

TECH TONIC SMBs' MAGIC POTION FOR GROWTH

The pandemic has forced everyone to go digital, including both businesses and their customers. Small and medium businesses, which traditionally shied away from tech investments, can look the other way only at their peril

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Former IAS officer at 'anecdote age': "To start a business in India today, for an average MSME, technically there are 58,172 compliances. The updates, amendments, changes on these compliances are 3,516 per annum."

Sceptical jurno: [Aghast] "How can India possibly solve this issue? It sounds horribly large and unsolvable."

Former IAS officer: "We have done it before."

Sceptical jurno: [Raised eyebrows]

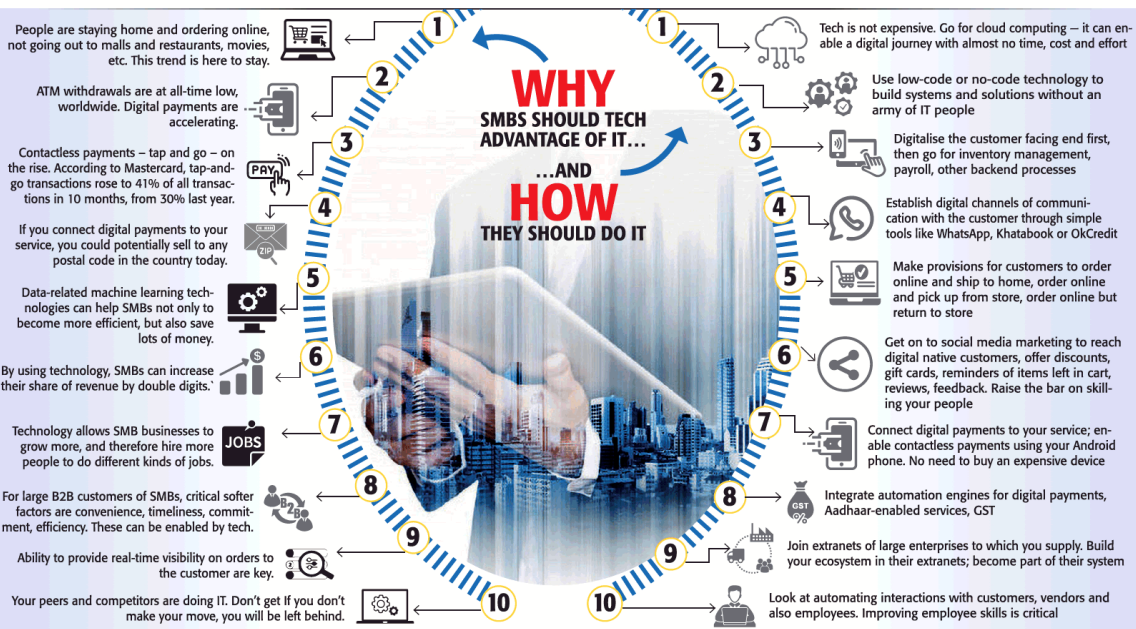
Former IAS officer: "In the 1990s, India decided to go digital by dematerialising shares. An American agency wrote a report in 1995, and laughed, and said you guys want to do



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something that nobody in the world has done. Don't even try this. So, what did India do? India wrote the Depositories Legislation, one of our finest pieces of legislation, in three nights, by hand. That legislation needed a constitutional amendment and with ratification from states within a month, India created the NSDL, and today millions of shares can be transferred in a second."

There's more to the above conversation, but you get the drift – when we put our mind to it, India can achieve anything. The larger point being made by K.P. Krishnan, currently IEPF Chair Professor at NCAER, and former secretary in the ministry of skill development and entrepreneurship, was that "tech comes in very majorly by government creating platforms for these compliances, because a lot of these are information that you need to file, which can be easily handled by technology". Krishnan, incidentally, heads a task force to clean up the 58,172 compliances. "I see an



DIGITAL LENDING: NO COLLATERAL NEEDED

- Today, businesses generate thousands of data points simply by operating their business.
- Simple statistical models can use these data points to provide high confidence on these businesses' viability.
- Observe what the industry is doing, what the business is doing, and use the intelligence from the data points to give a loan, without requiring a security deposit.
- Use the bank statement if there is no credit score. The bank statement shows all transactional activities.
- It also shows the money that came into an account and that left the account in a year; how good an SMB has been in terms of paying rent, short-term loans, etc., which may not be part of a credit scoring system.
- Use these data to make working capital accessible to SMBs.

for customers to pay digitally. At the back end, SMBs should first look at where their time is most spent – payroll or compliances or taxation – and use digital tools to cut down on the time, and also bring efficiency and cost optimisation.

Malhotra of Mastercard added that once the front and back-ends are digitalised, SMBs should move to richer things like employee collaboration, electronic education, financial literacy. "What does digital identity mean to you? How can you be part of the formal SME system? And then be a profitable business once you have gone through the survival mode," was Malhotra's advice in terms of the pathway to creating a strong digital DNA within SMBs.

