FinRISE
Financial Research and Innovation for Sustainable Enterprises

CENTRE OF FINANCIAL INCLUSION (CFI)

NEWSLETTER

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Dr. Ashutosh A. Murkute Takes Charge as Director General, ni-msme, Hyderabad

Dr. Ashutosh A. Murkute has taken over the additional Charge as the Director General at the National Institute for Micro, Small, and Medium Enterprises (ni-msme), Hyderabad, MoMSME effective March 18, 2025. With a distinguished career in agricultural research, rural industrialization, and technology-driven solutions, Dr. Murkute brings a wealth of experience to his new role. He is currently serving as the Director of the Mahatma Gandhi Institute for Rural Industrialization (MGIRI), Wardha, MoMSME. He spearheaded several initiatives in sustainable rural entrepreneurship and MSME development. Prior to his tenure at MGIRI, Dr. Murkute held the position of Principal Scientist (Horticulture), ICAR-Central Citrus Research Institute (CCRI). He started his career as Scientist – C, DRDO – Defence Institute of High Altitude Research (DIHAR, DRDO) after completing PhD from IIT Delhi.

Beyond his research contributions, Dr. Murkute has held notable positions such as Adjunct Professor at IIT Delhi and membership roles in the Board of Management of Rajmata Vijaya Raje Scindia Agricultural University, Gwalior, and the Academic Council of Nagpur University.

At ni-msme, Dr. Murkute's expertise in research-driven industrialization, technology transfer, and sustainable agriculture can be leveraged to drive holistic MSME growth. His vision aligns with the institute's mandate of capacity building, policy advocacy, and innovation-driven entrepreneurship. Under his leadership, ni-msme is poised to strengthen its role as a key enabler of India's MSME ecosystem, fostering economic resilience, rural empowerment, and sustainable industrialization across the nation.

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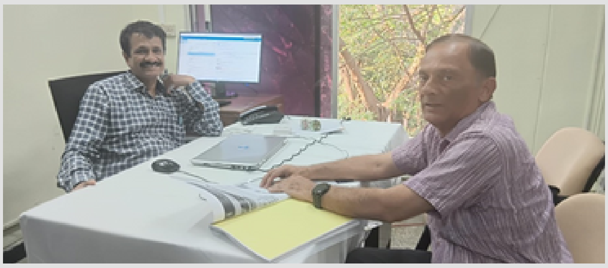
Collaboration Agreement between ni-msme and NSE Academy

The Centre of Financial Inclusion (CFI) of Ni-MSME has signed a Collaboration Agreement with NSE Academy, an organization promoted by National Stock Exchange on 11th March 2025 virtually from Ni-MSME. The Ni-msme represented by its Director General Dr. S. Glory Swarupa along with Chair of CFI Mr. M.V. Kameswara Rao

and his team and NSE academy are represented by Mr. Abhilash Misra, Chief Executive Officer and his team. The objective of the initiative is to jointly conduct various online training programs tailored to the requirements of MSME to build financial capabilities.

Empowering MSMEs and Individuals through Financial Literacy and Loan Guidance

At the Centre for Financial Inclusion (CFI),Ni-msme, we are dedicated to fostering financial well-being and enabling the growth of Micro, Small, and Medium Enterprises (MSMEs). we offer comprehensive counselling and financial literacy programs tailored to entrepreneur's specific needs.



Navigating the landscape of government loans for MSMEs can be complex. CFI providing expert counselling to help them understand and access various schemes designed to support their business growth.

·We clarify the specific eligibility requirements for each scheme, ensuring their meet the necessary conditions · We provide step-by-step guidance on the application process, including documentation and submission procedures.

·We are assisting in connecting entrepreneurs with Member Lending Institutions (MLIs) participating in government schemes.

·CFI offers specialized counselling on the CGTMSE scheme, including:

·We explain how the CGTMSE scheme can help new and existing MSMEs access loans without the need for collateral or third-party guarantees.

