

HARNESSING FINTECH FOR POVERTY ALLEVIATION IN MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMEs)

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Abstract “Fintech” refers to the fusion of finance and technology to enhance corporate functions and facilitate the delivery of financial services. This study aims to elucidate the role of financial technology (Fintech) in the advancement of micro, small, and medium-sized enterprises (MSMEs) in India, emphasizing its impact on poverty alleviation. Employing a descriptive research approach with a qualitative framework, the study draws upon a review of literature encompassing published research findings, government websites, and expert insights. The findings suggest that the integration of Fintech within the business landscape can effectively address common challenges faced by MSMEs, contributing to poverty reduction. Poverty, defined as the inability to meet basic needs, requires a clear understanding of these necessities before identifying individuals in need. The study concludes that MSMEs, by customizing Fintech platforms to their unique requirements, experience accelerated growth and prosperity. The implications for MSME players include improved efficiency in sourcing finance, streamlined transaction processing, expanded market reach, and expedited financial reporting.

Keywords Fintech, MSMEs, Poverty Alleviation, Personal Finance, Technology

INTRODUCTION

Fintech stands out as one of the most rapidly expanding sectors attracting venture capitalists. It encompasses computer programs and various technologies that facilitate or support banking and financial services. While financial institutions form a crucial part of society, they must evolve to meet contemporary challenges and adapt to changes. Navigating shifting consumer preferences, dynamic regulatory frameworks, and escalating cybersecurity threats within budgetary constraints necessitates substantial adjustments. At the heart of this transformation lies a swift corporate revolution driven by intense digitalization and the adoption of cutting-edge technologies such as Artificial Intelligence, data analytics, and cloud storage.

The term “Fintech” specifically denotes the fusion of finance and technology to enhance corporate functions and optimize the delivery of financial services. In India, the landscape of Fintech companies is diverse, encompassing startups that specialize in lending, crowdfunding, payment processing, financial planning, remittances, and financial research. Thus far, the presence of Fintech companies has proven instrumental in fostering the growth of startup enterprises. Projections indicate that the Fintech industry’s presence in India will play a pivotal role in propelling the development of micro, small, and medium-sized enterprises (MSMEs).

MSMEs routinely encounter various challenges, including constraints on capital, marketing issues, inefficiencies in financial statement preparation, and transaction processes. Lack of capital is a recurrent issue, preventing MSMEs with promising expansion plans from realizing their full potential due to insufficient funding. Historically, many MSMEs have struggled to secure additional capital from banks, primarily due to their inability to meet the stringent criteria set for loans.

PURPOSE OF THE STUDY

The study aims to achieve the following objectives:

- To evaluate the performance of MSMEs in India.
- To analyze the contribution of MSMEs to entrepreneurship development.
- To underscore the role of Fintech in poverty alleviation.

METHODOLOGY

This research relies on secondary information for its foundation. To investigate into the subject matter comprehensively, distinguished researchers conduct a thorough literature review.

Various published studies, including the MSME Annual Report 2019-20 and information from the websites of

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the Ministry of Micro, Small and Medium Enterprises, Government of India, are consulted during the research process.

FINDINGS OF THE STUDY

Investment Increase

As of May 13, 2020, the Indian government, under the Atmanirbhar Bharat initiative, made significant amendments to the definition of MSMEs. This revision involved an elevation in the investment ceiling, the introduction of additional turnover criteria, and the elimination of the distinction between the manufacturing and service sectors.

The investment limit for micro-manufacturing businesses was increased from Rupees two and a half million to Rupees ten million, while the investment cap for micro-service businesses saw an elevation from Rupees one million to Rupees ten million. For small manufacturing organizations, the investment limit rose from Rupees fifty million to one hundred million, and for small service businesses, it increased fivefold from twenty million to one hundred million. Medium manufacturing firms experienced a twofold increase in the investment cap, moving from one hundred million to two hundred million, while medium-sized service-rendering organizations saw a fourfold increase, moving from fifty million to two hundred million. The new

turnover upper limits are fifty million for micro-enterprises, five hundred million for small-sized businesses, and one thousand million for medium-sized businesses.

