

# CENTRE OF FINANCIAL INCLUSION (CFI) NEWSLETTER

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## READ ON .....

**Workshop on Capacity Building of Telangana Urban Cooperative Banks**

**ni-msme and NSE academy join forces to empower MSMEs**

**ni-msme exploring Strategic Partnerships with IIBF to Boost MSME Growth**

**MSMEs: Building Resilience Against Economic Shocks**

**Barriers in Exporting: The MSME dimension , International Payment Instruments & Precautions**

**Success Stories in MSME sector**



Shri S. C. L. Das, IAS, Secretary, MoMSME, Govt. of India; Shri Jayesh Ranjan, IAS, Principal Secretary, Industry & Commerce, Govt. of Telangana; Shri Sudatta Mandal, Deputy Managing Director, SIDBI; Dr. S. S. Acharya, CGM, SIDBI; Shri Sandeep Varma, CEO, CGTMSE; and the Director General of ni-msme, inaugurating CFI Centre

## CFI background

CFI inaugurated on 24th January, 2024 is established at ni-msme with the support from SIDBI and CGTMSE.

### Objectives of CFI:

1. To sensitise the CGTMSE & MLIs (Member Lending Institutions) on issues faced by MSEs at the field level.
2. To create awareness on financial literacy and credit counselling to MSEs, thus helping them to better utilize the benefits of the CGTMSE Scheme.
3. To disseminate knowledge on financial prudence and tailored best practices to Progressive entrepreneurs for a better financial mechanism.
4. To develop formal and systematic credit avenues for the financially disadvantaged progressive entrepreneurs throughout their transformational journey to medium scale.



## Purpose Statement

“To be Centre of Excellence in catering to MSEs needs to enhance their creditworthiness and promote Governance and financial management among MSEs through democratizing financial knowledge & best practices, inculcating financial discipline and prudence in MSEs ecosystem”.

## Role of SIDBI

As principal Financial Institution for executing the triple agenda of promotion, financing and development of the MSME sector and coordination of the functions of the various Institutions engaged in similar activities.

## Role of CGTMSE

To extend the support to progressive entrepreneurs who are having bankable business ideas but lack

collateral security and/or third-party guarantee to access credit from formal source by helping them to provide the guarantee to enable them access credit leading to setting up viable micro and small enterprises. Thereby transforming them from job seekers to job providers and meaningfully contribute to nation building.

## Role of ni-msme

Being a pioneer Entrepreneurship Development Institute, will establish a Chair in CFI and will carry out research and consultancy activities for identifying the credit gaps and need analysis for MSMEs and build the capacity of all stakeholders under CGTMSE spectrum for greater utilization of CGTMSE benefits

## Workshop on Capacity Building of Telangana Urban Cooperative Banks



Centre of Financial Inclusion (CFI), ni-msme, and the Telangana State Co-operative Urban Banks Federation (TESCUBFED) jointly organised Workshop on “Capacity building for Telangana Urban Co-operative Banks (UCBs)” on November 7 2024, at Diamond Jubilee Bhavan, ni-msme, Yousufguda, Hyderabad, aimed to empower UCBs to play a more significant role in promoting

financial inclusion and MSME lending. Sri Prabhuti Samal, DGM, Department of Supervision, RBI Hyderabad and Sri Prakash Chandra Baror, General Manager, SBI and Convenor, SLBC were the chief guests for the workshop. About 63 participants, who are CEOs/CMDs/Chairmen of Telangana Urban Cooperative Banks attended the workshop.

The workshop was inaugurated with keynote addresses by distinguished speakers. Dr. S. Glory Swarupa, Director General of ni-msme, emphasized the importance of financial inclusion and urged UCBs to leverage ni-msme facilities to foster MSME lending. Mr. M.V. Kameswara Rao, Vertical Head, CFI while welcoming the participants, stressed on quality of loan appraisal and role of CFI in capacity building of UCBs for lending to MSMEs.

Shri Prabhuti Samal, Deputy General Manager of the Reserve Bank of India, highlighted the potential of MSME lending for UCBs and the need for



Chief Guest Shri Prabhuti Samal - DGM, RBI addressing the participants



Shri G Madana Gopala Swamy, Working President of TESCUBFED, addressing the participants



Shri MSRK Murthy, Assistant General Manager of CGTMSE, addressing the participants

Shri Prakash Chandra Baror, General Manager of SBI, discussed the role of banks in SLBC meetings and the importance of priority sector lending, including MSME. Shri Nimesh Gandhi, Director of TransUnion CIBIL, presented on credit risk assessment, early warning systems, and digital lending solutions for MSMEs.

