BRICS
INDIA 2021

COUNTRY-SPECIFIC EXPERIENCES OF FINTECH APPLICATIONS IN MSMEs

BRICS INDIA 2021


Brazil
Russia
India
China
South Africa

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EXECUTIVE SUMMARY

As a collective effort of BRICS partner nations, this report strives to chronicle initiatives undertaken by BRICS countries and their consequent experiences pertaining to the policy initiatives to unlock growth of Micro, Small and Medium Enterprises (MSMEs) and the innovations surrounding the application of FinTech to support MSMEs.

This document has been prepared with four underlying objectives in place:

1. Discern the usage of digital technology in the MSME sector
2. Comprehend and embrace best practices to improve ease of doing business for MSMEs
3. Showcase successful fintech innovations across BRICS nations
4. Catalyze ideation by all stakeholders of BRICS nations

The seeds of this proposal were sown in February 2021, at the BRICS Finance and Central Bank Deputies meeting where the initiative was first endorsed. Thereafter, a detailed proposal was endorsed at a meeting of BRICS Finance Minister and Central Bank Governors. Following this, India, the designated 2021 Chair for BRICS nations, rolled out the survey-cum—questionnaire to the BRICS nations in May 2021. Responses from Brazil, South Africa, China, and Russia were received through their respective Ministries of Finance and / or Central Banks and were synthesized by India.

The following table captures the synthesis of the best practices (policy level, operational and tech. enabled) implemented by the partner nations across the lifecycle of MSME credit flows.

INNOVATIVE PRACTICES FOSTERED BY BRICS NATIONS

STAGE **1** Institutions/ mechanism for lending to MSMEs using Fintech	⦿ Foster creation of new financial institutions (e.g.: P2P lending) enabling them to operate with legal certainty & eliminating the need to partner with incumbents ⦿ Develop equity markets and crowdfunding for SME financing with support from policy and law makers ⦿ Transform digital financial infrastructure to improve product quality & security while providing non-discriminatory access ⦿ Provide for regulated e-discounting platforms authorized to conduct MSME trade receivable factoring ⦿ Institute an apex body to channelize subsidized credit / low-interest loans to MSMEs via govt. schemes ⦿ Create policies to support collateral and 3rd party guarantee free loans facilitating job creation for MSMEs

STAGE 2

Availability of Information to Prospective Borrowers

- Support objective of SME financing by establishing national support programs providing credit access in the form of receivables guarantee
- Constitute a national guarantee scheme providing market characteristics and updated database access
- Promote federal projects to extend digital services, support measures and unified information to SMEs
- Mandate registration of schemes available for MSMEs under relevant ministries for information access
- Establish dedicated channels financing MSMEs through fintech platforms
- Encourage financial inclusion by way of large-scale pilot projects that integrate online-offline processes
- Under the pilot program's ambit, launch financial inclusion products addressing people's daily needs
- Launch government supported online platforms educating MSMEs about finance, increasing deal flow, and providing access to comprehensive databases

STAGE 3

The Loan Application Process

- Leverage algorithms embedded in loan portals to match borrower requests with lenders
- Commence app-based lending and partner with institutions to reach bottom of the pyramid
- Implement a mobile-first approach to offer a range of financial products (e.g., quick loans) expeditiously
- Encourage private sector fintech solutions having efficient processes & tailor-made lending products
- Offer paperless, online applications thereby reducing approval and funding turnaround time drastically

STAGE 4

Document Submission by the Borrower

- Fintechs digitally procure data and operate customized rating systems using credit information
- Limit document requirements for advancing loans to high-risk MSMEs via investment platforms
- Create systems to integrate inspection processing pre- and post-loan sanction
- Facilitate background verification through account aggregators integrated with vast databases
- Conduct field-investigation or physical verification basis exposure amount and nature of the loan

EXECUTIVE SUMMARY

STAGE 5
KYC Completion

- Adoption of digital passports / biometric ID to enable repeat information use while digitizing services
- Incepting digital IDs as unified access points of data from government sources with citizen's consent
- Promote efficient banking and improved risk assessment as a result of information analysis from KYC
- Authorize regulators to create, enforce KYC guidelines; approve alternatives for customer identification
- Institute a central KYC registry automating processes, decreasing costs and benefiting all stakeholders
- Promote digital innovation in the KYC space

STAGE 6
Risk Management Using Fintech

- Nationwide implementation of API technology enabling data aggregation
- Detailed credit analysis by leveraging AI and ML resulting in cost and time saving
- Improved analytics in determining customer credit quality by extracting direct and indirect tax data
- End-to-end risk monitoring through big data modelling and behavior scorecard technology
- Incorporating transactional and social data for assessing creditworthiness

STAGE 7
Credit Appraisal and Check of Credit History

- Digitized customer verification process on fintech platforms
- Permit platforms to cross-reference of borrower data on external credit bureaus to conduct due diligence
- Authorize data integration across banks & government departments for precise analysis
- Devise multi-dimensional models factoring quantitative and qualitative customer metrics

STAGE 8
Collateral Requirements

- Reduce collateral amount on loans for self-employed citizens via national guarantee schemes
- Segment offerings basis guarantee amount required
- Target government schemes offering collateral free term / working capital loans to MSMEs

STAGE 9

Charge Creation

- Establish a central digital registry to retain loan information uploaded by secured creditors
- Explore amendments to legally support digital signatures in charge creation for immovable properties
- Aim to synchronize charge creation by prescribing templates & integrating existing platforms

STAGE 10

Execution of Documents and e-Signing or e-Stamping

- Credit fintech platforms with integrated digital systems for e-signing / e-stamping
- User friendly interfaces enabling allowing e-signatures to process consumer loans remotely
- Authorize photograph of real print of electronic seals in case of those issued by certification centers
- Introduce platforms for paperless execution and storage working in tandem with existing technology
- Country-wide approval of and adherence to regulations on e-signatures
- Equal treatment of hand-drawn and e-signatures provides companies flexibility to operate in the market

Miscellaneous

Regulatory Initiatives and other best practices

- Set-up a regulatory sandbox to promote financial inclusion, foster innovation, and diversity in business
- Facilitate creation of an ecosystem with cohorts focusing on payments, lending, KYC etc.
- Formulate a phased open banking strategy allowing developers to build application / services around it
- Introduce faster payment system that is interoperable and enables instant 24/7 money transfer
- Encourage online loan models collapse the turnaround time for loan application and disbursal

COVID-19 has had a multifold impact on the financial viability of micro and small businesses across the world. With restrictions placed on mobility of individuals and enforcement of social distancing measures, traditional methods of accessing credit have been rendered futile. However, the pandemic has accelerated the adoption of technology across domains including financial services. Financial technology platforms have gained traction and are slowly becoming an integral part of people's everyday lives.

This familiarity and adoption of Fintech solutions needs to be translated to the MSME context and ensure benefits of credit application and disbursal are accrued to them. Development of FinTech is also associated with risks (e.g. data breaches, risk of a financial bubble given high interest in these instruments, reliance on technologies etc), which have to be addressed, including through a regulatory framework. The innovative measures implemented by the BRICS nations can be used as a blueprint to further initiatives pertaining to MSMEs. Contextualizing and modeling offerings based on BRICS nations' best practices can serve as an introduction to transforming how MSMEs interact with every stage of the credit lifecycle.

In the 21st century, as information flow is seamless and democratized, the details of this report can find unique applications in the global context and need not be restricted to BRICS nations. As regulators, policy makers and MSMEs embrace this tectonic shift in technology, it can catalyze the creation of ecosystems to increase credit penetration and financial inclusion.

OBJECTIVE OF THE SURVEY

This initiative is a collective effort of BRICS partner countries to consolidate and document country-specific experiences related to FinTech applications in Micro, Small and Medium Enterprises (MSMEs):

There were 4 primary objectives of the study.

1

Comprehend use of digital tech. for MSME section across multiple areas:

- To shape govt. policies (e.g.: ensuring effective credit flow) & how financial service providers are doing business with MSMEs during social distancing

2

Embrace best practices to improve ease of doing business for MSMEs

- Across multiple areas such as policies, tech. transfer and exchange of ideas

3

Showcase successful Fintech innovations across BRICS countries

- Highlight impact of technology on policy, innovation, and operational efficiency

4

Catalyze ideation by all stakeholders of BRICS countries

- Including policy makers and private participants in the MSME sector

BACKGROUND

At the outset, it is important to note that the MSME sector plays a crucial role not only in providing large employment opportunities but also in terms of its contribution to GDP in each BRICS nation. A brief tabular statement, capturing this contribution to GDP and employment, and also the way different BRICS partners define MSMEs in their respective juridicstions, is given below.

BRAZIL

Definition

- As per Complementary Law No. 123/2006, the MSME definition is based on the annual turnover criterion:
  (i) Micro Enterprises ≤ R$ 360,000.00; (ii) Small Enterprises (SE) with R$ 360,000.00 < SE ≤ R$ 4,800,000.00; and (iii) Individual Micro-Entrepreneur up to R$ 81,000.00.*
- In banking industry, it is based on internal criteria that meet their respective targeting strategies.
- The Brazilian Institute of Geography and Statistics (IBGE) has also classified MSME on the basis of number of employees: (i) Micro Enterprises with 0 to 9 employees; (ii) Small Enterprises (SE) with 10 to 49 employees; (iii) Medium sized enterprises with 50 to 249 employees; and (iv) Large enterprises with > 249 employees.

No. of MSME Units and its contribution to employment and GDP

- Micro and small enterprises (MSEs) account for the overwhelming majority of the total number of Brazilian enterprises (98.5%), contributing to 54.5% of formal employment, and to 30% of GDP.
- According to data from the Special Secretariat of the Federal Revenue of Brazil (RFB), considering the companies opting for Simples Nacional, which is a shared tax collection and inspection regime applicable to Micro and Small Businesses, on December 31, 2020, there were 16.6 million enterprises in the country, of which 11.3 million were individual Microentrepreneurs (MEI).

RUSSIA

Definition

According to Federal Law No. 209-FZ of 24.07.2007 of the Russian Federation, defines Business activity as an independent activity carried out at one's own risk, aimed at systematically deriving a profit from the use of property, the sale of commodities, the performance of work or the rendering of services by persons registered in this capacity in conformity with the procedure low-established procedure.

* There are some complementary criteria that should be fulfilled for a Person to be considered Individual Microentrepreneur (MEI)

Type	No. of Employees	Sales revenues
Micro	< 15	< 1.65 mln USD
Small	16-100	< 11 mln USD
Medium	101-250	< 27 mln USD

No. of MSME Units and its contribution to employment and GDP

- As of August 2021, there are 5.39 mln MSME units registered (without self-employed), including: (i) 2.1 million units – microenterprises; (ii) 214 thousand units – small enterprises; (iii) 17 thousand units – medium-sized enterprises; and (iv) 3.34 million units – the number of SMEs-individual entrepreneurs.
- The number of employees in SMEs – 22.9 million (based on the results of Q1 2021).
- According to Rosstat the share of SMEs in GDP in Russia in 2019 was 20.8%.

INDIA

Definition

To pave way for strengthening and growth of MSMEs. The government announced a new definition of MSME. The revised definition removes the distinction between manufacturing and service enterprises. Besides the investment in plant and machinery, a new criterion for turnover has also been include. The revised definition is applicable from 01.07.2020.

Category	Investment	Turnover
Micro	1	5
Small	10	50
Medium	50	250

(Figures in Rs. In crore)

No. of MSME Units and its contribution to employment and GDP

- Between October 2015 to June 2020, MSME has employed 57,762,464 persons. Out of this, 3,50,23,827 (60.63%) persons are employed in Micro enterprises, 1,88,24,537 (32.59%) persons in Small enterprises and 39,14,100 (6.78%) persons in Medium enterprises.
- During 2015-16 (Oct 2015) to 2020-21 (till June 2020) 40% MSMEs engaged in Manufacturing activities while 60% MSMEs engaged in the Service activities.
- MSMEs contributes to around 30% of India's GDP over 48% of India's exports and provides employment to over 11 crore people.

BACKGROUND

CHINA

Definition

Defined MSME based on Revenue and number of employees

Name of industry	Medium	Small	Micro
Agriculture, Forestry, Animal Husbandry and Fishery	5≤Y<200	0.50≤Y<5.00	Y<0.50
Retail	50≤X<300	10≤X<50	X<10
	5≤Y<200	1.00≤Y<5.00	Y<1.00

No. of MSME Units and its contribution to employment and GDP

- Over 99% of enterprises are MSMEs, which contribute 50% of tax revenue, 60% of GDP, 70% of new products and patents, as well as 80% of employment.

SOUTH AFRICA

Definition

National Small Enterprise Act of 1996 (Act No. 102 of 1996), read with the National Enterprise Amendment Act of 2003 (Act No. 26 of 2003), and the National Small Enterprises Act of 2004 (Act No. 29 of 2004) has defined enterprise size classes by sector, using two proxies i.e. (a) Total full -time equivalent of paid employees; and (b) Total annual turnover

Sector	No.of Employees
Medium	51-250
Small	11-50
Micro	0-10

No. of MSME Units and its contribution to employment and GDP

- The Department of Small Business Development (DSBD) uses the Quarterly Labour Force Survey (QLFS) as a source for the number of MSMEs in South Africa. At Quarter 4 of 2020, there were an estimated 2.3 million MSMEs in South Africa.
- An alternative estimate for the number of MSMEs in South Africa is provided by FinFind, a fintech platform launched by the Ministry of Small Business Developed in 2015. According to FinFind's Inaugural South African SMME Access to Finance Report, 2018, there are between 2.9 million and 3.4 million informal and formal MSMEs in South Africa.
- According to the Small Enterprise Development Agency (Seda), an agency of the DSBD which provides non-financial support to small enterprises and cooperatives, MSMEs accounted for 50% of all jobs in South Africa in the third quarter of 2020. MSMEs are estimated to contribute around between 41% and 47% to South Africa's Gross Domestic Product according DSBD.

Documenting experiences of each BRICS country:

FEBRUARY 2021

Initial proposal endorsed at BRICS Finance and Central Bank Deputies meeting

APRIL 2021

Detailed proposal endorsed at a subsequent meeting of BRICS Finance Minister and Central Bank Governors meeting

MAY 2021

India (2021 Chair for BRICS nations) rolled out the survey-cum—questionnaire to BRICS countries

JUNE-JULY 2021

Responses received from Ministries of Finance and Central Banks of BRICS partner countries

AUGUST 2021

Synthesis of responses across BRICS countries by India

Best practices in BRICS countries: a snapshot of various stages through the life cycle of a credit product

Based on the responses received from all BRICS partners, some of the most notable practices adopted by various countries have been set out in the subsequent Sections.

These include both policy level as well as operational practices, and have been structured across various stages based on the life cycle of a credit product i.e. from loan product portfolio to loan application, documentation and appraisal, and final disbursal, etc. The following critical stages have been detailed in the ensuing pages:

Stage-1:
Institutions / Mechanism for Lending to MSMEs Using Fintech

Stage-2:
Availability of Information to Prospective Borrowers

Stage-3:
The Loan Application Process

Stage-4:
Document Submission by the Borrower

Stage-5:
KYC Completion

Stage-6:
Risk Management Using Fintech

Stage-7:
Credit Appraisal and Check of Credit History

Stage-8:
Collateral Requirements

Stage-9:
Charge Creation

Stage-10:
Execution of Documents and e-Signing or e-Stamping

Further, some of the broad themes across the various stages of the life cycle are as follows:

1. Sustained support from policy and law makers
2. Technology driven transformation of systems and process
3. Enabling regulatory environment and accessible infrastructure
4. Ideation and implementation of targeted financial inclusion projects
5. Digitalization of financial services through innovation and integration

Lastly, country-wise examples have been enumerated in alphabetical order (corresponding to BRICS). The arrangement is independent of the relative importance of country-specific schemes. Further, some of the best practices, which do not correspond to any specific stage, have been tabulated at the end of the document. The detailed responses from all Partner countries are also placed as an Annexure.

Institutions / Mechanism for Lending to MSMEs Using Fintech

The MSME sector encompasses a wide range of commercial activities, and plays a crucial role not only in providing large employment opportunities but also in industrialization of rural and backward areas, thereby reducing regional imbalances, and assuring more equitable distribution of national income and wealth. Therefore, it is imperative that lending to this sector includes a bouquet of schemes, to cater to the varied requirements of the constituent business entities. Realising this need, BRICS nations have adopted and devised various mechanisms of credit delivery to this sector. The following is a snapshot of the programmes and systems put in place by BRICS countries for lending to their MSME borrowers.

BRAZIL

1. Continued support from policy and law makers
   - 2 new types of Financial institutions created[1] : Direct credit company[2] and P2P[3] loan company (connects lenders and borrowers)
   - Enabled new companies to operate with legal certainty to eliminate the need to partner with incumbent financial institutions
   - Large growth in ordinary credit portfolio due to incentive programs (e.g.: Emergency Program for Access to Credit i.e. PEAC) & National program to support MSMEs (Pronampe)

RUSSIA

1. Push for SME financial inclusion
   - SME financing is the top priority of the Financial Inclusion Strategy (2018-21)
   - Leveraging equity markets & crowdfunding as means for SME financing
   - Introduced Faster Payments System[4] and exercising of online factoring for SMEs
2. Launch of projects and schemes targeted at SMEs
   - Online pilot planned at the end of 2021 to conduct factoring transactions with SMEs via factoring platforms
   - Marketplace 2.0 project expands range and reach of products / services on financial platforms while fostering healthy market competition
3. Development of Open Interfaces (Open API)
   - Furthers Russia's strategic goal of building a digital financial infrastructure
   - Improves speed, quality and security of products / services offered by institutions
   - Opens a non-discriminatory pathway for access to financial infrastructure
4. Continued support from policy and law makers
   - Bill[5] regulating activities in retail financing to regulate investment platform operators approved
   - Aimed at developing collective financing via crowd-financing and crowdfunding

1. CMN Resolution 4656 of 2018
2. Can use only its own funds to extend loans
3. Peer to Peer
4. Co-ordinated by Bank of Russia
5. 01.01.2020, Federal Law No. 259-FZ "On Investment Raising Using Investment Platforms and on Amending Certain Laws of the Russian Federation"

1. Government Schemes for MSMEs:
   - Pradhan Mantri Mudra Yojana (PMMY):
     - Provides access to institutional finance to unfunded MSME units with collateral free loans up to Rs. 10 lakhs for manufacturing, processing, trading, services and activities allied to agriculture
     - There is emphasis on loans to new entrepreneurs, women and excluded population groups.
   - Stand-Up India Scheme:
     - Promotes entrepreneurship amongst women and population sections facing hurdles due to lack of advice/ mentorship and inadequate/ delayed credit.
     - Institutional credit between Rs.10 lakh to Rs.1 crore extended for starting greenfield enterprise in trading, manufacturing and services sector.
     - Provision for online application on www.udyamimitra.com and www.standupmitra.in portals.
   - Emergency Credit Line Guarantee Scheme (ECLGS):
     - Post break-out of the pandemic, under Atma Nirbhar Bharat Abhiyaan, ECLGS introduced to provide collateral free credit from banks and NBFCs to MSMEs for business purposes up to 20% of their outstanding credit up to Rs 50 crore.
     - Additional credit fully covered by credit guarantee provided by the Government.
     - Scheme extended through ECLGS 2.0 for 26 sectors and through ECLGS 3.0 to cover business enterprises in Hospitality, Travel & Tourism, Leisure & Sporting sectors. ECLGS 3.0 extends credit up to 40% of total credit outstanding.
   - Partial Credit Guarantee Scheme (PCGS):
     - To support NBFCs that provide last mile funding to MSMEs, PCGS provides 10% first loss guarantee by the Government of India to Public Sector Banks (PSBs) for purchasing pooled assets from financially sound NBFCs/ HFCs.
2. Other Government initiatives in Fintech space:
   - All banks advised to mandatorily acknowledge MSME loan applications and put in place system for their on-line tracking.
   - MSME Samadhaan portal created by the Ministry of MSME, facilitating MSMEs to register about payment dues from buyers and making it mandatory for Central Public Sector Undertakings (CPSEs) to upload information regarding their payment-dues on the portal.
   - NeSL Information Utility has also been roped in for broadcasting the name of defaulting buyers from MSMEs to their other creditors.
3. Trade Receivables Factoring:
   - MSME trade receivable factoring is done on e-discounting platforms via multiple financiers
   - Regulated by the RBI under Trade Receivables Discounting System ("TreDS")
   - Includes corporates and other buyers, including Government Departments and PSUs.
   - Companies with turnover > Rs. 500 Crores and all CPSES must mandatorily[6] register on the TReDs platform to ensure cash liquidity for MSME suppliers
   - 3 RBI approved TReDS platforms are - Receivables Exchange of India Ltd. (RXIL), Mynd Solutions Private Limited and A TReDS Limited.

6. The MSME Ministry vide its Notification S.O. 5621(E) dated 02.11.2018 has mandated all registered companies with a turnover of more than Rs. 500 Crore (Rupees Five Hundred Crore) as per the last available audited financial statements and all Central Public Sector Enterprises (CPSES) to get themselves registered on the TReDs Platform to ensure cash liquidity for MSME Suppliers

- Amended Factoring Regulation Act, 2011 permits all NBFCs, to engage in factoring
- Potentially expand NBFC ecosystem for factoring from 7 to over 9500.

4. Positive regulatory environment
   - P2P lenders are required to be registered as NBFCs as per RBI regulations
5. Launch of projects and schemes targeted at SMEs
   - SIDBI channelizes the Government's MSME schemes
     - SMILE extends loans on softer terms (100 to 150bps lower than market) to 26 sectors under 'Make in India'
     - Launched SAFE, SHWAS and AROG in April 2021 to refinance MSME portfolios of NBFCs and MFIs at subsidized rates
     - Launched Special Liquidity Facility to provide existing customers loans to meet liquidity needs during COVID-19
   - Offers subsidized credit and lower interest rates with funding approval from Govt./ RBI
   - Undertook Direct Benefit Transfers to MSME bank / loan accounts
6. Continued support from policy and law makers
   - Authorizes interest subsidy on loans availed by MSMEs from financial institutions
   - PMEGP facilitates job creation via establishment of non-farm based micro enterprises
   - CLCSS enables technology up-gradation through institutional finance by providing subsidy
   - CGSMSE for collateral and third-party guarantee-free loans to MSEs

CHINA

1. 1. Instruments to support real economy:
   - PBC unveiled on 01.06.2020 two instruments that can directly support the real economy, namely a support instrument to defer the repayment of financial inclusion loans for SMEs, and a support scheme for financial inclusion unsecured loans to SMEs.
   - Instruments aimed at further improving the system of structural monetary policy instruments and beefing up financial support to SMEs.
2. Policies to defer principal and interest payments:
   - To ease SMEs' pressure to repay the loan principal and interest, the PBC and the China Banking and Insurance Regulatory Commission (CBIRC) introduced policies to defer principal and interest repayments of the loans for MSMEs.
   - Repayments of financial inclusion loans for SMEs eligible for this policy can all be deferred, and other businesses facing financial difficulties can negotiate with their creditors about deferred repayments.
   - PBC has launched support instrument with provision of funds totaling RMB 40 billion to encourage locally incorporated banks to ensure maximum coverage of the deferred repayments policy on financial inclusion loans of SMEs.
   - PBC, through interest rate swap agreements signed between special purpose vehicles (SPVs) and locally incorporated banks, provides banks with incentive funds equal to 1% of total principal of financial inclusion SMEs loans under deferred repayment.
3. Support Scheme for unsecured financial inclusion SME loans:
   - PBC has launched a support scheme with the provision of funds totaling RMB 400 billion, to alleviate pains and difficulties arising from SMEs' lack of guarantees and to raise the share of the unsecured SMEs loans.
   - PBC provides favorable funding support for locally incorporated banks through support scheme agreements for unsecured loans signed between the SPVs and the banks.