We clarify the eligibility criteria for new entrepreneurs, businesses looking to expand, and even potentially for viable exit enterprises"(businesses undergoing ownership change or restructuring, subject to lender discretion

Loan Frauds in MSME Lending: Patterns, Red Flags, and Risk Mitigation Strategies

Dr.C.G.Sastry, Vertical Head, Research and Publications, CFI, ni-msme.

Introduction:

This article reviews the literature on fraud risks in MSME loan sanctioning, focusing on current banking operations and credit appraisal methods to aid bankers. It highlights key areas susceptible to fraudulent practices at the lender's end, supported by academic, regulatory, and industry sources. The persistent issue of Non-Performing Assets (NPAs) in the Indian MSME sector is a major concern. RBI data (2023) indicates a significantly high gross NPA ratio in MSME lending due to weak monitoring and operational inefficiencies.

As of March 31, 2024, outstanding MSME credit by Scheduled Commercial Banks (SCBs) was ₹28.04 lakh crore, with ₹1.25 lakh crore being NPAs (4.46% compared to 2.74% for total loans). KPMG (2021) highlighted over-leveraging and misreporting by MSMEs, particularly in smaller cities, often missed during credit appraisal. The World Bank (2020) noted the lack of reliable cash flow data, orcing reliance on self-reported financials, creating opportunities for fraud, especially when income tax and GST data are not adequately verified against supply-chain information. Financial literature points to systemic weaknesses like misinformation, poor data validation, insufficient staff training, and weak post-disbursal monitoring as drivers of lender-originated loan frauds, leading to higher NPAs and risk aversion towards MSME lending.

Fraud-Prone Areas in MSME Loan Sanctioning:

1.Inflated or False Financial Reports: Fraud often begins with fabricated financial documents (balance sheets, P&L, ITRs). Risk increases with high income projections lacking sufficient support. A key red flag is discrepancies between financial statements and GST/bank transaction data, indicating potential misreporting.

2.GST Mismatches Ignored or Overlooked: Borrowers may report high turnover in financials but low turnover in GSTR-1. This is missed if GSTR-1 data isn't cross-verified with bank flows or ITRs. Nil or inconsistent prior GST filings despite reported business activity is warning signs.

1.Bypassing Normal Credit Norms: Sanctioning officers or relationship managers may circumvent risk assessment procedures to meet disbursal targets, approving applications without proper risk filters or credit scoring. This compromises credit evaluation and increases default/fraud risk.

2.Fictitious Invoices or Circular Transactions: Borrowers create artificial turnover through fake sales and purchases. Lack of scrutiny of B2B customers/suppliers in GSTR-1 allows this to go undetected. Invoices against inoperative GSTINs or shell companies with related-party status are key indicators.

3.Inadequate Background Checks on Promoters: Ignoring crucial warning signs like low CIBIL scores due to past defaults or related-party NPAs during appraisal increases risk. This stems from errors or intentional neglect in comprehensive background checks. Poor CIBIL scores for seemingly good projects should necessitate dual officer approval and a documented justification report.

4.Fund Diversion: Disbursed funds meant for working capital or asset development are diverted to other ventures or property. Weak post-disbursal monitoring and unmonitored current account usage facilitate this. Abnormal transaction patterns like rapid cash withdrawals or unexplained inward remittances are red flags.

5. Insider Fraud: Bank employee collusion with borrowers or undeclared financial interests can lead to fraudulent loan sanctions. Weak audit trails and internal controls exacerbate this. Repeated processing of similar loan applications by the same officer or applications related to connected entities are suspicious.

Regular and reliable reconciliation of GST data with bank statements is crucial for credit assessment and tracing. b. Utilizing API-based checks on platforms like ITR, MCA, GSTN, and CERSAI enhances due diligence.

c. Financial institutions should adopt risk-based pricing and sanction scoring models for proportionate credit dispensation.

d. Regular rotation of relationship managers can mitigate relationship-based risks.e. Real-time data feeds from sources like GST and bank transactions can facilitate timely post-loan monitoring to detect financial stress or anomalies.