The workshop concluded with a panel discussion involving UCB representatives and experts,

diversifying loan portfolios. Panel discussions and expert talks covered a range of topics, including training programs, government schemes, credit risk assessment, and digital lending solutions for MSMEs. Dr. E. Vijaya, Faculty Member at ni-msme, discussed the significance of UCBs in promoting financial inclusion. Shri G Madana Gopala Swamy, Working President of TESCUBFED, raised concerns about UCBs' exclusion from SLBC meetings and urged for their inclusion in key lending programs

Shri G. Narayana Rao, Assistant Director of KVIC, explained various government schemes and subsidies available to MSMEs, emphasizing the benefits for UCBs.

Shri MSRK Murthy, Assistant General Manager of CGTMSE, detailed the CGTMSE schemes and the process of onboarding UCBs as Member Lending Institutions (MLIs).



Shri G Madana Gopala Swamy, Working President of TESCUBFED, welcoming Shri Prakash Chandra Baror, General Manager of SBI

addressing challenges, opportunities in the MSME lending space, and a vote of thanks by Mr. M V Kameswara Rao, Vertical Head of CFI. The event was a resounding success, providing valuable insights, fostering networking, and strengthening the collaboration between UCBs, regulators, and other stakeholders.



Mr. M V Kameswara Rao, Vertical Head of CFI, concluding the workshop by expressing vote of thanks

### **ni-msme and NSE Academy Join Forces to Empower MSMEs**

On November 29, 2024, Dr. Agna Fernandez, L&D Head of NSE Academy, visited the ni-msme campus, met Dr. S. Glory Swarupa, Director General of ni-msme, Dr. E Vijaya, Director SEM and Mr. M V Kameswara Rao, Vertical Head of the Centre of Financial Inclusion. The discussions

focused on a potential partnership between NSE Academy and CFI, ni-msme exploring opportunities to leverage NSE Academy's expertise and resources to enhance capacity building for MSMEs through innovative courses and programs. The National Institute for Micro,



Dr. S. Glory Swarupa, Director General of ni-msme in discussion with Dr. Agna Fernandez, L&D Head of NSE Academy on strategic tie-ups

Small and Medium Enterprises (ni-msme) and NSE Academy have announced a strategic collaboration aimed at empowering MSMEs through capacity building and financial inclusion. A meeting held on December 16 2024, brought together key representatives from both organizations to explore and solidify this partnership.

**December 18, 2024** – Attendees at the meeting included Dr. S. Glory Swarupa, Director General of ni-msme, Dr. E Vijaya, Director SEM, ni-msme, Mr. M V Kameswara Rao, Vertical Head, CFI and Shashank Pathak, Head of Products and Partnerships at NSE Academy. The discussions centred on leveraging the synergistic strengths of both institutions to benefit the Indian economy

and MSME sector. Participants agreed to immediately begin working on joint programs in key domains including finance, technology, leadership, and management. This collaboration marks a significant step towards enhancing the capabilities of MSMEs, providing them with

access to valuable training and resources in crucial areas. The partnership between ni-msme and NSE Academy promises to contribute significantly to the growth and development of the MSME sector in India.

## Exploration of Partnerships with Indian Institute of Banking and Finance to Boost MSME Growth

The National Institute for Micro, Small and Medium Enterprises (ni-msme) is actively pursuing strategic collaborations to bolster the growth and development of MSMEs. Recent activities highlight the institute's commitment to enhancing capacity building and financial inclusion within the sector.

Furthering its collaborative efforts, ni-msme held a virtual meeting with the Indian Institute of Banking & Finance (IIBF) on December 9, 2024.

The meeting, attended by key representatives from both institutions, including Dr. S. Glory Swarupa (ni-msme Director General) and Shri Biswa Ketan Das (IIBF Chief Executive Officer), aimed to establish a strategic partnership focused on empowering MSMEs through capacity building and improved financial inclusion. Action items agreed upon included IIBF developing a detailed plan for the collaboration and ni-msme actively



ni-msme Director General, Dr. S. Glory Swarupa, and IIBF CEO, Shri Biswa Ketan Das, lead a productive virtual meeting between the two institutions.

coordinating on its implementation. These strategic initiatives demonstrate ni-msme's dedication to fostering a thriving MSME ecosystem through strategic partnerships and targeted programs that address critical needs in capacity building and financial inclusion. A follow-up meeting between ni-msme and IIBF is planned to finalize the partnership agreement and initiate implementation.

