represent "indirect" tools for supporting MSME debt financing, in that the product issued to the firm is a loan. In particular, securitization of MSME debt allows banks to transfer their credit risk to the capital markets, as MSME loans are sold to a specialized 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, securitized 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, 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 specialized 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 securitized 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.

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 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. Securitization 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 securitized debt, as they are debt securities (corporate bonds) backed by the cash flows from mortgages or loans.

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 everyone 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.

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. 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.

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 similar 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 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 toaddress 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 MSMEs

1.Lack of Financial Education amongst MSMEs

Undoubtedly the greatest challenge facing any financial innovator seeking to target the MSME market is generally the 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 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 discourages equity 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, to ensure that work is done to clarify the rules that govern key financial intermediaries.

Initiatives to Improve the Conditions

Government and the RBI

Bank loans up to INR 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 September 2015 is summarized in the following table.

The flow of finance from all scheduled commercial banks to MSME exhibits growth. However, the rate of growth has drastically fallen from 24% in 2013-14 to 13% in 2014-15.

(Outstanding credit amount in INR crore)

Year (last reporting Friday)	Public sector banks	Private sector banks	Foreign banks	All scheduled commercial banks
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	6,20,139 (23.4%)	2,00,840 (29.8%)	29,491 (-1.76%)	8,50,469 (23.8%)
March, 2015 (Provisional)	7,01,571 (13.1)	2,32,171 (15.6)	30,837 (4.6)	9,64,578 (13.4)
September 2015 (Latest available)	6,66,931 (-4.94)	2,45,660 (5.81)	24,729 (-19.8)	9,37,319 (-2.8)

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.

Micro Units Development & Refinance Agency (MUDRA)

MUDRA has been set up on Aril 8, 2015 as a wholly owned subsidiary of SIDBI for funding the unfunded micro enterprises. MUDRA refinances banks, micro finance institutions, and other lending institutions which are in the business of lending to micro/small business entities. Thus, MUDRA strengthens the micro and small businesses across the country. In FY2015-16, 3,48,80,924 loans have been sanctioned under Pradhan Mantri Mudra Yojana (PMMY) amounting to INR 1,37,449.27 Crores of which INR 1,32,954.73 Crores has been disbursed.

SMERA Ratings Ltd.

SIDBI, along with Dun & Bradstreet (D&B) and several public and private sector banks, set up the SMERA Ratings Ltd. in September 2005, as an MSME dedicated third party rating agency to provide comprehensive, transparent ratings to MSMEs. Cumulatively, since its incorporation, SMERA has assigned ratings to 43,587 MSME units till now and has been providing special attention to micro and small enterprises.

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. The scheme 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.

Recently, the Government of India has announced the enhancement of Credit guarantee schemes for MSMEs for loans up to INR 2 Crores which initially was INR 1 Crore. This move further enhance access to funds for small businesses to fulfill growth potential.

The guarantee cover available under the scheme is to the extent of maximum 85% of the

sanctioned amount of the credit facility. It is up to 75% of the credit facility up to INR 50 lakh (85% for loans up to INR 5 lakhs provided to micro enterprises, 80% for MSEs owned/ operated by women and all loans to NER including Sikkim) with a uniform guarantee at 50% for the entire amount if the credit exposure is above INR 50 lakh. In case of default, Trust settles the claim up to 75% (or 85% / 80% / 50% wherever applicable) of the amount in default of the credit facility extended by the lending institution. For this purpose, the amount in default is reckoned as the principal amount outstanding in the account of the borrower, in respect of term loan, and amount of outstanding working capital facilities, including interest, as on the date of the account turning Non-Performing Asset (NPA).

The cumulative guarantees approved by the trust till May 31, 2016 stood at 24.3 lakh for an amount of INR 1.13 Lakh crore.

India SME Technology Services Limited

India SME Asset Reconstruction Company Ltd. (ISARC) commenced its operations in 2009, with primary objective of acquiring NPAs and to resolve them through an innovative mechanism with a special focus on MSME. As of March 31, 2016, ISARC has assets under management of INR 381 Crores representing outstanding security receipts and balance sheet assets.

Strategic Business Initiatives and Overall Operations

The business strategy of SIDBI has been reoriented towards filling up the financial and non-financial 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) andDistrictCooperative 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 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 financialliteracy campaign among MSMEs in different cluster.