SOUTH AFRICA

1. Government MSME development programmes:
   - South African Government has introduced a number of programmes primarily overseen by DSBD and its implementing agencies.
   - Small Enterprise Finance Agency (Sefa) provides various programmes that offer subsidised and prioritised credit to MSMEs.
   - Sefa's Township and Rural Entrepreneurship Programme (TREP) offers R740 million in loans and grants targeted at informal businesses and formal microenterprises operating in townships and villages in the following sectors: bakeries and confectionaries; clothing and textiles; automotive afterparts support; fruit and vegetable traders; and spaza shops.
2. Government Programmes to support resilience of MSMEs during Covid-19:
   - Small-Scale Bakeries & Confectioneries Support Programme
   - Informal And Micro Personal Care Services Support Scheme
   - Fruit And Vegetable Vendors Support Programme
   - Butcheries Support Programme
   - Auto-Body Repairers and Mechanics, Spaza-Shop Support Programme, Other offerings from Sefa and other Government organisations
   - Small Enterprise Manufacturing Support Programme (SEMSP)
   - Sefa Direct Lending Products, Sefa Wholesale Lending Products, Debt Relief Scheme, and Loan Guarantee Scheme.

Availability of Information to Prospective Borrowers

Before bridging the gap between the demand and supply of finance available to the MSME sector, the first step on the path to nurturing MSMEs is the provision of information about various loan products, some of which may be especially curated for them. The importance of access to updates and accurate information regarding the right type of credit products which suit an MSME cannot be overemphasized. Fintech platforms significantly aid this objective by bringing together prospective borrowers (businesses) and Financial Institutions, thereby fostering the credit delivery process and promoting the growth of MSMEs. Captured below are some of the initiatives in place in various BRICS nations.

BRAZIL

1. Impetus to financial inclusion through legislation
   - Pronampe[7] , emerged as a conduit to facilitate credit access for SMEs
   - It aimed to combat economic ramifications inflicted due to COVID-19
   - PEAC-FGI constituted under law[8] supports the objective of helping SMEs obtain credit and overcome the COVID-19 induced financial crisis
   - The law provides for emergency credit access in the form of receivables guarantee (PEAC-Maquininhas)
     - Benefits accrued to individual microentrepreneurs (MEI) and SMEs
     - Designed to encourage companies to keep operations intact
     - Disbursed more than R$3 billion in over 112,000 contracts
     - Public access to the proposed credit operations if receivables constituted and settled through payment arrangements

RUSSIA

1. Ideation and implementation of financial inclusion projects
   - National Guarantee System (NGS) considers applications of guarantee support recipients and provides online acceptance
   - It promotes interaction between partner banks and organizations which received accreditation of NGS participants and borrowers
   - NGS offers the following options to users and participants:
     - Applicants can check market characteristics, analyse competition, and receive marketing support
     - Participants can access an updated database of SME entities with data collected from:
       - State information systems (including the Electronic Information System of the Bank of Russia)
       - Databases and systems of organizations within the partner network
   - Within NGS there remain a few promising areas:
     - Creation of open factoring and crowdfunding platforms based on NGS AIS
     - Technology transfer for credit and guarantee processes involves transformation of NGS AIS into an automated online system for financial support for SMEs
   - Special federal project undertaken to create a digital platform for SMEs which:

7. Through Law No. 13,999, of 18.05.2020, the National Support Program for Micro and Small Enterprises (Pronampe) was created
8. The Emergency Credit Access Program (PEAC-FGI) was created by Provisional Measure No. 975, of 01.06.2020, converted into Law 14.042, of 19.08.2020

- Houses a variety of digital services catered to SMEs
- Provides a mechanism for targeted selection of SMEs and the self-employed
- Enables remote receipt of support measures and special services by SMEs
- Creates a unified information source combining disparate systems
- Foster proactive delivery of digital services and support measures for entrepreneurs at different stages

INDIA

1. Ideation and implementation of financial inclusion projects
   - Psbloansin59minutes, a landmark project, was launched to provide quick in-principal loan approval
     - Ticket size ranged from Rs. 100,000 to Rs. 50 million for MSMEs
     - Automated matching of borrower's loan request and the lender's underwriting
   - Registration for schemes under Ministry of MSMEs is done via Udyog Registration (erstwhile Udyam Aadhar Number)
   - Created Udyamimitra, dedicated to financing MSMEs through Fintech platforms
   - Market reactions from industry bodies suggest range of product offerings among Fintechs
     - Term loans, short term cash advances and cash-flow based lending
     - Buy-now-pay-later and trade financing (supplier and dealer) with banks

CHINA

1. Ideation and implementation of financial inclusion projects
   - With the approval of State Council, PBC and relevant ministries, a pilot program was incepted:
     - Overall Program of the Pilot Zone for Financial Inclusion Reform in Lankao County of Henan Province released in December 2016
     - Focused on bolstering financial inclusion infrastructure
     - Leveraged digital technologies for online-offline integration
     - Integrated financial services, credit information and risk control system into a one-stop digital service
     - Integration addressed difficulty of SMEs in accessing loans, information collection and risk controls
   - Lankao Pilot Zone built Pu Hui Tong as a digital service platform for financial inclusion:
     - Addresses constraints of high cost and limited fixed outlets of financial services
     - Launched online businesses fulfilling people's daily needs of:
       - Account management and payments
       - Micro finance
       - Agriculture-related insurance and subsidies
       - Savings and wealth management
   - Equal opportunities are extended to financial institutions with lower cost and risks
     - Estimates by an institution in the Pilot Zone indicates the following advantages:
       - Time to process online loan application is 28% faster than offline
       - Management cost is reduced by 20%
   - 900 financial inclusion products of over 180 banks launched on Pu Hui Tong App:
     - Products categories include credit, wealth management and payment
     - Increased accessibility, expanded service scope and reduced cost of financial inclusion

SOUTH AFRICA

1. Ideation and implementation of financial inclusion projects
   - Finfind was launched in 2015 by the Minister of Small Business Development:
     - Works as an online platform educating and assisting MSMEs to access finance
     - Facilitates increased deal flow for MSME funders
     - Has a comprehensive database of 360 products and 200 public and private funders
     - Funder database is updated daily by a team of researchers
     - Data on MSMEs is gathered and linked to financial products inside the database
     - Product mapping done based on funding need, amount, owner, demographics, and eligibility parameters
   - DSBD developed an MSME database for the Debt Relief Fund
     - Aims to inform MSMEs of opportunities and support measures implemented
     - Contains detailed information and insights on MSMEs seeking finance

The loan application process

Once accurate information is available to MSME borrowers, the credit process gets initiated with the request for finance from the borrower to a Financial Institution. The loan application process provides to the financing institution an insight into the activity, business model and funding needs of the prospective borrower. The primary purpose of this process is to provide help in identification of the scheme, most appropriate for the needs of the applicant. The probability of success / failure of the business venture depends, to a large extent, on this initial step. Fintechs in various BRICS countries are actively contributing to ease this process and reduce cumbersome paperwork, multiple physical visits to branches of lenders, and so on. A few of the notable initiatives are highlighted below.

RUSSIA

1. Transformation of lending products, loan origination and disbursal process
   - The Russian Federation's Ministry of Economic Development plans to automatically route applications for the NGS through the AIS by 2022 end which:
     - Ensures systematic review and consideration of applications for guarantees
     - Significantly reduces time required to review SMEs applications

INDIA

1. Transformation of lending products, loan origination and disbursal process
   - Psbloansin59minutes portal provides an automated matching platform:
     - Algorithm matches borrower's loan request and lender's underwriting engine
     - Lenders can create products and set parameters consistent with credit policies
     - Borrower's eligibility is decided in real-time and matched with products
   - Trade receivables financing under TreDs is facilitated by multiple financiers via a bidding system
   - Institutions have adopted e-KYC / XML KYC / VCIP and digital signature for onboarding
   - PRAYAAS, an app-based lending platform reaches bottom of the pyramid via partner institutions

CHINA

1. Transformation of lending products, loan origination and disbursal process
   - Most banks provide e-banking services while a few have improved accessibility and range of financial products / services offered
     - For example, CCB developed 4 product systems offering 40 exclusive loans
       - Quick Loan for Small and Micro Businesses
       - Quick Loan for Self-employed Individuals
       - Yunong Quick Loan
       - Transaction Quick Loan
     - Developed tailored products by leveraging financial information of MSEs and partner platform data
     - Harnessed technology to transform mobiles into 'new farm tools' for farmers
       - Introduced Land Mortgage and Agriculture Credit Cloud-based Loans

SOUTH AFRICA

1. Private sector driven fintech solutions servicing MSMEs needs
   - Merchant Capital offers trade financing solutions to small businesses:
     - Enables loan repayment via POS embedded technology
     - Provides quick, simple access to unsecured working capital
     - Tailor-made cash injections addressing SME cash flow restrictions
     - Allows digital application and approval of loans within 24 hours
     - Offers flexible repayment terms incorporating specific business requirements
     - Qualifying merchants are provided with an upfront lump sum in the form of a cash advance in exchange for a small-fixed percentage of future turnover.
   - Bridgement aims to lend to SMEs for business expansion and cash-flow needs:
     - 3 funding options tailored to business needs
       - Business Loans to cover once-off business needs
       - Line of Credit facilities for flexible access to revolving credit
       - Invoice Finance to assist with late-paying clients and unlock tied up funds
     - Two-minute automated application process
     - Paperless, tech enabled process by connecting accounting package or bank account
   - Pollen Finance, established in 2015, is one the largest fintech lenders with:
     - Loan advances of over R1.5 billion to small and medium businesses
     - Ticket size ranging from R50,000 to R3 million
     - Online application for SMEs, with approval and funding provided in 3 days
   - Zande Africa (formerly Invoiceworx) provides trade and merchant finance to spaza (mom-and-pop) shops:
     - Raises lines of credit (30 to 60 days) with large FMCG manufacturers
     - Extends them to informal retailers via physical stock and repaid in 7 to 14 days
     - Provides direct to shop delivery using a last-mile distribution model
     - Fostered community level employment in transporting products via this model

Document Submission By The Borrower

The next step in the credit delivery process is the assessment of the prospective borrower and business activity, to ensure bonafide utilization of funds and to obviate diversion of funds. During the process of scrutiny of the loan application, the financial institution may require additional documents / records relating to the business activity or promoters of the business. Closer scrutiny of additional documents provides a better insight into the credentials of the prospective borrower. However, the process has traditionally been viewed to be potentially onerous, both from the point of view of the borrower and the lender. Fintechs smoothen this road through the use of technology to facilitate instant online document submission, reduce the time taken in the process, and also to mitigate frauds. A few examples below from BRICS nations serve to highlight this aspect.

BRAZIL

1. Background information gathering and due diligence:
   - Fintechs obtain information digitally by way of requesting additional proof, which is forwarded to platforms
   - Customized rating system utilizes data provided by clients and credit bureau

RUSSIA

- Investment fintech platforms offer loans to credit crunched, high risk MSMEs
- Advantages in the credit approval process of investment platforms:
  - Limit documents required for approval
  - Personal surety of founders acts as the only security against loan
- Lower interest rates in case of security by Regional Guarantee Organization
- "Digital Profile of a legal entity" is being developed that will serve as a single point of access of financial organizations to data necessary for the provision of services from the government information systems with the consent of an entity.
- Changes to the regulation that will provide for the creation of a "Digital Profile of a legal entity", including an SME entity were introduced to the legislative authority

INDIA

1. Background information gathering and due diligence:
   - Status of integrating inspection process is platform dependent
     - Few platforms devised systems to integrate process of pre- and post-sanction
     - Others are in process of integrating these systems
   - Account aggregators facilitate background verification during inspection
     - Enabled via integration of several databases onto the platform
   - Select fintechs have integrated physical inspection within the process
   - Preliminary due diligence is conducted prior to proposal initiation
   - Upon proposal receipt at credit dispensing entity, detailed due diligence is initiated
2. In-person corroboration:
   - Field investigation in the fintech industry is conditioned upon exposure amount and product nature
   - Confirmatory physical verification is conducted on a case-specific basis:
     - Post acceptance of an in-principal offer made to the borrower
     - Or prior to loan disbursal

KYC completion

KYC (Know Your Customer) is a process, mandated by Central Banks and financial services regulators the world over, aimed at identification and verification of prospective borrowers, and to check money laundering, misuse of funds, etc. Almost in every jurisdiction, financial institutions are statutorily required to complete the KYC of their constituents before entering into any financial transaction with them. The process includes verification of personal details like name, date of birth, address, income, etc. This process is often repeated across multiple financial services providers, and re-verification on each occasion a customer avails a financial service, is an avoidable step, which can save time as well as resources. With this objective, many countries have recently facilitated, in one form or another, a version of a central repository of KYC data, which can be accessed and updated by all financial institutions with the authorization of the customer. This mode of KYC updation can not only reduce redundancy in the system, but can also check frauds and misrepresentation. A key part of any lending process, remote KYC completion using Fintechs is best exemplified by the steps taken by BRICS partners, as mentioned below.

RUSSIA

1. Advancement of digital identification methods:
   - Creation of a digital business passport allows repeat usage of available information while applying for varied services
   - Digital biometric ID bolsters digitalization of financial services and fosters interaction between state, business, and citizens
   - Individuals can avail financial services across banks upon confirmation of biometric data
   - Law adapted at the end of 2020 to expand scope of digital biometric IDs to:
     - Include public, financial, and non-financial services
     - Permit application by legal entities' representatives
2. Benefits of technology driven innovation within KYC
   - Planned launch of 'Know Your Client' service by the Bank of Russia
   - It promotes extensive information analysis from various sources
   - Provides financial institutions an ongoing, updated assessment of ML/FT risk level of clients enabling:
     - Efficient banking procedures for AML/CFT
     - Reduced burden on the business segment
     - Decreasing cases of preventive restrictive measures when miniscule money-laundering risks are identified

INDIA

1. Regulatory guidelines and prescribed methodology for KYC process:
   - Regulators have established extensive guidelines for e-KYC in the financial sector
     - Lending institutions have integrated RBI-approved V-CIP / video-KYC as a method of customer identification
   - CERSAI operated CKYCRR platform stores individual and entity specific KYC information
   - REs regulated by RBI, SEBI, IRDAI & PFRDA upload filled-out templates and OVDs used in customer identification on the platform
   - REs instituted verification process for submitted customer ID by integrating with ID issuing agencies
   - SIDBI conducts KYC process for MSMEs and has implemented bio-metric e-KYC facility
   - CKYC (a central storehouse) for SIDBI has been initiated for issuing a common ID for MSMEs
2. Benefits of technology driven innovation within KYC
   - CKYCRR provides benefits to customers, industry players and regulators:
     - One-time KYC and no repeat submission of documents saves customer time
     - Automated KYC processing translates into reduced account opening time
     - Decreased compliance and document storage costs benefit industry players
     - Aids in compliance monitoring and account tracking for regulators

CHINA

1. Adoption of and traction gained by Digital IDs:
   - National ID system has decreased customer due diligence costs and increased access to financial products
   - Select banks engaged government departments and large enterprises to facilitate data connection and interchange
   - Consequently, customer needs are met at the earliest as data is sourced from MSMEs

SOUTH AFRICA

1. Benefits of technology driven innovation within KYC
   - pbVerify launched KYCFactory, an innovative digital KYC solution in 2019
   - First end-to-end electronic FICA/AML solution requiring no supporting documents

Risk Management Using Fintech

Probably one of the most significant constituents of the credit exercise is the assessment of risk involved in the business activity. The prime objective of this exercise is the reduction of risk of default by the prospective borrower. Financial Institutions have devised various models of Credit Risk Assessment and the prospective borrowers are examined based on the stipulated criteria to arrive at the final Credit risk rating, which serves as a guidance on their credit decision. This is where Fintechs have perhaps made the biggest strides, in terms of using the latest advances in technology and AI to model their risk evaluation engines to the best possible. Given that most Fintechs may be start-ups with a smaller capital base than established traditional lenders and that they may be operating on thinner margins, it is the risk assessment component which they attempt to use to outperform their traditional peers by seeing lesser percentages of loans become non-performing. The following is a snapshot of how BRICS countries have made advances in this space.

INDIA

1. AI, ML and Big Data driven Lending Process
   - The "PSB Loans in 59 Minutes" platform uses AI and ML to automate and digitize the lending process for lenders and borrowers
   - It saves substantial time & cost in credit decision by providing a detailed credit analysis (CAM) report
2. Increased Data Availability
   - Adopting GST based analytics for grading a potential customer to improve credit quality
   - Implementing Technologies that pull external data such as GSTR, ITR and Bank statements to develop automated solution enabling STP implementation

CHINA

1. AI, ML and Big Data driven Lending Process
   - Banks have developed hundreds of models using intelligent risk control systems built on big data models and behavior scorecard technology
   - These systems provide end-to-end solution from risk rejection, early warning indications, exact product match for customers, 24/7 real time risk monitoring and risk dissolution.

2. Increased Data Availability
   - Big data and Alternative Data, including transactional and social data, are being used by Fintech Platforms for creditworthiness assessments and risk management
   - Sanction rate for credit proposals have improved after migrating to Fintech Platforms.

SOUTH AFRICA

1. AI, ML and Big Data driven Lending Process

- AI-driven technology is simplifying and speeding up the process of payments
  - Lulalend, a payments platform which completed a $6.5 M Series A round in 2019, utilises proprietary credit scoring technology to enable it to provide quick decisions, fast funding, and transparent pricing to SMEs
  - Ensures immediate payment for businesses, while providing customers a payment terms of up to 90 days

2. Increased Data Availability

- New Data sources allow lenders to get a more complete picture of a business's potential
  - Fundrr, an online funding platform offering R 1 Bn[9] worth of funding to local businesses, uses an automated credit model that analyses close to 100 data points
  - The model gives a Fundrr score which is used to provide loans from R20,000 to R500,000 to applicants.

9. R is a symbol for South African Currency, Rand.

Credit appraisal & check of credit history

The advancement in Information Technology has been widely leveraged for integration of credit information of business entities, into a unified database, which is often administered by statutorily designated authorities. Financial institutions and Credit dispensing agencies may be authorized to access the database, which aids in arriving at the aggregate indebtedness of the prospective borrowers. The scrutiny of credit history of prospective borrower also gives an insight into his credit discipline. Further, risk assessment and AI also help model each credit product to the particular borrower, thereby enhancing the MSMEs' credit experience, and reducing the possibility of mismatches in repayment capacity. This step, too, has the potential of bringing more MSMEs in the fold by using specially designed and curated products for those borrowers who may find it difficult to avail a loan from a traditional lender. The following are some examples of how BRICS countries' lenders go about doing this.

BRAZIL

1. Digitization
   - The entire customer verification process is digital in Brazilian credit Fintech platforms.
2. Integrated Credit Information Systems
   - Along with consulting the official issuing agencies, Fintech companies also cross-reference the borrowers' data with other information bureaus.

INDIA

1. Digitization
   - Under the PRAYAAS scheme, Partner Institutions perform the credit checks of the borrower online from the External Credit Bureau Institutions.
   - Preliminary due diligence such as credit bureau check, Anti-fraud check, Bank statement analysis, Goods and Services Tax analytics, etc. is also conducted on the fintech platform.
2. Integrated Credit Information Systems
   - Credit Bureau Institutions are integrated with the PRAYAAS Scheme software application.
   - PSBLoansin59Minutes also has integration with all four existing Credit Bureaus, both Commercial as well as Consumer Bureau, for its Credit Assessment Process
3. Multi-dimensional due diligence process
   - A scoring-cum-assessment module assesses the eligibility of the borrower for availing the loan
   - This scoring is based on various assessments such as age, annual income & savings, academic qualification, credit rating, geographical market focus, repayment capability, etc.

CHINA

1. Integrated Credit Information Systems
   - Fintech platforms are integrated with credit information system and risk control system.
   - To address common problems such as inadequate financial information and lack of collaterals, banks have integrated data from both within banks and government agencies, enabling precise analysis of the business
     - Internally, some banks have integrated the fund settlement, transaction, payroll and credit card consumption data of MSMEs[10]
     - Externally, some banks have connected to the data of government agencies including taxation, customs etc., to mine credit information through alternative data
2. Multi-dimensional due diligence process
   - Financial institutions use both internal rating and external credit rating for due diligence
   - Banks classify and rank customers based on customer transaction behavior and asset distribution and evaluate their solvency through a multi-dimensional data model.

10. Micro, Small and Medium Enterprises

1. Integration with Credit Bureaus:
   - Most formal lenders integrated with one or more of 4 main credit bureaus – Experian, TransUnion, Compuscan and XDS.
   - Different creditors report to different bureaus – some may report back to all four and others may only report to one or two, meaning different credit bureaus may hold slightly different information about a customer.
2. Credit Scorecards:
   - Many fintechs have developed internal credit scorecards to measure probability of default. Digitisation of data has allowed fintechs to use unstructured and external datasets to calculate credit scores.
   - This has allowed lending fintechs to service consumers that would otherwise be excluded; thereby growing the overall size of the market.

Collateral requirements

In most cases, assets have to be kept as a collateral / security for the loan amount, to serve as a cushion for the lending institution in the event of a default by the borrower. Taking into consideration the scarcity of capital in case of MSMEs, this may be one of the prime barriers they face in availing credit. Lenders may simply not have the risk appetite to take on MSME borrowers in the absence of posting of collateral, despite being aware of the otherwise sound credentials or repayment capacity of local businesses. Some jurisdictions have devised guidelines or practices, where such MSME enterprises may be classified under a kind of priority-lending sector, and may be given exemptions from collateral requirements to varying degrees. In the absence of these, however, it is upto the individual lenders themselves to decide on the quantum of collateral required. This is a space which is increasingly being filled by Fintechs, with their micro-lending capacities, risk assessment engines, and curated products for MSMEs. Often, technology is being used to better inform decisions to waive off or reduce collateral requirements. How this is being done in BRICS countries is highlighted below.

BRAZIL

1. Government Schemes
   - Brazilian law permits that MSMEs can borrow from credit FinTechs in two specific schemes
     - In the first scheme, loan resources do not need to have a specific destination.
     - In the second case, the loan resources always have a specific destination. Usually when they are physical assets, this destination works as a collateral to the loan.

RUSSIA

1. Government Schemes
   - Under Russia's NGS, Guarantee support allows entrepreneurs/self-employed citizens to significantly reduce the amount of collateral required when obtaining a loan.
   - NGS uses a two-segment system based on guarantee requirement:
     - If the borrower requires a guarantee (sureties) in the amount of up to 25 mln RUB (337 thous USD), then the entrepreneur's application is considered by the RGO
     - If the application for providing a guarantee exceeds 25 mln RUB (337 thous USD), then this application is considered by JSC Russian Small and Medium Business Corporation (RSMB Corporation).
       - JSC SME Bank provides guarantees to ensure the participation of SMEs in procurement.

INDIA

1. Government Schemes
   - SIDBI, through its PRAYAAS Scheme offers collateral free financial assistance
   - Assistance is provided in form of term loan and working capital for setting up/ expansion of business and working capital requirement
   - Loans ranging from INR 50,000 to INR 500,000 per borrower are provided through Partner Institutions at affordable rate of interest for a maximum tenure of 36 months.

SOUTH AFRICA

1. Government MSME development programmes:
   - South African Government has introduced a number of programmes primarily overseen by DSBD and its implementing agencies.
   - Small Enterprise Finance Agency (Sefa) provides various programmes that offer subsidised and prioritised credit to MSMEs.
   - Sefa's Township and Rural Entrepreneurship Programme (TREP) offers R740 million in loans and grants targeted at informal businesses and formal microenterprises operating in townships and villages in the following sectors: bakeries and confectionaries; clothing and textiles; automotive afterparts support; fruit and vegetable traders; and spaza shops.

Charge creation

After credit is sanctioned to any prospective borrower (such as an MSME) by a bank, then the bank formally executes a loan agreement with the borrower. In most cases, where collateral is involved (the asset against which the bank has lent), the right of the bank over that collateral needs to be legally provided for, so that in case the loan becomes non-performing etc, the bank can recoup its money by disposing of the said collateral. This legal process of creating a legal right on the collateral or other asset is called creation of "charge" on the collateral/ asset. Usually there is a separate authority which maintains a repository / record of all such "charges" created, and various banks first check this repository to verify whether the collateral being offered by some prospective borrower is free of charge or already charged by some other lender. This process prevents misuse by borrowers by using the same asset to avail of multiple loans. For registering of "charge" with this separate authority, however, documentation by the borrower and the bank needs to be done, and these documents have to be signed/ authorized, etc. In order to reduce the burden on borrowers and make best use of technology, most such repositories allow this documentation and registration to be done fully electronically without requiring physical presence of the borrower or the bank, using remote authentication/ OTPs/ digital signatures/ e-stamping, etc. Often, the process is integrated with the main online portal of the bank or other platform itself, especially through Fintechs, as mentioned below.

