

Presentation on

Role of financial literacy in enabling finance to Micro and Small enterprises (MSEs)

June 07, 2013

Finetrain

Enabling finance to small businesses

Our Profile

- Mission: Increasing access to finance for MSMEs
- Services offered:
 - Financial literacy training and hand holding support for entrepreneurs
 - Research services for Government and financial institutions
- Clients:
 - Government of A.P, Institute for Small Enterprise Development, MSME Di (Hyderabad), several first time entrepreneurs

Our Team

Bharti Krishnan (CFA) (Founder)

- Finance professional with over thirteen years of work experience with ICRA, CRISIL
- Headed Investment research training cell at Evalueserve.
- Core skills in credit, investment and SME research
- CFA (AIMR, USA), Diploma in IFRS (ACCA, London)

Dr. Yerram Raju (Adviser)

- Senior banker and consultant with 45 years of experience
- Areas of expertise include SME development and corporate governance
- Authored fourteen books on a variety of subjects related to rural banking and corporate governance of which three books deal specifically with the SME sector

Mr. Jagan Mohan (Adviser)

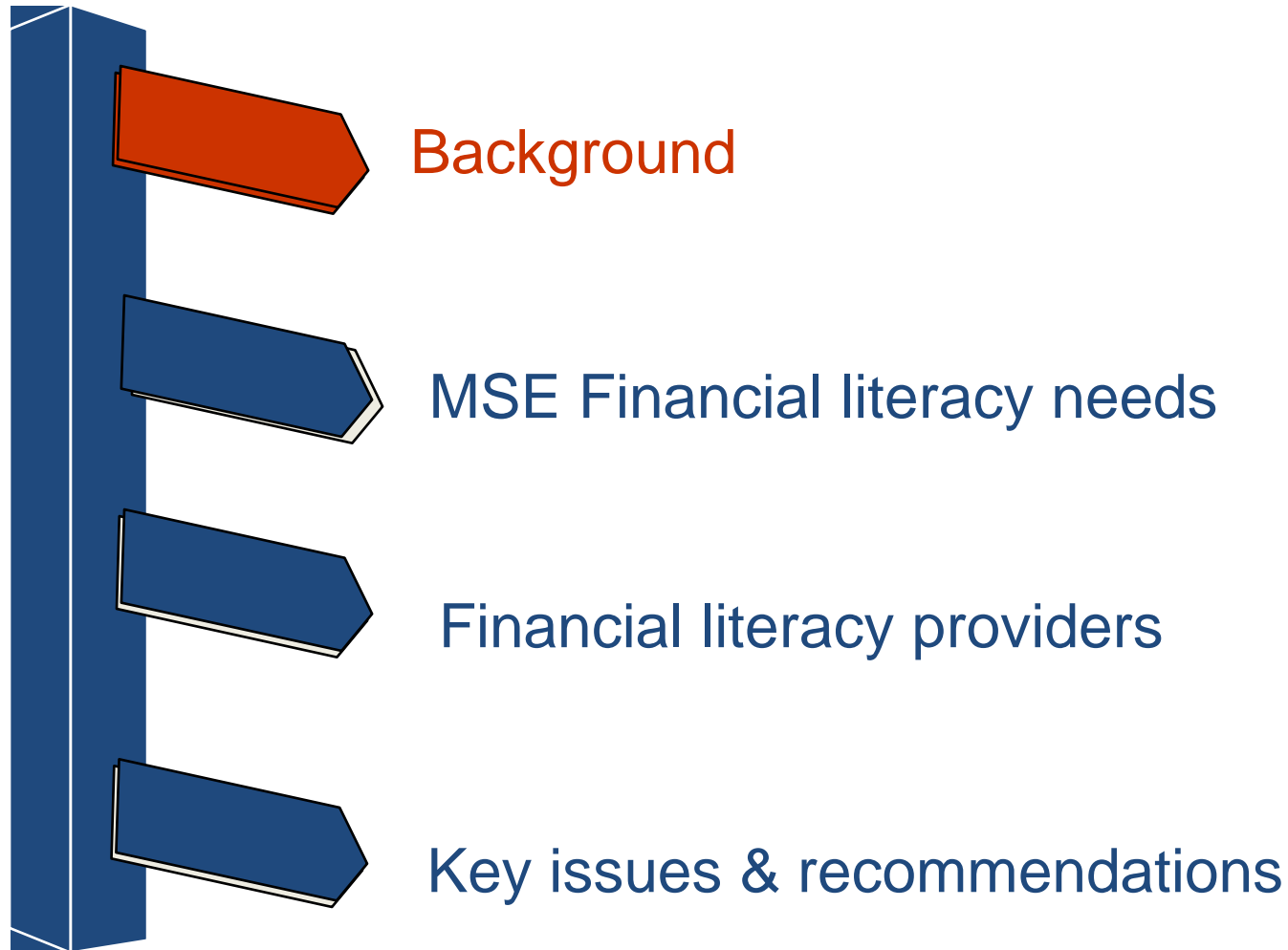
- Expert in the area of banking, technology management and Human resource development
- 33 years of experience comprising eight years of board level executive experience as MD & CEO in three Banks and 25 years of vast and diversified managerial experience in entire gamut of Banking in State Bank of India

