Strategic Plan Document (Strictly Confidential)

Dr. Shalini Rajneesh, IAS.
Additional Chief Secretary to Government
Planning, Programme Monitoring
& Statistics Department,
Government of Karnataka
M.S.Building
Bengaluru.
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Sub: Revised Recommendations of Strategic Approach to Evolve Schemes to revive economic growth & Solution for SME/MSME with Agri Business Corridor for the Budget Session 2021-2022

Dear Madam

Greetings from the team of Vision Karnataka Foundation

We thank you for your valuable time and support on the submitted Proposal earlier on 8th January 2021 & the subsequent meeting on the 12th January at your office at M.S Building. As discussed on the points of discussion with Planning Board Member Prof S Madheswaran - Director - Institute for Social & Economic Change ; Dr Mukund Raj - Project Director - SSDGC UNDP we wish to communicate that we have identified 3 Districts as the Phase 1 implementation to adapt and proceed with govt support. As communicated already Chamarajanagar District has witnessed our Agribusiness Corridor Producers kick start and commencement programme. Besides this we shall take Kalaburagi and Shivmogga as the other 2 districts for the ODOP modeled work and MSME Cluster Development. Please find the latest version of the comprehensive recommendations and Suggestions on the lines of our discussion.

We would be happy to work on the detailed discussion to take it further into implementation

With kind regards

Kishor Jagirdar
President,
Vision Karnataka Foundation
Email; kishor.jagirdar@vkfoundations.org
http://vkfoundations.org

Recommendations

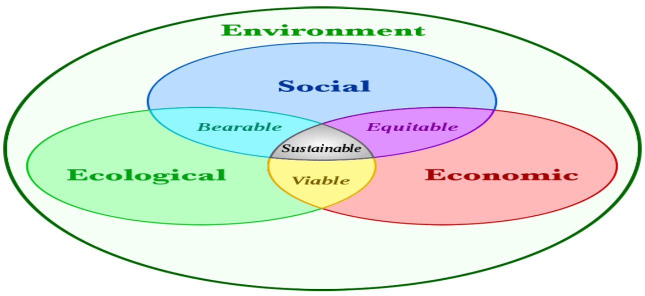
VKF Intends to take a lead initiative in developing the state's economy and help it to reach the level of USD 1 Trillion in next 5 years from its current level of GSDP (Gross state domestic product) of USD 225 Billion approximately.

We are of the opinion that future growth of the state will largely depend upon development and contribution from Agriculture, Agri-allied and SME/MSME sectors that are having the essential bandwidth for EXPONENTIAL THINKING AND GROWTH.

Fortunately many economists not in the mainstreams do get it that simply having exponential growth implies depletion of natural resources and at some point it will become stagnant and decline. They are working tirelessly to lay the foundations of a sustainable new economic model that can be constructed on the ashes of our hopelessly flawed one. Herman Daly presciently laid the foundations of the economic future 40 years ago in *Toward a Steady-State Economy*.. We Indians can ease the economic disruptions we are certain to experience in the future by shifting now from a ***"standard of living"*** paradigm to a ***"quality of life"*** paradigm. It is entirely possible to lead a better quality life with much less, particularly if it is more equitably distributed and if the commons is healthy. The learning curve is visible if we care to examine and spend some time in Denmark, Norway, or Germany.

Cumulative exponential story at the grassroot level will ultimately lead to an effective translation of smaller market demands cascading into an exponential story of Sustainable Growth with **HIGHER VALUE CHAIN** to meet the local demands and also the global demand through the **INNOVATION** VALUE CHAIN that can be blended into a perfect market fit strategy addressing the GAP across the global with a balanced approach in quality and consumption parameters.

Historically Karnataka has always exceeded the growth rate achieved by overall country and had contributed positively towards.Growth of the country's GDP



The idea is to bring together a collection of Micro entrepreneurs and Nano innovations that will be next to the farming community building inter dependence and economic value and DEMOCRATIZATION or opportunities and innovative solutions to ensure that these nano innovations are able to boost economics , livelihood and address the GAPs in the market ultimately via cumulative success at the per capita level we can bring a large community transformation of exponential growth within the limitation of the resources by sustainable approach of addressing local supply chain and blending it with Global Value Chain . The Micro Food Processing Park initiative under PM FME scheme too is enabling this with One Product and One District slogan. This will usher equitable social net and an inclusive approach for Holistic development besides engaging the surplus population.

Annual Growth Rate of GSDP and GDP at Constant (2011-12) Prices

Year	GSDP (Rs. crore)	Growth Rateof GSDP (%)	GDP (Rs. crore)	Growth Rate of GDP (%)
2011-12	606010		8736329	
2012-13	643033	6.1	9213017	5.5
2013-14	704466	9.6	9801370	6.4
2014-15	748429	6.2	10527674	7.4
2015-16	831330	11.1	11369494	8.0
2016-17	942221	13.3	12308193	8.3
2017-18	1043533	10.8	13175161	7.0
2018-19	1124423	7.8	13981426	6.1
2019-20	1201031	6.8	14778880	5.0*

Source: 1. Directorate of Economics and Statistics, Government of Karnataka.
2. Central Statistical Office, Government of India. * As per First Advance Estimates

However, if we look at the sectoral growth, the contribution of Agriculture and Industry sector to the overall GSDP (from 11.18% to 10.97% and 23.67% to 22.84%, respectively) saw a marginal decrease in 2019-20 against 2018-19. The services sector a largest component of GSDP saw a marginal increase from 65.15% in 2018-19 to 66.19% in 2019-20. The contribution of 'Real estate, Professional Services & Ownership of Dwellings' is highest with (35.31%) in 2019-20 followed by 'Manufacturing (15.32%)', 'Trade and Repair Services (9.51%)' and 'Crops (7.44%)'. (Source: Director of Economics and Statistics, Government of Karnataka and CSO, Government of India)

Above data indicates that there are huge prospects of Growth in agriculture and industry segment to attain the targeted level of USD 1 Trillion GSDP in next 5 years.

As per the land utilization statistics for 2017-18, out of the total 190.50 lakh hectares geographical area of the state, the net cropped area was 98.95 lakhs hectares accounting to 51.94% of total geographical area of the state. Small and marginal holdings account for 80% of total holdings and operate 44% of the total operated area, while semi-medium, medium and large holdings account for 20% of the total holdings and their operational land holding is 56% out of the total operational area. The average size of operational holding is 1.36 hectares. The declining size of land holdings is making a large number of farm families economically unviable. Hence, schemes are required to be weaved around in such a manner that marginal and small holding farmers are able to contribute in the growth of the state economy.

VKF opines that, the future growth of agriculture and allied sectors will largely depend on new and globally competitive technologies. Exciting new technologies have brought great improvements in life of small farmers in developed economies. Karnataka with its 10 different agro-climatic zones and other bounteous natural advantages offers immense opportunities for accelerated growth in agriculture and allied sectors. It is imperative that Karnataka take advantage of the modern practices, technologies and develop strategies to leverage the growing demand of domestic and international market.

