

'MSMEs hesitant to invoke legal remedies against buyers over late payments'

Our Bureau
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MSMEs (micro, small and medium enterprises) often refrain from invoking statutory provisions, which entail penalties, against buyers delaying payments due to weak bargaining power and the fear of losing future business opportunities, said Swaminathan J, Deputy Governor, Reserve Bank of India.

"MSMEs commonly encounter a persistent issue of delayed payments. The delay in receiving payments prolongs their operating cycles and diminishes their capacity to fulfil existing orders or secure new ones.

"Despite the existence of statutory provisions... MSMEs often refrain from invoking them," he said at the Annual Day of the Foreign Exchange Dealers Association of India (FEDAI). Their reluctance stems from a combination of weak bargaining power and the fear of losing future business opportunities, he added.

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Swaminathan observed that credit is crucial for the growth of MSMEs, and affordable funds can boost their competitiveness.

"Banks often use asset-based lending, which relies on collateral rather than cash flow. However, many MSMEs lack adequate assets for collateralization, particularly for working capital needs, often leaving smaller businesses excluded from funding opportunities from the formal banking sector," he said. Further, as many MSMEs mainly operate in the informal space, assessing their creditworthiness can be difficult due to information asymmetry, particularly with respect to the financial performance of their businesses. The Deputy Gov-



RBI Deputy Governor
Swaminathan J

ernor said although initiatives like GST and digital payments aim to facilitate digitisation among MSMEs, the adoption of formal digital documentation methods remains limited, which impedes an efficient credit underwriting process.

Despite attempts to enhance infrastructure, MSME clusters, especially micro enterprises, lack vital support systems, he said, adding, this deficiency not only obstructs their day-to-day operations but also hinders their future growth potential.

Developing MSME clusters can provide shared infrastructure, services and access to larger markets, which can significantly enhance their growth potential. Swaminathan suggested that banks consider opening more MSE-focused branch offices preferably with forex facility, within these clusters.

These specialised branches will not only facilitate easier access to credit for MSEs but will also serve as Counselling Centres, offering tailored financial advice and capacity-building services to these enterprises.

The Deputy Governor said as businesses transition from an informal to a formal entity, they encounter significant rise in regulatory obligations and cost of compliance.