Digital Transactions

The Ministry of MSME has implemented various initiatives to digitally empower the entire MSME ecosystem. A committee on Digital Payments, chaired by the Secretary of MSME, was established in line with the recommendations of the Committee of Secretaries and the guidelines of MeitY to ensure the successful implementation of the “Digidhan Mission”. The offices of the Ministry of Micro, Small and Medium Enterprises are now digitally accessible.

Several efforts have been undertaken to raise awareness about diverse payment methods, such as BHIM, UPI, and Bharat QR code, among MSMEs registered under UAM. In the fiscal year 2020-21, digital transactions for the Ministry and its associated offices, including KVIC, Coir Board, NSIC, MGIRI, NIMSME, and O/o DC (MSME), surged to 92.02 percent in terms of value and 90.19 percent in terms of the number of transactions.

The Ministry of MSME was honored with the Open Data Champion Award (2020) from the Ministry of Electronics and Information Technology for enabling digital platforms for all sectors of MSMEs.

Table 1

<i>Digital Transaction for the Ministry of MSME and its attached Offices (2020-21) (Upto December, 2020)</i>							
<i>Sl. No.</i>	<i>Name of the organisation</i>	<i>Number of Transactions</i>					
		<i>Total</i>		<i>By Digital Means</i>		<i>Percentages</i>	
		<i>No. of Transactions</i>	<i>Value in Rupees (In crores)</i>	<i>No. of Transactions</i>	<i>Value in Rupees (In crores)</i>	<i>No. of Digital Transactions (in %)</i>	<i>Value of Digital Transactions (in %)</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>	<i>(8)</i>
1	KVIC	3673719	4102.92	3202965	4059.54	87.19	98.94
2	NSIC	74534	12918.52	69938	12705.74	93.83	98.35
3	DC office (Tool Room+DI offices+HQ)	94856	954.74	88450	891.61	93.24	93.39
4	COIR BOARD	15,823	288.13	12,884	272.50	81.42	94.57
5	NIMSME	1833	9.52	1658	6.56	90.45	68.91
6	MGIRI	764	10.85	726	10.63	95.02	97.97
	TOTAL	3861529	18284.67	3376621	17946.58	90.19	92.02

Source: Ministry of Micro, Small and Medium Enterprises.

Performance of MSMEs in India

One of the indicators utilized to evaluate the performance of any sector in an economy is its contribution to the country's

GDP. The subsequent information outlines the contribution of MSMEs to India's GDP:

Table 2: Contribution of Manufacturing Output of MSME in GDP

S.No	Year	Gross Value of Output of MSME Manufacturing Sector (in crore)	Share of MSME sector in total GDP (%)			Share of MSME Manufacturing output in total Manufacturing Output (%)
			Manufacturing Sector MSME	Services Sector MSME	Total	
1	2013-14	1798818	7.73	28.40	36.13	42.02
2	2014-15	1822777	7.81	29.60	37.41	41.98
3	2015-16	1975589	7.52	29.60	37.12	40.79
4	2016-17	1988352	7.45	30.60	38.05	39.63
5	2017-18	2053622	7.39	30.30	37.69	38.5
6	2018-19	2188584	7.27	31.70	38.97	37.47
7	2019-20	2199763	7.84	31.75	39.59	37.33

Source: Ministry of Micro, Small and Medium Enterprises.

Alleviating Poverty through MSMEs

India, the world's second most populous country with 1.25 billion people and the sixth-largest by land area at 3,287,000 km², faces significant challenges in poverty reduction. According to the Global Multidimensional Poverty Index from September 2018, jointly produced by UNDP and Oxford University, India had 364 million people living in poverty. The IMF World Economic Outlook estimates that the COVID-19 pandemic will lead to 690 million people in India living in poverty by the end of 2020, marking a substantial 47.25 percent increase within two years.

