GLOBAL ALLIANCE FOR Mass Entrepreneurship

C2FO

Delayed Payments 2.0

Imagining Solutions to Unlock Working Capital for MSMEs

Global Alliance for Mass Entrepreneurship (GAME) and C2FO

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01

Executive Summary

Creating a National Platform to Tackle Delayed Payments

Executive Summary

Micro, Small and Medium Enterprises (MSME) are the lifeblood of the Indian economy. Not only do they contribute approximately 30% to India's Annual Gross Domestic Product[1], they are major employment generators, with micro-enterprises alone employing an estimated 23% of India's total workforce[2].

It stands to reason that any impediment to the sustainability and growth of MSMEs has a multiplier effect on the Indian economy. In year 2022, the Global Alliance for Mass Entrepreneurship (GAME) estimated that the problem of delayed payments to MSMEs is in the magnitude of Rs. 10.7 lakh crore, with 80% of this being attributable to delays to micro and small enterprises (MSEs)[3]. The problem of delayed payments is exacerbated by the lack of credit, specifically working capital facilities, that are available to these businesses. Reports such as the IFC's 2018 *Financing India's MSMEs* estimate that the total addressable debt requirement of micro and small enterprises was Rs. 24 lakh crores in 2018, with an estimated 70% attributable to the elevated working capital needs of these businesses[4].

This requires immediate solutions if India is to create an additional 10 crore jobs by 2030[5].

While there are over 200 government financing schemes targeted at MSMEs with outlays of several lakh crores (Mudra alone sanctioned Rs. 3.4 lakh crore in FY 2021-22[6]), a combination of thorough documentation and a lack of awareness has meant that these schemes are unable to reach those most in need. This is compounded by the reality that lakhs of businesses have never been part of the formal economy and, consequently, have never had access to credit. When viewed from this lens, large enterprises are in a position of extreme privilege as they have infinitely better control over their cash flows and financial health.

To address these issues, this report recommends a coordinated, ecosystem-wide effort with three central pillars at the head: Government and Policy Makers, Finance Enablers and Financiers, and Large Enterprises (including PSUs).

With the support of these pillars, specific actions may be undertaken to mitigate and/or eliminate the problem of delayed payments. These include strengthening cash flow based lending through the provision of on-tap, easy-to-use, credit guarantees, the proliferation of credit scores that use alternative data sources for new-to-credit customers; strengthening TReDS by integrating GST data and the provision of operationally light credit guarantees (specifically for factoring transactions); and re-imagining the process of dispute resolution for delayed payments through online portals using GST data.

02

Setting the Context

Setting the Context

As the report released by the Global Alliance for Mass Entrepreneurship (GAME) in May 2022 stated, "payment delays to Micro, Small and Medium Enterprises (MSME) businesses are pervasive, longstanding and normalised".

Legally, delayed payments occur when buyers delay payables to their Micro & Small Enterprise (MSE) suppliers by 45 days[7]. A whopping Rs. 10.7 lakh crores - is locked up in delayed payments from buyers to MSME suppliers - an estimated 7.8% of the Gross Domestic Product (GDP) in the Indian economy, with 80% of this estimated amount owed to micro and small enterprises, totalling Rs 8.55 lakh crores[8].

By withholding payments (or trade payables) beyond agreed credit periods, buyers essentially get access to free cash to finance their working capital cycles at their suppliers' cost.

While the contribution of MSMEs to India's economy is well documented at approximately 35% of annual GVA[9], what is less understood is the impact that delayed payments to MSMEs have on employment generation in the country.

A recently released report by the State Bank of India stated that the Emergency Credit Line Guarantee Scheme (ECLGS) rollout in May 2020 has helped save 16.5 million jobs across 1.46 million MSMEs, almost 94% of which were in the micro and small sectors. This is in keeping with other secondary research that suggests that sectors such as construction, trade, and transportation had the largest share in the total number of new jobs created between 1990-91 and 2015-16[10], but they also face the greatest degree of delayed payments as outlined in Table 2.1

A report by LEAD (Leveraging Evidence for Access and Development) at Krea University highlighted that 53% of the firms from their sample had laid off their employees, and more than 50% of the firms in the sample had faced a delay in payments or received no payments between June 2020 and July 2021[11]. While this could be a transitory phenomenon attributed to the COVID-19 pandemic, the table below highlights a more worrying trend.