Finetrain LLP: Profile of Presenter

➤ **Bharti Krishnan**

- Co-Founder of Finetrain
- Experienced professional with rich experience of working with India's two premier credit rating agencies, CRISIL and ICRA
- Headed Investment Research training at Evalueserve, India's largest KPO
- Overall work experience of more than 10 years
- Possesses CFA (USA) Charter, Diploma in IFRS

Presentation Outline



Background: Introduction to MSEs

➤ Introduction to Micro enterprises

- As per RBI, enterprises with investment of less than Rs. 25 lakh of manufacturing and less than Rs. 10 lakh for services are classified as Micro Enterprises
- There are 31 million such enterprises, 90 per cent of which are not registered¹

➤ Key characteristics of MSEs²

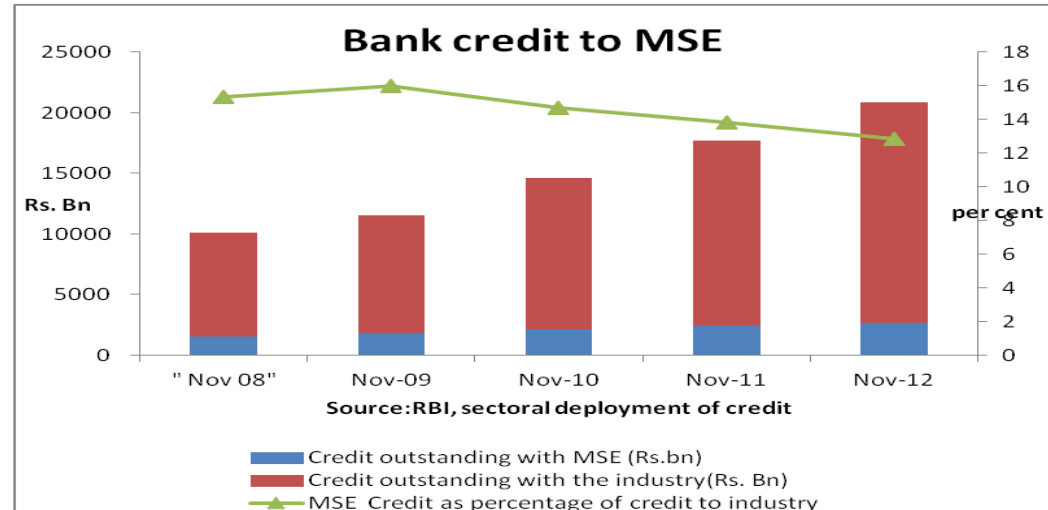
- Units largely operate out of owners' premises or rented premises
- Most of the units do not have bank account; usually owner has a bank account in his/her name
- Financial transactions largely in cash; no maintenance of formal records
- No registration/regulatory compliances/taxes
- Low level of mechanization
- Owner needs to do most tasks, leaving him/her little time to think about larger issues such as growth, strategic thinking
- Do not seek professional help in taxation, accounting records

¹ Annual Report 2011-12, Ministry of MSME

² SIDBI GIZ technical report

Background: Bank credit to MSEs

- GOI and RBI have largely focused on increasing supply of credit
- Key measures include CGTMSE schemes, MSME branches, cluster development programme(s), identifying priority sector targets and simplifying documentation
- MSEs haven't benefited sufficiently from above initiatives