## MSMEs: Building Resilience Against Economic Shocks



The MSME sector is the backbone of any economy, providing jobs, driving innovation, and contributing significantly to GDP. However, these businesses are often vulnerable to economic shocks due to their limited resources and scale. The recent pandemic, global conflicts, and supply chain disruptions have underscored the urgent need for MSMEs to build resilience and prepare for future uncertainties. This article explores key strategies that MSMEs can adopt to mitigate risks, diversify their operations, and build financial buffers to weather economic storms.

## **Key Strategies for Resilience:**

**Risk Mitigation:** Conduct thorough risk assessments to identify potential threats such as market volatility (sudden changes in demand, pricing pressures, or disruptions in supply chains), financial constraints (Cash flow shortages, rising interest rates, or difficulty accessing credit), operational risks (Technology failures, cybersecurity breaches, or natural disasters). Implement mitigation strategies like business continuity plans, cybersecurity investments, supplier diversification, and regular insurance reviews.

**Diversification:** Diversification is a powerful tool for reducing risk. By spreading your business interests across different markets, products, or services, you reduce your reliance on any single area. Explore new customer segments, introduce new offerings, and source materials and components from multiple suppliers. This stabilizes revenue streams and creates new opportunities.

**Financial Buffers:** Having a financial safety net is crucial for navigating economic shocks. MSMEs should prioritize building financial buffers to cover operational expenses, debt obligations, and unexpected costs during challenging periods. This can be achieved through Prudent Cash Flow Management, Emergency Savings Funds, Exploring Lines of Credit and Reinvesting Profits.

**Technology & Innovation:** Technology can play

a transformative role in building resilience. Leverage digital tools to enhance operational efficiency, reach new markets through e-commerce, and improve decision-making with data analytics. Embracing innovation can help MSMEs adapt to changing market conditions, develop new products and services, and stay ahead of the competition.

**Strong Relationships:** Cultivate strong relationships with employees, customers, suppliers, industry associations, and government agencies helps in fostering a supportive and engaged workforce, building loyalty through excellent service and communication, establishing collaborative partnerships based on trust and mutual benefit and staying informed about support programs and resources available. A robust support network provides valuable assistance advice, and opportunities during challenging times.

## **Conclusion:**

Building resilience is not a one-time event but an ongoing process. By proactively implementing these strategies, MSMEs can strengthen their foundations, mitigate risks, and navigate economic uncertainties with confidence. Remember, resilience is not just about surviving; it's about thriving in the face of adversity and emerging stronger than before.

**Mr. Vivek Singla**

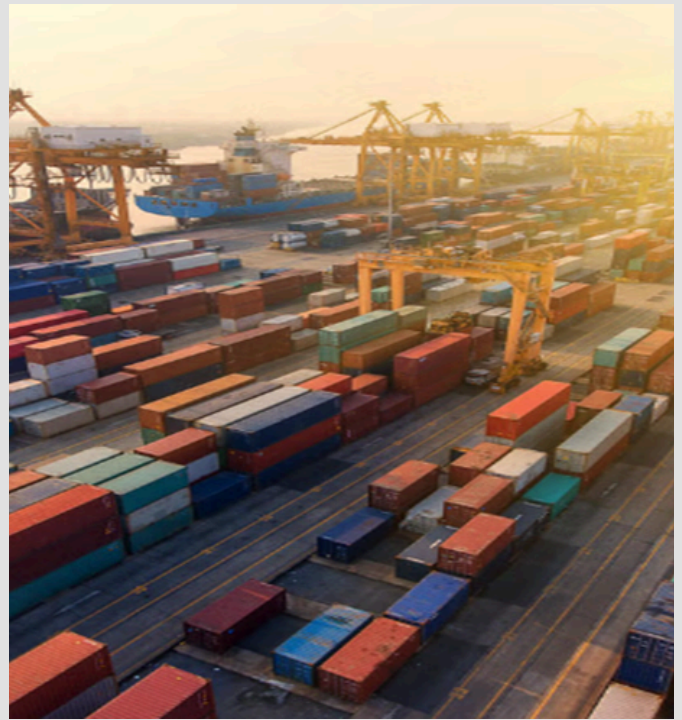
Young Professional, CFI, ni-msme

## **Barriers in Exporting: The MSME Dimension International Payment Instruments & Precautions**

Why do majority of MSMEs shy away from exports? There are several internal and external reasons. But one of the major external barriers in MSMEs' efforts of exporting is payment risk. The issue has an MSME specific dimension. MSMEs typically serve markets nearer to them as their informal management systems suit the practice.