Table 2.1 : Sectors with high non-farm employment and quantum of DP faced by them

Sector	% share of new non-farm jobs created (1990-91 to 2015-16)	% share of total workforce (2015-16)	Delayed payments (% total sales)[12]
Construction	35.74	14.4	55%
Trade	14.56	10.04	39%
Transport and Storage	7.44	7.44	36%

Setting the Context

What is clear is that financial support is needed to strengthen MSMEs if we are to create large-scale employment opportunities in India. As evidenced by a study by the International Finance Corporation (IFC), every $1mn loan to MSMEs created 16.3 new jobs. C2FO, a global platform for working capital, estimated that its platform, which dispenses with credit underwriting altogether, has helped to create 57,000 jobs in the United States over the past eight years, assuming that 10% of every dollar accelerated would be directed toward a small business's payroll, based on research from the National Bureau of Economic Research[13].

The pressing need in India to create an additional 10 crore jobs by 2030[14] creates a renewed urgency for this issue to be tackled. The good news is that an estimated 11.09 crores, or roughly 11% of the employed Indians, work in MSMEs, which is much below the global average of 30-40%[15]. This is indeed low-hanging fruit.

03

Challenges In Unlocking Working Capital

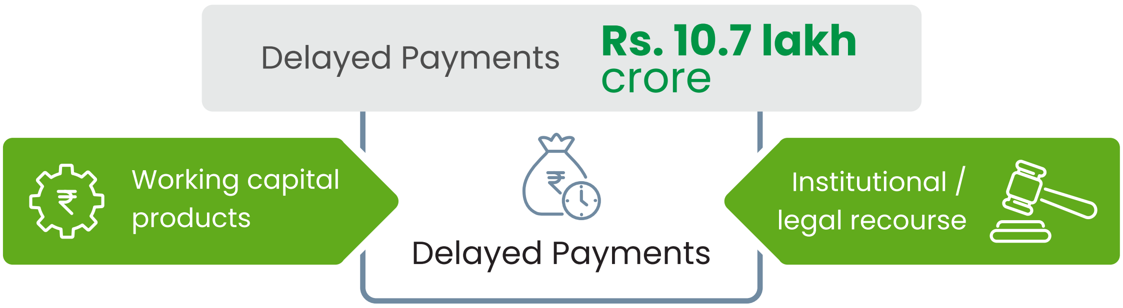
Challenges In Unlocking Working Capital

The magnitude of the gap created by delayed payments begs the question – how do MSMEs survive this reality? The answer is complex.

MSMEs have deployed a diverse set of strategies to deal with the challenges of delayed payments, like developing leverage through innovation, predatory pricing, operating in a niche market, offering goods and services on credit to only trustworthy buyers, and supplying to a diverse set of buyers. However, these strategies are firm-level measures often only applicable to some enterprises.

At a macro level, suppliers' challenges in dealing with delayed payments can be divided into 2 broad categories. The first category is the challenges associated with accessing working capital to address the working capital gap through credit products. When a supplier's working capital is locked in as a delayed payment, the supplier needs access to credit products to ensure business continuity. The second category consists of barriers around raising a dispute using institutional mechanisms such as MSME Samadhaan to ensure that buyers make payments that have been overdue.

Figure 3.1: Levers to address delayed payments



The challenge is not only with access to finance but also with applying for existing financial products created under Government schemes or otherwise, the credit evaluation criteria followed by financial institutions, the information asymmetry and the fragmented ecosystem around working capital provisioning.

Current Challenges in Accessing Credit

Financial institutions play a major role in addressing delayed payments by providing credit solutions. These solutions include working capital loans and finance solutions, which include overdraft facilities, supply chain financing, invoice discounting services, factoring services etc. RBI data reveals that financial institutions (Non-Banking Financial Companies and Banking Companies) have provisioned credit to the tune of Rs. 9.70 lakh crores from 2021-22 in the form of working capital to private corporate borrowers, out of which an estimated 28% accrues to MSMEs[16].

Challenges In Unlocking Working Capital

Figure 3.2 : Reasons behind working capital demand

Long payment cycles

Sectors such as textiles typically have longer payment cycles, increasing the need for working capital

Significant delayed payments

India has a 10.7 lakh crore delayed payments problem which increases the need for working capital

The banking sector is yet to view MSMEs as a major client. This is clearly visible by the extent of overall credit facilitated to them. RBI has mandated under the Priority Sector Lending norms that scheduled commercial banks (SCB) extend a minimum of 7.50% of the bank credit (Adjusted Net Bank Credit) to micro-enterprises alone[17]. The data on credit extended by SCB to the Non-food segment reveals that their credit to the massive 6.30 crore Micro, Small, and Medium Enterprise segment is only Rs. 17.2 lakh crores which is 14.5% of the total non-food segment[18]. To encourage the credit flow to the MSME segment, the Government has created several credit-linked schemes across various ministries. Figure 3.3 below captures the gist of the same.

