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World Bank's Support to India for MSMEs

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Why in News

Recently, the **World Bank (WB)** and the **Government of India** has signed the **USD 750 million agreement** for an **Emergency Response Programme** for **Micro, Small, and Medium Enterprises (MSMEs)**.

Emergency Response Programmes are dedicated towards **enhancing the resilience of communities and livelihoods** in order to address fragility, poverty and vulnerability to conflict and disaster.

Key Points

- **Financial Support:**

- The USD 750 million loan which is being granted from the **International Bank for Reconstruction and Development (IBRD)** - a part of the WB group), has a maturity of 19 years including a 5-year grace period.
- The WB groups and its private sector arm – **the International Finance Corporation (IFC)**, will support the government's initiatives to protect the **MSME sector** which is severely impacted by the **Covid-19** crisis.
 - Covid-19 **pandemic** has severely impacted the MSME sector leading to loss of livelihoods and **employment**.
- Earlier, the World Bank has committed to support India's emergency Covid-19 response, including the new MSME project with **USD 2.75 billion**.
 - The first **USD 1 billion emergency support was announced in April 2020** for immediate support to **India's health sector**.
 - Another **USD 1 billion project was approved in May** to increase cash transfers and food benefits to the poor and vulnerable, including a more consolidated delivery platform – accessible to both rural and urban populations.

- **Significance:**
 - **Unlocking Liquidity:** Considering the current uncertainties, lenders remain concerned about borrowers' ability to repay – resulting in limited flow of credit. Therefore, the program will support the government's efforts to channel liquidity to the MSME sector by de-risking lending from banks and **Non-Banking Financial Companies (NBFCs)** to MSMEs through a range of instruments, including credit guarantees.
 - **Strengthening NBFCs and SFBs:** The programme will address the urgent and varied needs of the MSMEs by **improving the funding capacity** of key market-oriented channels of credit, such as the **NBFCs and Small Finance Bank (SFBs)**.
 - This will support the government's **refinance facility for NBFCs**.
 - In parallel, the IFC would provide direct support to SFBs through loans and equity.
 - **Enabling Financial Innovations:** Currently only about 8% of MSMEs are served by formal credit channels. The program will **incentivize and mainstream** the use of **fintech** and **digital financial services** in MSME lending and payments.

World Bank Group

- With 189 member countries, the World Bank Group is a unique global partnership which consists of five development institutions.
- **International Bank for Reconstruction and Development (IBRD)** provides loans, credits, and grants.
- **International Development Association (IDA)** provides low- or no-interest loans to low-income countries.
- **The International Finance Corporation (IFC)** provides investment, advice, and asset management to companies and governments.
- **The Multilateral Guarantee Agency (MIGA)** insures lenders and investors against political risk such as war.
- **The International Centre for the Settlement of Investment Disputes (ICSID)** settles investment-disputes between investors and countries.
India is not a member of ICSID.

Way Forward

- The **MSME sector is central** to India's growth and job creation and will be key to the pace of **India's economic recovery**, post Covid-19.

- The financial support by the **World Bank** is a part of reforms that are needed to propel the MSME sector over time. Indian government has announced **Rs.3-lakh crore collateral-free assistance or sovereign credit guarantee** under **Atmanirbhar Bharat Abhiyan**.
- However, the immediate need is to ensure that the **liquidity** infused into the system by the government is **accessed by MSMEs**.
- Equally important is to strengthen the overall financing ecosystem for MSMEs.

Source: PIB