The overarching challenge is to generate employment opportunities to mitigate poverty levels. The World Bank anticipates a 5.2 percent contraction in the global economy in 2020, with a 3.6 percent decline in per capita income, exacerbating the issue of poverty in India. The United Nations' primary goal in sustainable development is poverty reduction, a target set to be achieved by 2030.

The aftermath of COVID-19 has intensified the mission, as more people are at risk of falling below the poverty line. Local MSME enterprises are positioned to play a crucial role in a country like India, historically serving as a significant source of employment, particularly for vulnerable members of society employed in various sectors.

Unemployment lies at the core of the poverty problem, as meaningful employment is essential for meeting basic needs and preventing financial hardship. MSMEs have the potential to be a game-changer in poverty alleviation, supported by data indicating that rural MSMEs contribute to self-employment and salaried positions, employing over 1,109 lakh individuals in more than 633 lakh MSME entities.

Micro, Small, and Medium Enterprises, employing labor-intensive techniques, have the capacity to generate more jobs than larger corporations. They play a vital role in helping low-income individuals earn a livelihood and improve their socioeconomic status. Moreover, as they are predominantly situated in remote rural areas, MSMEs provide meaningful employment without displacing residents from their homes, making them the primary source of non-farm employment in rural India.

Fintech Support for MSMEs in India

Several initiatives and collaborations showcase the growing support of Fintech in empowering Micro, Small, and Medium Enterprises (MSMEs) in India:

- In November 2021, the Small Industries Development Bank of India (SIDBI) partnered with Google to trial social impact financing, providing financial support up to Rs. 1 crore (US\$ 133,939.60) to micro firms at reduced interest rates. Google India Pvt. Ltd. pledged a corpus of US\$ 15 million (Rs. 110 crore) for smaller firms in response to the COVID-19 crisis.
- Freightwalla, a digital freight forwarder, introduced a shipment tracking solution in November 2021, employing predictive analytics to help MSME exporters and importers mitigate shipment delays and enhance supply chain efficiency.
- The supply chain financing (SCF) platform Cash Invoice announced in November 2021 its plan to assist MSMEs with over Rupees Ten thousand crore (US\$ 1.33 billion) in financing in the coming year after securing one million US dollars in pre-Series A funding from Accion Venture Lab.

- In October 2021, Sundaram Finance and the MSME Development Institute (Chennai) provided marketing assistance to MSMEs, emphasizing entrepreneurial development through incubator programs to nurture new product concepts.
- Tamil Nadu-based MSME Aerospace Engineers Private Limited secured a contract from Boeing in September 2021 to manufacture and supply crucial aircraft components.
- Walmart's supplier development initiative, Vriddhi, completed its first phase in September 2021, training over 2,500 MSMEs through Flipkart.
- Flipkart launched 'Flipkart Boost' in September 2021 to support digital-first consumer brands and bolster MSMEs.
- In August 2021, the National Small Industries Corporation (NSIC) joined forces with HDFC Bank to provide credit support to the micro, small, and medium enterprise sector.
- The US Agency for International Development and the US International Development Finance Corporation collaborated with Kotak Mahindra Bank in August 2021 to assist MSMEs.
- Facebook India introduced the Small Business Loans Initiatives in August 2021, aiming to facilitate speedy access to financing for small and medium enterprises through independent lending partners.
- Indian Bank launched 'MSME Prerana,' an online business mentoring program for MSMEs in Odisha, in August 2021.
- In July 2021, Amazon India announced the expansion of its fulfillment centers to strengthen its position in the country, providing job opportunities.
- Razorpay, a provider of surrounded finance solutions, initiated TERA Finlabs in July 2021 to enhance its data-driven risk management, capital solutions, and credit underwriting skills for better financial services to MSMEs.
- Amazon India established Digital Kendra in Surat in July 2021, the first brick- and-mortar resource center aiding 'kiranans' and small companies to go digital.
- The Federation of Indian Export Organisations and Aramex India signed an MoU in July 2021 to promote MSME exporters in India.
- In June 2021, Tide, a UK-based corporate financial platform, announced plans to invest over Rs 1,000 crore (US\$ 134.21 million) in India over the next five years to tap into the growing SME market.