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Financial Inclusion, Microfinance Institutions, and Women Empowerment: A Pathway to Sustainable Development

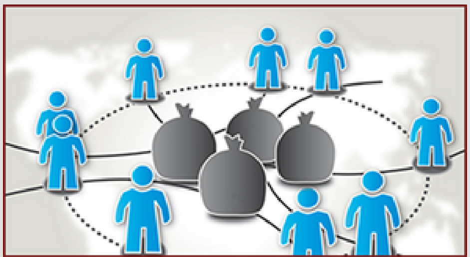
M V Kameswara Rao, Chair, Centre of Financial Inclusion, ni-msme.

Introduction:

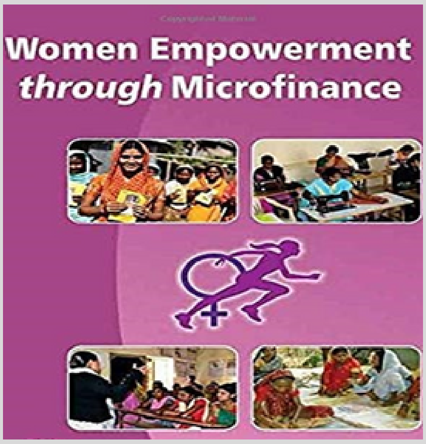
Financial inclusion is a cornerstone of economic development, ensuring that marginalized and low-income populations have access to essential financial services such as savings, credit, insurance, and payment systems. In developing economies like India, where a significant portion of the population remains excluded from formal banking systems, Microfinance Institutions (MFIs) have emerged as a key enabler of financial inclusion. By providing small loans, micro-savings, and insurance products, MFIs empower individuals—particularly women—to break free from poverty cycles, invest in income-generating activities, and improve their quality of life.

The Role of MFIs in Financial Inclusion

MFIs operate with a mission to serve the financially excluded, particularly in rural and semi-urban areas where traditional banks are often inaccessible. Their success lies in their unique lending models, such as:


Group Lending

1. Group Lending (Self-Help Groups - SHGs):
o MFIs often work with SHGs, where women collectively guarantee loans, reducing default risks.
o This model fosters peer accountability and financial discipline.
2. Flexible Loan Products:
o Unlike conventional banks, MFIs provide small, collateral-free loans tailored to the needs of low-income borrowers.
o Repayment schedules are structured around borrowers' cash flows (e.g., weekly or monthly installments).
3.Financial Literacy Programs:
o Many MFIs conduct training sessions to educate borrowers on savings, credit management, and entrepreneurship.
4. Digital Financial Services:
o With the rise of fintech, MFIs are leveraging mobile banking and digital payments to enhance accessibility.



Women Empowerment Through Microfinance

Women constitute a majority of MFI borrowers, and their financial inclusion has far-reaching socio-economic benefits:

1. Economic Independence

· Access to microcredit enables women to start small businesses (e.g., tailoring, handicrafts, livestock rearing).

· Increased income leads to greater financial autonomy and reduced dependence on male family members.

2. Enhanced Decision-Making Power

·Women who contribute to household income gain more say in family decisions, including education, healthcare, and investments.

·Studies show that empowered women reinvest up to 90% of their earnings in their families, compared to 30–40% by men.

3. Social Mobility and Reduced Gender Inequality

·Financial inclusion helps challenge patriarchal norms by giving women economic agency.

·Participation in SHGs fosters collective bargaining power, enabling women to advocate for their rights.

4. Improved Education and Health Outcomes

·Women with financial resources prioritize children's education and healthcare, breaking intergenerational poverty.

·MFIs often partner with NGOs to provide health insurance and awareness programs.

Challenges and the Way Forward

Despite their success, MFIs face several challenges:

·High-Interest Rates: Some MFIs charge steep rates, leading to debt traps for vulnerable borrowers.

·Over-Indebtedness: Multiple borrowing from different MFIs can create repayment burdens.

Limited Financial Literacy: Many borrowers lack awareness of loan terms, leading to mismanagement.

Published by Dr. Ashutosh A. Murkute Director General
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