MSE share in Financial inclusion Initiatives

(bn)	Mar-10	Mar-11	Mar-12
No frills accounts outstanding	50.3	75.4	105.5
Accounts that availed OD	0.1	0.5	1.5
Kisan credit card accounts	15.9	18.2	20.3

Source: RBI annual report 2012, chapter 4- Credit delivery and financial inclusion

Background: Financial literacy initiatives

- Initiatives to increase MSE literacy
 - Spreading awareness of collateral free lending through industry associations
 - SIDBI is spearheading these efforts
 - Establishing financial literacy centers
 - 700 financial literacy centers have been established³
 - Financial literacy through SIDBI website and knowledge partners
 - EDP programmes by MSME Dis, DIC offices
 - Cluster development programmes
 - RBI outreach programmes

³ Source: RBI Annual Report, 2012

Background: Objectives of the Study & Approach

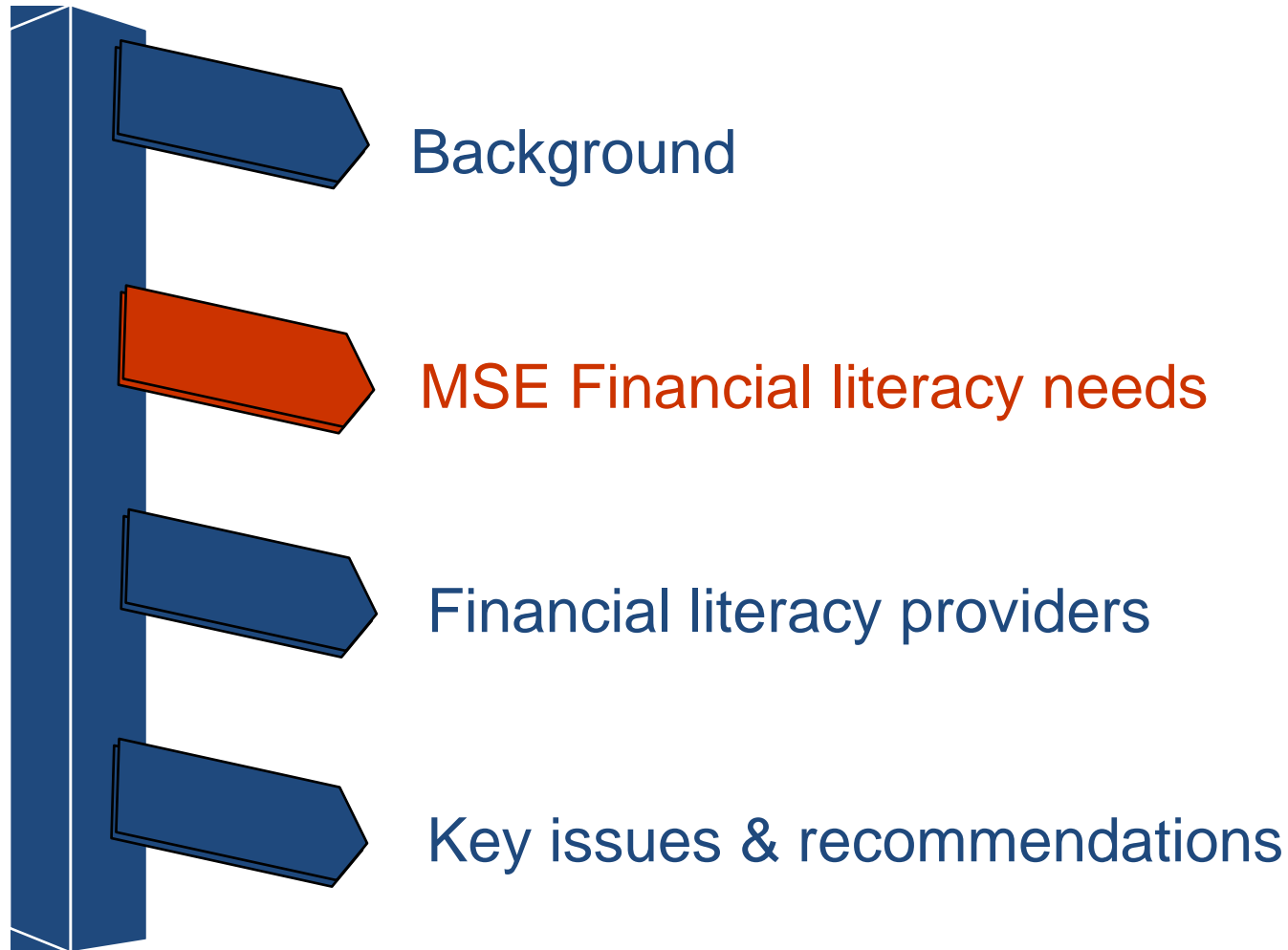
➤ Objectives

- Understand role of financial literacy in enabling finance to MSEs
 - MSE training needs
 - Role of training providers
 - Gaps in training availability
- Recommendations to increase effectiveness of training