INDIA

1. Digital Information Registry
   - Security Interest Registry maintained by CERSAI is a digital registry on which information relating to overloaded asset, borrower, loan etc are uploaded by the secured creditors.
   - Documents for creation of Security Interest on the properties are executed by the borrowers and retained by Secured Creditors at their end.
   - The documents themselves are not required to be uploaded on the platform
2. Government Regulations
   - One of Amendments[11] made recently is to permit TReDS entities to act as agents for financiers for filing of registration of charge with CERSAI on behalf of the factors using the platform, thus bringing in operational efficiency.
   - Simultaneously, it is proposed to reduce the time period for registration of invoice and satisfaction of charge upon it, in order to avoid dual financing.
   - Legal Amendments are being considered to provide legal support for digital documentation under digital signature involved in creation of charge on immovable properties.
3. Harmonization of Digital filings
   - The filing of charges in CERSAI or MCA-21[12] is being explored to bring in harmonization
   - A template is prescribed to upload documents on Security Interest Registry
   - NeSL's DDE platform can facilitate digital documentation regarding creation of charge.

11. Amendments to the Factoring Regulation Act, 2011
12. MCA-21 is an e-Governance initiative of Ministry of Corporate Affairs that enables an easy and secure access of the MCA services to the corporate entities, professionals and citizens of India

Execution of documents and e-signing or e-stamping

The final step after a decision has been taken by the lender to sanction credit to an MSME borrower is the execution of documents, to afford legal validity to the financial transaction between the lending institution and the borrower. In several jurisdictions, statutory fees or taxes or duties may have to be paid also, to lend legal sanctity to the loan documents and make them enforceable in a court of law. E-signing and e-stamping of loan documents has been introduced by various Fintechs, so as to make the whole process hassle-free and integrate it with the lending process online, so as to avoid physical visits, etc. A few examples from BRICS countries follow.

BRAZIL

1. Level of Adoption
   - Digital systems for e-signing / e-stamping are 100% incorporated into the platforms of credit fintechs.

RUSSIA

1. Government Regulations
   - Government regulations support E-signing and E-stamping[13].
2. Level of Adoption
   - The interfaces of various investment platforms allow borrowers and investors to sign all documents remotely and in different time zones (if needed).
   - Several banks such as Sberbank, Alfa-Bank and Credit Bank of Moscow use a simple electronic signature when processing consumer loans.
   - Electronic stamp can be produced by simple means.
     - If certificates or signatures are issued by certifying or certification centers, then an electronic seal can be a photograph of a real print or its full copy.
   - Opportunities are opening up to apply EDF when going through the licensing process, carrying out enforcement proceedings, receiving information from state authorities, etc.

13. The Federal Law on Electronic Signature No. 63-FZ has been in effect since 2011. Federal Law No. 263-FZ "On the abolition of restrictions on electronic document management" removes restrictions on the use of electronic documents in the interaction of individuals and legal entities with government and local authorities in various fields.

INDIA

1. Government Regulations
   - Digital Document Execution (DDE) is a mode adopted for paperless execution and storage of financial contracts.
   - It enables e-Stamping and e-Signing with superior enforcement.
   - DDE platform makes the contract execution process seamless, online and real-time
   - It works in conjunction with the extant technology created by CDAC, CRA or the GRAS of respective state governments for the Digital E-stamping.

2. Level of Adoption
   - Most Fintech lenders adopt e-signing and e-stamping of documents.
   - Wherever the borrower does not have an ability to use electronic signatures, wet signatures are used.
   - The entire process of documentation of a loan contract takes about 6 to 10 minutes excluding time taken by borrower for perusal and acceptance of details of the contract.

SOUTH AFRICA

1. Government Regulations
   - E-signatures in South Africa are approved under ECTA[14] instituted in 2002
   - The South African law adheres to the EU Directive on e-signatures.
   - Any company operating in the South African market can use eSignatures as a signing method, and they are treated equally as handwritten signatures.

2. Level of Adoption
   - There is a wide range of e-signing software available with varying degrees of cost, security features and customer support which parties may agree to use.

14. The Electronic Communications and Transactions Act

Regulatory Initiatives and other Best Practices

Other than the steps mentioned in the preceding Sections, some other noteworthy initiatives taken by BRICS nations, which help enhance the ease of credit flow to their respective MSME borrowers, are mentioned below.

BRAZIL

1. Fostering Innovation through Regulations
   - Brazil's Central Bank, BCB, set up a Regulatory Sandbox[15] aimed at fostering innovation as well as the diversity of business models in the SFN or the SPB .
   - This initiative is aimed to meet the heterogeneous needs of financial users.
   - It will also promote financial inclusion and balance the benefits of financial competition and the safety and soundness of the systems involved.
2. Key Initiatives
   - One major initiative is the implementation of Open Banking by financial institutions, payment institutions and other institutions licensed by the Central Bank of Brazil.
   - Brazil has initiated a phased implementation of its own Open Banking strategy.
   - The plan is to have all its initial 4 phases implemented by the end of 2021.

RUSSIA

1. Key Initiatives
   - Inception of Investment Platforms
     - Standard Banking channels take several weeks and require 30-40 documents to process a MSME loan.
     - The sanction and disbursement of loans via investment platforms take up 3-5 working days and requires 7-10 documents for loan of up to ~RUB 10 Mn.
   - Faster Payments System (FPS)
     - FPS is a service that allows individuals to instantly (24/7) transfer money to themselves or to others using their mobile phone number, regardless of the sender's or recipient's bank.
     - These banks should be connected to the FPS
     - FPS can be accessed through mobile applications of banks via smartphone, tablet, or computer.
     - For business: C2B payments, including using QR codes, and B2C payments are also possible with the use of FPS.

15.Regulatory Sandbox is an environment in which entities from the financial or payment industries will be licensed to test, for a specified period, an innovative solution — under a specific set of regulation that controls and delimits its activity

INDIA

1. Key Initiatives
   - PSB loans in 59 minutes
     - More than 400,000 proposals have so far been processed on the "PSBloansin59 minutes" platform.
     - Proposal to Disbursement Ratio is more than 40%, which is highest in the Industry for MSME Sector.
     - Approvals can be received in 59 minutes and disbursed time has been reduced to around ~7-10 days.
     - Lenders receive only pre-screened proposals as platform rejects application not matching with lender's set parameters.
     - Real time CAM report is generated, and only in case lenders want to allow any deviations, they need to check those factors before taking final credit decision
2. Fostering Innovation through Regulations
   - The 'Enabling Framework for Regulatory Sandbox (RS)' was finalized by RBI in 2019.
   - The objective is to foster innovation in financial services, promote efficiency and bring benefit to consumers.
   - The target applicants for RS are FinTech companies including startups, banks, financial institutions, and any other company involved in financial services businesses
   - The RS often runs a few cohorts, with limited entities, testing their products during a stipulated period.
   - These are thematic cohorts focussing on financial inclusion, payments, lending, etc. Incidentally the theme of the third cohort under the RS is 'MSME Lending'.
   - Innovative products/ services/ technology considered for testing under RS include retail payments, money transfer services, marketplace lending, Digital KYC and many more.

CHINA

1. Key Initiatives
   - 310 Online loan Model
     - "310" online loan model means applying for loans in 3 minutes, disbursement of loans in 1 second and no manual intervention.
   - Inception of Fintech Platforms
     - There is a great improvement in the Turn-Around time for sanction and disbursement of loans after the inception of Fintech platforms.

SOUTH AFRICA

1. Intergovernmental Fintech Working Group (IFWG):
   - Through the IFWG, South African regulators and policymakers work together to demystify the fintech regulatory landscape, provide a space for safe experimentation, and actively advance innovation.
   - IFWG established in 2016 to understand the growing role of Fintechs and innovation in the financial sector and explore how regulators can more proactively assess emerging risks and opportunities in the market.
   - The Innovation Hub is a collaborative effort of the IFWG, which includes participation from National Treasury, the Financial Intelligence Centre, the Financial Sector Conduct Authority, the National Credit Regulator, the South African Reserve Bank, the South African Revenue Service and the Competition Commission.

SURVEY QUESTIONNAIRE

A. MSME landscape

1. How is an MSME defined in your country in legal and financial terms? Is a categorization done based on the plant size, turnover or other parameters? Please provide details.
2. Please provide general details of the MSME sector in your country in terms of number of MSME units, their contribution to employment, GDP and overall economy.

B. Policy examples

3. Please share landmark examples of products/ schemes (Government or Central Bank or private or NGOs) wherein fintech applications have been leveraged productively for meeting the financial needs of MSMEs, specifying: (i) name of the policy; (ii) objectives; (iii) brief description (max 300 words); (iv) implementation challenges; (v) lessons learnt; (vi) impact, with reference to any empirical evaluation; and (viii) link to any other useful material for assessing the policy.
4. Has your country designed any targeted schemes for MSMEs, providing them benefits like transfer of subsidies/ subsidized or prioritized credit, etc? If yes, then:
    i. Are the schemes primarily at the national or sub-national Government level?
    ii. Whether transfer of benefits is done through Direct Benefit Transfer (DBT) to the bank accounts of the targeted MSME beneficiaries or are any alternate methods used?
    iii. What are the challenges faced in identification of MSME beneficiaries? Is there a national/ sub-national list of beneficiaries based on some identification criteria?

C. Regulatory environment

5. Which Department/ Ministry typically designs schemes/ policies at the national level for credit flow to MSMEs? If there is a separate Ministry / Department for MSMEs, then how does it work in coordination with the Ministry of Finance?
6. Please provide details about the regulatory mechanism for overseeing provision of financial services to individuals/ MSMEs through Fintech and technology platforms? Do Fintech services providers require authorization/ licences from any Regulatory authority or Ministry? Please provide details.
7. Does your country also have specific guidelines or regulatory framework for (i) peer to peer lending and (ii) factoring of trade receivables, especially for MSMEs?

D. Fintech products and credit flows

8. What is the extent of fintech products being offered to MSME borrowers through online/ digital platforms, expressed in terms of percentage of aggregate number of credit proposals/ aggregate amount of credit dispensed?
9. What are the specific products/schemes being offered to MSME borrowers by way of Fintech platforms?
10. Which are the most common challenges reported by customers while using the products offered through Fintech platforms?
11. Is the process of obtaining credit information on prospective borrowers integrated with the Fintech platforms? Is internal rating also being conducted by the credit dispensing entity besides obtaining external credit rating on the prospective borrower?
12. Have there been any general improvements in the Turn-Around time for sanction and disbursement of loans after the inception of Fintech/ online platforms?
13. Has there been improvement / deterioration in the sanction rate / rejection rate of credit proposals after migration to online / Fintech platforms?
14. In most Fintech platforms, has any system been devised to integrate the process of pre-sanction/post-sanction inspection process into the platform? Is due diligence on the prospective borrower done prior to the logging in of the credit proposal or is it being conducted after receipt of the proposal at the office of the credit dispensing entity?
15. Is the process of due diligence/ Know-Your-Customer (KYC) verification on the prospective borrower digitized also, by integrating the Fintech platforms with ID issuing agencies, etc?
16. Once the credit is sanctioned, is the process of document execution for creation of charge on financed assets with the respective Registrars/ Statutory Authorities also integrated into the online platform?
17. Is there a system for e-signing and e-stamping of documents also, which reduces the need for physical affixation of signature, etc by the borrowers?

E. Contact details

18. Please provide details of Nodal Officers/ Departments who may be approached for any follow-up questions/ clarifications, etc, as we go forward.

Question-wise responses of BRICS partner countries

A. MSME landscape

1. How is an MSME defined in your country in legal and financial terms? Is a categorization done based on the plant size, turnover or other parameters? Please provide details.

BRAZIL

According to Complementary Law No. 123/2006, micro and small companies are considered to be the business that, among other legal requirements, (i) in the case of micro-enterprises, earn, in each calendar year, gross revenue equal to or less than R$ 360,000.00 (three hundred and sixty thousand reais); (ii) in the case of a small business, earn, in each calendar year, gross revenue greater than R$ 360,000.00 (three hundred and sixty thousand reais) and equal to or less than R$ 4,800,000.00 (four million, eight hundred thousand reais); and (iii) in the case of the individual micro-entrepreneur, the individual entrepreneur or the entrepreneur who carries out the activities of industrialization, commercialization and provision of services in the rural scope, who earned gross revenue, in the previous calendar year, of up to R$ 81,000.00 (eighty-one thousand reais).

The more accepted definition of MSEs in Brazil is based on the annual turnover criterion according to the Statute of Micro and Small Enterprises (Complementary Law No. 123/2006). The banking industry, however, relies on different definitions based on internal criteria that meet their respective targeting strategies.

In terms of the size classification established by the Brazilian Institute of Geography and Statistics (IBGE), the segment of micro, small and medium enterprises (MSMEs) comprises companies that have up to 249 employees: micro enterprises have 0 to 9 employees, small enterprises have 10 to 49 employees, and medium-sized enterprises have between 50 to 249 employees. All companies having more than 249 workers are classified as large enterprises.

RUSSIA

The Civil Code of the Russian Federation defines Business activity as an independent activity carried out at one's own risk, aimed at systematically deriving a profit from the use of property, the sale of commodities, the performance of work or the rendering of services by persons registered in this capacity in conformity with the procedure low-established procedure. At the same time, the criteria for assigning it to small and medium-sized businesses (SMEs) are established in Federal Law No. 209-FZ of July 24, 2007 «On the Development of Small and Medium-sized Businesses in the Russian Federation».

Legal entities and individual entrepreneurs must meet the following conditions to be classified as an SME entity: - compliance with the requirements for the structure of the authorized capital of a legal entity (the share of participation of large companies and foreign legal entities in the authorized capital of SMEs is limited to 49 %; the share of participation of the Russian Federation, the subjects of the Russian Federation, and municipalities should not exceed 25 %);

According to the law No 209-FZ "On SME Development in the Russian Federation", which defines small, medium-sized and micro enterprises was adopted in 2007, the following thresholds for categories within the SME sector are envisaged:

SME sector		Number of employees	Sales revenues
Categories of SMEs	Business Type		
Small businesses	Micro - businesses	< 15 employees	<120 mln RUB (<1.65 mln USD)
	Small businesses	16 - 100 employees	<800 mln RUB (<11 Business mln USD)
Medium businesses	Medium businesses	101 - 250 employees	<2 bln RUB (<27 mln USD)

Please note that the category of an SME changes if the maximum values for income and/or the average number of employees exceed those established by the legislation for three consecutive calendar years.

Category is defined according to the largest of the two criteria.

For the legal entity to be qualified as MSMEs it is required to comply with at least one of the following criteria:

- The share of participation of large companies and foreign legal entities in the authorized capital of SMEs is limited to 49 %;
- The share of participation of the Russian Federation, the subjects of the Russian Federation, and municipalities should not exceed 25%;
- Its equities are classifies as shares in the high-tech (innovative) sector
- It implements the results of intellectual activity, exclusive rights to which belong to its founder – budget or research institution/higher education institution;
- It is a member of “Skolkovo” project;
- Its members are included in a list of legal entities providing public support to innovation activities;
- Its membership is restricted to all-Russian social organizations of disabled persons or its subsidiaries.

INDIA

To pave way for strengthening and growth of MSMEs. The government announced a new definition of MSME. The revised definition removes the distinction between manufacturing and service enterprises. Besides the investment in plant and machinery, a new criterion for turnover has also been include. The revised definition is applicable from 1st July 2020. The new definition of MSMEs is as under.

Catogery	Investment	Turnover (Figures in Rs. In Crore)
Micro	1	5
Small	10	50
Medium businesses	50	250

CHINA

Below are examples on the classification of MSME standards in China.

Name of industry	Indicator Name	Measurement Unit	Medium Enterprises	Small Enterprises	Micro Enterprises
Agriculture, Forestry, Animal Husbandry and Fishery	Revenue (Y)	RMB Million	5≤Y<200	0.50≤Y<5.00	Y<0.50
Retail	Employee(X)	-	50≤X<300	10≤X<50	X<10
	Revenue (Y)	RMB Million	5≤Y<200	1.00≤Y<5.00	Y<1.00

SOUTH AFRICA

Within South African public policy, the statute that deals specifically with the definition of MSMEs is the National Small Enterprise Act of 1996 (Act No. 102 of 1996), read with the National Enterprise Amendment Act of 2003 (Act No. 26 of 2003),and the National Small Enterprises Act of 2004 (Act No. 29 of 2004). The specific definitions are contained in the Revised Schedule 1 of the National Definition of Small Enterprise in South Africa published in March 2019 which proclaims the following:

Definition of Small Enterprise

"Small enterprise" means a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and classified as a micro, a small or a medium enterprise by satisfying the criteria mentioned in columns 3 and 4 of the Schedule."

Schedule 1

The new National Small Enterprise Act thresholds for defining enterprise size classes by sector, using two proxies

Sectors or sub-sectors in accordance with the Standard Industrial Classification	Size or class of enterprise	Total full -time equivalent of paid employees	Total annual turnover (ZAR)
Agriculture	Medium	51-250	≤35 million
	Small	11-50	≤17 million
	Micro	0-10	≤7 million
Mining and quarrying	Medium	51-250	≤210 million
	Small	11-50	≤50 million
	Micro	0-10	≤15 million
Manufacturing	Medium	51-250	≤170 million
	Small	11-50	≤50 million
	Micro	0-10	≤10 million

Sectors or sub-sectors in accordance with the Standard Industrial Classification	Size or class of enterprise	Total full -time equivalent of paid employees	Total annual turnover (ZAR)
Electricity, Gas, and Water	Medium	51-250	≤180 million
	Small	11-50	≤60 million
	Micro	0-10	≤10 million
Construction	Medium	51-250	≤170 million
	Small	11-50	≤75 million
	Micro	0-10	≤10 million
Retail, motor trade and repair services	Medium	51-250	≤80 million
	Small	11-50	≤25 million
	Micro	0-10	≤7.5 million
Wholesale	Medium	51-250	≤220 million
	Small	11-50	≤80 million
	Micro	0-10	≤20 million
Catering, Accommodation, and other Trade	Medium	51-250	≤40 million
	Small	11-50	≤15 million
	Micro	0-10	≤5 million
Transport, Storage, and Communications	Medium	51-250	≤140 million
	Small	11-50	≤45 million
	Micro	0-10	≤7.5 million
Finance and Business Services	Medium	51-250	≤85 million
	Small	11-50	≤35 million
	Micro	0-10	≤7.5 million
Community, Social, and Personal Services	Medium	51-250	≤70 million
	Small	11-50	≤22 million
	Micro	0-10	≤5 million

A. MSME landscape

2. Please provide general details of the MSME sector in your country in terms of number of MSME units, their contribution to employment, GDP and overall economy

BRAZIL

- Micro and small enterprises (MSEs) account for the overwhelming majority of the total number of Brazilian enterprises (98.5%), contributing to 54.5% of formal employment, and to 30% of GDP. In addition, MSEs account for about 37% of the federal administration's procurement.
- Between 2006 and 2019, small businesses have been responsible for the creation of about 13.5 million jobs, while medium and large companies had a deficit of around 1.1 million in the same period.
- According to data from the General Register of Employed and Unemployed (CAGED), between 2007 and 2019, small businesses were responsible for opening 12.4 million jobs. Meanwhile, medium and large companies closed 1.5 million. In 2019, SMEs created 731 thousand formal vacancies while medium and large ones extinguished 88 thousand.
- From January to December 2020, small businesses accumulated a balance of more than 293.2 thousand jobs generated. Medium and large companies, in turn, extinguished 193.6 thousand jobs. However, in total, thanks to the performance of micro and small businesses, the country ended 2020 with a positive balance of more than 142 thousand new jobs.
- According to data from the Special Secretariat of the Federal Revenue of Brazil (RFB), considering the companies opting for Simples Nacional, which is a shared tax collection and inspection regime applicable to Micro and Small Businesses, on December 31, 2020, there were 16.6 million enterprises in the country, of which 11.3 million were individual Microentrepreneurs (MEI).
- In 2020, 626,883 SMEs were opened, while in 2019 there were 629,738. Therefore, even in a year marked by the pandemic, 2020 showed a slight decrease of 0.5% in relation to the opening number of the previous year, which was the best year of the series with a growth rate of 10.4% in relation to 2018. In 2016, for example, there was a 3.4% drop in the number of SMEs opening.
- As of 2019, notably in the second half of 2020, there was a growth in the credit portfolio of micro and small and medium-sized companies in the order of R$ 169.5 billion. This increase was due to the implementation of incentive programs for granting credit, such as the Emergency Program for Access to Credit (PEAC) and the National Program to Support Micro and Small Enterprises (Pronampe), in order to combat the negative effects of the Covid-19 pandemic in the economy.

RUSSIA

- As of May 2021, 5,83 million SMEs (without self-employed) were registered in the Russian Federation of which:
- As of June 2021, there are 5.83 mln MSME units registered in Russia (without self-employed), including:
  - 2,21 million units – microenterprises;
  - 188 thousand units – small enterprises;
  - 17 thousand units – medium-sized enterprises;
  - 3,41 million units – the number of SMEs-individual entrepreneurs (legal entities – 2,4 million units).
- There are 2,3 million people of active self-employed.
- The number of employees in SMEs – 22,9 million (based on the results of Q1 2021).
- According to Rosstat the share of SMEs in GDP in Russia in 2019 was 20,8% (the latest available official estimates). Estimates of the SMEs turnover show a decline amounting to 11% in 2020. The share of MSMEs in non-resource export reached 18.4% in 2020 (17.2% in 2019).

INDIA

It contributes to around 30% of India's GDP over 48% of India's exports and provides employment to over 11 crore people.

CHINA

In China, over 99 percent of enterprises are MSMEs, which contribute 50 percent of tax revenue, 60 percent of GDP, 70 percent of new products and patents, as well as 80 percent of employment.