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 must 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 about 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.

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 INR 1 crore to INR 2 Crores.

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.

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 done 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 they have credit history and collateral. This uncovers new opportunities both within, and outside, entrepreneur's capital mix. New dimensions of information mean 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 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.

MSME sector has remained a long-neglected area in the country although it contributes most to the economy of the country mostly because of the unawareness, regulatory framework and lack of skilled manpower. Creating a world class eco-system to encourage 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 such as financing, infrastructure, literacy, ease of doing business, etc. 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.

Exports development

An export is a function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. The sale of such goods adds to the producing nation's gross output. If used for trade, exports are exchanged for other products or services in other countries.

Exports – A Priority Sector

Export credit is a part of priority sector loans. Export credit up to 32 percent of ANBC (Adjusted Net Bank Credit) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, will be eligible as part of priority sector for foreign banks with less than 20 branches. For other banks, the incremental export credit over corresponding date of the preceding year will be reckoned up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

The Export Credit extended as per the details below would be classified as priority sector.

Domestic banks	Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2015, subject to a sanctioned limit of ₹25 crores per borrower to units having turnover of up to ₹100 crores.	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2017 (As per their approved plans, foreign banks with 20 branches and above are allowed to count certain percentage of export credit limit as priority sector till March 2016).	Export credit will be allowed up to 32 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

Export credit includes pre-shipment and post shipment export credit (excluding off-balance sheet items) as defined in Master Circular on Rupee / Foreign Currency Export Credit and Customer Service to Exporters issued by our Department of Banking Regulation.

Export finance

In order to be competitive in markets, exporters are often expected to offer attractive credit terms to their overseas buyers. Extending such credits to foreign buyers puts considerable strain on the liquidity of the exporting firms. Therefore, it is extremely important to make adequate trade finances available to the exporters from external sources at competitive terms during the post-shipment stage.

Unless competitive trade finance is available to the exporters, they often resort to quoting lower prices to compensate for their inability to offer competitive credit terms. As a part of export promotion strategy, national governments around the world offer export credit, often at concessional rates to facilitate exports.

Export finance in India

Banks provide different kinds of loans to customers, but export finance is a kind of advance through which not only the customer benefits, but also the entire country benefits as it helps to bring valuable foreign exchange earnings. Hence, government gives more importance to export finance and has simplified various procedures involved in obtaining finance.

In India, export credit is available both in Indian rupees and foreign currency.

Types of export finance:

There are five types of export finance

1. Pre-shipment export finance
2. Post shipment export finance
3. Export finance against collection of bills
4. Deferred export finance
5. Export finance against allowances and subsidies

They are explained as below:

1. Pre-shipment export finance

The exporter is provided finance even for the purchase of raw materials and processing them into finished products, but this finance can be provided only when the exporter has a firm order from the importer and the importer has also given an anticipatory Letter of Credit from his bank. So, against the export order received from the importer, the exporter is given finance by his bank. This is called pre-shipment export finance.

It is the working capital financed by commercial banks prior to the shipment of goods and is also called packing credit. This financing allows the exporter to meet various operational expenses incurred before the goods are ready for shipment. This allows the exporters to:

- Purchase raw material and other inputs for manufacturing
- Import materials from domestic markets to produce goods for export
- Assemble goods
- Store goods at a suitable warehouse facility until shipment
- Pack and label goods
- Pay for documentation
- Pay for pre-shipment inspection charges

2. Post-shipment export finance

After the actual shipment of goods, the exporter requires post-shipment finance to meet the working capital requirements until the payment is received from buyers. This allows the exporters to:

- Pay for distributors and agency services
- Conduct promotional activities in the overseas market
- Pay port authorities, customs and shipping agents
- Pay export tax and duty, freight and other expenses
- Pay ECGC and marine insurance premium
- Meet after-sales service expenses
- Pay for expenses in relation to exhibitions and trade fairs within the country

After dispatching the goods to the importer, the exporter draws a bill, against which the importer makes the payment. But this may take a minimum period of 3 to 6 months and this time gap affects the exporter in his continuation of production. For this purpose, after

exporting, the exporter presents the export bill to his bank. The bank will prefer to purchase or collect or even discount the bill, which depends on the economic status of the importing country.