➤ Methodology

- Primary interaction with MSE stakeholders in Hyderabad
 - MSE Entrepreneurs
 - State-level Banker's Committee
 - SIDBI and Commercial Banks
 - Industry associations (FAPCCI, ALEAP, COWE, Jeedimetla Industrial Association)
 - MSME DI and ni-msme

Presentation Outline



MSE credit availability-Key issues

Bankers' perspective on MSE lending

- Small scale of production, low profitability
- Diversion of business funds for personal use
- Lack of:
 - Professional qualification/experience
 - Understanding of project viability
 - Awareness about consequences of default
 - Transparency in sharing information
- Poor record-keeping:
 - No proof of income documents
 - No separation of personal and business transactions
- Due diligence needs result in higher transaction cost(s)

MSE perspective on bank finance

- Transactional Costs:
 - Repeated visits to banks to get required information
 - Poor clarity on loan approval process
 - Long approval process under Government schemes such as PMEGP
- Lack of knowledge of:
 - Complex banking terms such as primary and secondary security, CMA, cash flow, liquidity
 - Banks' credit appraisal process and documentation requirements
 - Need to separate personal and business transaction

MSE Credit related issues: Case studies

ABC limited (A handicraft showroom)

- Dispute between partners, partner now wants her investment in business returned
- Business not yet broken even
- Partner has a car loan for which she has difficulty paying EMI
- Remaining partner is considering taking a loan to pay erstwhile partner

N meal (A catering business for IT Employees)

- N meal is currently making losses
- Company has three product lines
- Owner doesn't understand which product is contributing to losses as product wise data is not available
- Last year, they showed higher profits as their consultant suggested it would help in getting a loan

