

## **OCEN: Will it make the twain meet?**

Nearly 65 million Micro, small and medium enterprises (MSMEs) contribute 30% to India's GDP and employ around 110 million people. By virtue of their regional spread and local employment generation, MSMEs not only have a huge potential to create employment opportunities and positively impact inclusive economic growth but also check migration to urban centres. However, lack of accessibility to credit has not enabled them to grow in size and technology and the current MSME credit gap is estimated to be around INR 25 trillion (lac crore). This huge unmet credit demand falling between the chasm of microfinance institutions and banks is referred to as the "lost middle".

Lenders need to solve multiple problems at their end in order to service this gap efficiently and profitably. First, the existing processes at these institutions are designed for a high level of human intervention at each stage namely sourcing, underwriting, monitoring and repayment collection. This makes the unit economics unfavourable for loans with smaller ticket sizes, particularly below INR 10 lacs, and for a short tenure. On the other hand, MSMEs require smaller ticket sized loans for short tenures. Second, most banks have a distribution network skewed towards urban areas. But a large proportion of MSMEs are located in semi-urban and rural areas increasing the cost of monitoring and servicing for the lenders. Additionally, problem of information asymmetry especially at the lower end of spectrum of Micro enterprises – most of which are proprietary and away from standardised financial statements preferred by banks exacerbates the problem. Combination of these factors has led to a paradoxical situation, wherein while 99% of MSMEs are Micro and Small, their share in banking sector credit to Industry is mere 13%.

While public policy has always been focussing on MSMEs right from days of Small Scale Industries (SSI) framework to recent years multiple activity ranging from Stand Up scheme, SIDBI's Udaymimitra portal, MUDRA, mandatory buying of MSME products, GST relaxations to the fintech platform PSB loans in 59 minutes. However, credit gap continues to widen at a time when MSMEs have a vital role to kickstart economic activity in COVID era.

The announcement of Open credit enablement network (OCEN) is the latest in a series of attempts to overcome these problems. OCEN is a digital public infrastructure like India Stack and provides the building blocks for the emergence of a credit marketplace. Lenders, loan service providers, technology and data analytics firms, account aggregators etc. can become a part of this marketplace by plugging into it using APIs provided by OCEN. Account aggregators are entities which can be permitted by an individual to fetch financial data from different sources and share it with the selected lenders. They are expected to become operational within this year. At least one account aggregator, Onemoney, is being piloted in a sandbox environment. Existing sources of data for account aggregators include IT returns, GSTN invoices, bank statements, credit bureau records, mutual fund statements, insurance details etc. Increasing adoption of digital payments by individuals & small businesses, growth of e-commerce platforms and payment gateways, launch of kirana-tech and accounting apps etc. has made newer streams of high-quality data available. Such data is expected to become available on the platform. Automation of all

the process steps- establishment of identity of the applicant, submission of documents, underwriting, signing of loan agreement, lien marking of future receivables, payment collection- makes it possible to disburse the loan in 5 minutes. OCEN reenvisioned a future where credit is 'democratized' and every service provider is able to offer it by plugging into the platform easily. The open standards provided by OCEN will enable innovation at each step of the process. It can be said to be a step ahead of PSBLoans in 59 minutes as a platform to provide term loans, working capital loans and retail loans, wherein Documents like IT returns, GST data, Bank Statements, etc are required to be uploaded and an in-principle approval for loans is given within 59 minutes. Later the functionalities of including non GST enterprises and enlarged set of lenders has been added but the progress has not been on the lines expected.

Will OCEN be able to finally untie the proverbial Gordian knot? And make the twain of technology and access to finance for MSMEs meet? While It has the potential to increase credit availability manifold for enterprises which are already a part of the digital ecosystem. For other enterprises, which operate in data dark or grey zone, lenders would need to find a balance between physical and digital presence and adopt a phygital approach to appraisal and lending. Overcoming information asymmetry for enterprises having a limited digital footprint will continue to require the presence of feet on ground. The primary method of credit needs assessment also needs to change from collateral focus to cash flow focus – microfinance institutions have amply demonstrated the success of cash flow based lending. Cash-flow based lending supplemented with lien on future receivables is the way forward and OCEN has integrated invoice discounting in its architecture.

Adoption of new ways of doing things propagate through word-of-mouth and require social learning -studies show significant network effect in adoption. Jan Dhan accounts are an example; total value of transactions through the business correspondent channel under PMJDY accounts has increased from INR 7 billion to INR 5884 billion over the last 10 years. While, the existing landscape of MSMEs limits the potential use of OCEN as a 'only digital' approach but holds great promise for the future with increased digitalisation of economic activities. Even in present, banks, Small Finance Banks which have been created especially for this segment and new age fintech lenders can make use of OCEN and in cases of impartial information supplement it with physical checks.

[960 words]



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