For example, if the export is made to USA against the Letter of Credit of the importer, the exporter's bank will purchase the bill and pay the full value to the exporter. Here, the bank gains as the value of currency is bound to go up since it belongs to a developed country. The entire risk of the bill is borne by the bank.

However, if the export is made to Egypt or Philippines, the bill will be discounted for 60-70% of the value as they both belong to developing countries.

If the export is made to countries in Africa, such as Namibia, Rwanda, Somalia, etc., the bill will be collected and paid to the exporter after 3 or 6 months, since the importing country happens to be a poor country.

3. Export finance against collection of bills

When exports are made to different countries, loans can be obtained from the bank against the bills sent for collection. As there are institutions such as Export Credit Guarantee Corporation, banks come forward to provide finance to exporters. In case of a default, the guaranteeing company will indemnify at least 80% of defaulted amount. While financing against the export bills, the banker will take into account the FOB invoice and not CIF invoice. FOB (Free on Board) invoice includes all expenses incurred until the goods are kept on board the ship. CIF invoice includes costs, insurance and freight and so this type of an invoice is not taken by the banker for financing.

4. Deferred export finance

To enable the importer to purchase valuable goods, hire purchase financing or lease finance may be arranged. There are two types of deferred export finance.

a. Supplier finance

b. Buyer finance

Supplier finance: In supplier finance, exporter's bank will finance the exporter so that he can sell the goods on installment basis to the importer. The exporter receives the full value and the payment made in installments by the importer is received by the exporter's bank.

Buyer finance: In buyer finance, the buyer is given credit under line of credit by the exporter's bank and the exporter is made to export.

5. Export finance against allowances and subsidies

Exporters are given subsidies by the government so that they can sell the goods at reduced prices to importers. For example, cash compensatory support is a subsidy given to the exporter by the government whenever there is an increase in expenditure, due to reasons beyond the control of the exporter, such as increase in transport cost or wage of the laborers.

When the exporter is faced with a sudden increase in expenditure due to reasons beyond his control, the government comes forward to provide cash compensatory support, which is a percentage of costs of his finished product. For example, deviation in the shipping route due to war.

There are also allowances given for increasing exports. An example for this is duty drawback. Here, when a product is imported, duty is paid. After processing, it is exported at a higher value. The duty paid at the time of import is refunded, which is called duty drawback. For example, gold is imported and duty is paid. It is converted into jewellery and exported at a higher value and the import duty is refunded. It may take some time to receive the refund, but the bank will finance against the refund of duty.

There is also export finance given to deemed exports i.e., in free trade zones at Mumbai, Chennai, Kolkata, Delhi, Kochi and Vizag, the suppliers of goods to foreign exporters are given finance. In these free trade zones, the value of the goods exported should not be less than 50% of the domestic market. Hence, the suppliers are provided finance under deemed export finance.

In the year 2000, the government came forward to start economic zones in Gujarat and Tamil Nadu for the purpose of increasing exports. There is also a pass book facility available to the exporters for continuous finance from the banks.

Export-Import Bank of India

Established by the Government of India, Export-Import Bank of India commenced operations in 1982 under the Export-Import Bank of India Act, 1981 as a purveyor of export credit, mirroring global Export Credit Agencies. With its rich pedigree, today it serves as a growth engine for industries and SMEs through a wide range of products and services. This includes import of technology and export product development, export production, export marketing, pre-shipment and post-shipment and overseas investment. In a rapidly shifting financial landscape, it is a catalyst and a key player in the promotion of cross border trade and investment. By instilling a powerful culture of innovation and foresight, it helps India maximize its potential and meet and exceed its vision.

Its flagship programs include

- Buyer's credit
- Corporate banking
- Line of credit
- Overseas investment finance
- Project finance

Credit risk insurance in export finance

Easy and hassle-free access to export finance significantly enhances firms' abilities to compete in international markets. Prior to agreeing to finance a firm's export transactions, banks need to be assured of the ability of the borrowers to repay the loan. Generally, banks insist on pleading adequate collateral before sanctioning export finance.

In an international transaction, as a firm has to deal with overseas buyers operating in different legal and political environments, the risks increase manifolds on the smooth conduct of the commercial transaction.