SOUTH AFRICA

Number of MSMEs

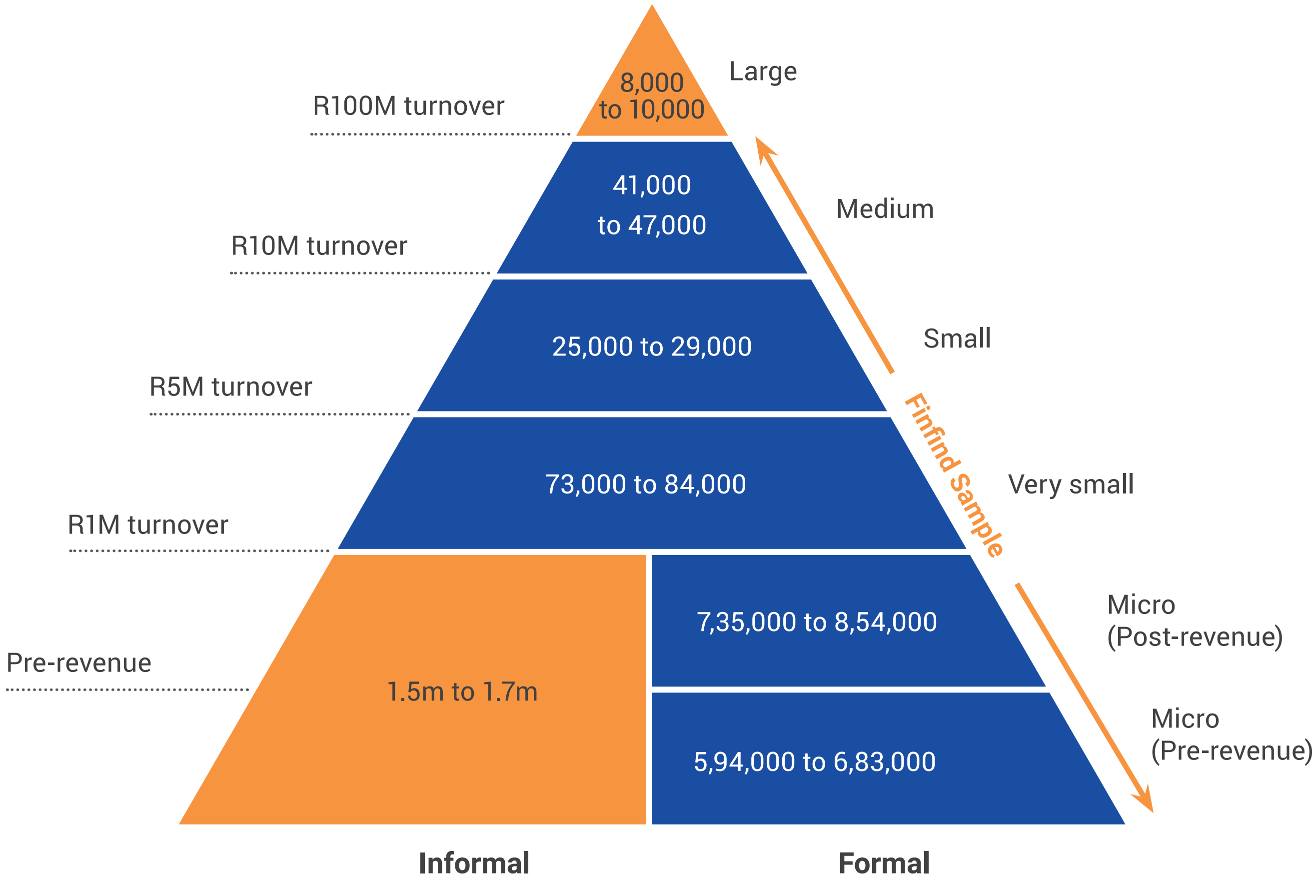
- South Africa does not have a single referenced source and estimate for the number of MSMEs. The Department of Small Business Development (DSBD) uses the Quarterly Labour Force Survey (QLFS) as a source for the number of MSMEs in South Africa. The QLFS is a household-based sample survey conducted by Statistics South Africa (Stats SA). It collects data on the labour market activities of individuals aged 15 years and older who live in South Africa. However, the report only covers labour market activities of persons aged 15–64 years.
- The QLFS survey classifies status of employment into four categories including Employee, Employer, Own-account worker, and Unpaid household member. The table below provides an overview of status of employment for Quarter 4 of 2020.

Status of employment	Oct-Dec 2020 (Thousand)
Employee	12,615
Employer	808
Own-account worker	1,485
Unpaid household member	115
Total	**15,024**

The DSBD uses the number of Employers and Own-account workers as a proxy for the number of MSMEs in South Africa. Therefore as at Quarter 4 of 2020, there were an estimated 2.3 million MSMEs in South Africa.

An alternative estimate for the number of MSMEs in South Africa is provided by FinFind, a fintech platform launched by the Ministry of Small Business Developed in 2015. According to FinFind's Inaugural South African SMME Access to Finance Report, 2018, there are between 2.9 million and 3.4 million informal and formal MSMEs in South Africa. The report breaks down the segments of MSMEs as follows:

The Finfind report is focused on startups and business in the formal sector.



Median Loan Amount Requested	If 20% of SMMEs are Seeking Finance		If 70% of SMMEs are Seeking Finance
R3.6m	R30bn	–	R119bn
R1m	R5bn	–	R20bn
R500k	R7bn	–	R28bn
R300k	R44bn	–	R177bn

Note: The blue area denotes the Finfind sample.
Sources: SARS (2017) Tax statistics, GEM (2017) South African 2016/2017 GEM report, Stats SA (2017) Mid-year population estimates & BER (2016) SME sector of South Africa

A 2019 study published jointly by the World Bank and the International Finance Corporation (IFC) also sought to estimate the number of MSMEs in South Africa. It compiled a list of estimates from various sources as well as reflected on some of their possible limitations. These are summarised in the table below:

<table>
<tr><th>Study/Source</th><th>Data used</th><th>Data covered</th><th>What question is being answered?</th><th>Most recent estimate</th><th>Limitatioins</th></tr>
<tr><td colspan="6">Data that indicates the total count of MSMEs</td></tr>
<tr><td>The Small, Medium and Micro Enterprise Sector of South Africs (SEDA/BER)</td><td>StatsSA QLFS</td><td>2008-2015</td><td rowspan="2">How many people define themselves as employers or self employed?</td><td>2015 - 2,205,000 small business owners</td><td>Only describes main activities, so does not count individuals running a business on the side</td></tr>
<tr><td>The State of Small Business in South Africa (TIPS)</td><td>StatsSA LMD (derived from QLFS)</td><td>2008-2016</td><td>2016 - 2,290,000 small business owners</td><td>Some survivalist entrepreneurs may consider themselves unemployed

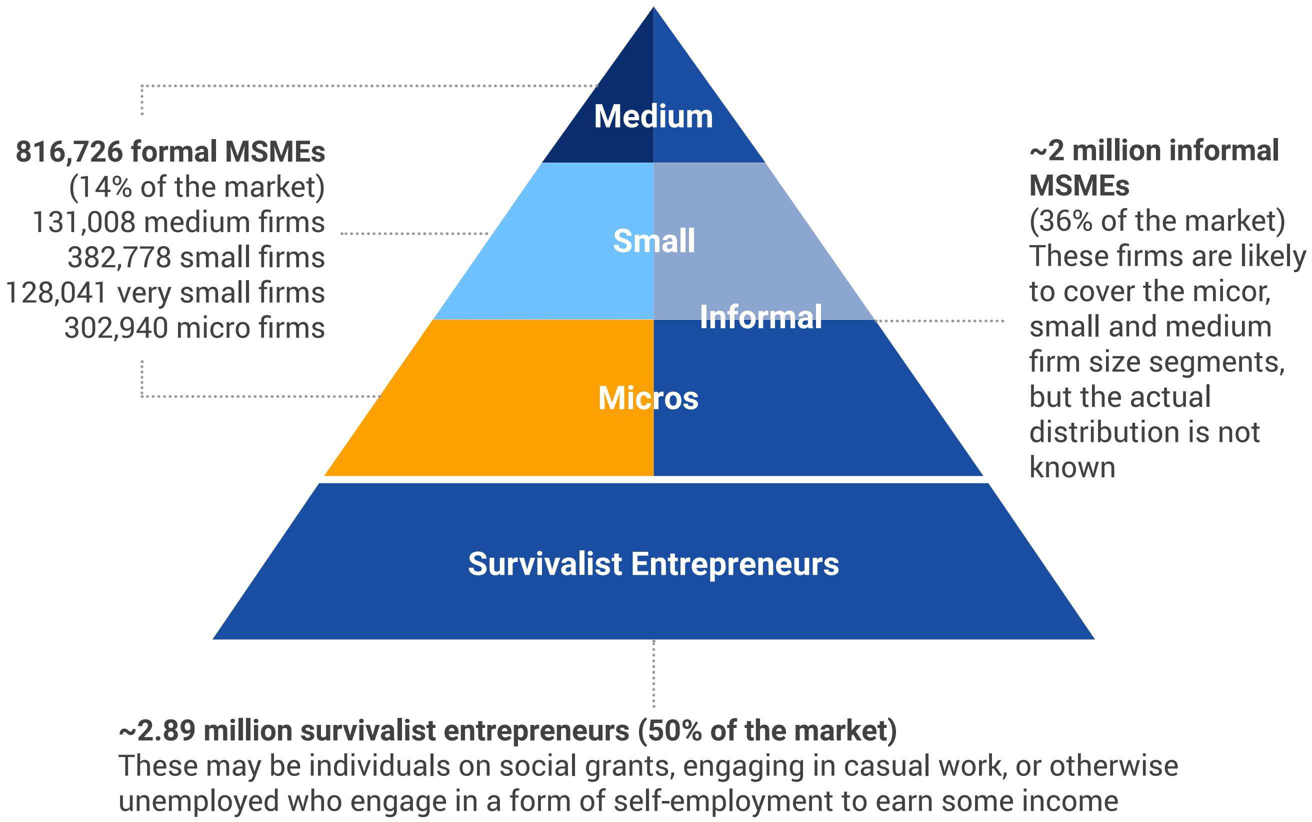
Counts individuals rater than number of business, hence undercounting multiple business owners</td></tr>
<tr><td>Global Entrepreneurship (GEM)</td><td>Adult Population Survey</td><td>2001-2016</td><td>What percent of the adult population are nascent, new and established business owners?</td><td>2016 - 9.4 percent of adult population (~2,866,890)</td><td>May not count one-person/ self-employed/ informal businesses in the new and established categories</td></tr>
<tr><td>FinScope South Africa Small Business Survey (FinMark Trust)</td><td>Primary data collection</td><td>2010</td><td>What is the total number of businesses employing less than 200 people?</td><td>2010 - 5,979,510 small businesses (17 percent registered)</td><td>Broad definition used may overcount MSMEs due to the inclusion of survivalist entrepreneurs

Single survey with no comparison over time</td></tr>
</table>

Source: IFC, 2019, the Unseen Sector: A Report on the MSME Opportunity in South Africa

The study triangulates these various sources and estimates that the total size of South Africa's MSME market, including formal and informal enterprises, is 5.78 million of which only 14 percent is formalized. This estimate is broken down in the image below as follows:

Framework for comparing market sizing estimates

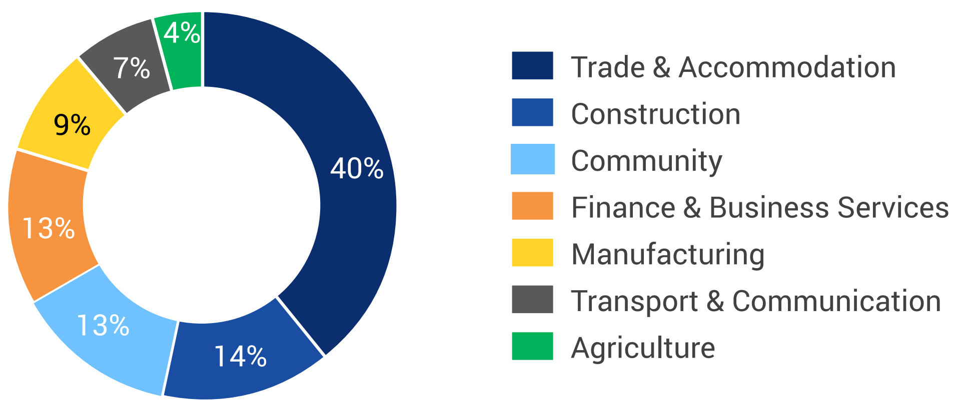


Contribution to employment, GDP and overall economy

According to the Small Enterprise Development Agency (Seda), an agency of the DSBD which provides non-financial support to small enterprises and cooperatives, MSMEs accounted for 50% of all jobs in South Africa in the third quarter of 2020. MSMEs are estimated to contribute around between 41% and 47% to South Africa's Gross Domestic Product according DSBD.

MSMEs by industry

The figure below provides a breakdown of MSMEs by industry:



Source: Seda, 2021, SMME Quarterly Report Q32020

B. Policy examples

1. Please share landmark examples of products/ schemes (Government or Central Bank or private or NGOs) wherein fintech applications have been leveraged productively for meeting the financial needs of MSMEs, specifying: (i) name of the policy; (ii) objectives; (iii) brief description (max 300 words); (iv) implementation challenges; (v) lessons learnt; (vi) impact, with reference to any empirical evaluation; and (vii) link to any other useful material for assessing the policy

BRAZIL

Credit Fintech

(i) Regulation on companies that provide credit exclusively through an electronic platform.

(ii) Create new types of financial institutions with a more focused business model and less stringent regulatory requirements.

(iii) CMN Resolution 4,656, of 2018, created two types of financial institutions: direct credit company, which may only use its own funds to extend loans (balance sheet lending); and peer-to-peer loan company, which connects lenders and borrowers (peer-to-peer lending). Before the issuance of the regulation, some companies were operating as correspondents of financial institutions.

Moreover, these companies were mainly providing financial services to MSMEs, which is a segment that usually had difficulties getting access to traditional financial institutions. According to the study "A nova fronteira do crédito no Brasil", published by ABCD and PWC in 2019, 72% of these companies' credit portfolio is composed of micro and small companies.

Hence, after some studies, the Central Bank of Brazil realized that a specific regulation would give legal certainty and allow these companies to operate without the need of partnership with incumbent financial institutions.

After two years of the regulation, the Central Bank of Brazil understood that some amendments were necessary, in order to increase credit instruments and to provide different channels of financing for these companies.

(iv) The regulation of new types of institutions always brings some challenges. It is necessary to study the proposed business model, which includes details on how the operation works, the target audience and the benefits and risks to consumers and to the financial system. In order to face that challenges, it was important to have meetings with the industry and to submit a regulation draft to public consultation.

Another important challenge when regulating fintechs is to understand the new technologies these companies use. This required an initial training for the Central Bank of Brazil's employees and participation in international meetings, aiming at learning from other jurisdiction's experiences.

(v) Even with all the studies developed and meetings held with the industry, the final regulation was not flawless. This should be considered normal, especially because the technology and the business models are evolving at a fast pace. Therefore, it is important to keep constant conversations with the industry and to monitor their activities to amend the regulation, if necessary.

(vi) Since this regulation is quite recent and considering the distortions caused by the pandemic, we have not assessed its impacts so far.

(vii) The regulation is available at

https://www.bcb.gov.br/content/config/Documents/Credit_Fintechs_Regulation_CMN_Resolution_4656_2020.pdf.

Regulatory Sandbox

(i) Regulation on a regulatory sandbox for the Brazilian financial and payment systems.

(ii) As a financial regulatory and supervisory authority, the BCB introduces the 'Controlled Testing Environment for Financial and Payment Innovations' (BCB Sandbox) aiming at establishing a proper framework for assessing financial innovations within the National Financial System (SFN) and the Brazilian Payments System (SPB).

Specifically, the BCB Sandbox aims at fostering innovation as well as the diversity of business models in the SFN or the SPB. The core purposes of the initiative are to meet the heterogeneous needs of financial users, promoting financial inclusion, as well as to balance the benefits of financial competition and the safety and soundness of the systems involved.

(iii) The BCB's Regulatory Sandbox is an environment where the Banco Central do Brasil (BCB) licenses, for a certain period, entities to test an innovative project, while they observe a specific set of regulatory provisions that supports the controlled and delimited execution of their activities.

The overarching principles are set by BCB Resolution No. 29/2020. Accordingly, the licensed participants must carry out their transactions with integrity, reliability, security, and confidentiality, and implement a structure for the risk management of the project under test.

It is important to emphasize that licensed participants must comply with the legislation and regulation on Anti-Money Laundering and Terrorist Financing (AML/CFT), as well as with BCB rules for handling complaints from their customers and users.

The BCB Sandbox is implemented through cycles and the duration of each cycle is regulated by the BCB, limited to one-year — extendable only once for an equal period. Each cycle of the BCB Sandbox will be governed by specific rules disclosed in the BCB's summoning act that will establish its duration, the maximum number of participants, the required documentation for submission, the schedule of the submission and licensing phases, as well as the BCB's strategic priorities.

The BCB Resolution No. 50/2020 sets the core regulation for the establishment, execution, and related procedures of the BCB's Regulatory Sandbox for financial and payment innovations (BCB Sandbox – Cycle 1). This rule defines the thematic concentration areas for the projects and one of these areas is fostering credit to microentrepreneurs and small businesses.

(iv) The major challenge the Central Bank of Brazil is facing during the implementation phase is to manage the workforce considering that the regulatory sandbox is time-consuming. Moreover, the projects are different from each other, so we had to assemble a group of experts in several areas.

Considering that we are still selecting the participants that will operate in the first cycle, we have not yet assessed implementation challenges regarding overseeing projects.

(v) The Central Bank of Brazil will be able to discuss about lessons learnt after the conclusion of the first cycle.

(vi) The Central Bank of Brazil will be able to discuss about impacts after the conclusion of the first cycle.

(vii) More information about the BCB's Regulatory Sandbox is available at

https://www.bcb.gov.br/en/financialstability/regulatorysandbox.

Open Banking

(i) Implementation of Open Banking by financial institutions, payment institutions and other institutions licensed by the Central Bank of Brazil

(ii) Objectives:

a. Consumer empowerment – the decision of when and how data sharing occurs could improve financial product customization and even lead to further financial inclusion, benefitting underserved population

b. Increased competition – as information ceases to be restricted to a handful of institutions, credit risk can be more precisely accessed which could lead to lower fees and interest rates.

c. Promote innovation – easier access to credit information and customization of financial products are fundamental for the emergence of new business models.

(iii) Brazil has initiated a phased implementation of its own Open Banking strategy, planning to have all its initial 4 phases implemented by the end of 2021.

Aligned with Brazil's General Personal Data Protection Regime, Open Banking in Brazil is based on the principle that the consumers own their personal data. Therefore, they must consent the sharing among financial institutions, payment institutions and other licensed entities. Building a regulatory and technological framework that allows data sharing in a secure and convenient manner, represents a significant challenge.

The first milestone of the project was the enactment of Communiqué 33,455, on April 24th, 2019, which underpinned the requirements for the implementation of Open Banking in Brazil.

On May 4th 2020, Resolution No. 1 and Circular No. 4015, established the main rules and guidelines for the Open Banking ecosystem, such as: mandatory and voluntary participants as well as their responsibilities, minimum scope of data and services shared, high level features of the customer journey (consent, authentication and confirmation), minimum security requirements, among others. The implementation process is divided in the following phases:

a. Phase 1: sharing in open data format of aggregate information on service channels, products and services offered by participating institutions;

b. Phase 2: sharing of registry and transactional data on personal consumers or legal entities concerning traditional bank products (account, payment and credit);

c. Phase 3: sharing of services, including payment initiation;

d. Phase 4: sharing of data pertaining to foreign exchange, investments, insurance and open pension funds (Open Finance).

Phase 1 is already in effect since the beginning of February and Phase 2 completion is one month away, starting on July 15th.

(iv) The process of building a framework that enables data sharing from individuals or legal entities in a secure, prompt and accurate manner has posed huge challenges in terms of its governance. In order to reconcile participants' often conflicting interests and ensure non-discriminatory access and compliance with regulation, a private-funded governance structure had to be built in which participating segments have equal status and voting powers. Technical groups were assembled to establish technological features and governance processes in greater detail, their suggestions are voted by a Deliberative Council and then subjected to the central bank´s approval.

Other important challenge is to raise public awareness on the consumers rights pertaining their data, and how can they reap benefits from an Open Banking landscape.

(v) Brazilians Open Banking Model has been designed taking into consideration lessons learned from other jurisdictions, mainly in terms of customer experience.

(vi) Since Open Banking is a medium to long-term project, results have not yet been collected. However, the project's magnitude promises to completely change cost structures and business models in the Brazilian financial system, while promoting a consumer centric culture among market participants.

(vii) Relevant Links:

https://www.bcb.gov.br/content/config/Documents/Open_Banking_CMN_BCB_Joint_Resolution_1_2020.pdf

https://www.bcb.gov.br/content/config/Documents/Open_Banking_BCB_Circular_4015_2020.pdf

https://www.bcb.gov.br/en/financialstability/open_banking

RUSSIA

There are a few policies and on-going initiatives that were adopted to foster the digital transformation in financial market that also cater for the needs of SMEs:

- **The National Guarantee System (NGS)** is actively developing in the Russian Federation, including JSC RSMB Corporation, regional guarantee organizations (RGO) operating in all regions of the Russian Federation, and JSC «SME Bank». Guarantee support allows entrepreneurs (self-employed citizens) to significantly reduce the amount of collateral required from the borrower in the bank when obtaining a loan, and thereby reduce the burden on the business. Thus, up to 75% of the obligations are covered by warranty coverage. The guarantee products of all NGS participants complement each other, ensuring maximum compliance with the needs of the target customer segments and financial organizations, and do not compete with each other. One of the principles of providing guarantees (sureties) within the NGS is the principle of segmentation: - if the borrower requires a guarantee (sureties) in the amount of up to 25 mln RUB (337 thous USD), then the entrepreneur's application is considered by the RGO; - if the application for providing a guarantee exceeds 25 mln RUB (337 thous USD), then this application is considered by JSC RSMB Corporation; - JSC SME Bank provides guarantees to ensure the participation of SMEs (self-employed citizens) in procurement. NGS AIS provides online acceptance and consideration of applications of recipients of guarantee support, online interaction between partner banks and partner organizations that have received accreditation of NGS participants, and borrowers.

  In order to ensure a systematic approach of NGS participants to the consideration of applications for guarantee support, the Ministry of Economic Development of the Russian Federation plans to provide automatic routing of applications for guarantees (sureties) through the NGS AIS by the end of 2022.

  The implementation of this routing will significantly reduce the time required to review applications from SMEs (self-employed citizens) and receive financial support.

- In addition, the NGS AIS interacts with other information systems of NGS participants, as well as information systems of development institutions, state information systems in order to provide financial and non-financial services for entrepreneurs. Within the framework of such interaction targeted credits and guarantee products can be formed for the target customer segments depending on the profile and needs of the applicant.

  Also the applicant may have the opportunity to check the characteristics of the market niche, analyze competitors (in the service and production sector) and receive other information and marketing support services.

  Promising areas are the creation of open factoring and crowdfunding platforms based on the NGS AIS, as well as the transfer of technologies for credit and guarantee processes and expertise, which involve the transformation of the NGS AIS into an online system for automating the processes of financial support for SMEs. At the same time, NGS participants will have access to a single reliable and constantly updated database of SME entities, collected in an automated mode from state information systems (including the Electronic Information System of the Bank of Russia), as well as databases and information systems of organizations included in the partner network of NGS participants.

- **Digital Platform for SMEs**
  A number of digital services for SMEs is being developed under the special federal project «Creation of a Digital Platform with a mechanism for targeted selection and the possibility of remote receipt of support measures and special services by small and medium-sized businesses and self-employed citizens».

  The implementation of this federal project will create a single information resource that combines existing disparate information systems. Digital Platform is aimed at proactive delivery of a full range of support measures, as well as digital services and services that are necessary for entrepreneurs at different stages of the life cycle. At the same time, the key factor should be the creation of a digital profile (passport) of the business. This will allow using the information available in the system repeatedly when applying for various services and services. The main services of the Digital Platform should help solve the most pressing issues – register a business, get funding, complete the necessary educational programs and get expert advice on current issues, facilitate interaction with government agencies, get access to procurement, and enter foreign sales markets. A digital profile (passport) of a particular entrepreneur or organization will be formed after registration in the Public Services Profile. Then the targeted selection of services will be carried out based on the analysis of big data.
- **Promoting financing for SMEs is among the priorities of the Russia's Financial Inclusion Strategy for 2018-2021.** To ensure financial inclusion for the SMEs, the Bank of Russia takes a wide range of measures, from joint preferential lending programs in cooperation with the Government of the Russian Federation to the development of stimulating banking regulation and information support for small businesses. The Bank of Russia also promotes stock market instruments, alternative instruments of financing, such as crowdfunding and factoring, advocates for the usage of a digital financial profile to increase quality and data cohesiveness in the Governmental information resources.

The majority of these measures are being implemented as part of the Bank of Russia's Roadmap for the development of SME financing approved in September 2018 (for the period of 2018-2020) and updated in December 2020 (for the period of 2021-2022), as well as the national project 'Small- and Medium-Sized Enterprises, Support for Individual Entrepreneurs' adopted in December 2018 and updated in 2020. A number of updated measures are planned to introduce the latest technologies into the activities of SMEs.

As part of the national project, the Bank of Russia took part in the development of programmes for state support to leasing and crowdfunding instruments for SMEs. Decrees on subsidising the use of these financing instruments were adopted in December 2019 by the Government of the Russian Federation. In 2020, the updated national project included measures on further development of SMEs financing instruments through the stock market and **crowdfunding**, as well as new measures on exercising **online factoring for SMEs** and **introduction of the Faster Payments System to pay for SMEs goods and services**. The Bank of Russia coordinates these directions.