As an initial step towards this goal of achieving USD 1 Trillion state economy, VKF recommends “Agri Business Corridor of Karnataka” covering entire stretch of state from Chamarajanagara in the south to Belgaum and Kolhapur in the north. The corridor is recommended to operate on Hub and Spoke model with Hubs at Chamarajanagara, Bangalore Rural, Kolar, Tumkur, Chitradurga, Devenagare, Hubli, belgaum and kholapur. All the nearby villages in catchment area recommended to work like spokes and feeders. This model will enable the development of entire area and economic activities will increase in leaps and bounds.

Each of the hubs recommended to have at-least one dedicated food park and infrastructure for development of the entire supply chain including warehousing and cold storage required to develop the catchment area of hub. The farmers, service providers, FPO’s and community at large can utilize these facilities and aggregate their produce to take advantage of economies of scale. This model will provide huge employment opportunities for local communities and women associated with self-help groups etc.

This agriculture business corridor aims to create an enabling institutional structure to address the thrust areas by facilitating;

1. Flow of Investment
2. Enabling Technologies
3. Enhanced skills
4. Modern Management Practices
5. Economies of scale
6. Supply Chain alignment
7. Improvement of Market access through Market intelligence

Recommendations to Government:

Strategy – 1

Gram Panchayat and Hobli Level – Small Farmers Population – This Works well in a Free Trade Zone environment where Producers and Entrepreneurs are the Driving Guiding Force

Focus on the resource optimization by empowering community based micro Level Entrepreneurship and Self Employment / Solopreneurs options within the community Framework *(i.e Based on the demand and Supply mapping data we set a basic parameter of limit of 200 EKART with cold storage mounted equipment for Logistics, 10 solar powered Dryers, 5 Fruit Ripening Chambers and 5 Warehouse, 20 sorting and Grading units ; Check dam or Water Resource building etc for every Gram Panchayat or Hobli).* It will proportionately increase once the demand and Supply pattern changes) by encouraging collaboration of the unused farm lands for both leased out arrangements in bringing it to utility including those lands where the farmers have migrated to Urban Centres for employment and bring the uncultivated land to be optimised under collective farming concept for Producers and then integrate it with Farming allied Self employment solutions like Nano Innovations to be utilised to add value to the produce being monetized. This will be backed by Strong Access to Finance schemes that promotes these small micro enterprises under MSME micro enterprises. This will be under lasser faire policy . This will act as the last mile connectivity and feeder to the backward integration to the larger supply chain based on demand Forecast and market intelligence.

Example: At the vicinity of the Farm lands providing services like Mobile/Micro Cold Storage facility which is Solar Powered then Solar powered Dryers for moisture extraction from Perishable items to increase shelf life. Farming equipments on rental or Lease. Micro Fruit Ripening Chamber, Sorting & Grading etc. These will be allied Retail Services which creates a

Local economy , besides Job Creation without the hurdle of the Industrial Policy and industrial sheds limitations. It will be more a Community self organizing local economics

Strategy-2

Taluk and District Level - Large Scale Farmers

1. Development of Infrastructure for the corridor including;
   - Developed plots for lease
   - Developed warehouse for lease
   - Facilities for common cold storage facility
   - Roads, Rail and Airport network, including provision of Krishi tarin and Krishi Udan
   - Developed sheds for lease to MSME units
   - Common effluent treatment plant for state-of-the-art treatment of industrial and human waste.
   - Centralized security systems for round-the-clock monitoring of activities to ensure safety & minimal shrinkages.
   - Rain water harvesting for recycling of water and keep positive water balance for the Food Park, solar/alternate energy facility.
   - Parking facilities for heavy and loading vehicles
   - Administrative blocks and Business centres
   - 24 hour poour & water supply for un-interrupted operations
2. Single Window Clearance for setting up the industry in the dedicated corridor
3. To promote investment Government should provide tax holiday for 3-5 years
4. Investor friendly Banking facilities and time bound clearance of loans and finance requirement of the entrepreneur. Government should put up a mechanism in place to follow-up with financial institutions and ensure that all the proposal for finance is disposed of maximum within 21 days. Loans upto 2 crore Rupees may be covered under credit guarantee scheme.
5. Vocational Training centres under Public Private Partnerships to train the Human capital
6. Encourage EV based Logistics that will boost MSME ancillary to act as the connectivity by road and also railways.

Measurable expected Outcome:

1. Encouragement and contribution to” Atamnirbhar Bharat”
2. Doubling Farmers Income
3. Economies of scale for small and marginal farmers
4. Increase in exports
5. Reduction in Post-harvest losses
6. Increased penetration of technology in Agriculture
7. Sustainable Farming Practices and traceability
8. Reduction in Migration of labour to urban cities, thus decongesting the urban centres

9. Reduction in logistic costs

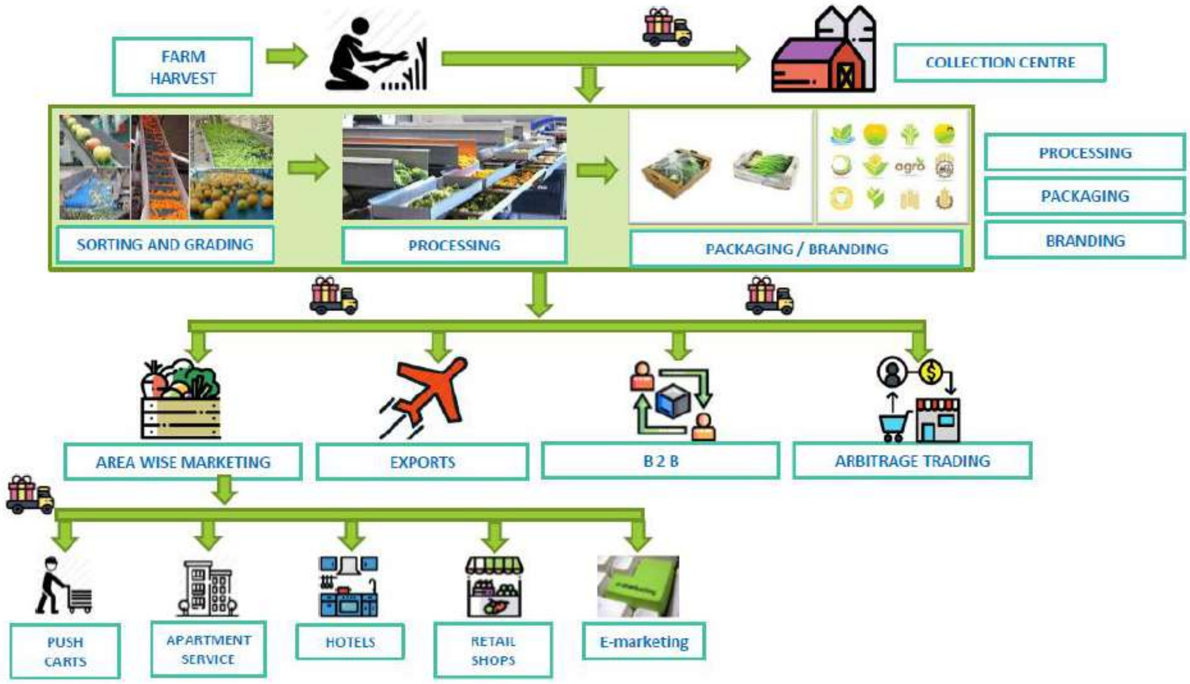
Expected benefits to Farmers

Pre-Harvest;