The major commercial risks in international trade transactions are

1. Non-payment by the importer at the end of the credit period or after some specified period after the expiry of credit term
2. Non-acceptance of goods by the importer despite its compliance with the export contract
3. Insolvency of the purchaser

It has been observed that commercial risks have resulted in more losses in international transactions compared to political risks. Credit risk insurance provides protection to exporters who sell their goods on credit terms. It covers both political and commercial risks. Credit insurance also facilitates exporters in getting export finances from commercial banks.

The benefits provided by credit insurance to the exporters are

1. Exporters can offer competitive payment terms to their buyers
2. It protects the exporters against the risk and financial costs of non-payment
3. Exporters also get covered against further losses from fluctuations in foreign exchange rates after the non-payment
4. It provides exporters a freer access to working capital
5. The insurance cover reduces exporters' need for tangible security while negotiating credit with their banks
6. Credit insurance provides exporters a second check on their buyers
7. Exporters get access to and benefit from the credit insurer's knowledge of potential payment risks in overseas markets and their commercial intelligence, including changes in their import regulations

Insurance policies and guarantees extended by export credit agencies such as ECGC can be used as collateral for trade financing. Once the perceived risks of default are reduced, banks are often willing to grant favourable terms of credit to the exporters. Thus, in addition to funding for exports, export finances also limit the firm's risk of international transactions.

Most countries have central-level export credit agencies (ECAs) to cover credit risks offering a number of schemes to suit varied needs of the exporters for export credit and guarantee.

Examples include Export Credit Guarantee Corporation (ECGC) in India, Export Credit Guarantee Department (ECGD) in the UK, Export Risk Insurance Agency (ERIA) in Switzerland, and Export Finance and Insurance Corporation (EFIC) in Australia.

Export Credit Guarantee Corporation

Export Credit Guarantee Corporation (ECGC) of India, established in 1957 by the Government of India, is the principal organization for promoting exports by covering the risks of exporting on credit. It functions under the administrative control of the Ministry of Commerce. ECGC is the world's fifth largest credit insurer in terms of coverage of national exports.

The ECGC mainly:

1. Provides a range of credit risk insurance covers to exporters against loss in exports of goods and services
2. Offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them

3. Provides overseas investment insurance to Indian companies investing in joint ventures abroad in the form of equity or loan

Export numbers

Exports	USD (bn)	INR (bn)
2013-14	314.41	19050.11
2014-15	310.34	18963.48
2015-16	262.29	17163.78
2016-17 (Apr-Sep)	131.23	8783.18

SME Exports

Micro, Small and Medium Enterprises (MSMEs) are major vehicles to drive the Indian growth story. They contribute to around 8% of India's GDP through more than 6000 products which is expected to grow to 22% in the next three years. The Indian entrepreneurial spirit, paired with recent regulatory and policy changes, is bound to make SMEs a buzzing sector.

India is on the verge of unlocking the potential of this giant sector that employs 70% of the population. Nearly 60% of SMEs primarily function in the unorganised sector. The growth of these units is crucial for the overall economy. In spite of a good share in exports, the industry continues to suffer from financing constraints and other operational struggles.

With around 40% contribution to national exports, the development of this sector is critical. Challenges such as sub-optimal scale of operations, technological obsolescence, supply chain inefficiencies, increasing competition, untimely trade receivables from large and multinational companies, and insufficient skilled labour plague SMEs. Working Capital financing, however, continues to be the major obstacle.

The basic types of export financing adopted by SMEs are as follows:

1. Pre-shipment finance
2. Post-shipment finance

Both these finances help SME exporters streamline their processes, and are vital to their growth.

Due to their current small-scale operations, SMEs face various challenges in accessing these finances from commercial entities.

Export financing challenges

The basic issues faced by MSMEs on a regular basis include scarcity and poor quality of raw material, marketing, and under-utilisation of capacity. Apart from these, access to capital is one of the major contributors to the slow growth of this industry. According to a report by the International Finance Corporation (IFC), the viable demand for capital in MSMEs is an estimated Rs. 9.9 trillion, which is 38% of total debt demand.

If the overall export is to improve, of which SMEs contribute a huge chunk, the sector will need financing. This working capital will help them ramp up their infrastructure for domestic and export operations.