Size of business transactions are usually small, informal and largely based on trust and local knowledge. Business risks are manageable. However, because of inherent uncertainties in international trade born out of distance and lack of adequate information on transacting parties, accentuated by difficulties of the different legal

Size of business transactions are usually small, informal and largely based on trust and local knowledge. Business risks are manageable. However, because of inherent uncertainties in international trade born out of distance and lack of adequate information on transacting parties, accentuated by difficulties of the different legal and regulatory frameworks in their respective countries, international trade involves higher risk. The issues in context of MSMEs are:



I. Breaking into existing supply chains is not easy and top players seldom provide the chance. The break to MSMEs is generally given by second rung or new buyers whose credit reports are generally, either unavailable or are not very encouraging. In either

case, most of the export insurance covers for such buyers are not available to MSME exporter.

II. In case of payment default, because of limited resources and smaller export order sizes, MSMEs find the cost of recovering bad debt through standard legal means either too expensive or economically unviable. Most of them would rather quietly bear the brunt of bad debt and never return to export again.

III. Almost all developed countries have private market of Debt Collection Agencies. Some of these have representative offices in India too. Most of MSMEs are either completely unaware of their existence or of procedures to engage them.

IV. In most cases MSMEs are unaware of the precautions that are to be taken before exporting. Poor documentary evidence also makes the task of debt collection agencies more difficult. Even a single instance of bad debt could lead to closure of a small firm due to its inability to absorb payment default. In spite of exports producing positive externalities for a firm and to the exporting nation, a bad experience acts as a negative reinforcing agent and dissuades a much larger number of MSMEs from venturing into exports.

### **International payment instruments and precautions:**

There are three main internationally recognized methods of payments for exports depending on the size and various requirements of a company:

#### **i. Clean Payments**

- Cash in advance: the ideal payment mechanism from an exporter's point of view
- Open account: the least preferred method for an exporter, even if buyer is known.

#### **ii. Documentary Collections: more secured than other payment methods**

#### **iii. Letters of Credit: higher security both for the exporter and importer**

Under the Open Account (O/A) payment system, the goods and documents are directly consigned to the buyer so that the buyer could take possession of goods immediately on arrival. The payment is made by the buyer directly to the exporter. This is the most secure form of payment for the importer. Under such a system the buyer receives the goods and opens an account in the name of the seller and shows the value, as amount owed to the seller. At the end of the agreed period, the buyer effects payment for the goods and in the meantime the seller may continue to send goods on the basis that payment will be received.

There is, therefore, an account in the name of the seller/exporter. However, this system of payment exposes seller to a great amount of risk. The seller loses control over the goods once dispatched in anticipation of future payments. If payment does not come at all, the seller may not be able to retrieve goods from the buyer's country.

### Documentary Collections

Documentary collection (D/C) is a transaction whereby the exporter entrusts the collection of a payment to the remitting bank (exporter's bank), which sends documents to the collecting bank (importer's bank), along with instructions for payment. Funds are received from the importer and remitted to the exporter through the banks in exchange for those documents. Exporter's bank as well as that of Buyer acts as an agent on behalf of their customers. Bank's role is limited, and it does not guarantee payment because it does not verify the accuracy of the documents. There are two common methods of payments under Documentary Collection:

- i. Documents against Payment (DP) method
- ii. Documents against Acceptance (DA) method

### Letter of Credit (LC)

A Letter of Credit (LC) is an undertaking by a bank

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to make a payment to a named 'beneficiary' within a specified time, against the presentation of documents which comply strictly with the terms of the LC. Its main advantage is that it provides security to both the exporter and the importer though it comes with additional costs resulting from bank charges. The exporter must understand the conditional nature of the letter of credit and the fact that payment will not be made unless the terms of the credit are met precisely. LCs are the most common but equally complex instruments for payments in international trade today. It is important that the nuances of LCs are grasped by SMEs.