1. To understand current soil health and its requirements
2. Credit for buying inputs, tools and other materials
3. Get high quality seeds to achieve higher yields
4. Availability of machinery for land preparation and other tasks like removal of weed crops
5. Micro-climate sensing and data-based disease and pest prediction
6. Agriculture inputs –fertilizers, compost, bio-fertilizers, etc. based on soil test-based recommendations and pesticides and insecticides based on pest prediction
7. Micro-irrigation (drip) and fertigation system for efficient and timely application of water and fertilizers
8. Final output –High yields with reduced cost of cultivation and increased profit

Post-Harvest:

1. Sorting and Grading of produce
2. Processing, Packaging and Brandings
3. Logistics support to supply to market either B to C or B to B segment
4. Assistance in export



The Outcome and Impact:

OUTCOME:

Reduced cost of cultivation

Increased production per acre

Overall higher income per acre

BetterpricerealizationbyfarmerandFPOcomparedtoconventionalmarketingchannel

Improved profitability of FPOs

IMPACT:

Increased self-sustainability of farmer and FPOs

Increased early adopters ‘percentage among existing farmer base

Increased percentage of Eco-friendly way of farming

Effective change in conventional supply chain system

Over all improved standard of living of farmer

Economic Impact:

Better price realization to farmer at farm gate compared to conventional model

Consumer can get good quality F&V at little lesser price compared to market

FPOs profitability increases compared to conventional model

A step towards creating efficient supply chain that effectively addresses post-harvest loss, avoiding Intermediary, reduced multiple handling & wastage etc.

Social Impact:

Self-sustainability of FPOs and farmer increases

Improved standard of living of farmer

Empowered farmer

Reducing Regional Imbalances and encourages equitable Social Security Net in Inclusiveness

Encourages strong interdependent economy at local level

Creation of 1 million Entrepreneurs and 20 Lakh Jobs indirectly

ODOP – One District One Product (**ODOP**) **programme** which aims to create product-specific traditional industrial hubs - Critical Evaluation

The UP format takes into consideration and vast territorial track which acts as an advantage besides the short coming of skilled workforce and strategic growth aspects which has to create a Use Case for future reference as the State with a large ***population of migration population and are at the village economy level.***

Karnataka on the other hand has the following advantage

1. Ability to attract high quality Skilled Workforce

2. Vast natural rich resources in South India

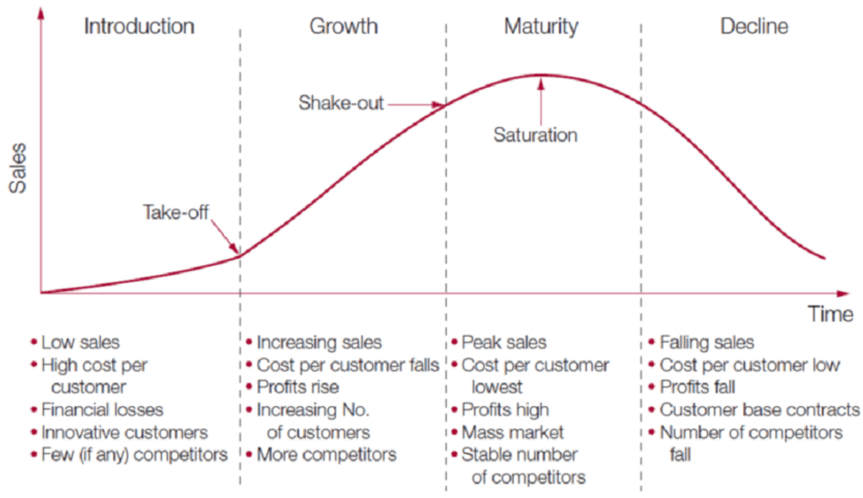
3. Advance Urbanisation multiplier impact and proximity

4. Strong Industrial Policy in place and Evolved markets with export focus with Technology Focus

5. Innovation Hub of ASIA

6. Unlike UP, Karnataka is in the advanced Stage of Growth of Industrial Cycle

The 4 Life Cycle Stages and their Marketing Implications



Karnataka in our view is in need of SMART SPECIALISATION Strategy and not the Blind adaption of the UP model ODOP. It would be detrimental to the ecosystem to over look the progress the state has already made and the stage of its Growth Story which needs Innovation Specialisation. To go up the value chain and give a new lease to the life of the existing industrial achievement besides inclusiveness to those in the neglected regions with a branding strategy for Image building as an attractive investment destination.

Vision Karnataka Foundation Model of SS

Karnataka might want to Identify One Dominant Product categorized as the PRIMARY PRODUCT (PP) and 3 other Products as the SECONDARY PRODUCT (SP) to create a system of balance in the demand and supply besides engage the producers with consistency Model in revenue generation and Economic Activity that takes into consideration all aspects of RISK Management seasonal disruptions besides building and maintaining the Competitive Advantage story for atleast another cycle till 2040 with a mix of Free Trade and Best Practices of a Policy drive state intervention based on the ground reality check. Each of these identified Products are bifurcated to a deeper value chain creation.

Example -1 : Rs 500 crore to promote Farmer Producers Organizations (FPOs #), agri-logistics, processing facilities and professional management. Accordingly, the Ministry for Food Processing GoI has formulated a scheme for integrated development of Tomato, Onion and Potato (TOP) value chain.

Example -2 : - Kalaburagi region Toordal (PP) with Organic Jaggery ; Potatoes and Corn as (SP) and their Value Chain

Winners from free trade

- **Exporters**. The removal of tariff barriers will enable competitive firms to export more. This will create jobs in the export sector and increased production for these exporting firms. Firms can specialise in niche production and export around the world. This increased specialisation can enable economies of scale as the firm can produce for a global market rather than just domestically. New trade theory, states these economies of scale are one of most significant aspects of free trade.

- **Consumers benefit from lower prices**. Free trade reduces the price of imported goods. This enables consumers to enjoy increased living standards. After the purchase of imports, they have more left over income to spend on other goods. Free trade can also lead to increased competition. Domestic monopolies now face increased competition from abroad. This competitive pressure can reduce prices for consumers further.
- **Domestic firms**. If consumers benefit from lower prices, then they have increased spending power. Although not particularly obvious and visible, indirectly other domestic firms will see increased demand from lower tariffs and the higher disposable income of domestic consumers.
- **Increased economic growth and tax revenue**. Trade liberalisation can have benefits for economic growth, which will lead to increased tax revenue and increased funds for spending on public services.