Dependency on unorganized lenders

Many enterprises depend on loans from unorganised markets, and relatives of the management. The complicated procedure, paired with the high cost of credit, dissuade SME exporters from seeking financial assistance from banks. Moreover, the collateral required by banks on loans is in the form of infrastructure and inventory, which is unavailable with SMEs during the early stages; this further creates disparity for the exporters.

Additionally, the profit contingency on loans by traditional lenders contributes to the credit crunch. This accessibility gap for finances widens further when the SMEs are not equipped with adequate financial knowledge.

Few banks in India customise their offerings and processes to meet this vital SME necessity. Though efforts have been taken to find simpler procedures, their funding approach in totality remains restrictive.

Financing challenges faced by exporters

1. Access to adequate and timely credit
2. High cost of credit
3. Collateral requirements

What SMEs can do to boost their exports and reach

The SME sector can take advantage of the following to augment their export competitiveness:

- Credit norms: RBI reforms are in the process of bringing SMEs and their export units under the 'priority sector', which will transform financing for the sector. RBI has increased the upper limit for investment in plants and machinery, which ensures an even flow of credit to manufacturers. While RBI has included export credit in priority lending, there is still need for relaxations with respect to collateral terms.

- Relationship management: Transport, handling and logistics expenses run high for SMEs and start-ups. To overcome this, SMEs should leverage their business network and enter into long-term strategic relationships with their supply chain partners and distributors. This will help them build a sustainable cost advantage.

- Online presence: In today's scenario, having an online presence is critical to the success of SMEs. This serves two purposes - it brings credibility to the business, making it easy for lenders to trust them, and it makes them accessible to the end users of products and services, thereby gaining global customers.

- Quality and customer focus: SMEs can overcome export challenges by manufacturing quality products and adopting a customer centric approach. They can use marketing strategies such as loyalty discounts, after-sales services, on-time delivery, etc.

Banks can make financing easier

According to the IFC report, the viable and addressable debt demand is estimated to be Rs. 9.9 trillion ($198 billion), which is 38% of the total debt demand. The report also states that micro and small enterprises together account for 97% of the viable debt gap. In the current scenario, there is high disparity between the flow of credit for SME versus the non-SME sector.

This creates a unique opportunity for banks to participate in the staggering SME potential. For banks to add value and exploit this potential, they need to first address the following hurdles faced by SMEs:

Challenges SMEs face with traditional lenders

1. SMEs find that lenders fail to understand their unique financial requirements
2. Many SMEs are offered similar traditional lending services that are offered to the big players

3. Refusal by lenders to provide loans for certain SME categories
4. Tiresome loan request procedure and excessive paperwork
5. Long waiting period for disbursement of funds

Though banks promote and actively participate in SME growth, a middle ground for this huge market needs to be found. Credit assessment and debt restructuring, particularly for the SME sector, need to be revamped, apart from their conventional services. It is important to create a clear segmentation for this sector for successful customer acquisition in the market.

Some banks have augmented their strong technology base to make the loan application process easier, thus reducing transaction costs. Apart from other services, adoption of technology offers performance visibility to all the stakeholders. It further lends flexibility to SMEs.

Exchange of information, advice and support for SMEs at early stages ensures faster growth for the bank as well as SMEs. With optimal services aligned to match the complex SME environment, financing SMEs can become a bankable task. Bridging the trust and financial gap between banks and SMEs will lead to both having a profitable run.

Expectations from a new-age SME lender

1. Stays well-informed about the intricacies of fast-evolving SMEs
2. Constantly innovates offerings and provides sound advice
3. Offers new-age risk evaluation and distribution channels
4. Develops optimal standards for loan application and processing

Conclusion

If India wants to see accelerated growth in SME exports, it needs to reduce export operational bottlenecks across the SME industry. A need exists for increased government-led initiatives such as 'Make in India' as well as structural reforms that will help the sector gain momentum.

Banks and NBFCs need to strategize lending the 'SME way' to provide them with customised options to meet their export requirements. These finances will help SMEs build a sound infrastructure that is capable of competing in the global export market.

Government Schemes

Apart from the government schemes like PMFBY, PMMY etc. mentioned earlier in this report, there have been many other schemes which have been launched by the current government recently in the area of social banking. Some of these are mentioned below.