Figure 3.3: Budget outlay of schemes enabling access to credit

200+ Schemes/programs fragmented across ministries/states

9+ Ministries involved

50+ Implementing agencies

Rs. 57,000 Cr (2021-22) Total central budgetary grant and utilisation

Ministry	Department	Scheme	Outlay
MoF	SIDBI	FoF	₹ 10,000 Cr
		PM MUDRA	₹ 2500 Cr
		GECL	₹ 10,000 Cr
		RAMP	₹ 6,057 Cr
MoMSME	KVIC	PMEGP	₹ 2,000 Cr
MoCI	DPIIT	Startup India	₹ 146.83 Cr
MoFPI		PM-FME	₹ 500 Cr
MoHUA		NULM - SEP	₹ 768.22 Cr
		PM SVANidhi	₹ 200 Cr
MoT		ATUFS	₹ 700 Cr

Ministry	Department	Scheme	Outlay
MoF	CGTMSE		
	NCGT*	CGFSI	₹ 10,000 Cr
		ECLGS	₹ 10,000 Cr
		CGFMU	₹ 2,500 Cr
		LGSCAS	₹ 50 Cr
		CGSS	₹ 2,000 Cr
		LGSCATSS	₹ 12.50 Cr
		CGS for Factoring*	₹ 0.01 Cr
		CGSSI - Stand-up India	₹ 100 Cr

Note: The schemes mentioned are illustrative and non exhaustive

Challenges In Unlocking Working Capital

Despite over 200 financing schemes with an outlay of over Rs.47,000 crores being targeted at MSMEs with an outlay of over Rs. 47,000 crores, as shown in Figure 3.3 above, some major challenges cripple the ability of entrepreneurs to access credit and address the persistent problem of Delayed Payments. It is very critical to note that between the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), where Scheduled Commercial Banks (SCBs) can avail risk coverage for loans extended up to Rs. 2 crores and the National Credit Guarantee Trustee Company (NCGT), the banking sector is being provided with a huge cushion to de-risk their lending to MSMEs. But despite the provisions, credit has yet to be unlocked to MSMEs. Figure 3.4 below captures three broad challenges, which can be classified as institutional, design and implementation.

Figure 3.4: Challenges in accessing finance

INSTITUTIONAL CHALLENGES
Challenges stemming from the way in which an organisation is structured or relating to the capacity of the same.

DESIGN CHALLENGES
Challenges stemming from the way a program / regulation / scheme / provision is drafted.

IMPLEMENTATION CHALLENGES
Challenges stemming from the execution of schemes and policies.

Institutional	Design and Implementation
Working Capital Products are minimal	**Cumbersome and lop-sided loan evaluation model**
Digitally led-NBFCs (Non Banking Financial Companies) unable to access credit	**Limited uptake of TReDS (Trade Receivables Discounting System) due to buyer driven acceptance of invoices and lack of credit guarantee**

While 30% of scheduled commercial banks' non-food credit is offered to industries, only 17% of the total industrial lending is extended to MSMEs, though MSMEs account for more than 95% of the total industrial units. Below are some major challenges limiting access to credit to MSMEs[19].

1. Existing working capital products are insufficient to address the working capital demand.

Low-cost and easy-to-access financing products designed to address supply chain financing, delayed payments, working capital requirements and sector-specific needs are currently very limited or absent. Technology today allows banks to customise financing products with repayments matching the business's cash flows and provide moratoriums that consider time taken to establish themselves by enterprises. Most financial schemes provide no moratorium and expect EMI repayments from MSMEs, similar to that of the salaried borrower. In contrast, customised loan products are offered in the agriculture sector and to large corporations and PSUs. While a few schemes and financial products address the specific needs of MSMEs, these are provided by one-off institutions or those with limited geographical coverage or targets.

2. Digitally led-NBFCs unable to access credit because they are perceived as high risk

NBFCs, with their ability to leverage digital lending tools, 360-degree credit-assessment techniques, lower turnaround time in lending, and customised loan products have extended more than **Rs. 80,000 crores** to MSMEs as of March 2018[20] and via digital lending alone reached out to 21 lakh MSMEs. But, nearly 80% of lending from Scheduled Commercial Banks is confined to only 30 large NBFCs. Most NBFCs need access to sufficient credit to undertake lending to emerging MSMEs.