Losers from free trade

- **Uncompetitive domestic firms**. Tariffs are often designed to protect domestic firms which produce at a higher cost than international competitors. With free trade, they will see a fall in demand and could go out of business.
- **Workers in these uncompetitive industries could lose jobs**. If free trade leads to a sharp shift in domestic demand, old exporting industries may close down, leading to jobs losses.
- **Negative regional multiplier effects**. Free trade may affect particular industries concentrated in particular regions. If a region suffers job losses and lower production, then there will be a negative regional multiplier effect which will cause higher regional and structural unemployment. Though net economic welfare for the whole country may increase, some regions which relied on old exporting industries can struggle to adapt to new economic demand. This can be seen in areas like the US 'Rust belt' and parts of the UK which experienced a rapid industrial decline.
- **Potential environmental costs**. New trade deals like TIPP venture (an example of EU for better understanding) into more areas than just tariff reduction. They include laws which enable firms to sue governments for loss of profit from regulation and can ignore social costs and benefits. For example, Europe has subsidies for renewable energy. However, free trade deals could put fossil fuels on a level playing field to renewable energy; this ignores external costs and benefits. Free trade can have environmental costs.

Evaluation

Why is free trade more popular amongst economists than general public?

- A big issue is the visibility of losers and winners. If you work for an exporting industry which is threatened by free trade, you will be quite vocal in opposing free trade or at least seeing the potential cost.
- However, domestic firms which benefit from a marginal increase in spending related to lower tariffs may not even make the connection.
- Even for consumers, lower prices from free trade are not that visible. If there was a banana war and prices increased 20%, it is not a major economic cost – many consumers would not even notice. But, if you know someone who loses a job in an old uncompetitive export industry – this is very visible.
- If a large steel firm closes down because it is international uncompetitive, then the 500 job losses could make national news. In the long-term, new kinds of jobs will be created, but these new jobs will not make national news. They are less visible.
- Free trade can be blamed when over factors are at work. Even without free trade, different sectors of the economy will rise and fall. There used to be a time when 90% of the population worked on farms. **We can say these low-paid farmworkers lost their jobs, but is that a bad thing?** *Similarly, the UK used to have 1 million coal miners, but improved technology means we can generate power with fewer workers. It is true they import cheaper coal from Argentina, but also, They can generate more power from renewable sources*

Recommendations

1.Collection Point: The post harvest wastage is nearly 40 % majorly out of the perishable items/sampling and transportation. Hence we recommend Collection point at the location of the Farm itself. This will increase the income by 40% .

2. Fintech Solutions and Digital Payments – Adapting to Fintech and Digital Solutions to transfer the payments ***on the SPOT this builds high dependability and TRUST***

3. Pre Determined Price ; *in exchange for Loyalty and Consistent Supply by the Community so the farmer can double the income by getting a fair price and avoid the bidding at the Mandi which often starts assuming at a certain price by morning and based on the footfall falls into desperate sale by evening at the lowest value and uncertainty.*

4. Electronic E MANDI – A startup Agribazaar has replicated the physical mandi to an electronic e-mandi aggregator mode. Once a farmer registers and uploads his produce, buyers like merchants, traders, and Corporates can give orders for purchase. Once the deal is complete, the on-ground staff pick up the produce for delivery from the farmer's choice of pick-up point to the buyer's destination. In Karnataka we can have a similar region wise model that will largely provide the selling forecast as well as a Price discovery opportunity with the prevailing price mapping. This enables a democratic approach to the latest version of the market place and the connectivity for the marginalised farmer to a level playing ground in inclusiveness. VKF partners Bhoome and Kissan Sathi have contributed tremendously in this direction.

5. Market Intelligence –

Process:

1) Data coming from various marketing units are collated and pushed into storage
2) Cloud data storage will be used to store and process the data
3) Data is then modelled to provide requested data analytics to various stakeholders based on the objectives set for each of them (for eg a farmer would be interested in knowing selling price or sales trends, information on what crops might be better to look at in future based on forecasting models.
4) Once the models are established the whole process should be automated.

This is in the data accumulation to automation process.

Parallel to data process a reporting and alerting process will be setup.

1) In this data will shown as a report based on user needs. Roles can be buyers, farmers, FPOs, government, APMC, bulk buyers and wholesalers.
2) Notification via mobile app, sms which user can customize and setup.
3) Usage of forecasting and prediction models to setup bid price and allowing bid on an online platform.
4) This whole setup should be like a equity trading platform. Where farmers get bigger benefits and Price gain advantage increasing the income.

Financial Commitment: a small fee can collected from each stakeholder for usage of the system to sustain the system to make it viable financially including Bid registration fee from bidders and sellers

This again can be driven by a competent entrepreneurial team and have a strong market relationship as a Supply Chain Integrator with a skin in the game to build the community TRUST FACTOR and not looked upon as an NGO activity.

Here the Govt needs to be participating in the monitoring and Governance part only.

Market and future

An EY report states that the agritech market has the potential to reach $24 billion by 2025. According to the report, agritech companies had raised $532 million until April 2020. There are several startups in the same space like - DeHaat, Gramophone, Tartan Sense, Intello Labs, SenseGras, etc.

There are over 126 million marginalised Small farmers in India. This is why such a platform leverages cutting-edge AI for agri-value chain optimisation, resulting in increased yields and higher profit for small farm owners,. We recommend to geo-tag every small farm holding in Karnataka through technology, and take the first steps towards 'intelligent' and 'custom' farming. By 2030, 90 percent of Indian farm holding will belong to small farm owners. As of now, Vision Karnataka advocates

3 areas of focus -

1. Apply world-class open-source technology stack, and know-how to transform the agri-value chain through meaningful yet practical and affordable digital interventions

2. Empoour the small farmer by focussing on novel solutions for his unmet needs

3. Build partnerships with governments, farmer collectives, and corporate buyers to enable the widest possible access to the platform.

Similar to China, we advocate to ride the Indian government's policy push to provide farmers with technology, credit, capital, and markets, all on a single platform. In doing so, we are capturing vast amounts of farm data. It will help us create intelligent, predictable and customised value additions — increasing productivity by providing soil, weather and crop advisory to post-harvest offerings like insurance, and storage and credit facilities based on customised farm and farmer records, VKF clearly evangelizes that Karnataka has to Convert its advantage of the worlds largest start-ups ecosystem and leverage it to create disruptive models of agri-aggregation that are required to meet the opportunities and challenges of modern agriculture.

If the above is implemented in true Spirit in Karnataka *we can create a 15,000 work force* of **Digital Advisors** with Every 50 Farmers we can have one Digital Advisor monitoring and supporting them to Succeed.

SOCIAL CREDIT SYSTEM – China as an Example

There is one **social credit system** for citizens, one for businesses and other organizations, and one for government officials. Broadly speaking, the main **purpose** of the **social credit system** is to monitor and assess each group's trustworthiness, particularly as it relates to following laws and other rules.

The premise behind a nationwide **social rating** system itself is relatively simple: every citizen receives a certain **score** to start, and certain actions either loour or increase our **score**. ... People can then either be rewarded or punished based on their **rating**.