1. Pradhan Mantri Jan Dhan Yojana (PMJDY):

In his first Independence Day speech in 2014, Prime Minister Narendra Modi announced the Pradhan Mantri Jan Dhan Yojana (PMJDY). It is a national mission to bring comprehensive financial inclusion of all households in the country.

Under this scheme, any individual above the age of 10 years and not having a bank account can open a bank account without depositing any money.

The scheme was to ensure the access to financial services such as basic savings bank and deposit accounts, remittance, credit, debit cards, insurance and pension in affordable manner. The scheme was mostly targeted to the people belonging to the Below Poverty Line but is beneficial to everyone who does not have a bank account.

The scheme has been a great success. As on February 15, 2017, a total of 27.64 crore bank accounts have been opened so far under the scheme. Out of these, 16.73 crore accounts have been opened in rural areas and 10.92 crore accounts have been opened in urban

areas. 21.50 crore RuPay cards have been issued to these accounts. A total amount of INR 65,225.81 crores has been deposited in these accounts with 24.20% of these accounts being zero balance accounts.

Three Jan Suraksha schemes, namely Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY) were launched together on May 9, 2014.

2. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):

PMJJBY is a government backed term life insurance scheme aimed at increasing the penetration of life insurance cover in India. It goes a long way in ensuring a safe financial future for the policy holders can comes with lowest cost on a yearly basis.

Under this scheme, the policy holder can get a life insurance cover of Rs. 2 lakhs with an annual premium of just Rs. 330, excluding service tax. All Indian citizens between 18 to 50 years of age and having a savings bank account are eligible to avail the scheme.

As on February 21, 2017, a total of 3.09 crore policies have been sold under the scheme so far.

3. Pradhan Mantri Suraksha Bima Yojana (PMSBY):

PMSBY is a government backed accident insurance scheme aimed at increasing the penetration of accidental insurance cover in India. It targets social security through insuring

accidental deaths and partial or permanent disabilities. A large population of India lives in rural areas and these people do not have access to insurance schemes. PMSBY is an initiative to cater to this population so that they can enjoy the insurance benefits at minimum contributions.

Under this scheme, the policy holder can get an accidental insurance cover of Rs. 2 lakhs with an annual premium of just Rs. 12, excluding service tax. All Indian citizens between 18 to 70 years of age and having a savings bank account are eligible to avail the scheme.

As on February 21, 2017, a total of 9.91 crore policies have been sold under the scheme so far.

4. Atal Pension Yojana (APY):

APY is aimed at increasing the number of pension scheme beneficiaries across the country. It ensures old age pension to those who are not covered under any other pension or social security scheme. This way, those people who are working in private unorganized sectors and enjoying no pension scheme would be covered and can ensure a healthy and comfortable old age.

This scheme is especially targeted to the private unorganized sector, but is open to all Indian citizens between the ages of 18 to 40 years. The beneficiary has to make a contribution for at least 20 years before he/she can get a pension after attaining an age of 60 years. The scheme provides a monthly pension of Rs. 1000 to Rs. 5000 per month based on the contribution amount.

As on February 21, 2017, a total of 37.48 lakh enrolments have been done under the scheme so far.

5. Sukanya Samriddhi Yojana (SSY):

Sukanya Samriddhi Yojana (SSY) was launched on January 22, 2015. It is an ambitious small

deposit savings scheme for the girl child. It lays special emphasis on financial empowerment of the girl child.

Under this scheme, a savings account can be opened in the name of the girl child and deposits can be made for 14 years. Parents of any girl child below 10 years of age can open a savings account for their daughters and operate it. After the girl reaches 18 years of age, she can withdraw 50% of the amount for marriage or higher study purposes. After the girl reaches 21 years of age, the maturity amount can be withdrawn, including the interest at rates decided by the government every year.

The investments and returns are exempt from section 80C of Indian Income Tax Act. The scheme offers a high rate of return, even much higher than PPF. A maximum investment of Rs. 1.5 lakhs per year can be made, while minimum deposit amount is Rs. 1000 per year. In case of more than one girl child, parents can open another account on a different name, but only for 2 girl children. The only exception is if the parents have twins and another girl child.

As many as 1.8 lakh accounts had been opened under this scheme in less than 2 months of its launch.