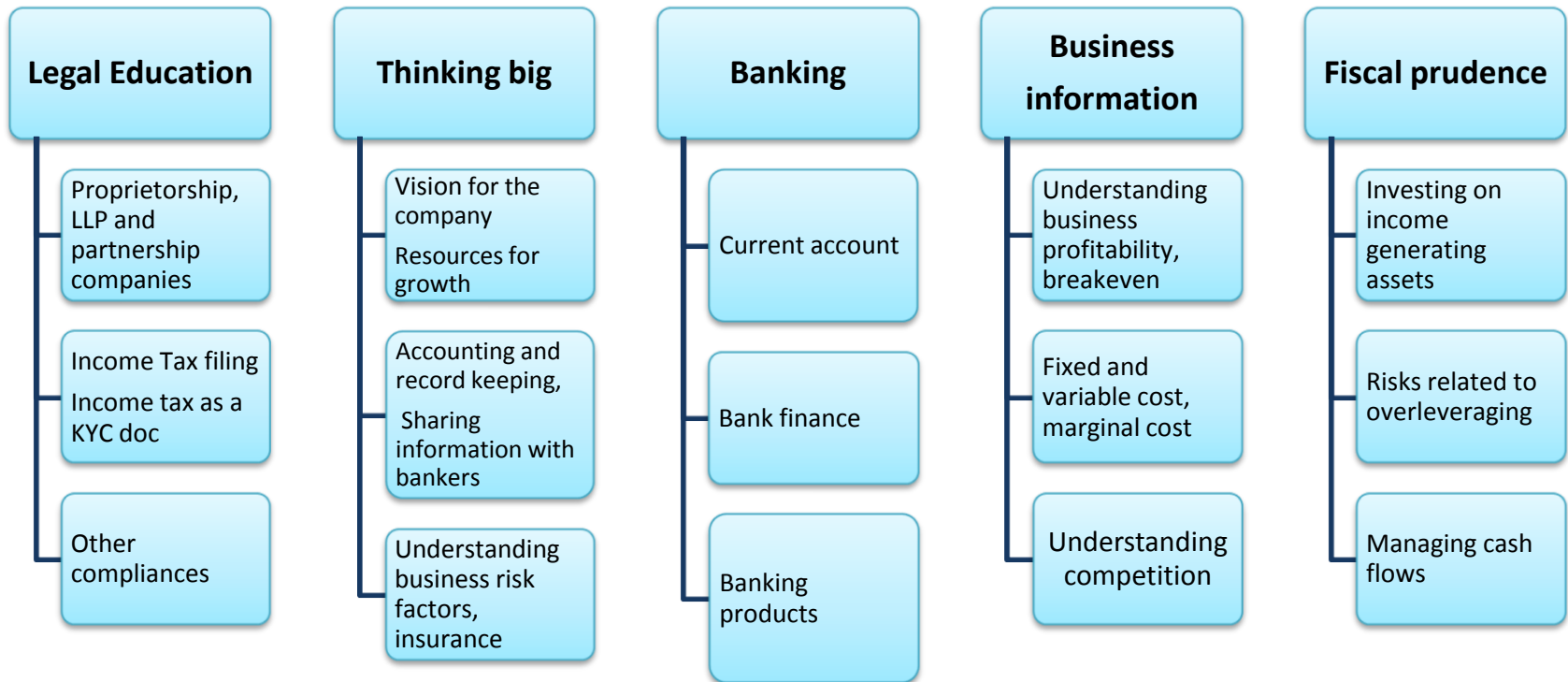
A Kirana Shop

- Mr. R who is a part time driver, also runs a Kirana shop
- Kirana shop is badly in need of working capital
- R doesn't have a PAN card and has never filed taxes
- R is looking for a subsidized loan from the Government, but doesn't know the banks' documentation requirements for sanctioning a loan

Chocolates Limited

- Chocolates Limited is a home based chocolate/cake/ manufacturing business.
- The company doesn't have a current account
- Owners do not keep business transactions separate from their personal transactions
- They do not want to open a current account as they believe it to be expensive