An academic **credit system** is a standard used by universities to measure and assess students' work and effort during their Bachelor's, Master's or PhD programme. It's important to understand how credits work and how **credit** points from one academic **system** are converted to credits from other **credit systems** (if possible)

What it does is: it establishes a credit-based society. Supposedly individuals and companies as well as the government can benefit from a transparent credit system because from it emerges a society that is overall safer and in it we know who to trust and who not to trust. This is the idea of building a **"harmonious society"** which is very much presented as a collective endeavor both on social media and by state media. So, the local understanding is not the government vs. the people, but more a sense of "we all build this SCS together".

For a Local Economy to be self reliant, sustainable and Strong it needs '***high trust relationship*** ' with interdependent reliable branding both locally or internationally

What happens when we are on such a list?

We can land on a lose-trust-list if we have outstanding debts or a court order against us. If we have that, it can for example be impossible for us to go on a train or an airplane or to send our child to a certain school – which is also happening now. People on a lose-trust-list will face certain local limitations that are so limiting that it will force everyone in this situation to pay off their debts or to deal with the outstanding court rule against them and then, once they deal with it, they can get off the list again.

Within the commercial systems, "Sesame Credit", Alibaba's private credit rating system, is probably the best-known in the west. How did it come about?

In 2015 there were eight programs that were allowed by the People's Bank of China (PBOC) to experiment with personal credit services and credit scores. Besides the Sesame Credit there are: Tencent, Qianhai, Pengyuan, China Chengxin, Kaola, China Zhicheng, and Huadao. Now, three years later, still none of these eight companies have received an official license by the PBOC to rate people's credits. This May they've therefore launched a cooperative credit network that is called Baihang Credit. It consists of these eight commercial companies and the National Internet

Finance Association, a government run organization. Together the network received an official business license and now has access to a very big pool of data.

The commercial systems measure behavior: how we act on social media, how we buy things, how we pay our debt. How does it influence everyday life of the citizens in China?

If we take a dip stick with friends about it, they're happy with the commercial systems like Sesame Credit because they are in good standing, and so it's easier for them for example to get a taxi – which mostly happens through social media. If we have a high score, the driver is more willing to pick we up, while he wouldn't want to pick someone up with loour ratings This is already prevalent in Karnataka with OLA or UBER. Take also for example the sharing bike system: in many countries in Europe it did not succeed, and many bikes got vandalized immediately. In China it is linked to the social media account, to 0ur WeChat or to our paying credit account. Companies know who rents their bikes. If we vandalize their bikes, we will never be able to rent one anymore. It's actually very efficient. One of the problems in the sharing economy is that people can abuse the system. And the beautiful thing about the commercial credit systems is that with it they don't. So, they are actually enforcing that kind of economy.

CASE STUDY : How China's corporate social credit system works to Strengthen Community based Modelling of Entrepreneurship

The corporate social credit system collects, aggregates, and analyzes data from businesses to create a score that determines rewards and punishments.

According to a report from the European Chamber of Commerce, businesses and other organizations collect data on their own operations and submit them to relevant local and national authorities, who then consolidate the data in the National Credit Information Sharing Platform, which is a centralized database.

Government authorities also submit data on businesses directly through standard government inspections. This data is then integrated in the National Internet+ Monitoring System, which analyzes the data to calculate ratings.

Businesses are mostly assessed on standard regulatory and compliance criteria that they are already legally required to fulfill. This includes paying taxes on time, holding requisite licenses, meeting product quality standards, and fulfilling environmental protection requirements. Additionally, companies are subject to an array of industry-specific requirements depending on the nature of their business.

.Companies with poor scores face a number of penalties. For example, they may be inspected or audited more frequently by regulators, be excluded from public procurement opportunities, unable to benefit from incentives, and be publicly named and shamed.

Further, because businesses are responsible for their partners, it will be harder for companies with low scores to build relationships with other entities.

Lets Assume this is in the positive side of the Credit. Then as an entrepreneur we can possibly get raw material at a lesser rate as credit points rewards then that would subsequently result in the lowering the cost of production with cumulative results . **The Entrepreneur then can pass that benefit back to the Customer by offering the products exclusively to its loyal buyers at a lower cost of competitive advantage without undergoing losses; this creates a cohesive Community of High Trust Economic cycle . This will prevent frauds and encourage high standards of Product/services besides increases the Purchasing power of the customer**

The Study on the Low Conversion on CGTMSE – UDAAN in MSME

The dip stick Survey results yielded the following below salient outcomes

1.This is a Funding instrument that is mainly without Collateral Scheme. The process of Validation and due diligence is very time consuming and is not Entrepreneur friendly.

2. No matter what the scheme benefits are announced to lure the MSME entrepreneurs, the biggest Barrier is the BANKER

3. Unless the MSME Entrepreneurs enjoy a good credit worthiness and relation in the bank with a proven track record it doesn't move forward.

4. It takes a lot of process with DPR etc to reach the approval stage which is very frustrating

5. The Process of Approval has too many bottle necks with the final Clearance coming from Mumbai Office which has no interface with the Entrepreneur who would have applied in Karnataka. hence the merit of the case is not weight properly before the consequence of the approval /rejection remark with only previous inference as a baseline to whet it .

According to SREP Guidelines in EU, the model risk can be split into two distinct forms of risk with two different impacts risk profiles.

Form of risks Risk profile

A "Risk relating to the underestimation of own funds requirements by regulatory approved models (e.g. internal ratings-based (IRB) models for credit risk)" "Competent authorities should consider the model risk as part of the assessment of specific risks to capital (e.g. IRB model deficiency is considered as part of the credit risk assessment) and for the capital adequacy assessment"

B."Risk of losses relating to the development, implementation or improper use of any other models by the institution for decision-making (e.g. product pricing, evaluation of financial instruments, monitoring of risk limits, etc.)" "Competent authorities should consider the risk as part of the assessment of operational risk" and it should be evaluated within this perimeter

6. Covid 19 stretched the situation a lot. In this bankers have psychological frozen and are averse to lending unless they are 100% certain of the MSME entrepreneur ability to repay. At the same time the COVID scenario is pushing entrepreneurs for resilience and quick response to Fire fighting abilities to keep the business churning.

7. While Entrepreneurs don't feel confident taking this route with CGTME process and want concrete fast track realization of the efforts

Banks blatantly say that "please go to the advertisers and ask them only to fund we. We don't consider this case" openly

Conversion ratio is therefore very low very low in the range of 4% to 10%

8. The process expenses and hidden cost with waiting time is very high and counterproductive most of the time to the project cycle of the business.

MSME dept is psychologically conditioned to work on Awareness ; training and create Positive Story on it. But on ground reality people who qualify are very scare and final authority on this is the decision of the bank manager.

The Bank official is governed by Banking protocol on retirement benefits being with held on default/ NPA

One of the key areas that VKF has tried to address in the recent months is to identify one significant reason or core cause for the low conversion rate in the setting up of micro and mini business units. Even with several schemes being available, and with adequate skill training and knowledge dispersal, the ability to start micro business remains a very difficult proposition.