Evaluation methodology:

We present before you in this section the evaluation methodology for the 12thASSOCHAM Annual Social Banking Excellence Awards 2016. Ashvin Parekh Advisory Services LLP (APAS) has been the knowledge partner and evaluation partner for this event for 3 years. These awards have been given by ASSOCHAM, to award banks making commendable contribution to the cause of Social Banking and Financial inclusion. At APAS, we believe in presenting a fair and transparent process of evaluation. Hence, we provide below the details of evaluation of nominations for Annual Social Banking awards 2016:

- We received a total nomination of 76 from 34 banks across 4 categories viz. Agricultural Banking, Priority Sector Lending, Government Schemes and Best Social Bank. The number of nomination across these categories were 23, 20, 20, and 13 respectively.

- A template has been designed to evaluate the responses and judge the winner. The nomination form consists of some quantitative and qualitative questions. These

questions are segregated into Qualitative and Quantitative section in the evaluation template. Each question is assigned weight according to its importance. The questions have been finalized with consent from jury.

- The qualitative questions are evaluated on different sub-parameters pertaining to the question. The sub-parameters are assigned a weightage whose summation adds to the weightage assigned to the question. Depending upon the response the question is normally given ranking (or marks) of 10, 7, 4; or a 10, 0 for a Yes-No question. Total quantitative score is obtained by multiplying weightages with marks and summing them up.

- The quantitative questions are ranked according to responses, with higher number indicating a higher rank be given to it. There are cases where higher ranks are being given to lower number because of the nature of the question Ex. Question representing attrition rate. As in the qualitative section, the weightages and rankings are multiplied and is summed to get the quantitative score of the bank.

- The Total score reflects both qualitative and quantitative scores. The weightages were decided based on the nature of questions and which set of questions – qualitative or quantitative have better captured the essence of efforts by the bank.

- Substantial effort has been put in by us to collate and evaluate the relevant and accurate data. Many banks have furnished data which seems to be incorrect or the data was not clear or incomplete. In these cases, banks have been asked to reply with correct or proper data. The banks those who failed to reply after multiple reminders were marked '0'. In many cases, judgmental calls were taken based on assumptions. We have been as objective and accurate as possible in evaluating the responses. However, we had to make certain judgement calls in the absence of data or for other practical reasons. It would be appreciated that given the nature and the subjectivity involved, such approximations had been made.

- The evaluation has been performed to complete discretion, where judgment has been taken only in case of qualitative questions. The marks have been allotted as per the responses received from the banks. The information supplied by the banks has been assumed true, as per the undersigning officer. Marks allotted are on the prima facie evidence of the efforts taken by the banks, however, the decision regarding the winners and runner-up totally depends upon the jury's decision. The experience and view of Jury shall be utilized to decide upon the winners. We still await some changes in data from the banks and clarification on certain figures from them. The view on winners and runner-up can change, in light of change of data.

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.

In strategy domain, 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 strategy management, 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 banking reforms, including the licensing of new banking companies, transformation of current financial institutions to progressive organizations and branch expansion of foreign banks in India. We offer operational support in the areas of financial inclusion, holding company structures and project management services. In addition, we also conduct high level diagnostic studies for public and private sector banks and insurance companies.

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ASSOCHAM
THE KNOWLEDGE ARCHITECT OF CORPORATE INDIA

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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.

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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.

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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.

ASSOCHAM's REGIONAL & OVERSEAS OFFICES

ASSOCHAM REGIONAL OFFICES

ASSOCHAM Western Regional Office
608, 6th Floor, SAKAR-III
Opposite Old High Court, Income Tax
Ahmedabad-380 014 (Gujarat)
Phone: +91-79-2754 1728/ 29, 2754 1867
Fax: +91-79-30006352
E-mail: assocham.ahd1@assocham.com
assocham.ahd2@assocham.com

ASSOCHAM Eastern Regional Office
18, Ballygunge Circular Road
Kolkata-700019
Contact Person: Ms. Perminder Kaur
Phone: 91-33-4005 3845/41
Mobile : 0967431223
Fax: 91-33-4000 1149
E-mail: perminder.kaur@assocham.com

ASSOCHAM North Eastern Regional Office
Global Express Group
House No. 7, Bye No. 2
Chandan Nagar, Survey, Beltola
Guwahati-781028
Contact Person: Mr. Munindra Kumar
Phone: 09957999367
E-mail: ner@assocham.com