### Important precautions when dealing with LCs

- Checking the authenticity of the credit through bank and also whether it is pre-advice or original LC.
- Any LC with payment conditionality like 'the buyer will honour the bill when the ultimate buyer makes the payment' should not be accepted.
- Checking that the LC allows extra time for presentation of documents after shipment date; usually it is 15 days

Mr. V N Sastry

Subject Matter Expert, CFI, ni-msme

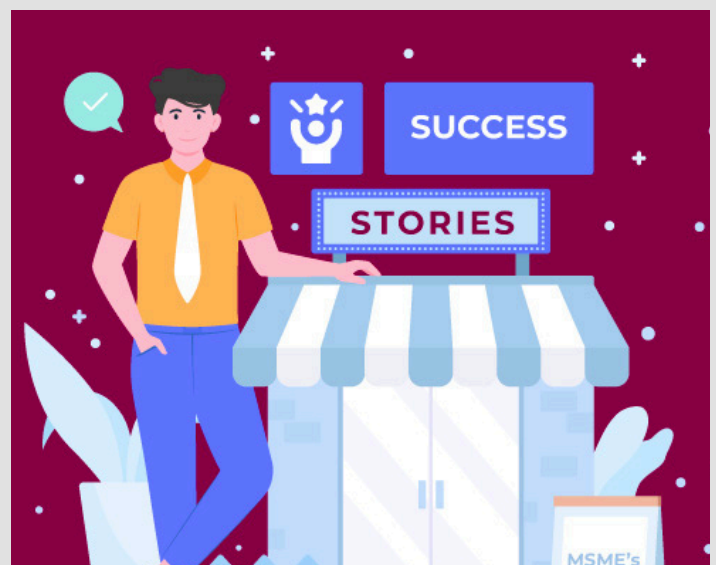
## The MSME Chronicles: Stories of resilience, transformation, and hard work



A journey from banking to social entrepreneurship  
Amit Jain, from the small town of Bhusawal in Maharashtra, arrived in Pune in 2012 with only Rs 1000 in

his pocket and high hopes of finding a decent job. He was fortunate to find one in the banking industry with The Bank of New York Mellon. A few years passed, but Jain's life had other plans. He wanted to give back to society, so he decided to become his own boss.

**“I am sure most of you have experienced that strong urge to do something totally new. Some refer to it as following a passion, others see it as stepping out of one's comfort zone. A few will call it absolute madness. But I simply view it as taking a tiny step towards something that I believed in and it was Mitti Ke Rang (MKR),” says Jain.**





Founded in 2014 by Amit Jain and Saket Deshmukh, Mitti Ke Rang is a social venture that helps small women entrepreneurs to get their products online. “It’s a small social venture working towards generating a livelihood for women through an e-commerce platform,” he tells us.

Jain lost his father at the age of three. His grandfather opened a tailoring shop for his mother, while his cousins supported him. Coming from a humble background, he has seen his mother going through a lot of struggles at home, so making other’s lives easier was his next step.

“Back then, Mitti Ke Rang was nothing. But my co-founder Saket Deshmukh and I wholeheartedly believed that we could do something useful and satisfying. MKR had grown by 2018 and managing a full-time job along with it was more than just demanding,” Jain reminisces.

So, in 2019, Jain left his bank job to give MKR his full time and attention. “At that time, we realised that there were many women in Pune who were looking for opportunities to earn a livelihood. So, we decided to become full-time

entrepreneurs and assist these women to become entrepreneurs themselves,” he tells us. At that time, quitting his job was not an option, so he informed his family that the company was letting him go. During his entrepreneurial journey, the Global Alliance for Mass Entrepreneurship (GAME) assisted him to transform his venture digitally. “It has helped us immensely, as post Covid the world has become increasingly digital. We were able to reach out to thousands of customers. Which in turn helped us to create more sources of livelihood for our women entrepreneurs. In addition, our recent online campaign of Game – 1000 stories has been a great support in terms of enabling us to reach out to more people who wish to support our cause. This has surely helped us to create more awareness about our women entrepreneurs,” he says.

The duo started with an initial investment of Rs 10,000. And, in the last one year, they have generated sales of around Rs 75 lakhs. Moving ahead, his long-term strategy is to onboard more women entrepreneurs from across India and help them to scale their products internationally.

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