- In 2019 the law was adopted on attracting investments using investment platforms. The goal is the long-term development of the crowdfunding market and ensuring the protection of the investors and persons who attract investments using investment platforms, as well as regulating such relations. In order to raise awareness of **SMEs about the possibilities of attracting financing through crowdfunding platforms**, the Bank of Russia conducts training events for SMEs.
- Faster payments system (FPS) of the Bank of Russia. FPS is a service that allows individuals to instantly (24/7) transfer money to themselves or to others using their mobile phone number, regardless of the bank in which the sender's or recipient's accounts are opened. These banks should be connected to the FPS. Access to the FPS is possible through the mobile applications of banks connected to the FPS, via smartphone, tablet or computer. **For business: C2B payments, including using QR codes, and B2C payments are also possible with the use of FPS.**
- A **pilot project to conduct factoring transactions with SMEs** via factoring platforms is planned for the end of 2021 **in an online format.**
- The Bank of Russia initiated the Marketplace Project in 2017. It is aimed at establishing a regulatory framework for the remote sales of financial products across the Russian Federation. In 2020, the necessary changes to the applicable laws were adopted. A statement on transactions on financial platforms can be obtained from the Financial Transaction Registrar, including using the Public Service Portal. **The Marketplace 2.0 Project will help expand the range of products and services on financial platforms, including for legal entities**, and will contribute to increased competition in the market and further development of remote financial services.
- Digital biometric identification and Digital Profile. The main objectives are digitalization of the financial services and organization of interaction between the state, business and citizens. Digital biometric identification is a solution that allows individuals to receive financial services remotely from different banks after they confirm their identity using biometric personal data. In the end 2020 the law was adopted providing for the expansion of digital biometric identification for public, all financial and non-financial services and for its application by legal entities' representatives. Digital Profile – unified point of access to data necessary for the provision of services from the government information systems with the consent of a citizen. Changes to the regulation that will provide for the **creation of a Digital Profile of a legal entity, including an SME entity** were introduced to the State Duma.

SMEs foreign trade support

1. **Name of the policy**
   SMEs foreign trade support by SberBusiness (Sberbank).

2. **Objectives**
   - To support Russian SME exporters, covering their commercial and political risks.
   - To offer them easy digital access to government services.

3. **Brief description**
   In September 2020, SberBusiness introduced a new product, Export Contract Insurance. This product is aimed at supporting Russian SME exporters and has been launched jointly with Exiar Export Insurance Agency. The product covers commercial and political risks.

   Since October 2020, large and medium business clients have been offered an electronic bank guarantee against customs payments, that is the guarantee to fulfill the corporate obligations to the Federal Customs Service. You may apply for the guarantee at SberBusiness, with a minimum set of documents attached. The bank itself will send the guarantee to the customs service, and the company will not have to withdraw its own funds from circulation or take out a loan.

   In December 2020, exporters were offered easy digital access to government services, such as transport and exhibition subsidies, confirmation of 0% VAT rate, customs declaration in the system of Russian Export Center. 11 Federal Executive Authorities took part in creation of the services, while Sber acted as an arranger and a developer. The project has been implemented for 8 months, which is the best result in creation of public services. The Bank heavily applies AI technology. Any documents that come from clients as part of international payments processing are handled by neural network models of computer vision and machine word processing. This significantly increases the document processing rate and reduces the human factor.

   Since 2020, the Bank has applied AI recommendations of banking products to clients. The product offerings to each exporter and importer are generated according to over 300 parameters and sent to different points of contact with clients, revealing even hidden needs of clients.

4. **Implementation challenges**

5. **Lessons learnt**

6. **Impact, with reference to any empirical evaluation**
   From 16 April to 31 August 2020, Sber canceled a fee for the VAT and Excise Tax Refund service; 1,038 electronic bank guarantees were issued for RUB 150 bln. In August, small and micro business clients were offered the service of express refund of VAT and excise taxes, which made it possible to reduce the tax refunding time for businesses from 72 to 7 days without visiting tax authorities.

7. **Link to any other useful material for assessing the policy**
   Sberbank 2020 Annual Report:
   https://www.sberbank.com/sustainability/annual_reports

Faster Payments System

1. **Name of the policy**
   Faster Payments System by the Bank of Russia.
2. **Objectives**
   To promote competition in the sector of payment services.
   - To raise the quality of payment services.
   - To enhance financial inclusion.
   - To make payments cheaper for households.
3. **Brief description**
   The Faster Payments System (FPS) is a crucial infrastructural project of national importance aimed to promote competition, raise the quality of payment services, enhance financial inclusion and make payments cheaper for households.

   The Faster Payments System (FPS) is a service that lets individuals make instant (24/7) interbank transfers to themselves or other persons using a mobile phone number. The banks need to be connected to the FPS.

   Customers can access the system via smartphone, tablet or PC using the mobile applications of banks connected to the FPS. In order to make an instant transfer, customers should select the account from which the payment will be made in the FPS Transfer section of their bank's application and indicate the payee's mobile phone number and the amount. After the payer has confirmed the transaction, funds are transferred and become available to the payee within seconds.

   The Faster Payments System was jointly developed by the Bank of Russia and the National Payment Card System. The service runs on an API basis.
   It was launched and has been in commercial use since 28 January 2019.

   In 2020, several new services were tested: B2C payments, payments for purchases on the Internet using a link, and others.

   In April 2021 NPCS released SBPay Universal QR Code Payment App. According to the draft directive of the Bank of Russia, from April 1, 2022, all FPS participants are obliged to provide customers with the opportunity to pay for purchases and services using this application. By the same time, not only the largest, but also medium-sized banks should establish settlements of buyers and sellers through the FPS, they will become a full-fledged alternative to card and cash payments.

   In July 2021, the Central Bank plans to implement the technological readiness of the subscription service in the Faster Payment System (FPS). At the same time, testing with several pilot banks is planned.
4. **Implementation challenges**
5. **Lessons learnt**
6. **Impact, with reference to any empirical evaluation**
   In 2020, all major market participants joined the system. The volume of transactions in the FPS for two years exceeded 1 trillion RUB (13.5 bn USD). At the same time, 15% of interbank transfers by households were made through the FPS.
7. **Link to any other useful material for assessing the policy**

   FPS on the Bank of Russia's website:
   http://www.cbr.ru/eng/psystem/sfp/
   https://www.cbr.ru/PSystem/sfp/

   FPS website:
   https://sbp.nspk.ru/

- Initiatives / policies where fintech applications have been leveraged productively for meeting the financial needs of MSMEs are detailed below.

  (A) Initiatives already implemented

  - Launch of psbloansin59minutes.com to provide quick in-principle approval for loans from `100,000 to `50 million to MSMEs. It is an automated matching platform between request of borrower for a loan and the underwriting rule engine of lenders. (brief write-up is given at **Annexure I**)
  - Trade Receivable e-Discounting System (TReDS) is an e-discounting platform which facilitates the financing of trade receivables of MSMEs from corporate and other buyers, bymultiple financiers through a bidding system. (brief write-up is given at **Annexure II**)
  - Digital on-boarding of customers using e-KYC/XML KYC/ VCIP including the digital signature on the customer application form.
  - PRAYAAS – App based lending to bottom of pyramid through partner institutions

  (B) Initiatives under implementation:

  - Usage of technological solutions to pull external data (GSTR (Goods and Services Tax Return), ITR (Income Tax Return), Bank Statements, Credit Bureau, etc.) for an automated solution in form of a Business Rule Engine (BRE) for a Straight Through Processing (STP).
  - Adoption of GST based analytics for grading a prospective customer to improve credit quality.

- Some of the potential benefits of using FinTech applications are efficiency improvements, risk reduction and greater financial inclusion. Technological innovations compel banks to modify their way of doing business and revenue models. Banks currently perform activities in several market segments, viz., payments services, raising deposits, lending, and investments, etc. These are segments where technological innovations will result in more high-grade products at lower prices. If banks do not adopt them quick enough, innovation by rivals may put their business models under pressure. Loss of consumer contact and fragmentation of the value chain could then diminish banks' ability to profit from the cross-selling market. A more diverse financial sector also reduces systemic risk by increasing the heterogeneity between the risk profiles of market participants.

- Some of the key challenges associated with FinTech applications are difficulty of regulating an evolving technology with different use cases, monitoring activity outside the regulated sector, identifying and monitoring new risks arising from the technology. In addition to creating new opportunities, FinTech also carries potential risks for the financial sector including risks related to cyber-attacks. As the rise of FinTech leads to more and more IT interdependencies between market players (banks, FinTech, and others) and market infrastructures, IT risk events could escalate into a full-blown systemic crisis. The entrance of new FinTech players has not only increased the complexity of the system but has also introduced heightened IT risks for these players who typically have limited expertise and experience in managing IT risks.There is a need to have a deeper understanding of various FinTech products and their interaction with the financial sector and, thereby, the implications on the financial system, before regulating this space.

- In India, FinTech has the potential to provide workable solutions to the problems faced by the traditional financial institutions such as low penetration, scarce credit history and cash driven transaction economy. If a collaborative participation from all the stakeholders, viz., regulators, market players and investors can be harnessed, Indian banking and financial services sector could be changed dramatically. FinTech service firms are currently redefining the way companies and consumers conduct transactions on a daily basis.

As far as the Ministry of MSME is concerned, there is not much scope for leveraging the Fintech applications in our schemes. However, application procedure with regard to our key schemes such as Prime Minister's Employment Generation Programme (PMEGP), Credit Linked Capital Subsidy Scheme etc is completely on-line.

CHINA

In December 2016, with the approval of the State Council, the PBC, together with relevant ministries, formulated and released the *Overall Program of the Pilot Zone for Financial Inclusion Reform in Lankao County of Henan Province,* to facilitate financial inclusion pilot reform in the county. Under the guiding principle of poverty alleviation in counties through financial inclusion, the pilot zone focused on strengthening financial inclusion infrastructure and used digital technologies for online-offline integration. As a result, the Lankao model was established featured with one-stop digital service platform for financial inclusion as the core and consisting of the financial service system, the financial inclusion credit system, the credit information system and the risk control system. With traditional finance and digital finance integrated, the difficulty confronting SME and farmers in accessing loans, and the difficulty in collecting their information and controlling risks were addressed. This pilot reform proved fruitful.

Given the constraints of traditional financial services such as high costs and limited fixed outlets, the Lankao Pilot Zone built Pu Hui Tong, a one-stop digital service platform for financial inclusion, and launched online the businesses that are closely related to people's daily lives, such as account management, micro finance, agriculture-related insurance, savings and wealth management, payments and agricultural subsidies, making financial inclusion services easily accessible to people. Moreover, equal opportunities are given to financial institutions for fair play at low cost and low risk. Estimates by a financial institution outlet in the Lankao Pilot Zone show that the time needed to handle online loan application is 28 percent faster than offline and the management cost is down by 20 percent. As of end-2019, more than 900 financial inclusion products of over 180 banks (including branches) were launched in the Pu Hui Tong App, covering credit, wealth management and payments. The digital financial inclusion platform has reduced the cost of financial inclusion, increased its accessibility and expanded its service scope.

SOUTH AFRICA

Public sector initiatives

IFWG

Through the **Intergovernmental Fintech Working Group (IFWG)**, South African regulators and policymakers work together to demystify the fintech regulatory landscape, provide a space for safe experimentation, and actively advance innovation. The Innovation Hub is a collaborative effort of the IFWG, which includes participation from National Treasury, the Financial Intelligence Centre, the Financial Sector Conduct Authority, the National Credit Regulator, the South African Reserve Bank, the South African Revenue Service and the Competition Commission. The IFWG was established in 2016 to understand the growing role of fintechs and innovation in the South African financial sector and explore how regulators can more proactively assess emerging risks and opportunities in the market.

Finfind

Finfind was launched by the Minister of Small Business Development in 2015 to provide an online platform that educates and assists MSMEs to access the finance they need to survive and grow, and to facilitate increased deal flow for MSME funders.

Finfind is an online access to finance platform that gathers data from MSMEs who are looking for business finance, and automatically links them with all the available, matching finance products stored in the Finfind funder database.

Finfind has built a comprehensive funder database of more than 360 different finance products and over 200 public and private sector funders. Each finance product is mapped by a number of parameters such as funding need, funding amount, owner and business demographics and eligibility criteria. The funder database is updated daily by a team of researchers.

The MSME database contains comprehensive information collected from MSMEs seeking finance and provides detailed insights into the make-up of the MSME sector in South Africa.

Private sector initiatives

The below table provides examples of private sector companies with fintech solutions that are aiming to serve the needs of MSME. No empirical evidence of impact or implementation was available for this survey.

Company/ product	Overview	Description
Lulalend	Lulalend launched a payments platform designed to radically improve the speed and ease with which SMMEs get paid by their customers.	Lulalend utilises proprietary credit scoring technology to enable it to provide quick decisions, fast funding, and transparent pricing to SMEs. With Lulapay, businesses selling to other businesses receive immediate payment for invoices issued, while still being able to offer their customers payment terms of up to 90 days. The platform makes use of bespoke AI-driven technology to simplify and speed up the process of getting paid, without putting strain on customer relationships.
Merchant Capital	Merchant Capital offers merchant trade finance to small business, allowing clients to repay loans through technology embedded in point-of-sale machines.	Merchant Capital provides SMEs with quick, simple access to unsecured working capital. Its tailor-made working capital cash injections for growing businesses provide a flexible, rapid and secure funding solution, which addresses the cash flow and working capital restrictions of retail SME business owners. Business owners apply digitally, and can be approved within 24 hours. Merchant Capital then enables flexible repayment terms to be agreed upfront with the business owner – customised to take their specific business requirements into account. Qualifying merchants are provided with an upfront lump sum in the form of a cash advance in exchange for a small fixed percentage of future turnover.
Fundrr	Fundrr reportedly aims to disrupt the local small and medium enterprise financing market by offering R1 billion worth of funding to local businesses online.	The online funding platform uses an automated credit model that analyses close to 100 data points to provide a more complete picture of a small business and its growth possibilities. This produces a Fundrr score, and on this basis, the start-up is able to provide loans from R20 000 to R500 000 to applicants.

Company/ product	Overview	Description
Bridgement	By offering simple and flexible business funding online to small businesses across South Africa, SMEs can rebuild or expand their operations, take on bigger projects, and bridge gaps in cash flow	Bridgement currently has three funding options tailored to different business needs: ◉ Business Loans to cover those once-off business needs; ◉ Line of Credit facilities for flexible access to revolving credit to cover ongoing needs; and ◉ Invoice Finance facilities to assist SMEs with late-paying clients and unlocking funds tied up in their unpaid invoices. Bridgement's automated application process takes two minutes to complete. SMEs apply by connecting their accounting package or bank account, and letting Bridgement's tech do the rest with no paperwork needed.
Pollen Finance	Established in 2015, Pollen Finance is one of South Africa's largest fintech lenders and has reportedly loaned over R1.5 billion to South African small and medium businesses.	Pollen Finance business loans ranging from R50 000 to R3 million. SMEs apply online on the company's website and approval and funding is provided in three days.
Zande Africa	Zande Africa (formerly Invoiceworx) has an innovative financial and distribution platform that provides trade and merchant finance to spaza (mom-and-pop) shops.	Zande raises lines of credit (30 to 60 days) with large FMCG manufacturers. These credit lines are then extended to informal retailers via physical stock and repaid in seven to 14 days. Zande delivers directly to the shops using a last-mile distribution model. In addition, with 20 vehicles on its books, Zande has developed an efficient model of moving products from its warehouses to spaza shops while creating employment in communities.

B. Policy examples

2. Has your country designed any targeted schemes for MSMEs, providing them benefits like transfer of subsidies/ subsidized or prioritized credit, etc? If yes, then: (i). Are the schemes primarily at the national or sub-national Government level? (ii). Whether transfer of benefits is done through Direct Benefit Transfer (DBT) to the bank accounts of the targeted MSME beneficiaries or are any alternate methods used? (iii). What are the challenges faced in identification of MSME beneficiaries? Is there a national/ sub-national list of beneficiaries based on some identification criteria?

BRAZIL

Through Law No. 13,999, of May 18, 2020, the National Support Program for Micro and Small Enterprises (Pronampe) was created. Pronampe emerged as a measure to facilitate access to credit for micro and small businesses and aid in crossing the period during which the economic effects of the sanitary measures to combat the coronavirus persisted.

Pronampe was an initiative of the National Congress and its criteria are set out in Law No. 13,999 of May 18, 2020. It was officially launched on June 10, 2020. From the implementation to the conclusion of the policy, on December 31, 2020, R$ 37,551,786,699.92 were contracted, in 517,059 operations.

The Emergency Credit Access Program (PEAC-FGI) was created by Provisional Measure No. 975, of June 1, 2020, converted into Law 14,042, of August 19, 2020, with the objective of supporting small and medium-sized companies (SMEs) in obtaining credit, thus helping them to overcome the economic crisis resulting from the Covid-19 pandemic. PEAC-FGI financed more than 92 billion reais in credit, carried out more than 135 thousand operations, as well as guaranteed more than 73 billion reais.

In addition to PEAC-FGI, Law No. 14.042, of August 19,2020, also created the Emergency Credit Access Program in the form of guarantee of receivables (PEAC-Maquininhas) aimed at individual microentrepreneurs (MEI), microenterprises and small businesses. This public had access to the proposed credit operations as long as they had constituted and settled receivables through payment arrangements (art. 10, Law No. 14.042 / 2020).

PEAC-Maquininhas was designed to encourage entrepreneurs and, thus, help companies to remain active and not end their activities, having released more than R$ 3 billion in more than 112 thousand contracts.

It is noteworthy that the institutions and entities that operate in the granting of credit have the autonomy to define their policies for the release of loans, as long as the legislation in force is observed. Those that are under the supervision and inspection of the Central Bank of Brazil must also observe the rules of this entity

(i) Are the schemes primarily at the national or sub-national Government level? The schemes are primarily at the national Government level.

(ii) Whether transfer of benefits is done through Direct Benefit Transfer (DBT) to the bank accounts of the targeted MSME beneficiaries or are any alternate methods used? In the case of Pronampe, the vehicle used to provide guarantees was the Operations Guarantee Fund (FGO), established under Law 12.087, of 2009, managed by Banco do Brasil S.A. and is private in nature. Its purpose is to complement the guarantees necessary for the contracting of credit operations (working capital and / or investment), by micro and small companies, medium-sized companies and by individual micro-entrepreneurs - MEI.

In the case of PEAC-FGI and PEAC-Maquininhas, the vehicle used to provide the guarantee for its operations was the Guarantee Fund for Investments - FGI. Through the granting of guarantees, the initiative aimed to reduce the risk assumed by financial institutions, maintain the financial health of SMEs and preserve the jobs and income of thousands of Brazilians.

- What are the challenges faced in identification of MSME beneficiaries? Is there a national/ sub-national list of beneficiaries based on some identification criteria?

The beneficiaries of the programs above were defined by legal criteria according to information provided to and by the Special Secretariat of the Federal Revenue of Brazil (RFB).

PEAC-FGI was instituted, initially aimed at companies with annual gross sales between R$ 360,000.00 (three hundred and sixty thousand reais) and R$ 300,000,000.00 (three hundred million reais) in the 2019 calendar year, that is, small, medium and large companies, in order to ensure that the smallest possible number of companies would end their activities definitively.

The PEAC-FGI and PEAC-Maquininhas joined the National Support Program for Micro and Small Enterprises (Pronampe), instituted by Law 13,999, of May 18, 2020. However, the overlap of initiatives is minimal, as Pronampe is operated by the Fundo de Operations Guarantee - FGO, managed by Banco do Brasil, and its statute provides for the allocation of 90% of resources to micro-companies, with a residual focus on small companies.

Finally, there is no national / sub-national list of beneficiaries based on other identification criteria.

RUSSIA

- Favorable credit facilities for MSMEs and self-employed are regulated by the Russian Federation Government Resolution No.1764 (30.12.2018) “On establishing the Regulations in the area of federal budget subsidy contribution to Russian credit institutions and special financial entities for the lost income from the preferential loans given to the MSMEs and individuals under special tax regime “self-employment tax” in 2019 – 2024”.

  The type of loans: working capital loans, investment loans, entrepreneurial loans and refunding loans.

  Tenor of loan: under 10-year period. Loan limit: 2 billion rubbles. Tenor of continuous subsidizing: under 5 years. Favorable credit facilities interest rate calculation: the Bank of Russia key rate (on the credit agreement signing date) plus at most 2,75%. Entrepreneurial loans rate is under 9,95%, the limit is 10 million rubbles, the tenor – 5 years. The credit institutions are subsidized under the favorable credit facilities, prioritized funding is not applicable.

- JSC RSMB Corporation has the favorable facility for fostering MSMEs lending. The facility limit is 175 bn RUB (2.4 bn USD). Under this credit facility the rate is at most 9.5% with no restrictions to credit orientation and borrower business segment. The Bank of Russia refinance MSMEs’ loans given by designated banks under this facility. Bank of Russia allows credit at the rate of 4% guaranteed by RSMB Corporation. 62 designated banks participate in the facility (as of August 2021).

INDIA

(i) Are the schemes primarily at the national or sub-national Government level?

Yes, the schemes are primarily at the national level (run under the aegis of Government of India). SIDBI being the apex FI for the MSME sector and one of the main conduits for the Govt.’s schemes for the MSME sector, SIDBI has also designed a few schemes for the target sectors which offer credit at subsidised / softer interest rates, and launched them with the approval of and funding from the Govt./ RBI. There is satisfactory progress under these schemes. Some of these schemes are as under:

- SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprises [SMILE] scheme launched on July 20, 2015 for extending loans to MSMEs on softer terms (interest rate being 100bps to 150 bps lower than market rates) to 26 sectors covered under 'Make in India' program of Govt of India
- SIDBI Assistance to Facilitate Emergency response against corona virus (SAFE) was launched in March 2020 to provide financial support at interest rate of 5% (as against market norms of 9.5%) to all MSMEs who are manufacturing any product or providing any services which are related to fighting corona virus (such as PPE Kits, masks, body suits, ventilators, testing labs, etc.).
- Healthcare SIDBI assistance to sector in War Against Second wave of COVID19 (SHWAS) and SIDBI Assistance to MSMEs for Recovery & Organic Growth during COVID19 pandemic (AROG) were launched in April 2021 with similar low interest rates for MSMEs.
- SIDBI provides refinance for MSME portfolios of NBFC and MFIs at rates that are subsidized.
- PRAYAAS scheme provides term loans upto INR 500,000 to micro enterprises at subsidised interest rates.
- Under Special Liquidity Facility (SLF-1 and 2) of RBI, SIDBI provides loans to its existing customers for meeting their liquidity needs during the Covid19 pandemic.

(ii) Whether transfer of benefits is done through Direct Benefit Transfer (DBT) to the bank accounts of the targeted MSME beneficiaries or are any alternate methods used?

- Under the above-mentioned schemes [listed under (ii)(a)], which have been designed and implemented by SIDBI, the benefit is in the form of lower cost of creditenabled through low-cost funds provided to SIDBI by the Govt of India.
- GoI provides benefits in form of capital and/or interest subsidy under certain schemes on loans availed by MSMEs from Banks/FIs. SIDBI, as a nodal agency of GoI, has transferred various subsidies of GoI through Direct Benefit Transfer (DBT) directly into the bank / loan accounts of MSME units and also to other banks for passing on benefits to their customers, which includes Credit Link Capital Subsidy Scheme (CLCSS), Technology and Quality Upgradation Scheme (TEQUP), Amended Technology Upgradation Fund Scheme (ATUFS), Interest Subvention Scheme, Interest subsidy under PM SVANidhi, etc.
- In addition to this, various State Govts also provide capital and interest subsidies to MSMEs engaged in specific sectors to propel industrial growth in their territory.

(iii) What are the challenges faced in identification of MSME beneficiaries? Is there a national/ sub-national list of beneficiaries based on some identification criteria?