While there is no doubt that technology can take SMBs to the next level of sustained growth, government policy surely plays a part in that movement. "Just the mere knowledge of solutions isn't enough; there is also a motivation and enabler required, and government policy can act as both motivator and enabler," said KPMG's Tuteja. "Germany's MSMEs have a significant contribution to the national GDP. Such markets provide impetus for easy access to technology. And if you use technology, availability of capital and credit happens at a much lower cost."

While the government is already making several moves to benefit SMBs, there are some areas where greater focus would help change things on the ground. The TREDS platform, where banks

can compete and lend freely, is one such area where SMBs can access credit at attractive rates of interest. "But we built that platform and left it to the public to use it," rued Narayan of FICCI, pointing out that large enterprises are averse to having their bills showing up in TREDS. His prescription: mandatorily publish GST bills on TREDS. "Then your credit problem is solved," he said.

"We need to bring in a lot of policy changes to bring in digitalisation of lending," said Kumar of Razorpay. "We have to wholesale shift from the traditional lending model to a

A government mandate to publish all GST invoices on the TREDS platform might help solve SMBs' credit problem



K.P. KRISHNAN
IEPF Chair Professor
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enormous amount of interest – we have interacted with at least five chief ministers," he said.

Krishnan was participating in a brainstorming session organised by The Economic Times and Mastercard, on the subject "Technology in Small Business - The Path to Sustained Growth", along with some other stalwarts. The discussion was moderated by Alokesh Bhattacharyya, Senior Editor and Suchetana Ray, Senior Assistant Editor of The Economic Times. Intel's Prakash Malhiya felt that COVID has impacted SMBs deeply, particularly because of lack of adoption of technology. "There is a fear of technology

adoption, which we need to circumvent," he said. "The second is [their perception] of no justification or ROI for tech adoption." But what has also happened is that the pandemic has practically forced everyone to adopt digital solutions. "In the past 10 months, people who serve you at your homestay have all adopted whatever digital tools they need to survive," pointed out R. Narayan of FICCI & Power2SME. "This is more applicable in the micro segment."

Sandeep Malhotra of Mastercard highlighted three big trends that are moving SMBs towards technology: (1) People are staying home and ordering online. This trend is here to stay, even if the pandemic goes away (2) India is going cashless. ATM withdrawals are at all-time low (3) Contactless, tap and go, payments. "Last year, 30 per cent of all transactions worldwide were tap and go; it has become 41 per cent in 10 months," said Malhotra. "India used to be 3 per cent tap and

go; it's now mid-teens." Added Akhilesh Tuteja of KPMG: "MSMEs depend significantly on trust, and the ability of digital payments to enhance trust is unparalleled compared to other payment instruments, and gives huge capability to grow the business."

What the pandemic has also changed is large enterprise behaviour. "Enterprises today say they need someone to deal with their vendors; they no longer want to deal with 400 vendors," said Narayan. "So, either they are putting up a digital front for the vendors, or they are putting up an aggregator." This is also forcing many SMBs to go digital.

Not everything is going in the right direction, of course. Razorpay's Shashank Kumar felt solutions that are being built are not keeping Indian SMBs in mind, pointing out that the credit industry still relies on balance sheets and credit scores for underwriting. "We know that for most SMEs,



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credit score is non-existent," he said. "Their public profiles and balance sheets are not something the banks can trust to give loans." So, how can they get loans in that case? Using data, companies like Razorpay and Mastercard have found ways to

determine the credit-worthiness of small entities, and then provide them collateral-free loans.

All panellists agreed on the acceleration of tech adoption during the pandemic, but then the question is: what's the right way for a small, low-on-capital entity to adopt technology? First, as Malhiya pointed out, technology is not expensive any more. Thanks to cloud, "all technologies are operating on pay per use model – setting up a website, CRM tools, digital tools on social media."

According to Kumar of Razorpay, SMBs must first digitalise the front-end of their business before looking at the back end. "Any retail facing SME must look at establishing their digital presence, even through simple tools such as a website and Google Maps," he said, adding that tools such as WhatsApp, Khatabook or OKCredit helps raise the quality of relationships the SMBs have with their existing customers. The next step would be to make it convenient



SANDEEP MALHOTRA
EVP, Products and Innovation, Asia Pacific
Mastercard

cash flow-based lending model where you get loans as your business grows and you show good behaviour."

The point to remember is that SMBs are from different industries and geographies, and are of different sizes. Action plans targeting SMB growth need to consider this differential. "We need to think about MSMEs who are under the GST barrier; those above the GST barrier understand the digital footprints they are leaving on the business," said Narayan. "Progressive SMEs are able to dig out what is good for them."

The rest, we must address.



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