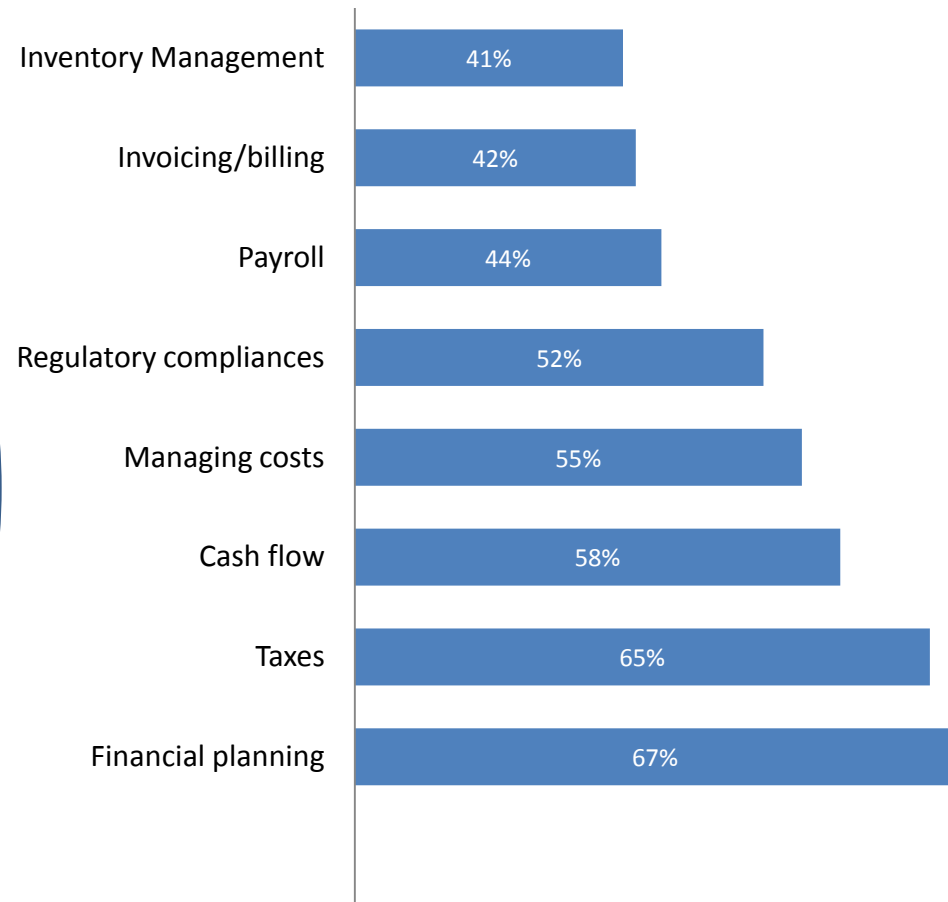
MSE financial literacy needs



MSME literacy needs: An international perspective

MSEs need to learn more about

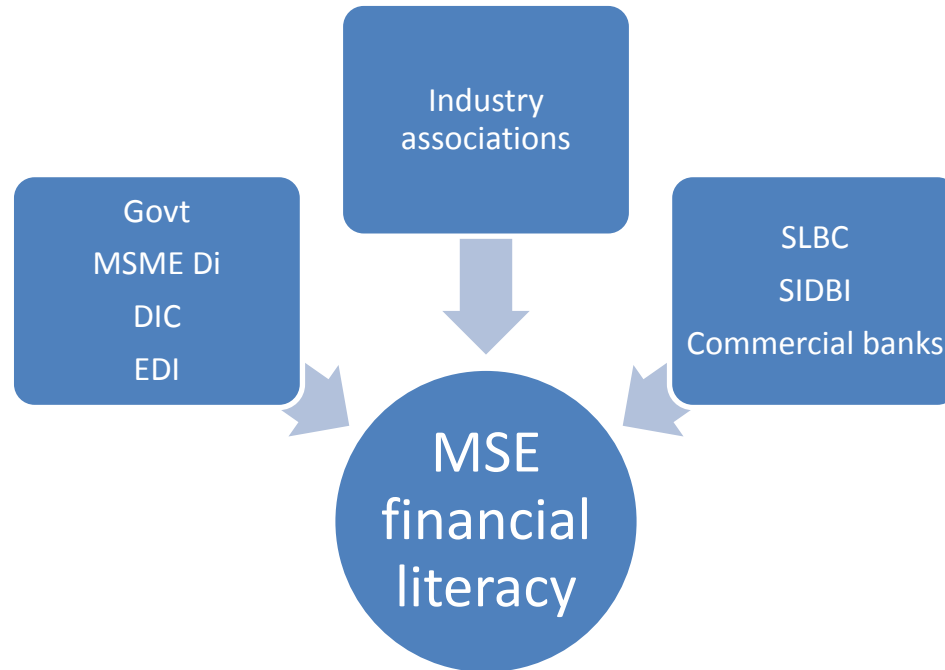
A survey of Canadian small business owners by Sage Software indicates that SMEs perceive knowledge gaps in the area of cash flow management, financial planning and taxation.



Presentation Outline



MSE financial literacy providers



There is very little collaboration among the many stakeholders in financial literacy

Role of banks

➤ State Level Bankers Committee (SLBC)

- Monitors implementation of financial inclusion initiatives
- Member of Empowered Committee on MSE
- Collaborates with Government Bodies on MSE welfare measures
- Arbitrates in disputes between borrowers and banks

➤ Commercial banks

- Literacy through SME relationship managers
- Financial Literacy Centres (FLC)
 - 700 FLCs thus far
 - Largely focused on financial inclusion of poor
- RSEIT: Training programme for first time entrepreneurs
- Sponsor industry associations programmes on MSE literacy

➤ SIDBI

- CGTMSE awareness campaign, knowledge partners
- Website (www.Smallb.com)
- Educating and facilitating finance to certain clusters for investment in energy efficiency

Role of banks - assessment

➤ Positives

- CGTMSE awareness campaigns have gained traction
- Bank staff are interacting with MSEs through industry forums
- Documentation needs, information needs have been reduced
- FLCs have been established

➤ Challenges

- Banks are focused on financial inclusion of poor through FLCs, which offer programs that are very different from MSE training needs
- Banks are not equipped to provide comprehensive training and handholding support needed by MSE
- Banks do not see themselves as financial literacy providers to MSEs