- Udyam Registration is a national database for MSME registration. Udyam registration is based on self-declaration by MSME unit and is free of cost and paperless. Classification of an entity as micro, small and medium enterprise is automatically captured from latest income tax return filed by the entity or based on declaration in case of a new entity.
- Udyam registration is facing many challenges. MSMEs are defined by the Govt. of India through the MSMED Act, based on investment in plant and machinery / equipment and the annual turnover. All benefits/schemes launched by Central / State Govt. are made available to entities that qualify as MSMEs as per this definition. There is no national/sub-national list of MSMEs. With a view to compile such a list, Govt. has launched the Udyam registration process. There are many challenges faced in getting all the estimated 63.4 million MSMEs to register on the Udyam platform. 99.4% of the estimated MSMEs are Micro enterprises and 51.4% of them are from rural India. Registration under the UDYAM scheme is entirely online;given the estimate that more than half of the MSMEs (51.4 per cent) are located in rural areas, lack of internet access poses a challenge. The Govt. is trying to incentivise Udyam registration by making many of the recent schemes available to only those MSMEs that have an Udyam registration number, and also trying to create an enabling environment by providing internet access to rural India and minimal information requirement for the registration process. Common Service Centres (CSCs) and Village Level Entrepreneurs (VLEs) are being roped in for facilitating the registration process.

Ministry of MSME has targeted schemes for Micro and Small Sector such as (1) Prime Minister's Employment Generation Programme (PMEGP) for generation of employment opportunities through establishment of non-farm based micro enterprises for self-employment in rural as well as urban areas of the country, (ii) Credit Linked Capital Subsidy Scheme for technology up-gradation through institutional finance by providing 15 percent subsidy, (iii) Credit Guarantee Scheme for Micro & Small Enterprises (CGSMSE) to facilitate credit guarantee support for collateral free/third-party guarantee-free loans to the Micro and Small enterprises (MSEs), especially in the absence of collateral.

All these schemes are implemented across the country, Most of the schemes of MSME are demand driven and registration is MSME Data base through Udyog Registration (erstwhile udyam Aadhar Number) is mandatory. As Credit Schemes are enterprise specific, there is no scope for DBT monitoring.

CHINA

The PBC unveiled on June 1, 2020 two instruments that can directly support the real economy, namely a support instrument to defer the repayment of financial inclusion loans for SMEs, and a support scheme for financial inclusion unsecured loans to SMEs. The instruments are aimed at further improving the system of structural monetary policy instruments and beefing up financial support to SMEs.

To ease SMEs' pressure to repay the loan principal and interest, the PBC and the China Banking and Insurance Regulatory Commission (CBIRC) promptly introduced policies to defer principal and interest repayments of the loans for MSMEs. Specifically, repayments of financial inclusion loans for SMEs eligible for this policy should all be deferred, and other businesses facing financial difficulties can negotiate with their creditors about deferred repayments.

The PBC has launched a support instrument with the provision of funds totaling RMB 40 billion to encourage locally incorporated banks to ensure maximum coverage of the deferred repayments policy on financial inclusion loans of SMEs. The PBC, through interest rate swap agreements signed between special purpose vehicles (SPVs) and locally incorporated banks, provides the banks with incentive funds equal to 1 percent of the total principal of financial inclusion SMEs loans under deferred repayment.

In addition, the PBC has launched a support scheme for unsecured financial inclusion SMEs loans, with the provision of funds totaling RMB 400 billion, with a view to alleviate the pains and difficulties arising from the SMEs' lack of guarantees and to raise the share of the unsecured SMEs loans. The PBC provides favorable funding support for locally incorporated banks through support scheme agreements for unsecured loans signed between the SPVs and the banks.

SOUTH AFRICA

Government has introduced a number of MSME development programmes which are primarily overseen by the DSBD and its implementing agencies. The Small Enterprise Finance Agency (Sefa), an agency mandated by the DSBD to offer financial products and services to qualifying MSMEs and cooperatives, provides various programmes that offer subsidised and prioritised credit to MSMEs. This includes the Township and Rural Entrepreneurship Programme (TREP) offering R740 million in loans and grants targeted at informal businesses and formal microenterprises operating in townships and villages in the following sectors: bakeries and confectionaries; clothing and textiles; automotive afterparts support; fruit and vegetable traders; and spaza shops. Government also launched programmes to support the resilience of MSMEs during the Covid-19 pandemic. The table below provides a summary of the programmes/ schemes:

Programme	Description	Offering
Small-Scale Bakeries & Confectionaries Support Programme	This scheme/fund is aimed at supporting small scale bakeries and confectioneries operating as micro or informal businesses with assistance to purchase business equipment and provision of working capital.	The financial package is structured at a maximum value of R350 000 towards working capital, cost of equipment, or any other CAPEX (paid directly to supplier) [where applicable]
Informal And Micro Personal Care Services Support Scheme	The Scheme supports micro and informal businesses within the personal care industry to improve quality and competitiveness, help reposition businesses with their sectors, promote access to market, and improve access to formal credit through formalisation.	The scheme uses a blended funding model of 50% portion loan and 50% grant funding to the maximum of R50 000 per enterprise. It covers working capital and cost of equipment. The loan repayment period of 36 months will be applied at interest rate of 5%.
Fruit And Vegetable Vendors Support Programme	This scheme/fund is aimed at supporting Fruit and Vegetables Hawkers.	R2 000 (as a once-off grant). Entrepreneurs must be in possession of Municipal Trade Permits selling Fruits and Vegetables on designated spots in townships, rural areas and CBD areas demarcated in terms of municipal by-laws for trading purpose.
Butcheries Support Programme	This scheme/fund is aimed at supporting Butcheries to grow their operations, strengthen operations during Covid-19 lockdown, improve quality standards, and improve supply chain linkages	The financial package is structured at a maximum value of R350 000 that consist of Maximum of R350 000 towards working capital, cost of equipment, or any other CAPEX (paid directly to supplier) [where applicable]. The financial package will be offered in the form of a blended finance with 50% of the total approved amount being a Grant (i.e. maximum grant amount of R50 000.

Programme	Description	Offering
Auto-Body Repairers and Mechanics	This scheme is aimed at supporting and developing small and independent automotive aftermarket enterprises, including informal businesses located in townships and villages.	Maximum of R500 000 (R400 000 equipment and R100 000 working capital) for motor body repairers, mechanics, and auto spares shops and auto fitment centres. The R500 000 is provided by commercial banks with a guarantee from Sefa.
Spaza-Shop Support Programme	This scheme is targeted at township and rural entrepreneurs who own spaza shops, general dealers or grocery stores. It is offered in partnership with Nedbank through the sefa Khula Credit Guarantee Scheme.	Maximum of R15 000. The scheme allows spaza owners who wish to apply for the full amount of R15000 (70% grant and 30% loan) as a credit facility to be able to do so at respective participating banks, with the full backing of the supplier credit guarantee facility.
Other offerings from Sefa and other Government organisations		
Small Enterprise Manufacturing Support Programme (SEMSP)	This scheme/fund is targeted at township and rural area-based entrepreneurs with a consideration for small-scale manufacturers located in cities.	Funding is provided to purchase machinery and equipment for the various manufacturing sub-sectors that will be supported. Working capital for the various manufacturing sub-sectors that will be supported. Funding for product accreditation, certification, and testing. Funding of up to a maximum of R15 million per small enterprise, up to 20% of the amount may be given as a Grant were necessary. The term of the funding is determined by the business cash flow up to a maximum repayment period up to 84 months per small enterprise with a maximum moratorium period of up to 6 months. The loan is repayable at prime lending rate (central bank rate)
Sefa Direct Lending Products	These are loans that Sefa provides directly to Small and Medium-sized Enterprises as well as Co-operatives operating in all sectors of the economy.	The facilities range from a minimum of R50 000 to a maximum of R15 million and include asset finance, bridging loans, revolving loans, and term loans.
Sefa Wholesale Lending Products	Through its wholesale lending, Sefa provides facilities (debt/ equity) to intermediaries, joint venture, partnerships (Specialised Funds) and other collaborative relationships to extend Sefa's reach of making funding available to small businesses across South Africa.	Loans to intermediaries up to R150 million. Loans through intermediaries to end users up to R 5million.

Programme	Description	Offering
Debt Relief Scheme	Launched in 2020 by DSBD for SMMEs negatively impacted directly, or indirectly, by the COVID-19 pandemic	The debt relief finance provided preferential financing (at interest rates of prime less 5%) for salaries, rent and municipal accounts. MSMEs could access the resources after registering on the national MSME database and they should have also been registered with the Companies and Intellectual Property Commission (CIPC) by the end of February 2020 in order to qualify. Companies were required to be 100% South African-owned and registered and complainant with SARS and UIF. MSMEs could register and apply online.
Loan Guarantee Scheme	The Loan Guarantee Scheme (LGS) was announced by President Cyril Ramaphosa on 21 April 2020 as part of the Economic Stimulus Package and was designed to support small businesses that were experiencing financial distress as a result of the COVID-19 pandemic. The LGS was launched by the National Treasury, the South African Reserve Bank and the Banking Association South Africa (BASA) on 12 May 2020.	The Covid-19 loan guarantee scheme is an initiative to provide loans, substantially guaranteed by Government, to businesses in order to meet some of their operational expenses. Government and commercial banks are sharing the risks of these loans.

If yes, then:

- Are the schemes primarily at the national or sub-national Government level?

  The schemes are mandated at national level but offered at local level through agency district offices and financial institution branches across the country.

- Whether transfer of benefits is done through Direct Benefit Transfer (DBT) to the bank accounts of the targeted MSME beneficiaries or are any alternate methods used?

  The programmes adopt different approaches but primarily transfer loans to the MSME beneficiary's bank account or the bank account of the MSME's supplier.

- What are the challenges faced in identification of MSME beneficiaries? Is there a national/ sub-national list of beneficiaries based on some identification criteria?

A major challenge in identifying MSMEs is informality. Nearly 70% of MSMEs are reported to be informal, meaning they are unregistered/ unlicensed. These Informal micro and small enterprises also tend to operate in a cash based manner, thus not having a digital footprint. This makes these enterprises to be largely unseen and difficult to identify and assess for financing purposes.

Regarding a list of beneficiaries, as mentioned in the answer to Question 4, the DSBD developed a MSME database for the Debt Relief Fund which the DSBD intends to also use to alert MSMEs about opportunities and market support measures being implemented

C.Regulatory environment

1. Which Department/ Ministry typically designs schemes/ policies at the national level for credit flow to MSMEs? If there is a separate Ministry / Department for MSMEs, then how does it work in coordination with the Ministry of Finance?

BRAZIL

At national level, the National Congress or the Ministry of Economy design schemes/policies for credit flow to MSMEs. In some cases, a Law or a Decree can establish competence to the National Monetary Council or to the Central Bank of Brazil to regulate on these matters.

In this sense, Law No. 10,735, of 2003, establishes that a percentage of bank deposits must be earmarked to microenterprises, and Law No. 13,636, of 2018, creates the National Program on Guided Productive Micro Lending. Both Laws establish competence to the National Monetary Council to regulate these matters.

CMN Resolution No. 4,854, of 2020, sets definitions of micro lending and guided productive micro lending, including aspects of guidance, risk assessment and control mechanisms of credit operations, as well as the percentage of bank deposits that must be earmarked to guided productive micro lending operations.

The Secretariat for the Development of Micro and Small Enterprises, Entrepreneurship and Craftsmanship is responsible for assisting the Special Secretariat for Productivity, Employment and Competitiveness of the Ministry of Economy to plan, implement, execute and evaluate public policies related to credit and guarantee for micro and small businesses - SMEs.

There is no other separate Ministry / Department with competencies to promote the issue at the national level.

RUSSIA

Ministry of Economic Development of the Russian Federation.

INDIA

Issues related to credit flow to the economy is decided by Ministry of Finance in consultation with the Reserve bank of India. However, for credit related issues on the MSME sector, Ministry of MSME is also consulted. This Ministry also initiates certain MSME specific credit proposals which are finalized in consultation with MoF and RBI.

CHINA

The People's Bank of China and the Ministry of Finance are responsible for designing policies at national level for credit flow to MSMEs. There is no separate ministry for MSMEs in China. The SMEs Department of the Ministry of Industry and Information Technology is responsible for formulating policies and measures related to SMEs.

SOUTH AFRICA

The Ministry of Small Business Development was established in 2014 marking a turning point in the history of MSME and Co-operatives development in South Africa, demonstrating Government's commitment to place MSMEs and Co-operatives at the center of economic growth and job creation. The DSBD was thereafter established as a standalone national department in accordance with the reorganisation of some national departments announced by the President in May 2014. The DSBD is also **Sefa's and Seda's** executive authority, and these agencies are mandated to offer financial and non-financial support to businesses respectively.

2. Please provide details about the regulatory mechanism for overseeing provision of financial services to individuals/ MSMEs through Fintech and technology platforms? Do Fintech services providers require authorization/ licences from any Regulatory authority or Ministry? Please provide details

BRAZIL

There are different types of financial institutions providing financial services to individuals/MSMEs through Fintech and technology platforms: incumbent banks with electronic platforms, digital banks and new types of institutions that came to be known as credit fintechs, the direct credit company and the peer-to-peer loan company.

According to Law No. 4,595, of 1964, the Banking Law, the National Monetary Council has the competence to discipline all modalities of credit and all forms of credit operations, and to regulate the constitution, operation and inspection of those who exercise activities subject to the referred law, as well as application of the specified penalties.

Pursuant to the aforementioned Law, the Central Bank of Brazil has the competence to license financial institutions, to supervise their activities and to exercise permanent surveillance over companies in the financial and capital markets that directly or indirectly interfere in these markets and over the operational modalities or processes that they utilize.

The regulation on financial institutions defines, among other aspects, minimum paid-up corporate capital and net worth that the institutions must observe, and requirements on the persons that can perform corporate control of financial institutions. Moreover, controllers or holders of qualified capital participation of financial institutions have to be identified as well as the origin and respective financial transactions of the resources to be used in the incorporation of the institution.

There is also an alternative way for financial institutions to provide financial services, which is through correspondents. The correspondents are not directly authorized or supervised by the Central Bank of Brazil, but there is a regulation setting requirements that must be observed by financial institutions when hiring correspondents. It is worth noting that financial institutions are fully responsible for the activities performed by the correspondents.

RUSSIA

Licenses, certificates and other permits (confirming the organization's right to provide services in the financial market) are issued by the Bank of Russia. In particular, the Bank of Russia maintains and publishes on its official website: the register of payment system operators, the register of microfinance organizations, a list of electronic money operators, a list of bank payment agents that carry out payment aggregator transactions.

There are several types of regulated fintech activities: electronic money operators, financial and investment platform operators, information system operators, and digital financial asset exchange operators.

- **Electronic money operators** perform their activities pursuant to Federal Law No. 161-FZ, dated June 27, 2011, "On the National Payment System" (Article 12. Electronic money operator and requirements for its activities), Bank of Russia Ordinance No. 2694-U, dated September 14, 2011, "On the Procedure for Notifying the Bank of Russia by the Electronic Money Operator about the Start of Activities for the Transfer of Electronic Funds" and under a respective entry on the inclusion in the register of electronic money operators. Electronic money operators include credit institutions, among them non-bank credit institutions, which are entitled to make money transfers without opening bank accounts. The register of such operators is available at the link: https://cbr.ru/registries/nps/oper_zip/

- **Financial platform operators** perform their activities pursuant to Federal Law No. 211-FZ, dated July 20, 2020, "On Performing Financial Transactions Using a Financial Platform" and under a respective entry on the inclusion in the register of financial platform operators. Operators of financial platforms include only joint-stock companies that help a consumer to conclude a transaction on a financial platform with the necessary financial institution remotely, regardless of the location of the parties, daily and 24 hours a day. Statistics are presented at: https://cbr.ru/vfs/registers/infr/list_financial_platform_op.xlsx
- **Investment platform operators** perform their activities pursuant to Federal Law No. 259-FZ, dated August 2, 2019, "On Investment Raising Using Investment Platforms and on Amending Certain Laws of the Russian Federation", Bank of Russia Ordinance No. 5342-U, dated December 4, 2019, "On the Procedure for Maintaining the Register of Investment Platform Operators" and under a respective entry on the inclusion in the register of investment platform operators. Operators of investment platform are business enterprises engaged in the organization of attracting investments (crowdfunding). The register of operators is available at the link: https://cbr.ru/vfs/registers/infr/list_invest_platform_op.xlsx Investment platform operators and financial platform operators do not require a license, but should be included in the respective register operated by the Bank of Russia.
- **Operators of information system** in which digital financial assets are issued record in the information system data about the enrollment of digital financial assets by their first owner and also ensure the uninterrupted operation of this system and the reliability of data in it. Information is available at the link: https://cbr.ru/finm_infrastructure/ois/
- **Digital financial asset exchange operators** provide transactions in digital financial assets. Information is available at the link: https://cbr.ru/finm_infrastructure/otsfa/
- **Operators of the information system in which digital financial assets are issued** and **Digital financial asset exchange operators** perform their activities pursuant to Federal Law No. 259-FZ, dated July 31, 2020, "On Digital Financial Assets, Digital Currency and on Amendments to Certain Legislative Acts of the Russian Federation" and under a respective entry on the inclusion in respective registers.

INDIA

- RBI has issued regulations relating to Account Aggregators (AA), peer-to-peer (P2P) lending, digital payments. CoRs are also issued to digital only NBFCs, etc.
- In India, Fintechs have been generally working in collaboration with a Bank/FI and it is the responsibility of the Bank/FI to ensure adherence to regulatory prescriptions.
- Fintechs organised as NBFCs are also regulated and supervised by the Reserve Bank of India.

CHINA

Based on international regulatory frameworks such as the Basel Agreement, the People's Bank of China has designed an inclusive and prudent innovative regulatory framework on Fintech industry to encourage the development of the industry. Under the guidance of innovative regulatory tools, financial institutions give full play to the positive role of Fintech in optimizing financial business models, enriching the supply of financial products, and expanding the scope of financial services, so as to provide individuals and MSMEs more convenient and inclusive financial services.

China's regulators have kept addressing regulatory gaps. China conducts prudential supervision over the financial activities of fintech companies and internet platforms and have issued provisional regulations for financial holding companies. China is taking steps to guard against misappropriation of clients' funds by nonbank payment institutions via centralised deposits of these funds at the central bank. China is refocusing non-bank payment institutions on payments by separating out the clearing function into a newly established financial infrastructure.

SOUTH AFRICA

Specifically from a fintech perspective, there is not currently a special dispensation in place in South Africa for the regulation and supervision of fintech. The regulatory framework in South Africa is activity-based and based on substance over form. Thus, to the extent that an entity is performing a specific activity, such entity will be required to be licensed in terms of the relevant framework.

To the extent that any entity wants to provide an innovative solution based on fintech, such offering would need to be assessed in terms of the current regulatory framework, including the requirements relating to the necessary approvals, exemptions, etc. as contemplated in the relevant framework.

As a general principle adopted by the IFWG, the South African authorities aim to remain technology neutral to the extent possible, and have therefore adopted a functional or activity-based approach to financial innovation. Financial service providers therefore are treated and need to be licensed in accordance with the underlying activity they perform (again to the extent practically possible).

C.Regulatory environment

3. Does your country also have specific guidelines or regulatory framework for (i) peer to peer lending and (ii) factoring of trade receivables, especially for MSMEs?

BRAZIL

In 2018, the Central Bank of Brazil approved a regulatory framework for peer-to-peer lending, creating a new type of financial institution: the peer-to-peer loan company (refer to the response on Credit Fintechs on question 3). Even though there is no rule obliging these companies to extend credit to MSMEs, a large percentage of this segment has identified MSMEs as its target.

There is not a regulatory framework for factoring of trade receivables

RUSSIA

- **Crowdfunding: P2P lending**
  On January 1, 2020, Federal Law No. 259-FZ "On Investment Raising Using Investment Platforms and on Amending Certain Laws of the Russian Federation", signed by the President of Russia in August last year, came into force. The bill regulates and streamlines the activities of organizations and individual entrepreneurs in retail financing, better known to the general public as crowdfunding – the process by which individuals invest their savings in a project hosted on a specialized Internet site. The adopted law is based on the "Strategy for the development of small and medium-sized enterprises in the Russian Federation": the document emphasized the need to develop methods of collective financing in Russia – crowdfunding and crowdinvesting. Despite the fact that such platforms existed in the past, their activities were not regulated in any way. The Bank of Russia regulates investment platform operators.

  According to the new law, an investment platform can be created by a company with a capital of at least 5 million rubles, and the control of these sites will be carried out by the Bank of Russia. One person has the right to attract no more than 1 billion rubles per year, and the contribution of individuals who do not have the status of a professional investor will be limited to 600 thousand rubles.

- In addition, a register of investment platform operators (IPOs) will be created on the Central Bank's website, and only platforms included in this list will be able to engage in crowdinvesting. Individuals who already provide investment attraction services through crowdfunding platforms will have to bring their activities in line with the new requirements by August 1 of this year. Also, the law regulates the concept of "utilitarian digital law" for subsequent legal actions.
- **Factoring**
  There is no special law on factoring. The factoring agreement is governed by chapters 24 and 43 of the Civil Code of the Russian Federation:

  Chapter 24 contains general provisions on the assignment of rights of claim (cession), including regulating the transfer of rights to receive payment for fulfilled obligations.Chapter 43 is entirely devoted to factoring: in particular, it contains a direct indication that the owner of monetary claims has the right to assign them to a new creditor without the consent of the debtor.

  There are other regulatory legal acts related to factoring financing:

  Federal Law No. 115 regulates the actions of factoring companies in the framework of combating money laundering and financing of terrorism.

  Starting from June 1, 2018, factoring is legally allowed in the field of procurement within the framework of Federal Law No. 223-FZ, when the ban on the assignment of claims for monetary obligations arising from the contract concluded as a result of the auction was lifted (No. 212-FZ dated July 26, 2017).

  The Federal Law on Digital Financial Assets (No. 259-FZ), which came into force on January 1, 2021, will allow the use of new instruments in factoring (see above about the project on the Open Factoring Platform).

INDIA

- **Peer to Peer Lending:**Yes, P2P lenders are required to be registered as NBFCs (Non-Banking Financial Companies) andare regulated by RBI under Non-Banking Financial Company – Peer to Peer Lending Platform (Reserve Bank) Directions, 2017. Further, the following restrictions apply:
  - The aggregate exposure of a lender to all borrowers at any point of time, across all P2P platforms, shall be subject to a cap of INR 5 million provided that such investments of the lenders on P2P platforms are consistent with their networth.
  - The lender investing more than INR 1 million across P2P platforms shall produce a certificate to P2P platforms from a practicing Chartered Accountant certifying minimum net-worth of INR 5 million. Further, all the lenders shall submit declaration to P2P platforms that they have understood all the risks associated with lending transactions and that P2P platform does not assure return of principal/payment of interest.
  - Escrow accounts to be operated by bank promoted trustee for transfer of funds need not be mandatorily maintained with the bank which has promoted the trustee.
- **Factoring of Trade Receivables:**Yes, factoring of trade receivables of MSMEs on E-discounting platforms through multiple financiers is regulated under the scheme "Trade Receivables Discounting System" (TReDS) by RBI. The RBI has granted "in-principle" approval to three platforms for such transactions: (i) Receivables Exchange of India Ltd. (RXIL); (ii) A.TREDS Limited; and (iii) Mynd Solutions Private Limited. These exchanges are specifically and solely for discounting of receivables of MSMEs.

TReDS is an electronic platform for facilitating the financing / discounting of trade receivables of Micro, Small and Medium Enterprises (MSMEs) through multiple financers. These receivables can be due from corporates and other buyers, including Government Departments and Public Sector Undertakings (PSUs). The Ministry of Micro, Small and Medium Enterprises (MSME Ministry) vide its Notification (MSME Notification) bearing S.O. 5621(E) dated November 02, 2018 has mandated all companies (Large Corporates) registered under the Companies Act, 2013 with a turnover of more than Rs. 500 Crore (Rupees Five Hundred Crore) as per the last available audited financial statements and all Central Public Sector Enterprises (CPSEs) to get themselves registered on the TReDs Platform to ensure cash liquidity for MSME Suppliers.

CHINA

By the end of 2020, China has shut down every P2P platform with a view to forestalling and defusing financial risks.

SOUTH AFRICA

By definition, all digital platforms that connect financial customers to a provider of a financial product are behaving as intermediaries and are providing intermediary services. The digital intermediation of financial services is a new form of connecting consumers to financial service providers. The current South African regulatory treatment of intermediary services does not fully cater for this new digital transition of financial intermediation.