While the Fund of Fund Scheme has supported over 70 Alternate Investment Funds, of the committed ~ Rs. 5,409 crore fund under the scheme, the drawdown (utilisation) has only been ~Rs. 1,485 crore[21]. The major challenge has been the need for more capacity of several NBFCs to lend competitively in the existing regulatory framework. The current risk assessment framework perceives MSMEs and NBFCs as high risk, prevents the flow of low-cost funding to NBFCs / FinTechs, and limits their expansion and ability to cater to the credit needs of MSMEs.

3. MSMEs can't avail of credit due to the cumbersome and lopsided loan evaluation model.

a. Lopsided evaluation criteria

In our interaction with a banker leading the credit portfolio for MSMEs, we realised that the due-diligence processes had been developed keeping in mind higher tranches of credit, and the same has been adopted for the lower amount. The CIBIL (Credit Information Bureau (India) Limited) verification is the primary credit evaluation criterion followed by SCB. With over 40% of MSMEs needing to access formal credit and financial data being limited, credit rating frameworks can also not offer better yardsticks. But the current verification process drastically slows down the ability of new-to-credit borrowers while placing an excessive burden on all MSME borrowers. While entrepreneurs are battling payment delays, non-representative and non-inclusive evaluation criteria affect their ability to access credit.

b. Unclear and complex documentation

While the credit gap to MSMEs is estimated at Rs.25 lakh crore, there are over 25 documents required even for as low as a Rs. 50,000 loan. The list of documents has been arrived at keeping in mind the due-diligence process applicable for large loans. They often require documents such as Balance Sheets and/or Profit & Loss Statement and Income Tax Return fillings which small grocery shop owners with revenue less than Rs. 50,000 per month might need help understanding or be unable to procure. During credit crunch situations, which is what most MSMEs experience during delays in receivables, excessive documentation leads to very high dependence on informal credit at higher interest rates.

4. Trade Receivables Discounting System (TReDS) has seen a limited uptake.

a. Acceptance of invoices is buyer-driven

The number of MSMEs discounting invoices on TReDS has been low because it is a buyer-driven platform. The buyer needs to be on the TReDS platform to approve the invoice uploaded by MSMEs for it to be discounted.

b. The lack of a credit guarantee scheme prevents buyers with low credit ratings from transacting on the platform.

TReDS currently does not have a credit guarantee scheme which enhances banks' risk appetite to discount invoices between buyers with low credit ratings, which limits the uptake of the platform because buyers are not incentivised to transact on the platform.

Barriers to Raising Disputes through Institutional Mechanisms

Working capital credit addresses a business's working capital crunch due to delayed payments, but businesses still have to realise them from the buyer. The MSMED Act, 2006 provides a legal guardrail of 45 days within which payments should be made to MSMEs, and platforms such as MSME Samadhaan further the mandate of the 45-day limit set by the MSMED Act by providing a mechanism through which MSMEs can raise disputes on delayed payments.

However, the uptake of such solutions are abysmal since less than 1% of India's registered MSMEs have raised a complaint through Samadhaan. Some of the barriers that stop MSMEs from availing recourse through institutional mechanisms are:

1. Lack of awareness around recourse mechanisms available

Interactions with MSMEs have revealed that the biggest challenge with the uptake of recourse mechanisms is low awareness. During Glboal Alliance for Mass Entrepreneurship's (GAME) interviews with entrepreneurs, 30% of them needed to be educated that a platform where they could file a case in instances of delayed or non-payment of dues, such as MSME Samadhaan, existed.

2. Existing mechanisms are cumbersome, expensive, and slow.

a. Institutional recourse mechanisms have been slow to dispose of cases

The MSME Samadhaan portal has been operational since 2017, with 1.28 lakh applications filed by micro and small enterprises till the time of this research. Of these, 26.2% have been either mutually settled or disposed of by the MSEFC, while a staggering 25.7% of the total cases are yet to be viewed by the council, and 24.9% are still under consideration[22], highlighting that the resolution of cases has been slow and inadequate.

b. Opportunity cost of availing resolution through institutional mechanisms is high for MSMEs