Role of Government bodies ...1

- MSME development Institute (MSME di)
 - Conducts EDP programmes and counsels MSEs on new business opportunities and obtaining finance
- National Institute for Micro, Small and Medium Enterprises (ni-msme)
 - Training of trainers, MSE training through partner institutes, consulting and research studies
- District Industry Centers
 - Counsels MSEs on Government schemes, subsidy, filing for SSI certificates

Role of Government bodies - assessment

➤ Positives

- Ideally suited to provide training to MSES
- MSEs do visit these institutes for guidance
- Variety of programmes across industries
- Implement/facilitate cluster development programme

➤ Challenges

- Lack of collaboration among Govt bodies
- Training approach is number driven, quality is not evaluated
- Performance is measured in terms of number of trainings delivered
- Training only for new entrepreneurs, Post training support is not provided

Role of Industry associations

➤ Types of Associations

- National level Associations such as FISME, FICCI
- State level associations such as FAPCCI
- Industry Associations such as Association of Cement manufacturers, Foundry Men
- Local associations such as Jeedimetla Industry Association in Hyderabad

➤ Association as a literacy provider

- Industry associations facilitate interaction of MSEs with bankers, government officials
- Conduct training programmes on related topics such as working capital management, cost management, insurance etc.
- Spread awareness of relevant issues

Role of associations - assessment

➤ Positives

➤ Associations have

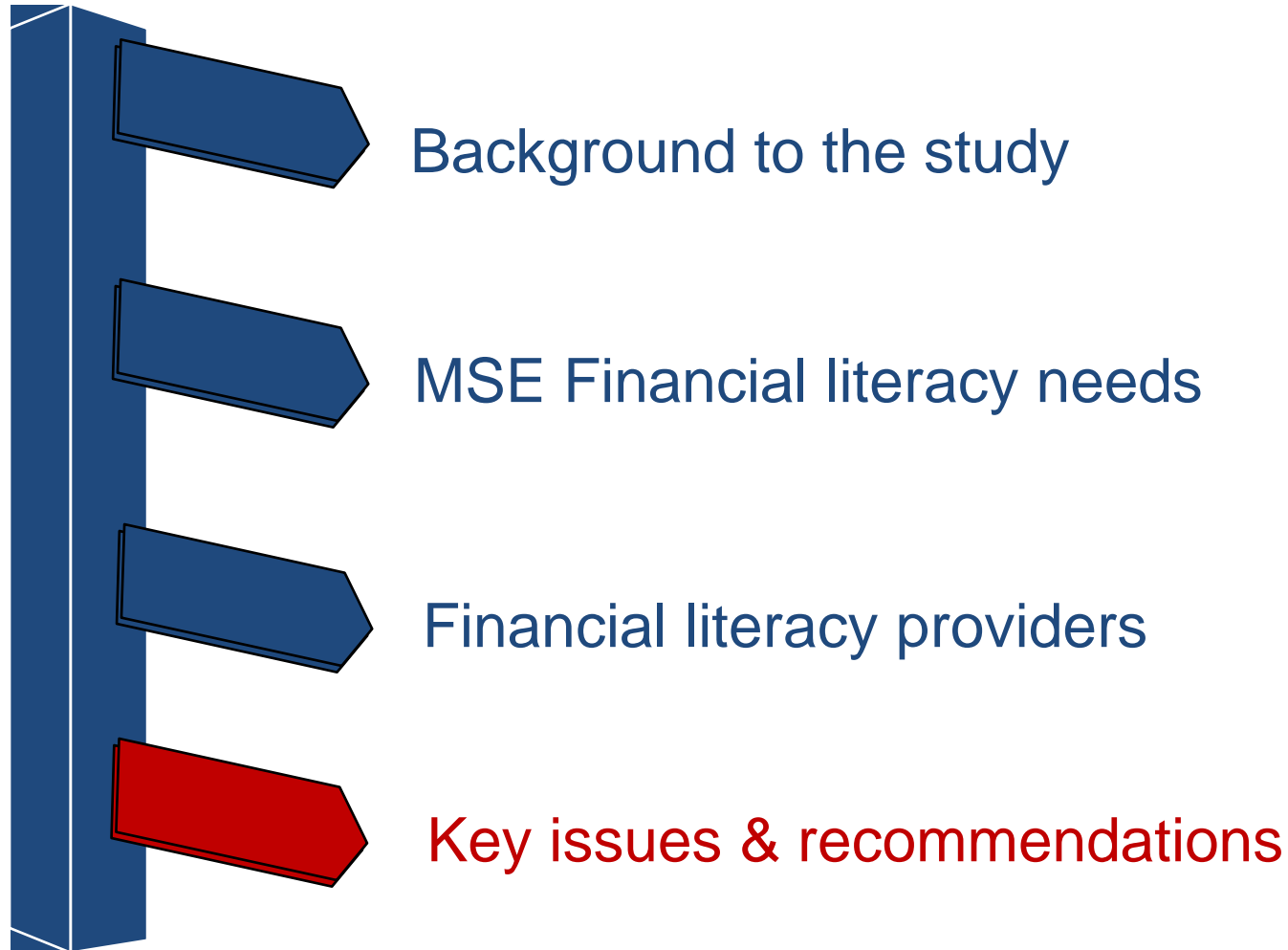
- Played an important role in spreading awareness of government schemes
- Facilitated interaction with Government and Banks