The Financial Sector Regulation Act, 9 of 2017 (FSRA) specifies the objective of the Financial Sector Conduct Authority (FSCA) is to enhance and support the efficiency and integrity of financial markets; protect financial customers; and to assist in maintaining financial stability. Responding to the changing landscape, the FSCA is considering suitable and proportionate regulatory interventions to mitigate conduct risk and promote the fair treatment of financial customers.

D.FINTECH products and credit flows

1. What is the extent of fintech products being offered to MSME borrowers through online/ digital platforms, expressed in terms of percentage of aggregate number of credit proposals/ aggregate amount of credit dispensed?

BRAZIL

[Central Bank of Brazil/ Supervision Deputy Governor's Office – BCB/Difis] In terms of percentage of aggregate amount of credit dispensed, the answer is approximately 1%.

RUSSIA

The extent of fintech products being offered to MSME is growing fast (as well as retail products). Expert assessment based on analysis of credit (for MSME) market says that the percentage of fund borrowed through online / digital platforms exceeded 50%.

Investment platforms (as a type of Fintech platforms) offer loan products to MSME's with a higher risk profile or to MSME's which need money within a short period of time. The current best practice is where a borrower gets a loan within 2 days.

Investment platforms provide loans with a tenor of up to 360 days. The main purpose of such loans is to increase MSME's working capital, in order to complete signed contracts with governmental bodies, state owned companies or large vendors.

Other advantages of the investment platform loans are a limited number of documents needed for a credit approval process and no security except for personal surety of the founders. If such a loan is secured by a guarantee provided by a Regional Guarantee Organization, the final interest rate is lower.

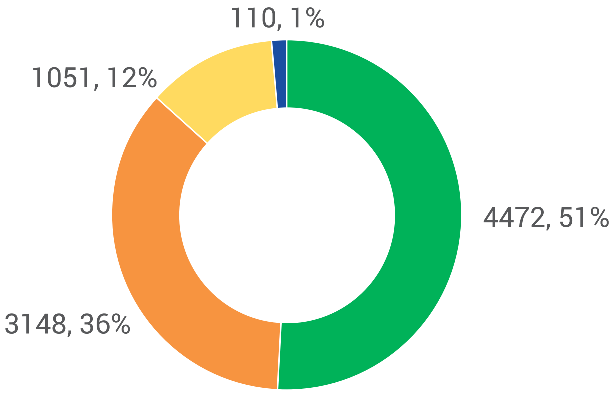
The interest rates vary from 15% to 33% p.a. depending on the MSME's credit rating and investor risk appetite.

INDIA

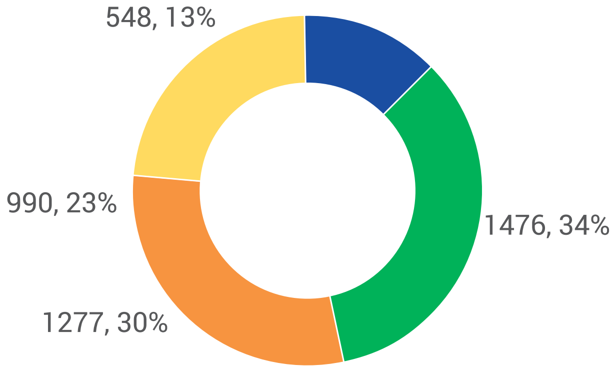
- The Fintech industry in India has grown by leaps and bounds in last five years makingIndia the world's second largest Fintech hub (trailing only the US).The overall transaction value in the Indian FinTech market is estimated to go up steeplyfrom around $65 bn in 2019 to $140 bn in 2023.Fintech investments have nearly doubled to $3.7bn in 2019 from $1.9 bn in 2018 with198 deals in 2019 with majority of the funding going into payments followed by lending, InsurTech and WealthTech.
- In lending, there is a massive opportunity in both the MSME and consumer space. It isestimated that total retail loans over $1 trillion could be disbursed digitally by 2023 in India.The majority of these Fintechs focus on Personal loans, Consumer loans and Business loans using traditional and alternate data.
- Types of lending Fintechs include –
  - Market place aggregators and P2P lenders
  - Direct NBFC lenders
  - Crowd funding companies
  - Enablers - regulatory tech companies, tech companies powering lenders andalternate scoring and data companies
- Consumer Loans and Personal loans continue to remain as the major focus for Fintechs with a share of 87% in terms of Active Loans. Fintechs continue to lag for market share for business loans with an overall share of just2.44%. However, Fintechs have been able to manage the delinquency level at below the industryaverage.75% of the business loans tenure fall between 6 months and 3 years. (Source: Fintech Pulse I & II)
- As per the DLAI (Digital Lenders Association of India), while the data around this is dispersed, overall Fintech platforms are facilitating loans worth ~ INR10 billion a month, with average ticket size ~ INR 0.4 – 0.5 million. The number of proposals being received per month is more than 1 million.

As per Fintech Pulse report, brief of credit extended to individuals/ businesses via Fintechs as on September 2020:

Active Loans ('000) JAS'20*



Disbursed Amount (INR Cr) JAS'20

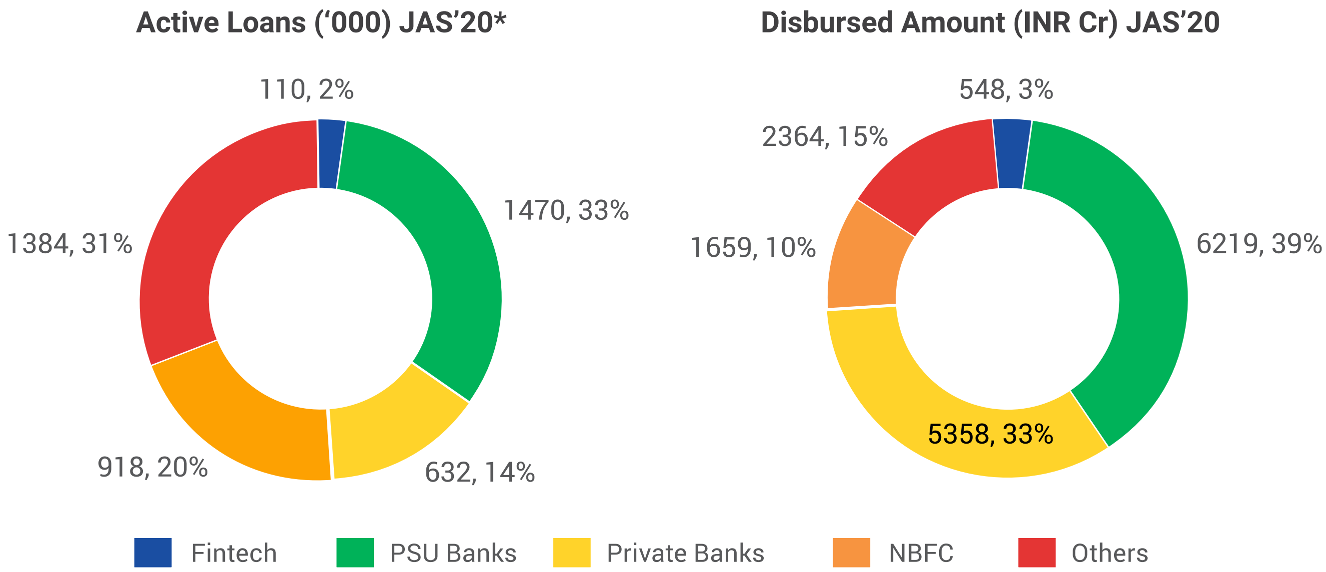


Business Loans | Consumer Loans | Personal Loans | Others

Note: *JAS – July August September Quarter

As per the report, still Consumer Loans and Personal loans are the major focus areas for Fintechs with a share of 87% in terms of Active Loans.

For Business Loans, Fintechs are constituting very small market share. Though, Fintechs have reported lower delinquency level than the industry average.



From launch till date, PSBLoansin59Minutes platform has processed 500,000+ proposals (INR 100,000+ Crores) and disbursed 190,000+ proposals (INR 35,000+ Crores).

CHINA

The Internet loan business for MSMEs continues to innovate and develop in China. The scale of online loan products of large banks is growing rapidly, while small and medium-sized banks, which are the main forces in serving MSMEs, have developed more downward-looking online products with relatively smaller loan amount.

SOUTH AFRICA

Data on fintech financing of MSMEs is currently not reported by the National Credit Regulator. Therefore we will need to rely on available research for this survey.

According to Finfind, there are a total of 337 lenders in South Africa offering more than 600 financial products. All these lenders have a digital presence and some degree of online credit proposal submission process. However, only a handful offer a comprehensive digital platform for credit proposal submission and approval.

Estimate of fintech lending to MSMEs

The 2019 World Bank and IFC study estimates the quantum of formal funding provided to the MSME sector at ZAR230 billion. The quantum estimates are based on what data is available and may under- or over-estimate the quantum for a number of providers because comprehensive data does not exist as in the case for fintechs, or because MSME segmentation does not exist as in the case for Private Equity/Venture Capital funds. It also excludes funding provided to individuals but which is used for business purposes. However, the estimate provides an indication of the primary financing types, and which client segments they typically serve. The study further provides estimates of financing to MSME from different financing providers as follows:

	Banks	MFI	PE/VC	AltX	Fintechs	Government
Typical Segmentation	Medium Small Micros	Informal Survivalist Entrepreneurs	Medium Small	Medium	Medium Small Micros Informal	Medium Small Micros Informal Survivalist Entrepreneurs
Estimatie of financing quantum	Aggregate loan portfolio of R160 billion	Total unknown - business loan portfolio upward of R1.5 billion	Allocation to MSMEs unknown - estimate of R36 billion for PE and R3.5 billion for VC	Market capatilization of R12.95 billion	Total unknow lending upward of R500 million	Upward of R17 billion

D.FINTECH products and credit flows

2. What are the specific products/schemes being offered to MSME borrowers by way of Fintech platforms?

BRAZIL

As authorized by Brazilian law, MSMEs can borrow from credit fintechs in two specific schemes. In the first scheme, loan resources do not need to have a specific destination. In the second case, the loan resources always have a specific destination. Usually when they are physical assets, this destination works as a collateral to the loan.

RUSSIA

Fintech services have become most wanted form of financial services by the market participants especially MSME. Not only banks and financial companies offer their products by the means of digital platforms. IT companies, Fintech startups enter the market of financial services with their customized products and force the diversification.

- Traditional products such as loans and credits move to digital.
- Market of factoring shows its growth and it's outlook is even more promising. One of the initiatives is An Open Factoring Platform which is designed to provide MSME maximum flexibility in receivables financing. The mechanism based on idea that if equal potential is given to large the MSME consuming the service will have best offer.
- Another growing sector is crowd lending. Investment platforms are the middle-man for MSME and funds managed by individuals or even funds.
- Guarantees and security combined with the financing lower the price of the loan/credit.
- Obligations also can be issued and traded via digital platforms.

INDIA

- Fintech platforms offer business loans / working capital loans generally from INR 100,000 to INR 50 million.
- Online PSB Loans Ltd (OPL)'s PSBLoansin59Minutes.complatform provides a match between borrowers and lenders using an algorithm to match the borrower demand for credit with underwriting rule engine of one or more lenders.
- Further, SIDBI through its PRAYAAS Scheme is offering collateral free financial assistance in form of term loan and working capital for setting up/expansion of business and working capital requirement to the Missing Middle Segment with loans ranging from INR 50,000 to INR 500,000 per borrower through intermediaries called as Partner Institutions at affordable rate of interest for a maximum tenure of 36 months.
- Udyamimitra is another portal for financing MSME borrowers through Fintech platforms.
- The discussion with prominent Fintech Industry bodies suggest that Fintech platforms are offering the following range of products
  - Term loans, typically 12-36 month tenure
  - Short term cash advances, typically up to 6 months
  - Trade financing (supplier and dealer finance) in partnership with banks
  - Buy-now-pay-later trade financing, with typical exposures of 15-30 days
  - Cash flow based lending from 60 to 90 days (Credit line facility alongside Term Loans are picking up pace for the MSME customers)
- Fintechs are contributing to the current financial ecosystem by offering cost optimization, improved customer experience, better customer services and faster credit decision among others. The Lending segment is broadly categorized into 'Direct to Consumer Fintech' and 'Direct to Businesses Fintech'. Apart from direct lending Fintechs, there are various types of intermediaries that are engaged into screening and advancing of loans as well as providing aggregation services.
- Lending fintech platforms in India are catering to various financial requirements of MSME sector – from starting a business to scaling up to expansion & growth – through different product offerings. Some of the offerings are as listed below:
  - Business Loan
  - Short Term Credit
  - Invoice Discounting
  - Merchant Cash Advance
  - Working Capital Loan
  - Micro Finance

Online PSB Loans Ltd (OPL) provides range of financial products for the benefits of MSME sectors through its end-to-end digital platform ‘PSBLoansin59Minutes. The platform has been developed to cater to various financial aspirations of borrowers through its Business (MSME and Mudra) and Retail (Personal, Home and Auto) loan products.

The products for MSME segment that are currently live on the platform include:

Product: Business Loan

Micro Finance (Prayaas Project)

- Loans upto Rs 5 Lakhs
- Tie-ups with Micro Finance Institutions & SIDBI to promote an app-based solution for micro financing.

Mudra Loan

- Loans upto 10 Lakhs
- New, Enhancement of Existing Limit and Renewals
- Pradhan Mantri Mudra Yojana is a central government scheme for providing Mudra Loans to non-corporate and non-farming micro and small enterprises.

MSME Loan

- Loans upto Rs 5 Crores
- Loan Categories: Term Loan, Working Capital Loan, Loan Renewals, Loan Limit Enhancements
- New, Enhancement of Existing Limit and Renewals

One District One Product (ODOP)

- Currently, only for UP businesses
- To support indigenous and specialized products and crafts of the state

The platform is designed in a way that all the key data can be accessed through APIs and in future, if any additional data point or fintech services come, the same can be easily integrated to the platform.

PSBLoanisn59Minutes is a game changer for MSME financing in India. The platform promotes ease of finance which in turn helps to avail timely finance and in turn helps in ease of doing business for MSMEs. Post successful adaptation of these loan products, PSBLoansin59Minutes is planning to introduce Invoice Financing, LC/BG facilities for the benefit of MSME sector.

CHINA

Many banks in China have provided e-banking services. Some banks have established digital product systems for financial inclusion, enriched supply of financial products, and improved the accessibility to financial services. For example, China Construction Bank (CCB) has designed and developed four product systems, namely, Quick Loan for Small and Micro Businesses, Quick Loan for Self-employed Individuals, Yunong Quick Loan and Transaction Quick Loan, offering 40 exclusive loan products.

Based on the information of micro and small businesses within CCB such as financial assets, collaterals, credit standing and business handling and the data provided by partner platforms, CCB has developed the tailored product "Quick Loan for Small and Micro Businesses". CCB has employed technical means to innovate in agriculture-related services and rolled out the online products "Land Mortgage Cloud-based Loans" and "Agriculture Credit Cloud-based Loans", making mobile phones a "new farm tool" to farmers.

SOUTH AFRICA

As shown in the answer to Question 3, fintechs in South Africa provide a range of lending products including working capital finance, invoice factoring, and short and long-term loans.

D.FINTECH products and credit flows

3. Which are the most common challenges reported by customers while using the products offered through Fintech platforms

BRAZIL

There are few complaints recorded in BCB by users. Most of them are related to low access to credit, as well as, excessive costs and red tape to use collateral

RUSSIA

Most common challenges can be defined in two parallels:

- Lack of understanding of the services provided by the market that MSME have;

Requirements for application. Most common are requirements for track of complete projects which can not be fulfilled by staptups and ventures

- Most common challenges reported by customers while using the products offered through fintech platforms are as under:
  - Multiple consent process (for GST data, bureau data, etc.) at the beginning and on regular intervals
  - Number of fintech platforms provides in-principle approval for sanction of the loan and thereafter, customers must visit brick & mortar branches of the Banks / NBFCs to complete pre-sanction visit and other formalities like manual documentation since digital documentation has not yet been fully adopted by the Banking System.
  - Separate registrations for different fintech platforms
  - Under the PRAYAAS project of SIDBI, majority of the beneficiaries are illiterate and are not tech savvy and Bank has been, through its Partner Institutions providing hand-holding assistance/ for the implementation of its Scheme. Trainings have also been imparted to the Partner Institutions also for their continuous capacity building.
  - Multiple KYC compliance requirements.
- The Fintech Industry is of the view that due to lack of seamless data platforms, it is still cumbersome for customers to submit information to Fintech platforms. Formulation of simpler KYC criteria, enablement of account aggregator and GSTN access are some of the measures that can ease this burden.Higher cost of borrowing through fintech NBFCs can be mitigated by enabling better flow of wholesale capital to such NBFCs, through PSBs and other banks.
- Some of the traditional businesses run by proprietors/partners directly or through their CAs find it difficult to understand the binary nature of the credit decision as Fintech lenders either will say yes or no to a loan and if yes then a particular loan amount is decided with no room for negotiation by the borrower. For example, Loan is approved for INR 200,000. Borrower wants INR 300,000 and willing to give additional documents to get the extra amount. This is very difficult in an online /Fintech lending based journeys.
- Some of the businesses complain that NBFCs are not allowed to participate in some of the platforms like TReDS.
- Some of the borrowers complain to lenders (both Fintech as well as Non-Fintech) about repayment instrument restrictions for Equated daily or Equated weekly instalments instead of equated monthly instalments.

Key concerns include:

- Awareness regarding Digital Platform
- Still all the APIs are not opened up by Government for integration such as direct upload of ITR from Income Tax website, Signing of Agreements, Mortgage Verification etc.
- Concern over sharing personal and business details on a digital platform.
- Increase of internet penetration, growing use of smartphones, and inexpensive data has improved awareness and adoption of Fintech lending.

CHINA

Compared with traditional finance, the risks posed by digital finance are potentially more implicit, contagious, and extensive.

Policies and regulations on digital financial inclusion need to be refined, such as regulations to address the legal validity of online contracts and the problem of debt recourse, and the punishment mechanism for those defaulting on credit. To encourage banks to develop more innovative business models of digital financial inclusion within certain scope, revision and refinement of supporting policies and regulations are urgently needed.

User information security merits attention. Digital financial inclusion is mainly based on digital technologies. With the expansion of the scope of application of digital technologies, a huge data transmission network based on users' transaction activities has formed. In the process of data transmission and storage, if data are captured or tampered by criminals, great losses to user information security and fund security may ensue.

SOUTH AFRICA

According to a Centre of Excellence in Financial Services report on the impact of the fourth industrial revolution on financial services in South Africa, the digital and fintech innovation in South Africa largely caters to a niche, relatively affluent and financially-savvy consumer market. This could possibly constrain the uptake of fintech solutions by MSMEs in cases where business owners and employees have limited digital literacy.

- According to FinFind, demand side challenges faced by MSMEs include:
- Lack of knowledge of the different lenders and where to find them.
- Lack of understanding of the different financial products and how to identify appropriate products to their needs.
- Difficulty in completing documents that use financial or business terms that are not well explained. This is particularly important in South Africa where the majority of SMMEs do not speak English as their first language.
- Lack of transparency of pricing and administrative costs associated with lending. This means it is extremely difficult for SMMEs to compare financial products and identify the best deal.
- Lack of preparedness on the part of the SMME that may not have all the required documentation available at the time of engaging on a digital platform.

D.FINTECH products and credit flows

4. Is the process of obtaining credit information on prospective borrowers integrated with the Fintech platforms? Is internal rating also being conducted by the credit dispensing entity besides obtaining external credit rating on the prospective borrower?

BRAZIL

Usually the process of obtaining information is entirely digital. Eventually the credit fintech requests additional proof, which are forwarded to the platforms. The fintech usually have their own rating system, which uses, in addition to the data provided by the client itself, information from credit bureaus.

RUSSIA

Mostly Fintech integrates with public and/or commercial data vendors which are available on the market. They make possible to obtain all needed info in line with the legislation.

As for the credit rating it is available in a form of services and can be conducted by the credit dispensing entity. Both models are accepted by the market.

INDIA

- As per RBI guidelines, only Banks, NBFCs, and AIFIs can be members of Credit Information Companies (CICs) / Bureau companies in India. This restricts fintech platforms to obtain credit information on prospective borrowers on their own. Generally, fintech platforms tie-up with these entities to pull the bureau data or allow the customers to upload their bureau report on the platform.
- Rating or scoring is already an input in the borrower profile that is matched with the underwriting rules of lenders. Internal rating of all the borrowers are generally done by all the credit dispensing entities besides obtaining external credit rating, above a threshold exposure, on the prospective borrowers.
- Under the PRAYAAS Scheme of SIDBI, the Partner Institutions who undertake the credit searches of the borrower from external Credit Bureau Institutions online which are integrated with the PRAYAAS Scheme software application. Further, the application has an inbuilt scoring-cum-assessment module which assesses the eligibility of the borrower for availing the loan based on various assessments such as age, annual income & savings, academic qualification, experience in the activity/ area of business, credit rating, geographical market focus, repayment capability, etc.
- The Fintech Industry is of the view that most of the Fintech NBFCs use credit bureaus to augment the assessment of customers. Other non-NBFC Fintech platforms work with underlying banks/NBFC that use bureau information. Internal assessment is then done by the credit dispending entity.

Fintechs lenders have capitalized upon the requirements of the borrowers across lending value chain by offering easy onboarding, hassle-free processing and faster credit decision. Credit assessment of Fintech differs from conventional financial institutions and involves leveraging of unconventional borrower information along with conventional credit information such as credit bureau reports, to predict borrower's creditworthiness.

PSBLoansin59Minutes has integrations with all four Bureaus for both Commercial Bureau (Entity Credit Data) as well as Consumer Bureau (Proprietor, Individual, Director Credit Data) as a part of its Credit Assessment Process. PSBLoansin59Minutes is one a kind platform where lenders can create products through the rule engine and set parameters in line with their credit policies. The borrower's applications get matched with these products and gets decision on being eligible or in-eligible in real-time.

CHINA

Many financial institutions have established Fintech platforms for financial inclusion which are integrated with credit information system and risk control system. Most of the financial institutions have customer due diligence rules on internal rating and external credit rating. Some banks use alternative data to solve problems of information authenticity and objectivity, and expand the coverage of financial inclusion services. To address problems that are common among micro and small businesses such as inadequate financial information and lack of collaterals, banks have integrated data related to the businesses from both within banks and government agencies, thus obtaining precise analysis of the businesses' production and operation status and credit standing. Internally, some banks have integrated the fund settlement, transaction, payroll and credit card consumption data of micro and small businesses and business owners; externally, some banks have connected to the data of government agencies including taxation, industry & commerce, customs and judicial authorities, to fully mine credit information through alternative data. The practice has replaced the previous way of relying only on audit of financial statements to obtain micro and small businesses' credit information, and effectively enhanced the credit of micro and small businesses for financing. Using the massive data collected, some banks have classified and ranked customers based on customer transaction behavior, settlement and financial asset distribution dimensions, and have evaluated their solvency through a multi-dimensional data model.

SOUTH AFRICA

Most formal lenders in South Africa are integrated with one or more credit bureaus. There are four main credit bureaus in South Africa: Experian, TransUnion, Compuscan and XDS. Different creditors will report to different bureaus – some may report back to all four and others may only report your information back to one or two. This means different credit bureaus may hold slightly different information about a customer.

Many fintechs do develop internal credit scorecards to measure probability of default. The digitisation of data has allowed fintechs to use unstructured and external datasets to calculate credit scores. This has allowed lending fintechs to service consumers that would otherwise be excluded; thereby growing the overall size of the market

D.FINTECH products and credit flows

5. Have there been any general improvements in the Turn-Around time for sanction and disbursement of loans after the inception of Fintech/ online platforms

RUSSIA

While getting a loan for MSME could take several weeks using standard banking channels and also requires a large set of documents (30 – 40 documents), the sanction and disbursement of loans via investment platforms now can take up 3-5 working days and requires about 7-10 documents (though loan limits are around 10 mln RUB (135 thous USD)).