Interviews with entrepreneurs have also revealed that they avoid taking legal recourse because they are likely to prove costly for businesses already operating on thin margins. The opportunity cost of legal action against delayed or non-payment of dues is often greater than taking no action. This is especially severe when payments have been delayed by large buyers with legal teams that burden MSMEs with a mountain of paperwork.

c. Lack of appropriate documentation

Filing a case through MSME Samadhaan and its resolution through the Micro and Small Enterprise Facilitation Council (MSEFC) requires MSMEs to furnish documentary evidence such as invoices, signed contracts, work orders, and proof of delivery. GAME's conversations with entrepreneurs have revealed that paperwork still needs to be completed/filed in most cases. This happens due to low awareness and the buyers' insistence on avoiding the paperwork. The lack of documentation leads to problems where MSMEs want to file a case against an errant buyer.

3. Recourse mechanisms are not exercised due to the fear of losing future orders from the buyer.

MSMEs rely on repeat orders from existing buyers, and searching for new buyers is expensive and time-consuming. Interactions with entrepreneurs have revealed that filing a case likely results in the buyer not placing orders with them again. The fear of losing future orders also presents a barrier to MSMEs availing recourse from institutional mechanisms.

Ecosystem of the Delayed Payments Solution Providers

There is a need for an ecosystem approach to building a financial solution for the delayed payments problem. A national platform which brings together government, corporates, financiers and finance enablers such as credit bureaus and technology firms is key to solving for scale to mitigate and address the problem of delayed payments.

Challenges In Unlocking Working Capital

Table 3.1: The ecosystem of solution providers to the problem of Delayed Payments

SOLUTION | **Unlocking Working Capital**

Financiers / Finance Enablers	Policy Makers
Role: **Enhancing / Enabling access to last-mile credit**	Role: **Regulators and facilitators**
Banks	Ministry of Corporate Affairs: - Data Reporting - Insolvency and Bankruptcy Code (2016) - Insolvency and Bankruptcy Board
NBFCs / Fintech : Provisioning Credit	RBI: - Regulations for Financial Institutions.
Account Aggregators: Finance Enablers	Ministry of MSME MSME Act 2006 (delayed payments definition) **Dispute Resolutions Value chain** - Samadhaan - MSE Facilitation Council - Online Dispute Resolution: Ex: Agami, Presolve 360 - Industry Associations
FinTechs - Payments solutions for businesses (ex. Razorpay, PayTM) - Technical Service Providers (TSPs) - SCF/Working Capital Facilitators (Example: C2FO) - Enable credit flow	Ministry of Finance - Financing schemes for MSMEs and PSL mandates. - Payment and Settlement Systems Act, 2007 (TReDS)
TReDS - Tech Platform	SIDBI (Finance Enablers) - SIDBI GST Sahay
Credit Rating Agencies / Credit evaluation Agencies (Finance Enablers): CIBIL TransUnion/ CRISIL	Ministry of Commerce and Industry - GeM Sahay
Loan Service Providers (LSPs) - GeM Sahay - GST Sahay	
OCEN	

Challenges In Unlocking Working Capital

As Table 3.1 indicates, the ecosystem of stakeholders consists of the government, banks, NBFCs, account aggregators (AAs), ODR (Online Dispute Resolution) platforms, credit rating agencies, TReDS, and FinTechs enabling the supply of credit to MSMEs through solutions such as supply chain financing. MSMEs have faced challenges in accessing finance because of the drawbacks of traditional lending practices followed by financial institutions. Interventions such as TReDS and MSME Samadhaan have faced challenges in scaling their offerings to MSMEs. Some of the major challenges faced by stakeholders are outlined in Figure 3.5 below which also compares the challenges faced by stakeholders with the proposed solutions discussed in the next chapter to address these challenges.

Figure 3.5: Gaps in Financial Products offered to entrepreneurs.

	Insufficient working capital products	Lopsided evaluation criteria	Lack access to credit for expansion	Buyer driven process	Buyer incentive to be onboarded
Banks	✗	✗	✓	✓	✓
NBFCs/ FinTech	✓	✓	✗	✓	✓
TReDS	✓	✓	✓	✗	✗
Cash flow lending	✓	✓	✓	✓	✓
TReDS: Next innings	✓	✓	✓	✓	✓

✓ Challenge being addressed ✗ Challenge present or not being addressed

04

Imagining Mitigants and Solutions

Increasing financial inclusion through the **provision of multiple options to address the working capital needs of MSMEs** lies at the heart of all the solutions proposed to address the problem of Delayed Payments. These options need multi pronged support - from government policy to better delivery of financial products by the public and private sector, with a high bias towards data.