ASSOCHAM Southern Regional Office
Ashirwad Towers, 1st Floor, 75/11,
2nd Main Road, Vyalikaval,
Bengaluru-560003
Contact Person: Mr. Chetan Shiva Kumar
Tel: 080-40943252
Fax: 080-41256629
Mobile: 9108563359
E-mail: chetan.s@assocham.com

ASSOCHAM Regional Tamil Nadu Office
International Law Centre, 61-63
Dr. Radhakrishnan Salai
Mylapore, Chennai-600004
Contact Person: Mr. Vinod Solomon
Phone: 044-28120000 • Fax: 044-28120001
Mobile: +91 9486204970
E-mail: chennairo@assocham.com
vinod.solomon@assocham.com

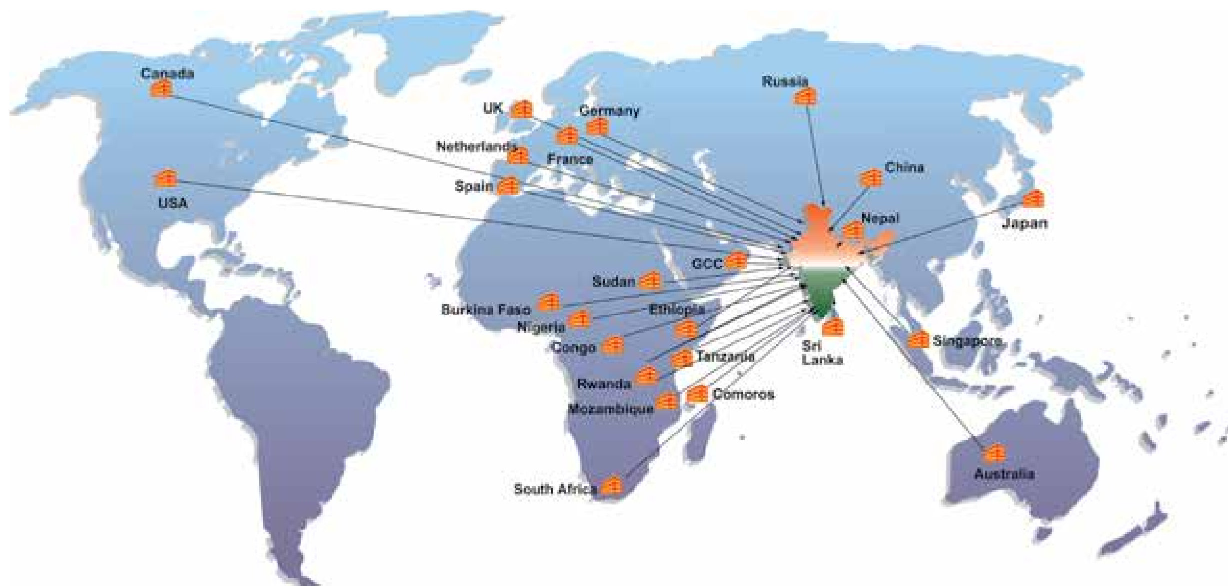
ASSOCHAM Regional Ranchi Office
503/D, Mandir Marg-C, Ashok Nagar
Ranchi-834 002
Contact Person: Mr. S. K. Singh
Phone: 06516555601, 06516555001
Mobile: 09534769548
E-mail: ranchioffice@assocham.com

ASSOCHAM Regional Hyderabad Office
Plot No. 1335, Road No. 45
Jubiliee Hills, Hyderabad-500 033
Contact Person: Mr. Srikant Badiga
Phone: 040-23557777

ASSOCHAM Regional UP Office
B-1, Kasmanda Regent Apartments
Park Road, Hazratganj, Lucknow-226001
Contact Person: Mr. C. P. Singh
Mobile: 9415026052
E-mail: rd.up@assocham.com

ASSOCHAM Regional Chandigarh Office
SCO: 55, 56, 57, II Floor, Sector-8
Madhya Marg, Chandigarh-160008
Contact Person: Mr. Dalip Sharma
Phone: 0172 4800855
E-mail: director.chd@assocham.com

ASSOCHAM OVERSEAS 28 OFFICES



THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

ASSOCHAM Corporate Office:

5, Sardar Patel Marg, Chanakyapuri, New Delhi – 110021

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

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