➤ Challenges

➤ Associations

- Do not have the incentive and resources to build the capacity of relatively smaller enterprises
- See themselves only as provider of infrastructure for their members
- Are not equipped to provide handholding, knowledge support to MSEs on a continuous basis
- Typically do not have adequate representation of MSEs

Presentation Outline



MSE training providers - Gaps

- **Lack of data on efficacy of existing programmes**
 - Data on how the training has helped participants is not available
 - Industry wise/sector wise MSE access to credit is not available
 - Financial literacy survey are not available

- **Lack of ownership**
 - None of the training providers has complete ownership of making MSEs creditworthy
 - Performance of training providers is measured only in terms of training imparted
 - There is little or no collaboration between training providers

- **Lack of comprehensive education**
 - Training is focused largely on creating awareness about specific issues and not on providing competence to resolve issues.
 - Training is generally available only at the office of training providers
 - Training is mostly limited to new entrepreneur(s)
 - Training material is not standardized

- **Unavailability of support post the training programme(s)**
 - Training programmes do not have feedback mechanism and follow up support
 - Training providers are not equipped to provide consulting to MSEs in implementing the best practices taught at the program

Learning from Self help groups (SHGs)

- **Clarity on the outcome of financial literacy training**
 - Training aims to discourage excessive borrowing and encourage saving
- **Financial literacy as part of capacity building**
 - Presence of strong capacity building institutions across states, literacy training is imparted along with other capacity building measures
- **Strong execution and feedback loop**
 - Capacity building starts with needs assessment, followed by execution and feedback from the participants about the effectiveness of the programme
- **Collaboration among institutions**
 - Capacity building institutions have formed a network to create a pool of resources and to learn from each other's best practices
- **Capacity building at different levels**
 - Capacity building is done for SHG members and also for NGOs and other organizations that work with SHGs

Recommendations

- **For Government and regulatory bodies**
 - **Bring clarity on outcome of financial literacy for MSE**
 - Enhance financial literacy
 - to increase credit and other banking products
 - for risk minimization and overall wellbeing
 - to reduce sickness
 - to bring more micro enterprises officially registered
 - Offer advisory services along with training
 - **Entrust ownership of financial literacy with stakeholders**
 - Empower MSME DI, ni-msme, GM DIC office to deliver financial literacy programmes
 - Foster collaboration between financial literacy providers, industry associations and banks
 - Harness industry associations to follow up on MSEs subsequent to the programme
 - Encourage banks to conduct performance measurement of MSEs pre- and post-programmes
 - **Strengthen capacity of the stakeholders**
 - Capacity building of MSME Dis, DIC staff on income tax, risk management etc
 - Capacity building of associations to monitor financial discipline of their members
 - Capacity building of banks to encourage collateral free lending

Recommendations

➤ For Stakeholders (Associations and Banks)

➤ Insights on MSE financial literacy needs

- Understanding financial literacy needs of MSES through surveys
- Understanding factors affecting MSEs health across states and regions
- Understanding credit access to MSEs across industries and states

➤ Programme design

- Standardizing structure of the programme
- Incorporating feedback of the learner after the programme
- Performance appraisal of key staff to be linked to MSE credit access
- Collaboration with the capacity building organizations that work for SHGs

➤ Post programme support

- Advisory cell, possibly with the participation of private sector
- Advisory cell to partner with MSE for extended period
- Advisory cell to monitor MSE performance / credit behavior

Thank You

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