

ENHANCING THE FLOW OF BANK CREDIT TO MSMEs THROUGH FORMALISATION

Improving credit flow to the MSME sector at low cost has been a policy priority of the Government and the RBI. Various initiatives have been undertaken in this regard. These are elaborated below:

- Introduction of Trade Receivables Discounting System (TReDS): TReDS is a digital platform that facilitates the discounting of trade receivables of MSMEs through multiple financiers, including banks and non-banking financial companies (NBFCs), to meet their liquidity and working capital requirements. Cumulatively, 98.9 lakh invoices, amounting to ₹2.9 lakh crore, have been discounted on TReDS platforms as of 31 March 2024, supporting MSMEs in better liquidity and working capital management.
- Change in definition of MSMEs: From 1 July 2020, MSMEs are defined as per a composite criterion of turnover and investment in plant and machinery/equipment. This is envisioned to bring a large number of entrepreneurs under the purview of the formal banking sector, which will facilitate the flow of credit to the industry at subsidized rates.
- Registration of MSMEs on Udyam Portal: The Ministry of Micro, Small, and Medium Enterprises (MSMEs) launched the Udyam Registration Portal (URP) on July 1, 2020, and has since established it as an essential enabler for ease of doing business, as it is free of cost, simple, and online. This was done to bring entrepreneurs under the ambit of the formal banking sector, which will facilitate the flow of credit to MSMEs at subsidised rates. However, one challenge with URP is the registration of Informal Micro Enterprises (IMEs), which are sizable in number. According to the 73rd National Sample Survey, 6.3 crore unincorporated non-agricultural entities existed in FY16, primarily comprising micro-enterprises. Since IMEs do not have a PAN/GST, they cannot register on URP and avail themselves of the benefits of Government programmes. To formalize such enterprises, the Ministry of Micro, Small, and Medium Enterprises (MSME), in collaboration with the Small Industries and Development Bank of India (SIDBI), launched the Udyam Assist Platform (UAP) on January 11, 2023. Through formalisation, informal micro-enterprises will be linked to various facilities, such as access to markets and credit. As of June 2024, 1.86 crore IMEs have been

onboarded on UAP. More than 4.5 crore enterprises have been registered on URP and UAP as of 3 June 2024.

- Revamp of Credit Guarantee Scheme (CGS) for MSEs: In the Union Budget FY23, the revamp of the CGS for Micro and Small Enterprises (MSEs) was announced with a required infusion of funds to facilitate an additional credit of ₹2 lakh crore for MSEs. Accordingly, the CGS was revamped with an injection of ₹9,000 crore in the corpus of Credit Guarantee Fund Trust for MSEs. Subsequently, the credit limit under the said scheme was increased from ₹ two crore to ₹ five crore, with a minimum annual guarantee fee as low as 0.37% per annum. Consequently, credit guarantees worth ₹3 lakh crore were approved during FY23 and FY24, exceeding the target of ₹2 lakh crore over the four years. During FY23, out of the guarantees of ₹1.04 lakh crore, ₹16,373 crore and ₹2,750 crore were extended to women and SC/ST-owned enterprises, respectively. Guarantees worth ₹2.02 lakh crore were extended in FY24, out of which ₹32,223 crore and ₹5,393 crore were extended to women & SC/ST-owned enterprises, respectively.

To ensure credit availability to IMEs, effective 14 February 2024, the Ministry of MSME has made a special provision under the existing CGS for MSEs, providing that IMEs registered on UAP can avail of credit up to ₹20 lakh without primary security and with 85 percent guarantee coverage, along with a reduced annual guarantee fee. Additionally, initiating legal action is not required for financial institutions to invoke the guarantee.

CGS: Credit Guarantee Scheme

CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises

NBFCs: Non-Banking Financial Companies

TReDs: Trade Receivables electronic Discounting System

UAP: Udyam Assist Platform

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Source: Economic Survey 2023-24