Recommendation 1: Strengthen Cash Flow Based Lending

The ready availability of working capital through financial institutions is necessary for the financial survival of MSMEs. Changes in the Indian ecosystem over the past decade such as a Unified Payments Interface (UPI), Goods and Services Tax Network (GSTN), mandatory e-invoicing for businesses over a certain revenue threshold, Central Know Your Customer (CKYC), etc, have created the perfect storm for Cash Flow Lending to take flight. While the government has taken the lead with the launch of GeM Sahay - a FinTech application for Invoice Based Finance for small businesses that are real time, contactless, cash flow based and end-to-end digital - broad based adoption of this model across banks and NBFCs is yet to happen. Conversations with SIDBI and iSpirit reveal that the biggest challenge why this is yet to happen is the inability of financiers to price risk and comfort on repayment of such facilities.

1. **Provision of credit guarantees:** Include cash flow based lending as part of government sponsored credit guarantee schemes. An example would be the centrally sponsored CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) which had a total outlay of ~Rs. 40,000 in FY 2021[23], and hence, has significant room to include cash flow lending as a supported business model. The success of ECLGS in recent years may be used as a template to establish such a scheme. There could also be merit in piloting a state level credit guarantee scheme in collaboration with Fintech players who may be facing headwinds to scale existing CFL programs in specific geographic pockets. Another program that can support this direction is the RAMP scheme[24], a recently announced joint initiative of the World Bank and the Government of India.
2. **Create real time credit scores for New to Credit customers:** One of the biggest challenges for an MSME to access credit is the lack of a credit score (the CIBIL Transunion CMR, the industry standard) only accounts for businesses that are already availing a credit facility. Here, the FIT Score[25], a new product developed by TransUnion CIBIL and digital lending platform for MSMEs Online PSB Loans (OPL), which will be based on GST data, ITR returns (which is a proxy for balance sheet and P&L) and current bank account details, will be very welcome. These details will be set against the company's repayment data to develop correlations and create buckets of the FIT Score, and if commercialised, will no doubt lead to faster lending decisions. Moreover, creating a Public Credit Registry (PCR) for which the draft guidelines have been recently circulated, may even be a more powerful tool to address this gap.

Case-in-point: **GST Sahay** [26]

'GST Sahay' is a real time, cash flow based lending app for MSMEs. MSMEs can use GST Sahay to get working capital loans on their unpaid invoices. GST Sahay is a reference app for OCEN, similar to how BHIM was a reference app for UPI.

The lenders will get GST and bank related information about the MSME from account aggregators. All invoice related information will be stored at a database hosted by SIDBI, which can be used by the lenders to provide and access information about the status of the invoice.

GST Sahay overcomes some of the challenges that traditional lending faces by acquiring customers at a low cost, real time underwriting, access to proprietary data, and control of payments flow over the platform. This will allow lenders to offer customised tailor-made credit products to MSMEs.

Recommendation 2: Incentivising corporate buyers to support their MSME partners

While programs such as Prompt Payment Code in the United Kingdom certainly come with the right intentions, there is merit in considering how this might be operationalised in India to benefit MSMEs:

1. A Buyer Score that leverages the Account Aggregator framework, specifically GST data and bank payment data, may be published at a regular cadence and amplified through forums like Mann Ki Baat
2. If Sellers include bank account/beneficiary information on e-invoices such that each buyer has a unique virtual account into which payments will be received, buyers commit to making these payments at an invoice level with appropriate commentary included in bank statements. This would address the concerns on repayment in the CFL workflow. Commercial benefits offered by the Supplier or the Bank to the buyer may be needed to bring about this change management at scale.

Recommendation 3: TReDS - The Next Innings

TReDS is an electronic platform for facilitating the financing/discounting of Micro, Small and Medium Enterprises (MSMEs) trade receivables through multiple financiers. These receivables can be either due from corporates or other buyers, including Government Departments and Public Sector Undertakings (PSUs). Three TReDS platforms have been operating in the country for the better half of a decade, though volumes have been slow to pick up. Cumulatively, the three platforms have clocked ~Rs 70,000 in discounted invoices as of FY 2022. While TReDS holds much promise, addressing certain data and execution-related glitches can propel the platform to be a game changer for MSMEs.