The one significant factor that seems to lie clearly is the difficulties involved in accessing finance.

In the case of micro and mini units whether in the agricultural or horticultural business units or food processing or service sector businesses such as beauty parlours, food- based units, and such like, the financeable assets form a very small portion of the total project cost, almost hardly 20-25 percent, while the intangible assets constitute nearly 70-80 percent of the project cost.

The loan component thus constitutes hardly 25% of the project cost and the unbridged portion is almost 75% this amount.

This amount is expected to be met by the entrepreneurs and is most often unaffordable by them. This is the reason that the conversion process from idea to establishment of the business is so low.

If the goal is to promote micro and mini enterprises in large numbers, for which scope does exist, then apart from all the other areas, this issue of the equity gap must be addressed.

OBSERVATIONS

1. Key factor for increasing growth of micro and nano, and small businesses is having smoother access to the appropriate type of funding at each stage of the business.

2. For a start up the main form of capital required is equity and/ or seed capital.

3. Having access to this type of funding would create a surge in the start up space.

4. Setting up such an equity or seed fund particularly in the micro and tiny business sector is an essential prerequisite for kick starting a growth in this sector particularly in the present economic scenario

5. This can be done through a public/ private/ government consortium to overcome weaknesses in evaluation, delivery and recovery process.

VKF therefore suggests setting up of a new seed capital scheme, which could be a government-private partnership.

The scheme envisages providing pre-seed or seed capital to the micro and mini enterprises to support in promoter equity to enable them to access finance from financial Institutions in the form of term loans or working capital.

VKF would be happy to offer its expertise and knowledge for promotion and implementation of this pre-seed / seed capital scheme.

Our Objective is Model of Launch Pad -1 Set up Cost to trigger GreenShoots and Micro Enterprises

1. Matching GRANT that can be extended with PPP structure.

The MSME owner raises 10% (to ensure there is Skin in the game)

VKF raises 10%, with its Collaboration partners,

The Govt sanctions 10% as a Grant

The rest is met by the Schemes like Atma Nirbhar or the Credit Guarantee Line

2. **SRI Funding** – Social Responsive Funding is a Seed Funding with very low rate of simple interest (ranging from 2% to 4% rate of Simple interest per annum for short term.) Rs 2 lakhs to 25 lakhs can be largely for the small Business Owners and Micro Enterprises with Social Impact Intent – This Fund can be Sources from CSR donors to accelerate a particular geographical location. *Live Example The Dharmasthala TRUST is doing this kind of transformational work in UDUPI and Mangalore Region*

3.We also see a **Pre validation GAP** that needs to be addressed to enable the success ratio increases from approximately 10% to 50% and above which the Banks have to accept as a Standard operating procedure that will build confidence and also credibility of the Business Idea /MSME proposal in a validated format with due diligence part being curated as per the Funding

Approval norms. Another perspective is VKF could be the Competent Authority in the pre validation Process and the CGTMSE can give the guarantee to Vision Karnataka Foundation and we could be involved in the disbursement of the Funding thereby the efficiency of the Process Life cycle goes up and builds confidence and sentiments of Positivity in the beneficiaries communities.

Launch Pad - 2 Growth & Strategic Investment to strengthen existing Champion MSME brands to Leap frogging in Exponential Growth for Vertical Cluster interdependent centric economy

1. COMMUNITY FIRST LOSS GUARANTEE FUND

2. PEER TO PEER LENDING MODEL for SMEs

3. FUND MANAGER AS A JOINT VENTURE

4. RECOMMENDATION TO ALLOW LONG TERM REPO OPERATION (LTRO) FOR FINANCING TO MSME

1. COMMUNITY FIRST LOSS GUARANTEE FUND model approaches to deal with the urgency of the situation to enable a solution-oriented approach by self-help approach and pooling of the existing resources pooured by the local ecosystem support rather than depend on the external sources thereby increasing the exposure to risk and anxiety. The Industry bodies and Associations can pool contribution from its members in the district a set of voluntary Contribution FUND that will be treated as a corpus which will act as the base of the credit line creation and multiply it to 10 times with Financial Support and IT infrastructure backing for the transaction to efficiently handled.

Feature

The Corpus FUND example is INR 10 Crore then through the **CFLG** Fund approach we can secure a credit of INR 100 Crore to be initiated to the members of the Association and Industry Body

This will ensure instant financial assistance and credit line to the MSMEs in 48 hours and there will be no pressure of the CIBIL or CRISIL ratings to qualify for the fund as the facility will be availed on the following parameters

1) Purchase order value by discounting

2) Deal flow of the transaction value

3) Ecosystem guarantee

4) GST filing

5) E-Invoice

2. Peer-to-Peer lending to SME

Current Pandemic Covid-19 has affected every one of us and SME which is the lifeline of the Indian economy is feeling the pinch of it. SME units are the second largest employment provider and to sustain this pandemic they can't depend only on the assistance from banks and government.

Extraordinary times like this requires innovative and out of box thinking to support the requirements of needy. SME units do require funds urgently to pay salaries, utility payment, rent and other statutory dues. Most of the SME units have receivables from PSU and other corporate clients who are the intermediary users of their output, however, the current difficult time has resulted in the delay of these payments and SME units are feeling the liquidity crunch. This situation can be eased and funds can be made available to SME units for payment of salaries and other statutory payments through instruments like community financing, crowd funding or Peer-to-Peer lending.

These instruments will not only enable the affected units to pay salaries to its employees but also not put stress on scarce government resources at this hour of crisis. Process flow of these instruments is proposed as under;

1. Identify the SME's cluster wise who require funds
2. Identify the quantum of funds required to sustain those units for the next three months
3. Pool receivables of each unit, Bifurcate the receivables from PSU's,Receivable's from Corporates and other receivables
4. Nominate ESCROW agent (Any Local Commercial Bank) for channelling the transaction
5. Earmark margin of 25% from Government receivables, 30% from other corporate receivables and 40 to 50% for other receivables and arrive at the quantum of securities available
6. Get these receivables assigned to ESCROW agent
7. Execute tripartite agreement among each SME unit, ESCROW agent and debtors of payment of those assigned bills directly to ESCROW agent
8. ESCROW agent agrees with facilitators like VKF/Crowd funding platform, Peer-to- peer lending platform to raise the funds and lend it to needy SME's as per available fundable receivables.
9. ESCROW agent notifies the total amount of receivables for each unit and eligible finance limit for each unit to the facilitator
10. Facilitator raise the funds and deposit the same in an ESCROW account
11. ESCROW agent enters into a loan agreement with individual SME units and releases the funds to the nominated account of respective SME for release of salaries and other statutory dues.
12. ESCROW agent is required to check the funds are not being diverted for any other purpose than the sanctioned for. SME promoters also ensure that these funds are for emergency requirements only and they should not pay themselves, salaries and remuneration are to be paid only to employees other than family members from these

funds.