The coordination of government and local institutional entities, combined with the effective use of local resources,

enables MSMEs to contribute more productively. Supporting MSMEs in their efforts to reduce poverty and inequality is crucial, addressing the unique challenges faced by micro, small, and medium-sized businesses with special attention to micro-businesses. The establishment of the Micro-Units Development and Refinance Agency Bank is one of the government's steps to enhance economic and social conditions in rural areas and the non-agricultural sector.

Government e-Marketplace

The Ministry of MSME has initiated measures to facilitate the enrollment of MSMEs on the Government e-Marketplace portal. This includes incorporating a dedicated button in the Udyam Registration online form, allowing MSMEs to express their interest in joining the Government e-Marketplace. As of January 11, 2021, the Government e-Marketplace portal reports the following statistics regarding the total MSEs onboarded and their order worth:

Table 3

Number of MSE Sellers & Service Providers	Orders value (MSE %)
409,937	57.8

Source: Annual Report 2020-21.

E-Mails have been sent to all Udyog Adhaar Memorandum holders, encouraging their participation in the Government e-Marketplace. The UAM Database is now accessible on the Government e-Marketplace, facilitating the provisional and automatic onboarding of all MSMEs on the portal.

- Fintech has witnessed consistent development across various sectors in India, providing MSMEs with avenues to access capital, embrace digital payments, enhance market share, and address financial reporting challenges. Research suggests that this business model offers greater flexibility, security, efficiency, and potential compared to traditional financial services.
- The user-friendly nature of Fintech empowers MSMEs to focus on their core business activities, fostering competition and enabling global growth. This aligns with research findings, emphasizing that MSMEs thrive in supportive settings or ecosystems.
- MSMEs have faced impediments in their development journey. The introduction of Fintech introduces a new dynamic to MSMEs. The Indian government recognizes the importance of the Fintech industry in expediting MSME growth, as indicated by the issuance of various restrictions by the Financial Services Authority and Indian banks.
- Fintech is designed to address a myriad of issues faced by MSMEs. Each Fintech platform offers unique

services, enabling MSMEs to leverage multiple Fintech solutions simultaneously.

- Peer to Peer Lending is a Fintech company specializing in providing capital loan services for debtors. All processes are conducted digitally, ensuring transparency for prospective loan recipients.
- This business strategy aligns with the current government policy, aiming to minimize physical separation due to the COVID-19 pandemic. However, considerations such as the completeness of requisite paperwork must be addressed.
- Fintech firms, unlike traditional financial services in the capital market, have the capability to innovate and create novel financial products and services.
- Fintech e-wallets facilitate digital payment transactions, offering a more convenient, faster, and cost-effective procedure. Consequently, digital bookkeeping becomes a crucial consideration for MSMEs as they expand their operations.

CONCLUSION

Continuous and vigilant government monitoring is imperative for the success of such initiatives. To foster the growth of MSMEs and consequently contribute to rural development and poverty reduction, the government should provide consistent financial, infrastructural, and technological support. The thriving of MSMEs directly correlates with the country's progress in poverty reduction and rural development. Industry Fintech plays a crucial role in delivering solutions that facilitate the accelerated expansion of MSMEs in India.

Government oversight of these programs should be sustained and comprehensive. MSMEs need steadfast

support from the government, encompassing financial, infrastructure, and Technological interventions, to generate more employment opportunities and significantly contribute to rural development and poverty alleviation. As MSMEs flourish, the positive impact on poverty reduction and rural development in the country becomes more pronounced. Fintech solutions from the industry further enhance the capabilities of MSMEs in India, enabling them to expand rapidly.

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