1. This Task Force supports the proposal made by the Standing Committee on Finance led by Shri Jayant Sinha, to **integrate TReDS portals with the GST e-invoicing portal**. A study done by C2FO, the world's largest platform for working capital, across 15 large Indian corporates, showed an 80-90% match[27] between data available in the GST e-invoicing portal and the ERP systems of these corporate buyers. Moreover, once invoice information is made available on TReDS, input of tax credit reports of the Buyer can also be used to verify the authenticity of an invoice and use it as a "deemed" acceptance of the bill. Factoring transactions should then be taken up with greater ease.
2. **Mainstream National Credit Guarantee Trustee Company's (NCGTC) Credit Guarantee Fund Scheme for Factoring (CGFSF) to reduce risk aversion among banks** This scheme, established by GoI to promote "factoring without recourse", offers a credit guarantee cover[1] wherein the first loss of 10% of the amount in default is to be borne by factors, and the remaining 90% of the amount is to be borne by NCGTC and Factors in the ratio of 2:1 respectively[28]. Integrating CGFSF with TReDS will enhance financial institution's risk appetite to discount invoices of buyers with lower credit ratings i.e. BBB and lower, incentivizing buyers to transact on the platform.

Recommendation 4: Simplifying Dispute Resolution

1. **Leveraging GST data to identify defaulters:** The availability of invoice level information in GSTN coupled with reporting on invoices against which input tax credit has been taken by Buyers is a powerful tool that can be used to identify where Buyers are benefiting from taking Input Tax Credit (ITC) and not making payments to suppliers and/or acknowledging Supplier invoices on TReDS.
2. **Enable Entry of ODR Providers in the Micro and Small Enterprise Facilitation Council (MSEFC) Case Disposal Process to Augment Capacity of MSEFCS**
   Slow disposal of cases has been a challenge to the successful uptake of MSME Samadhaan as an ideal solution for delayed payments. An article in The Economic Times estimates that 1000 dedicated officials working non-stop on the existing cases on Samadhaan would require 3 years to clear the workload[29]. Allowing the entry of ODRs would augment the capacity of MSEFC by providing tech solutions such as video conferencing, e-signatures, and mediation support, will allow for a quick disposal of cases.

   a. **Automate manual processes:** ODRs can automate existing processes that are presently done manually. This includes steps such as setting up and sharing video conferencing links with relevant parties, documenting minutes of the meeting, setting the date and invite for the next hearing, and obtaining e-signatures from the relevant stakeholders. All of these steps can expedite the process by reducing the workload of MSEFC officials.

   b. **Redesign existing processes within the guardrails set by current regulations:** ODRs can augment the capacity of MSEFC by involving professionals such as arbitrators and mediators in the case disposal process who can provide support to MSEFC members to ensure quick disposal of cases.

[1] Government Notification, Ministry of Finance, 2015

3. Mandate Pre-Litigation Mediation Through ODRs for Disputes Related to Delayed Payments

NITI Aayog's report 'Designing the Future of Dispute Resolution: The ODR Policy Plan for India'[30] recommends making pre-litigation mediation mandatory to address the problem of slow disposal rates in courts and legal institutions. It recommends making pre-litigation mediation mandatory for disputes arising due to delayed payments.

Case statistics from the MSME Samadhaan portal indicates that 10% of the total cases filed have been mutually settled[31]. Making pre-litigation mediation mandatory has three major benefits. First, it would reduce the burden on MSEFCs by providing a mechanism to mutually settle disputes through mediation. Secondly, it would help MSMEs overcome the challenge of straining their relationship with buyers by having a penultimate step before seeking recourse through legal mechanisms. Finally, the success of ODRs depends on their acceptance by stakeholders. A mandate to adopt pre-litigation mediation through ODRs will consolidate their position as a medium to seek recourse, and increase trust in the system.

Using mediation as a medium to resolve disputes has led to successful outcomes internationally, with the Lehman Brothers Holdings case in the US being an important example. The report of the Bankruptcy Law Reforms Committee had also recommended a process for the negotiated settlement between creditors and debtors without the active involvement of the court[32]. On-ground insights and realities, along with the successes internationally indicate that a pre-litigation mediation process through ODRs will help MSMEs deal with instances of delayed payments in a quick and efficient manner.

05
Conclusion

Conclusion

MSMEs are integral to the growth of the Indian economy and creating opportunities for the 9 crore workers who will be looking for jobs by 2030. Despite their importance to the economy, MSMEs in India have been particularly plagued by difficulty accessing formal finance, among other challenges, such as barriers to ease of doing business and high costs. IFC estimated that 70% of the credit needs of MSMEs are towards financing working capital requirements. GAME's report highlighted delayed payments as one of the primary reasons behind the working capital crunch faced by MSMEs. Solutions addressing the 'wicked problem' of delayed payments are of utmost importance to overcoming the barriers in accessing finance and putting MSMEs and the Indian economy on their growth path.