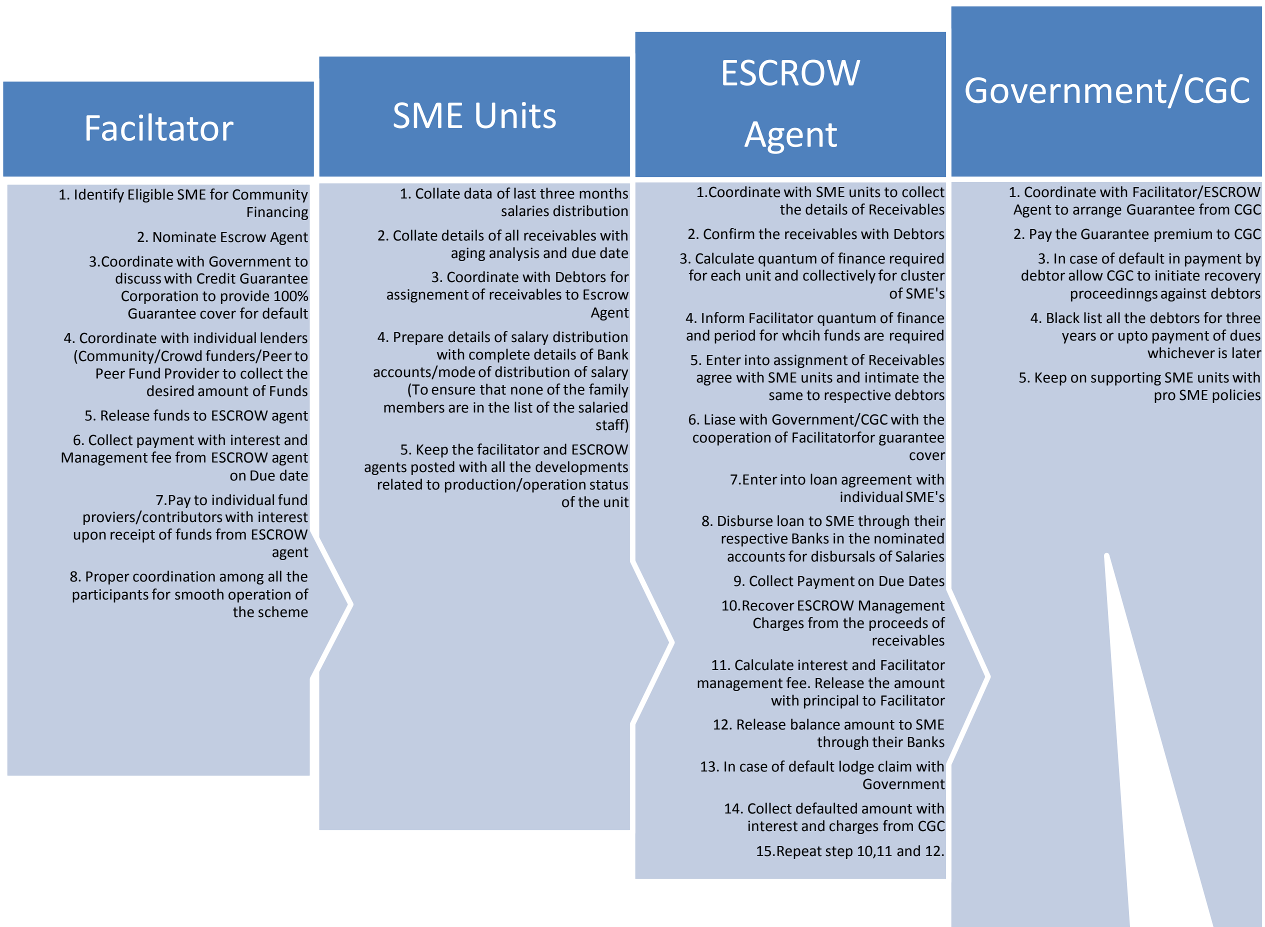
13. Debtors to pay on due date to nominated ESCROW agent
14. ESCROW agent to square the loan account for the received amount and recover the amount of loan along with interest, facilitator charges and ESCROW management fee.
15. ESCROW agent releases Principle amount, interest and facilitator charges to Facilitators.

16. ESCROW agent releases the remaining amount to the respective SME Unit Facilitator releases interest and principal amount to fund providers.

17. The government is required to facilitate this entire transaction either through provision of government guarantee or through guarantee of Credit Guarantee Corporation for full amount, Interest, Facilitator charges and ESCROW management fee.

18. Premium of Credit Guarantee Corporation shall be borne by the government.

Flow Chart for the proposed process



Example:

Let us assume that facilitator identifies 10 SME units in a cluster with following receivables

	Amount in INR			
SME Unit No.	Receivables Due from PSU's	Receivables Due from Corporates	Other Receivables	Total Receivables
1	12,00,000	15,00,000	2,00,000	29,00,000
2	25,00,000	17,50,000	5,00,000	47,50,000
3	15,00,000	5,00,000	4,00,000	24,00,000
4	20,00,000	-	8,00,000	28,00,000
5	50,00,000	2,00,000	5,00,000	57,00,000
6	10,00,000	10,00,000	5,00,000	25,00,000
7	40,00,000	22,00,000	18,00,000	80,00,000
8	18,00,000	3,00,000	4,50,000	25,50,000
9	20,00,000	6,00,000	-	26,00,000
10	70,00,000	35,00,000	10,00,000	1,15,00,000
Total	2,80,00,000	1,15,50,000	61,50,000	4,57,00,000

ESCROW agent will confirm these receivables with individual buyers, ie. Individual PSU's, Corporates and other buyers. Total Receivables for the identified cluster of SME's are INR 4.57 Crores. ESCROW agent upon confirmation will do the necessary documentation and provide details to CGC. CGC will check and confirm if any of the buyer/debtor is blacklisted. ESCROW agent will calculate the requirement of funds after deduction of margin of 25%, 30% and 50% for PSU, Corporates and other debtors respectively. The following will be the eligibility of each of the units.

	Amount in INR				
SME Unit No.	Receivables Due from PSU's	Receivables Due from Corporates	Other Receivables	Total Receivables	Eligibility
1	12,00,000	15,00,000	2,00,000	29,00,000	20,50,000
2	25,00,000	17,50,000	5,00,000	47,50,000	33,50,000
3	15,00,000	5,00,000	4,00,000	24,00,000	16,75,000
4	20,00,000	-	8,00,000	28,00,000	19,00,000
5	50,00,000	2,00,000	5,00,000	57,00,000	41,40,000
6	10,00,000	10,00,000	5,00,000	25,00,000	17,00,000
7	40,00,000	22,00,000	18,00,000	80,00,000	54,40,000
8	18,00,000	3,00,000	4,50,000	25,50,000	17,85,000
9	20,00,000	6,00,000	-	26,00,000	19,20,000
10	70,00,000	35,00,000	10,00,000	1,15,00,000	82,00,000
Total	2,80,00,000	1,15,50,000	61,50,000	4,57,00,000	3,21,60,000

Total eligibility will be INR 3,21,60,000/-, let us assume that total salary and other statutory dues payables are only 2.50 Crores for three months for the above 10 SME's. ESCROW agent will intimate this to the facilitator to arrange funding of INR 2.50 Crores. The facilitator will collect through community lenders and release the same to ESCROW agent.