The interface of the investment platform allows borrowers and investors to sign all documents remotely and in different time zones (if needed)

INDIA

- SIDBI has been able to significantly reduce its turnaround time (TAT) for sanction and disbursement of loans after introduction of online tools. Sanction TAT has come down to around 10 days in respect of large value SME financing proposals.
- Asper the Fintech Industry, for MSMEs, conventional branch-based credit process, as well as broker driven process can take few weeks to more than a month. Fintech platforms work within turnaround times of 24 hours to up to a week depending on the product and exposure amounts.
- Once a credit facility is set up for a borrower, then taking repeated drawdowns takes minutes and hence borrowers find it very easy to do multiple transactions with the Fintech NBFC /platforms. The money is available on demand and Borrower can actually draw it down whenever he wants unlike earlier times where he/she had to wait to get his 2nd loan sanctioned even if he/she was an existing borrower.

The platform integrates advanced technologies like AI and ML to automate and digitize the lending processes for borrowers and lenders. The platform also generates a detailed credit analysis (CAM) report and shares with lenders to simplify the process for credit decision and saves substantial time & cost. In-principle approvals can be received in 59 minutes and disbursed time has been reduced to around ~7-10 days

CHINA

There are great improvement in the Turn-Around time for sanction and disbursement of loans after the inception of Fintech platforms. For example, some banks have established "310" online loan model, which means applying for loans in 3 minutes, disbursement of loans in 1 second and no manual intervention.

Based on application of big data and new technologies, China Construction Bank (CCB) provides affordable financial services to customers groups who can not access financial services before. Thanks to the model innovation, the operating cost and risk cost of the financial inclusion business have decreased year by year, offering conditions for CCB to provide more favorable policies to micro and small businesses. While achieving rapid development in financial inclusion business, CCB has maintained stable asset quality, with the NPL ratio under the new model of digital financial inclusion stabilizing around 1%.

SOUTH AFRICA

There is no available empirical evidence comparing historical turn-around times of incumbents compared to Fintechs. However, anecdotal evidence based on reported speeds with which fintech platforms approve and disburse loans suggests an improvement in efficiency given that these platforms enable online application and require little to no paperwork. It should be noted however that South African banks, particularly the large banks, are also undergoing their own digital transformation journeys and now enable online and paperless applications. This has also improved their turnaround times to approve and disburse loans

D.FINTECH products and credit flows

6. Has there been improvement / deterioration in the sanction rate / rejection rate of credit proposals after migration to online / Fintech platforms?

RUSSIA

Exact figures are unavailable by the market. But not only the shift to digital process of application and sanction effects (improves) the rate. We must admit that the spread of fintech services which supplement traditional and online bank services with new variety of products positively influence the sanction rate

INDIA

- The Fintech Industry believes that such data would not be available easily on a comparable basis. In a physical process, all the applications are not even logged with the lending entity, because many of those are declined even before filing an application.
- Such data is not available in the public domain, particularly for the traditional lending practices.
- More than 400,000 proposals have so far been processed on the psbloansin59 minutes platform and Proposal to Disbursement Ratio is more than 40%, which is highest in the Industry for MSME Sector.

There has been improvement as the efforts required by the lenders has been decreased tremendously as real time CAM report is generated incorporating all the analysis through captured data, eligibility determined as per lender's set products and parameters and lenders receive only pre-screened proposals as platform rejects application not matching with lender's set parameters. The lenders need to go through the details shared and in case, they want to allow any deviations then only need to check those factors before taking final credit decision

CHINA

Great improvements have been made in the sanction rate of credit proposals after migration to Fintech platforms. The increasing availability of "big data" and "alternative data" in Fintech platforms, including transactional and social data, gives providers additional sources of information to utilize for creditworthiness assessments and risk management, among other uses.

Upholding the development philosophy of balanced and fair financial inclusion, some banks have continuously channeled credit resources to "first-time" loan customers who have never received credit services before, as well as more resources to women, youth and people living in rural areas

SOUTH AFRICA

No evidence was available for this survey.

D.FINTECH products and credit flows

7. In most Fintech platforms, has any system been devised to integrate the process of pre-sanction/post-sanction inspection process into the platform? Is due diligence on the prospective borrower done prior to the logging in of the credit proposal or is it being conducted after receipt of the proposal at the office of the credit dispensing entity?

RUSSIA

There are several systems devised for the purpose of inspection of the borrower. Most of the systems are well known by the market and provide the service offering an open API to clients – banks, fintech services / companies.

In practice most credit dispensing entities integrate with mentioned services or conduct inspection using their inhouse solution prior to the logging in of the credit proposal. Sometimes such design of business process make it possible to make inspection and provide pre-proposal without receiving documents (electronic documents) from the client. But to receive the funds clients usually have to accept the proposal and send documents via digital channel

- The status of integrating inspection process depends on the platform. Some of the platforms have devised systems to integrate the process of pre sanction / post sanction process into the platform, while some are in the process of integrating. Account Aggregators are providing service in the area of background / antecedent check component of the inspection, where different databases required for inspection are integrated into the platform. Physical inspection process is also integrated by some of the Fintechs.
- Preliminary due diligence (market feedback, social standing of promoters, etc.) is generally done before logging in of the proposal, and detailed due diligence is done after receipt of the proposal at the office of the credit dispensing entity.
- At SIDBI, Preliminary due diligence (i.e. credit bureau check, Anti-fraud check, UN Terrorist checklist check, Bank statement analysis, Income tax return analysis, Goods and Services Tax analytics, etc.) is conducted on the fintech platform.
- Post-disbursement or on-going monitoring is done using credit bureau check, compliance check throughGST or using data from the online data access of the national information Utility for default alerts.
- The Fintech Industry is of the view that depending on the exposure amount and nature of product, Fintech platforms do integrate the field investigation process into the platform. Such confirmatory physical verification is typically done after an in-principal offer has been made and accepted by the borrower, but before the loan is dispensed.

At PSBLoansin59Minutes, based on the data provided by borrower on the platform, the borrower will be matched with various lenders' products. After selection of preferred lender product, the borrower is given an In-principle approval letter. The entire process from registration to receiving In-principle approval takes less than 1 hour. The platform is integrated seamlessly with the existing infrastructure of lenders and enables lenders to create and manage loan products in-line with their existing credit policies. Hence, the proposals receiving In-principle approvals are pre-screened based on the lender's created products on the platform and in line with their policies.

Post In-principle approval, a copy of the In-principle letter is shared with the preferred lender for starting the digital credit evaluation process. A detailed credit analysis (CAM) report is generated based on the borrower's data as well as auto fetched data through various integrations and can be accessed by the borrower's preferred lender through lender's dashboard in real time. The preferred lender will perform a detailed due diligence process based on the bank's credit procedures for taking final credit decision

CHINA

Many Fintech platforms have implemented intelligent risk management to ensure stable asset quality and sustainable development of financial inclusion. Some banks have developed hundreds of models through comprehensive use of big data, behavior scorecard technology and risk control experts' experiences. By embedding risk bottom line and risk control standards into systems and tracking the whole process from customer access and exact product match to risk early warning and 24/7 real-time monitoring, some banks have established intelligent risk control systems that reject risks through intelligent anti-fraud, screen risks using big data models, prevent risks through system and computer-based control, judge risks through visualized monitoring, avoid risks through early-warning loan call-in, and dissolve risks through professional treatment

SOUTH AFRICA

Since each lender has developed their own online platform, the level of sophistication of the platforms varies considerably. In general, most platforms will attempt to filter inappropriate clients prior to the submission of a credit proposal, whilst the more sophisticated platforms will conduct due diligence at appropriate points in the application, and these points often act as decision gates to weed out applications from organisations that do not meet the lender's funding criteria.

D.FINTECH products and credit flows

8. Is the process of due diligence/ Know-Your-Customer (KYC) verification on the prospective borrower digitized also, by integrating the Fintech platforms with ID issuing agencies, etc?

BRAZIL

Yes, in Brazilian credit fintechs, the entire customer verification process is digital. In addition to consulting the official issuing agencies, fintechs also cross-reference the borrowers' data with other information bureaus.

RUSSIA

KYC process can also be provided by digital services available for business, banks and fintech companies.

All regulated banks, insurance companies, microcredit institutions and financial platforms operators (marketplaces) can use Digital Profile system to receive customers' (for now individuals only) data from government sources. At the moment 19 banks, 4 insurance companies, 2 microcredit institutions are connected to the system, more than 70 organizations (including financial platform operators) are currently at the process of connecting to the Digital Profile.

The Bank of Russia also plans to launch a "Know Your Client" service, which, based on the analysis of the information from various sources, will on an ongoing basis form and provide financial institutions with an up-to-date assessment of ML/FT risk level of their clients – legal entities and individual entrepreneurs. That should increase the efficiency of banking procedures for AML/CFT, reduce the burden on the conscientious business segment, as well as reduce the number of cases of preventive restrictive measures application by credit institutions when insignificant risks of money laundering are identified

INDIA

- Yes, the KYC is conducted by SIDBI being an RE (Regulated Entity) and Central Know Your Customer (CKYC is a central storehouse of KYC records of customers) for SIDBI as an organization is currently underway for issuing a common ID for MSMEs. Biometric scan based e-KYC facility in respect of natural persons is also implemented in SIDBI. RBI has also allowed Video based Customer Identification Process (V-CIP) as a method of customer identification.Several banks and lending institutions have started the process of implementing guidelines for an effective e-KYC / video KYC process.
- Electronic KYC processes are integrated in the Fintechs to the extent permitted by RBI. Integrations for validation of PAN, GSTN and other such information, as well as with CKYC registry are available. However, lack of simple KYC process for MSMEs is a bottleneck in the credit process.
- For Proprietors, individual KYC is done through Offline E-KYC (OKYC) and Digilocker.

The development of technology infrastructure and digital identifications has broadened the coverage and advanced KYC processes, which in turn will help for easy onboarding and data verification.

Reserve Bank of India (RBI) has been proactive in examining and setting up regulatory frameworks across various FinTech verticals. In January 2020, the RBI amended its KYC norms by allowing use of video-based KYC as an alternative to physical verification. The video-KYC process allows due diligence of the customer and identifying documents via video chat. Moreover, RBI has also authorized the use of digital lockers for paperless document management as part of the KYC process.

The online digital marketplace (PSB59) integrates multiple service providers into a single powerful engine through confluence of comprehensive APIs and KYCs/data points. The platform leverages growing digital data footprints and integrates advanced technologies like AI and ML to automate and digitize the lending processes for borrowers and lenders. Verifications are being done at various process steps during a borrower application process.

- Based on PAN provided, the platform auto-fetches any associated GST registrations as well as any associated bank statements of the borrowers.
- GST Stage: A GST registered borrower verifies GST registration(s) through OTP. OTPs are received on the mobile number registered with GST. Post successful verification, the platform receives sales data of borrower through GST integration. As the data is received directly through integration and based on the GST returns filed by the borrower, the data authentication is simplified.
- Moreover, the data provided through GST, ITR Returns and Bank Statement upload, getting cross verified with other data points. So, for example, the entity name is different in GST return, ITR return and Bank Statement, the same shall be captured in the detailed credit analysis (CAM) report and shared with lenders.
- If the borrower has been matched with any of the lender products on the platform, then borrower's e-mail address verification is a must before borrower is shown all the matched products for selecting lender products for In-principle approval letter.
- The platform is also integrated with Fraud Database to check whether the borrower has any history of committing any fraud.

CKYCRR (Central KYC Records Registry), which is being operated and maintained by CERSAI, is a digital registry on which KYC information of individuals and entities on a prescribed template is uploaded by the Reporting Entities (REs) regulated by RBI, SEBI, IRDAI & PFRDA. These REs also upload documents (IDs) such as AADHAR, PAN or other OVDs on CKYCRR platform on the basis of which customer identification has been carried out. The process of verification of IDs submitted by customers through integration with ID issuing agencies or otherwise is put in place by the respective RE as part of due diligence process at their end. No further verification of uploaded information/documents is carried out at CKYCRR.

CKYCRR brings in the following benefits:

For Customers –

- One time KYC Compliance/Updation for all financial relationships
- No repeat submission of KYC documents
- Time Saving
- Paperless KYC process

For Industry Participants -

- Seamless & Automated back office for KYC processing
- Reduction in processing time for account opening
- Reduction in compliance cost and storage of documents

For Regulators -

- Ascertain all linked accounts of a person
- Reduction in number of fake accounts being opened

Monitor compliance of REs

CHINA

The development of information and communication technology (ICT) infrastructure has helped improve the access, usage, and quality of services of Fintech platforms. Specifically, the national ID system has reduced the costs of customer due diligence efforts and has significantly reduced barriers to access for basic financial products for borrowers. In addition, some banks have proactively reached government departments and large enterprises including the State Taxation Administration, the State Administration for Market Regulation, China National Intellectual Property Administration and State Grid to facilitate data connection and interchange. And through scenario connection, some banks are able to acquire the business data and information of micro and small businesses from the source, thus meeting customer needs at the earliest possible time.

SOUTH AFRICA

MSMEs are still largely required to submit identification documentation for KYC purposes in line with the Financial Intelligence Centre Act, (FICA) of 2003. There has been some innovation in digital KYC. For example in 2019, pbVerify launched KYCFactory, which is the first fully digital end-to-end electronic FICA/AML (Anti-Money Laundering) solution in South Africa that requires no supporting documents, irrespective of whether a business is onboarding a consumer or a business. Since then, there has been a few other solutions introduced, though the market is nascent.

D.FINTECH products and credit flows

9. Once the credit is sanctioned, is the process of document execution for creation of charge on financed assets with the respective Registrars/ Statutory Authorities also integrated into the online platform?

BRAZIL

In most cases they are performed digitally, but not necessarily integrated with the online platform. In this case, it is a separate system apart from the main platform. However, in some regions of Brazil, the digital process is not yet implemented and the borrower is required to go to a physical office.

INDIA

- The filing of charges in CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) or MCA-21 (MCA-21 is an e-Governance initiative of Ministry of Corporate Affairs (MCA), Government of India that enables an easy and secure access of the MCA services to the corporate entities, professionals and citizens of India) is at a nascent stage.
- Most Fintech platforms are providing unsecured credit, and hence creation of charge is not an integral activity. There are some lenders in loan-against-gold space where physical possession of the underlying asset is taken. The agreement execution is done through a mix of electronic signatures where available, and wet signatures in other situations.
- SIDBI endeavours to implement Digital Document Execution (DDE) for its customers. DDE API document has been obtained from NeSL (National E-Governance Services Ltd), analysed and technical discussion also held with them. It is in very advanced stage of development and likely to be rolled out in a phased manner.

The process of creation of charge on financed assets with respective Registrars/Statutory Authority, such facility is not currently provided by NeSL. While NeSL Digital Document Execution (DDE) platform can facilitate digital documentation with respect to creation of charge, the same is presently excluded under First Schedule of IT Act, 2000. To enable the same, an amendment in First Schedule (Item No 5) of IT Act, 2000 is required to provide legal underpinning for digital documentation under digital signature that involves creation of charge on immovable properties.

It is also requested that Power of Attorney and Demand Promissory Note may also be brought into the ambit of the IT Act 2000 since these currently rest in the First Schedule for exempted items. It is requested that the Government may kindly consider suitable amendment to First Schedule so that Ease of Doing Business may be further enhanced and documents associated with a loan may be executed using digital signature under the aegis of the IT Act, 2000.

Reference letters sent from NeSL to MEITY:

Letter No. NESL /Stamp Duty/2020-21/260 dated 18th Feb 2021

Letter No. NESL /Stamp Duty/2020-21/197 dated 20th Nov 2020

Letter No. NESL/Stamp Duty/2020-21/120 dated 14th Sep 2020

Letter No. NESL /Stamp Duty/2019-20/191 dated 16th Oct 2019

Letter NO dated 6/11 2019

Currently, there is no process/ integration for creation of charge on financed assets with the respective Registrars/ Statutory Authorities because stamp duty is a state matter and currently, the process does not happen in digital manner.

Security Interest Registry maintained by CERSAI is a digital registry on which information relating to encumbered asset, borrower, loan etc are uploaded on a prescribed template by the secured creditors. Documents for creation of Security Interest on the properties are executed by the borrowers and retained by Secured Creditors at their end. These documents are neither executed nor uploaded on the platform of Security Interest Registry

SOUTH AFRICA

South Africa does not currently have a movable collateral registry. Therefore lenders are not able to verify whether a movable asset has already been pledged to another lender during credit assessment. In the case of immovable collateral, security over land and other immovable property can be created by a mortgage (commonly referred to as a mortgage bond) under the Deeds Registries Act 1937. The Deeds Registration branch is an entity of the Department of Rural Development and Land Reform (DRDLR). It is mandated to register title deeds and documents, manage and maintain the country's land register, provide information related to registration and archive the records. There are 11 deeds registries located in nine (9) provinces and are overseen by the Office of the Chief Registrar of Deeds (OCRD). Among others, you can get information from the deeds registry such as the registered owner of a property, the conditions affecting such property, and any interdicts and contracts in respect of the property. No evidence is available for this survey on whether any fintech platforms are directly integrated with the deeds registry. However, a web interface to the Deeds Registration System Database, that is, a web-enabled deeds information system, was developed in 2001. This allows lenders access to deeds information by logging on to the portal provided by Deeds Registration

D.FINTECH products and credit flows

10. Is there a system for e-signing and e-stamping of documents also, which reduces the need for physical affixation of signature, etc by the borrowers?

BRAZIL

Yes, digital systems for e-signing / e-stamping are 100% incorporated into the platforms of credit fintechs.

RUSSIA

Federal Law on Electronic Signature No. 63-FZ has been in effect since 2011.

Federal Law No. 263-FZ "On the abolition of restrictions on electronic document management" removes restrictions on the use of electronic documents in the interaction of individuals and legal entities with government and local authorities in various fields. Opportunities are opening up to apply EDF when going through the licensing process, in the activities of self-regulatory organizations, when carrying out enforcement proceedings, sending open information about the state registration of rights to aircraft, receiving information from state and municipal authorities, etc.

Electronic stamp can be produced by simple means. If certificates for the use of a digital signature, and the signature itself, are issued by certifying or certification centers, then an electronic seal can be a photograph of a real print or its full copy created using separate programs, for example, Photoshop.

Sberbank, Alfa-Bank, Credit Bank of Moscow, Raiffeisenbank, Citibank, Rosbank and a number of others can use a simple electronic signature when processing consumer loans. E-signing for the provision of consent to use the customer's data is part of the Digital ID functionality.

INDIA

- Digital Document Execution (DDE) is a mode for paperless execution and storage of financial contracts, which results in superior enforcement, thereby enhancing the 'Ease of Doing Business' especially in times where quick financing is the need of the hour for businesses. NeSL's DDE platform is designed to address and eliminate these inefficient processes.The contract execution process in the DDE platform collapses several steps and is seamless, online and real-time in conjunction with the extant technology created by CDAC (Centre for Development of Advanced Computing), a Government E-sign Service Provider for the E-sign and the Stock Holding Corporation of India Limited (CRA i.e. Central Record Keeping Agency) or the GRAS (Government Receipt Accounting System) of respective state governments for the Digital E-stamping. The entire process of documentation of a loan contract takes about 6 to 10 minutes starting from upload of data by the lender to the DDE platform followed by E-stamping and E-sign; excluding time taken by borrower for perusal and acceptance of details of the contract on the DDE screen.
- Ministry of Finance, Govt of India has also advised State Governments to facilitate the implementation of digital e-stamping through NeSL-SHCIL/IGR platform. Already quite a few states have been onboarded for digital E-stamping and the remaining states are expected to join this process in due course.

- SIDBI has commenced adoption of DDE for the basic loan documents such as acceptance of Letter of Intent/ Sanction, Loan-cum-Deed of Hypothecation Agreement, etc. for its borrowers under its direct lending schemes.
- Most Fintech lenders adopt e-signing and e-stamping of documents. Wherever the borrower does not have an ability to use electronic signatures, wet signatures are used.

CHINA

There are no such systems in China.

SOUTH AFRICA

Yes e-signing is available in South Africa. There is a wide range of e-signing software available with varying degrees of cost, security features and customer support which parties may agree to use. E-signatures in South Africa are approved under The Electronic Communications and Transactions Act (ECTA) instituted in 2002. The South African law adheres to the EU Directive on e-signatures. Any company operating in the South African market can use eSignatures as a signing method, and they are treated equally as handwritten signatures. Still, there are some critical restrictions determined by the South African law system.

More importantly, the e-signature law in South Africa does not imply mandatory signing of contracts to make them valid. The agreement is enforced when two or several parties agreed on terms orally, in writing, or electronically. However, an electronic signature is a must if you need to provide evidence in court.

E. Contact details

1. Please provide details of Nodal Officers/ Departments who may be approached for any follow-up questions/ clarifications, etc, as we go forward

BRAZIL

In case of doubts about Pronampe, PEAC-FGI and PEAC-Maquininhas we suggest contacting the Secretariat for Development of Micro and Small Enterprises, Entrepreneurship and Craftsmanship of the Ministry of Economy through the following e-mails:
sempe@economia.gov.br; cgmpe@economia.gov.br.

At the BCB side, you may contact us through the International Affairs Department
corin.derin@bcb.gov.br.

RUSSIA

Maria MAZUROVA (Ms), Advisor, Multilateral Financial Cooperation Division
Ministry of Finance of the Russian Federation, Department for International Financial Affairs
Tel: +7 (495) 983-38-88 add.1797
Mariya.Mazurova@minfin.gov.ru

INDIA

Inputs from Ministry of MSME:
Shri O.P.Singh, Deputy Director (I&F), Office of the DC (MSME)

CHINA

Songdian Lu
Staff
International Department
The People's Bank of China
+86-10-66194793

SOUTH AFRICA

DSBD
Tel: (+27) 861 843 384
Email: info@dsbd.gov.za

Seda
Tel: (+27) 12 441 1000/ (+27) 860 103 703
Email: info@seda.org.za

Sefa
Tel: (+27) 12 748 9600
Email: helpline@sefa.org.za

FinFind
Darlene Menzies
Founder | Chief Innovation Officer
Office: +27 (0) 87 500 9950
Email: info@finfind.co.za

IFWG
Email: innovation@ifwg.co.za

Glossary of Abbreviations

BRAZIL

BCB	Banco Central do Brazil
MEI	Individual microentrepreneurs
PEAC	Emergency Program for Access to Credit
Pronampe	National Program to Support Micro and Small Enterprises
SFN	Brazilian National Financial System
SPB	Brazilian Payment System

RUSSIA

AML	Anti-Money Laundering
BoR	Bank of Russia
CFT	Combating the Financing of Terrorism
FPS	Faster Payments System
JSC SME	Joint Stock Company Small and Medium Enterprise
NGS	National Guarantee Scheme
RGO	Regional Guarantee Organizations
RS	Regulatory Sandbox

INDIA

AROG	SIDBI Assistance to MSMEs for Recovery & Organic Growth
CDAC	Centre for Development of Advanced Computing
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest
CGSMSE	Credit Guarantee Scheme for Micro & Small Enterprises
CKYCRR	Central KYC Records Registry
CLCSS	Credit Linked Capital Subsidy Scheme
CPSEs	Central Public Sector Enterprises
CRA	Central Record Keeping Agency
DBT	Direct Benefit Transfer
DDE	Digital Document Execution

e-KYC	Electronic Know Your Customer / Client
GRAS	Government Receipt Accounting System
GSTR	Goods and Services Tax Returns
IRDAI	Insurance Regulatory and Development Authority of India
ITR	Income Tax Return
NBFC	Non-Banking Financial Companies
NeSL	National E-Governance Services Limited
PFRDA	Pension Fund Regulatory and Development Authority
PMEGP	Prime Minister's Employment Generation Programme
PSUs	Public Sector Undertakings
RBI	Reserve Bank of India
REs	Reporting Entities
RXIL	Receivables Exchange of India Ltd.
SAFE	SIDBI Assistance to Facilitate Emergency response against corona virus
SEBI	Securities and Exchange Board of India
SHWAS	Healthcare SIDBI assistance to sector in War Against Second wave of COVID19
SIDBI	Small Industries Development Bank of India
SMILE	SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprise
STP	Straight Through Processing
TreDS	Trade Receivables Discounting System
VCIP	Video-based Customer Identification Process
XML KYC	Extensible Markup Language Know Your Customer / Client

CHINA

CCB	China Construction Bank
PBC	People's Bank of China

SOUTH AFRICA

DSBD	Department of Small Business Development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