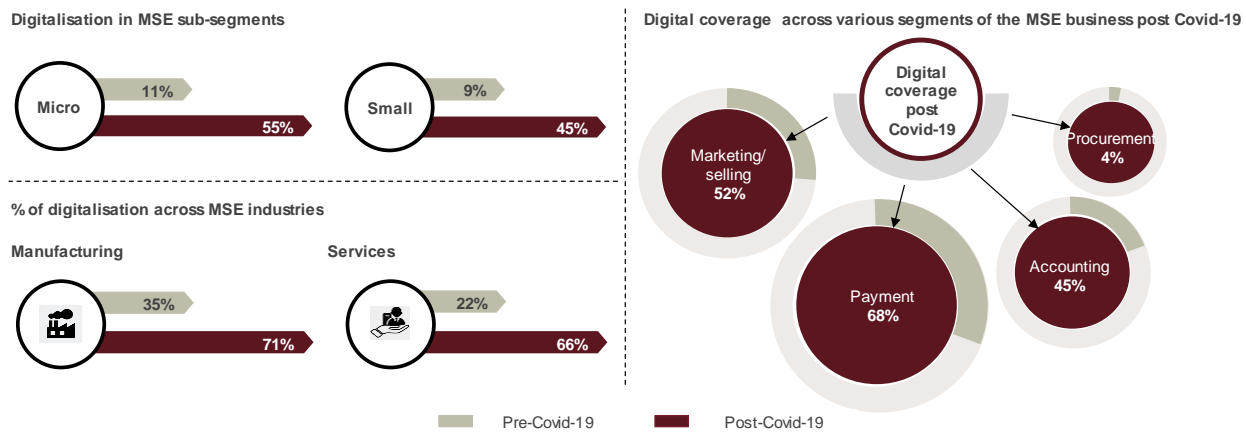


Helping MSEs go digital

The digital landscape for businesses has changed drastically in recent years with the emergence of several elements leading up to a strong digital ecosystem. The Covid-19 pandemic has added an element of urgency to this, and underscored the need to fuel the digital economy.

The complex and varied micro and small enterprises (MSE) segment has also started adapting to the changes — especially micro enterprises, which are at different stages of digital readiness — though challenges remain.

Traction in digital coverage seen across the MSE segment



Source: CRISIL SME Solutions

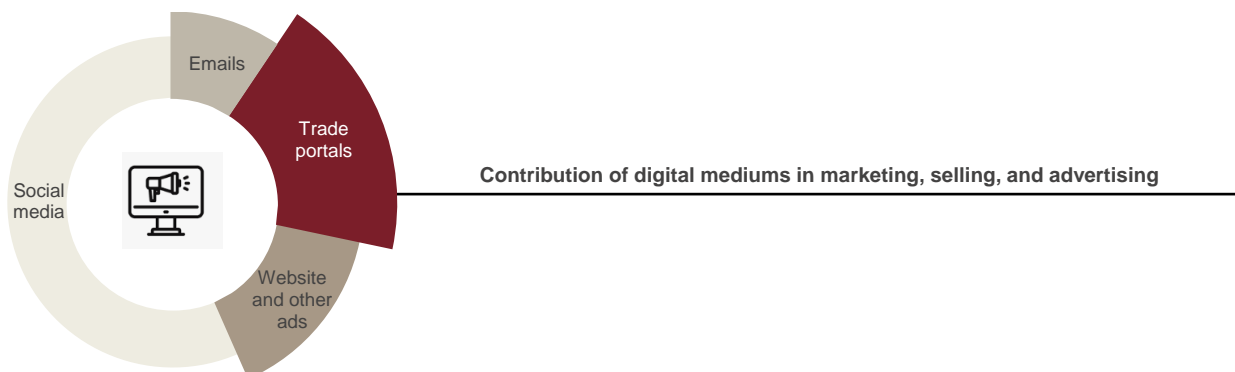
CRISIL conducted a survey of ~540 respondents to gauge the impact of digital transformation. The results indicate that more than ~65% of respondent MSEs adopted/updated their digital landscape amid the pandemic.

Digitalisation was more rampant among micro enterprises, with ~55% of these moving to the digital space compared with ~45% of small enterprises. These enterprises placed sharper focus on financial transactions, with ~68% extensively adopting payment wallets and net banking, whereas procurement/inventory management accounted for only ~4%.

The growing demand for digitalisation has prompted MSEs to transition from manual book-keeping to new-age methods, and simplified book-keeping and inventory management tools. About 45% of respondents have adopted accounts management tools.

Moreover, Covid-19 has changed the way MSEs market/sell their products/services — today, about 52% of the respondent use social media to market their products.

Social media has the lion's share in promoting products and services on digital platforms



Source: CRISIL SME Solutions

A well-integrated and connected digital ecosystem is optimal to build connections, and drive transformation. The stages span entrepreneur identification, creditworthiness, delivery of schemes, access to markets, right skills mix for different firm stages, and enabling granular and cost-effective data collection in the MSE sector.

Access to formal credit has always been a challenge for MSEs due to the absence of information such as historical cash flows, credit reporting systems, and credit track record. There is thus an urgent need to formalise the sector to boost formal credit flow to MSEs. Growing digital adoption is likely to reduce the aforementioned issues.

The Indian government has over the past two years taken many initiatives to improve funding access of MSEs, with schemes such as UDYAM, Open Credit Enablement Network (OCEN), and Trade Receivables Discounting System (TReDs). In Union Budget 2022, the government announced inter-linkage of portals such as UDYAM, e-Shram, National Career Service (NCS), and Aseem, which will act as live databases providing government to consumer (G2C), business to consumer (B2C) and business to business (B2B) services such as enhancing entrepreneurial opportunities and easy upskilling to drive growth of MSEs.

Initiatives such as Emergency Credit Line Guarantee Scheme (ECLGS), Aatmanirbhar Bharat, Resolution Framework, Ubharte Sitare Fund and Factoring Bill also will be useful in expanding formal credit facilities for MSMEs and propelling growth. Although the pace of the initiatives taken to formalize the sector has picked up in recent years, CRISIL believe that reluctance of MSEs to disclose/share their data is impacting the overall traction.

MSEs are hesitant to share financial data



Source: CRISIL SME Solutions

CRISIL's survey shows ~80% MSE respondents are not comfortable sharing data for fear of data theft, despite the Reserve Bank of India's assurance on privacy of financial data as it will be shared in encrypted form.

In the context, fast-footing spreading of awareness and promotion of such initiatives become imperative for the government to ensure effective implementation. On their part, MSEs should ramp up digitalisation and formalisation to increase their competitiveness, fuel growth, and overcome challenges.