Government will Release the premium to CGC to cover the amount of INR 3.21 Crores Escrow agent will release the payment to individual SME through their nominated banks. Let us assume that the due date of all the receivables is after 90 days.

Escrow agent will collect INR 4.57 Crores from individual debtors, if there is no default by any of the debtor.

Other assumptions:

Interest rate payable to Individual contributors of fund 9% P.A. Facilitator Charges: 0.50%
Escrow Management Fee: 0.50%

Upon receipt of payment ESCROW agent will Collect INR 1.25 Lacs as its management fee. Will Release a payment of INR 2,56,87,500/- Inclusive of, Facilitator fee of INR 1.25 Lacs, Interest amount of INR 5,62,500/- and the principal amount of INR 2.50 Crores.

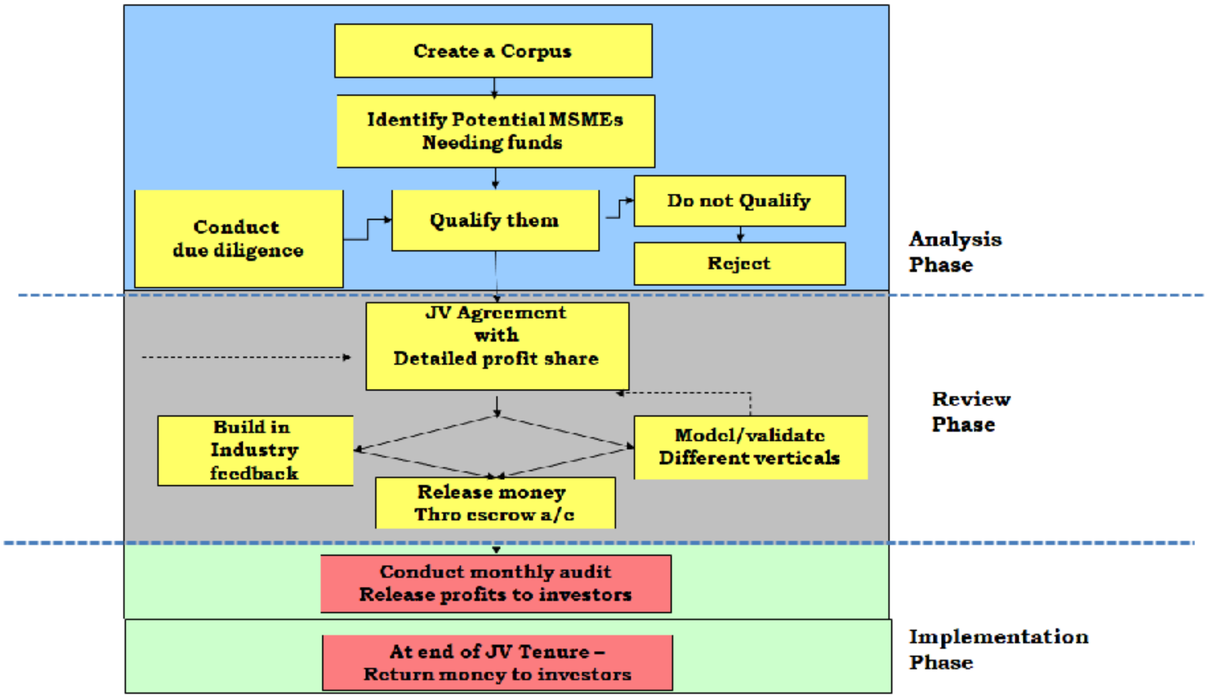
Leftover balance of INR 1,98,87,500 to the SME's units through their nominated Banks.

Given the crisis the rate of interest can be linked to deposit rates plus certain basis points like 150-250 as a benchmark interest rate. Other charges and ESCROW management fees can be pegged maximum to 1%. This scheme can be replicated in all the clusters across the country.

3. FUND MANAGER AS A JOINT VENTURE

Short Term Solution:

The Industry body members will create a corpus of Rs 10 Crores or more in collaboration with **Infowise Startup Catalysts Trust (a Commercial trust)*SEBI listed AIF Fund*** with its members contributing & Infowise will monitor the disbursements and the mechanism to operate the same. They will monitor the Financial support with the MSMEs on **a joint Venture basis**. Following diagram depicts the same.



4. **Recommendation to allow Long Term Repo Operation (LTRO) for financing to SME/MSME**

Long Term Repo Operation is basically a mechanism to inject liquidity into the banking system as well as to ensure the smooth transmission of monetary policy actions and flow of credit into the economy. After RBI went for repo rate cuts, there was a question about the effective transmission of those rate cuts to the customers. So, by going for LTRO the RBI ensured effective transmission of the monetary policy decisions.

In its recent policy decision to combat the economic effects of Corona virus RBI has announced to inject liquidity of INR 1.37 Lakh Crores by way of LTRO. Banks can access these funds under LTRO at the interest rate linked to Repo rate i.e. at 4.40 % for a period of three years. Amount Borrowed under LTRO by Banks can be used to purchase the Corporate Bonds.

Since the issuance of Bonds by Corporates does involve additional costs and efforts, which SME and MSME entrepreneurs can’t afford to bear, we recommend that a certain portion of amount Borrowed under LTRO be allowed to be lent to SME and MSME customers. On a fair note since 16% of the overall Bank Credit is to the SME and MSME segment, 16% of these funds i.e INR 21920 Crores can be earmarked for SME and MSME units.

Details of the above framework shall be discussed and mutually agreed upon.

Contribution from the team for developing this Document.

Mr Nandakishora K – Board Member

Mr. B.R Vishwanath – Board Member

Mr Sunil Sahdev – Former Managing Director of an International Bank – VKF Task Force

Mr. Joe Thaliyath – Former VP of ANZ Bank - VKF Task Force

Smt Usha Nagaraj – Former Chairman of a Cooperative Bank

Mr. JayaChandra Aradhya – Head of Skill Development VKF Council

Dr Cyril Prasanna - Innovation & Research VKF Council

Ms Anita Pradeep – Head of MSME VKF Council

M.Prem Rathod – Head Agriculture VKF Council

Ms Annapurna Swarup – Head of Woman Empowerment & Entrepreneurship VKF Council

Dr. H E Shashidhar - Innovation & Research VKF Council

Mr. Shivashankar.B Chief Executive, SJCE-STEP Mysore - JSS RISDC Chamarajanagar

Mr. Raghavendra Rao – Ops Director INFOPACE Management Pvt Ltd

Ms Nimisha – Research Analyst INFOPACE Management Pvt Ltd

Ms Shachi Yelandur – CEO Ortusolis – Digital Platform for Micro Entrepreneurs

Mr. Chetan Swaroop – Data Analytics – VKF Council

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