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MSMEs bank loans: This is how you can make access to money easier

Modi government foresees the MSMEs sector contributing up to \$2 trillion as India eyes becoming a \$5 trillion economy by 2024.

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Over the last few years, India's economic growth has been bolstered by Micro, Small, and Medium Enterprises (MSMEs). Contributing a whopping 30 per cent to the country's GDP, the 63 million MSMEs in India also attribute to 45 per cent of the manufacturing output and is home to livelihood for over 110 million Indians. Despite challenges such as lack of adequate credit, infrastructure, technology, remote and inaccessible markets, the sector has held strong and is touted to be the torchbearers of India's vision of becoming a \$5 trillion economy by 2024-25.

Speaking on the MSMEs status in India, Mehernosh Tata, Head at Edelweiss SME Lending said, "As per industry reports, the Indian government foresees the MSME sector contributing up to \$2 trillion as India eyes becoming a \$5 trillion economy by 2024. However, the major impediment to this is that access to low-cost credit for working capital requirements remains the primary challenge for the sector. Despite the contribution they make to the country's economy, MSMEs are deterred by a lack of access to a quality credit line for investing in business and expansion plans, often, derailing the entrepreneurs from their vision. Industry estimates indicate that the current credit flow to this sector is approximately Rs 13 trillion."

Tata went on to add that in continued alignment with the formalisation of the MSMEs, there will be a need for increased transparency in accounts reporting, requisite collateral for access to credit and support from financial players and fintech, would be needed for the sector to relentlessly tap demand in domestic and international markets.

An IFC-Intellicap report indicates that only 16 per cent of MSMEs are being financed by formal banking; more than 80 per cent of the MSMEs have no form of financing from the formal system. Financial institutions are unable to adequately lend to MSMEs given challenges in credit risk assessment owing to lack of financial information, historical cash flow data etc.

On MSMEs credit flow Tata, said, "For this to be addressed and increase flow of credit, MSMEs need to ensure adherence to accounting standards with updated bank statements. This helps financial institutions effectively judge creditworthiness and repayment capacity. It is a key parameter used to offer to lend. Additionally, MSMEs must focus on moving from cash transactions into bank

transactions that can accurately reflect the turnover of the entity for the purpose of disbursal assessment."

Digitally available data is eliminating uncertainty in acquiring and underwriting SMEs and customers. The Government of India has made consistent efforts through targeted policy interventions in recent years to address credit issues. One such initiative is the Udyog Aadhaar scheme, which is a 12-digit government registration that is provided along with a recognition certificate and a unique number in order to certify MSMEs. A registered MSME will be eligible for benefits under government schemes such as guarantee free loans, easy loans, low-interest loans, government subsidies, etc. Having a Udyog Aadhar number is now imperative for MSMEs.

Other schemes introduced by the Government that MSMEs should be aware of include:

- 1] Zero Defect Zero Effect – concessions on goods manufactured for export;
- 2] Quality Management Standards & Quality technology Tools – activities conducted to sensitise businesses about new technology;
- 3] Grievance Monitoring System – to address complaints of business owners;
- 4] Incubation – Financial support to promote new ideas, designs, products, etc;
- 5] Credit Linked Capital Subsidy Scheme – capital subsidy provided to the business owners to replace their old and obsolete technology; and
- 6] Women Entrepreneurship – capital, counseling, training for women entrepreneurs.