The MSME landscape in India comprises 63 crore enterprises, encompassing enterprises with an annual turnover of Rs. 10,000 and enterprises with an annual turnover of Rs. 200 crores, spanning different sectors and geographies. As GAME's 2022 report on delayed payments outlined, the problem of delayed payments for MSMEs is multifaceted, not unlike the sector itself. The multifaceted nature and the severity of the problem requires all the stakeholders in the ecosystem, including but not limited to the union and the state governments, account aggregators, banks, and NBFCs, to come together to solve the problem with a concerted effort.

The recommendations of this report take into account both the multifaceted nature of the problem and the need for stakeholders to solve the problem concertedly. Initiatives such as OCEN for cash flow based lending, TReDS for invoice discounting, and Samadhaan for reporting and monitoring instances of delayed payments have set the rails for the delayed payments problem to be addressed. The recommendations in this report provide mechanisms to amplify existing initiatives through an understanding of the challenges that these initiatives face and suggesting ways to overcome them.

We hope this report provides insights to the stakeholders in the ecosystem and helps MSMEs unlock their potential.

Appendix 1 : Glossary

Terms	Definition
MSME (Micro, Small and Medium Enterprises)	Micro enterprises are enterprises with an annual turnover up to Rs. 5 Crore and investment in plant and machinery not exceeding Rs. 1 Crore. Small enterprises are enterprises with an annual turnover up to Rs. 50 Crore and investment in plant and machinery not exceeding Rs. 10 Crore Medium enterprises are enterprises with an annual turnover up to Rs. 250 Crore and investment in plant and machinery not exceeding Rs. 50 Crore
GVA	Gross Value Added
Working capital	Working capital represents liquidity available to a business for its operations
Finance Enablers	Entities which enable the supply of credit from financial institutions such as banks and NBFCs to MSMEs
Financiers	Financiers include formal financial institutions supplying credit, such as banks and NBFC-FIs.
TReDS	TReDS is an electronic platform for facilitating the financing / discounting of trade receivables of Micro, Small and Medium Enterprises (MSMEs) through multiple financiers. These receivables can be due from corporates and other buyers, including Government Departments and Public Sector Undertakings (PSUs).
Cash Flow Based Lending	Cash Flow Based Lending enables supply of credit for MSMEs, based on real-time cash flow data and not on their balance sheet or assets as done in asset-based lending
MSME Samadhaan	MSME Samadhaan is a Portal created by the Office of DC(MSME), Ministry of Micro, Small and Medium Enterprises (MSME) where Micro and Small Enterprises (MSEs) can file their applications online regarding delayed payments.
NBFCs	A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, and chit business.

Appendix 1 : Glossary

Terms	Definition
CIBIL	TransUnion CIBIL Limited is a credit information company operating in India. It maintains credit files on 600 million individuals and 32 million businesses.
Credit Guarantee	A credit guarantee scheme provides third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans made to MSMEs in case of a default.
MSEFC	Micro and Small Enterprise Facilitation Council has been established by the State/UTs as per the provisions of MSMED-Act 2006. Applications submitted on MSME Samadhaan are forwarded automatically to MSEFC and action on the applications regarding delayed payment is taken by the concerned MSEFC only.
OCEN	Open Credit Enablement Networks (OCEN) is a protocol that allows platforms and markets called LSPs (Loan Service Providers) to link to banks and non-bank lenders in order to digitize the origination, underwriting, and servicing process of loans.
Account Aggregators	An Account Aggregator (AA) is a type of RBI regulated entity (with an NBFC-AA license) that helps an individual securely and digitally access and share information from one financial institution they have an account with to any other regulated financial institution within the AA network.
ODR	Online Dispute Resolution (ODR) is the use of technology to 'resolve' disputes. It is not just any form of technology integration (such as electronically scheduling a session), but its active use to help resolve the dispute (such as video conferencing for hearings or electronic document sharing for filing).

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About GAME

Global Alliance for Mass Entrepreneurship (GAME) is a non-profit organization that works to build powerful coalitions to improve enabling conditions for broad-based entrepreneurship and rapid and sustainable growth of enterprises in the country. To know more, please visit: **https://massentrepreneurship.org**

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