

MSME Credit Guarantee Consultative Conference

Leverage Lending to MSMEs



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Indian Banks' Association (IBA), Financial Services Volunteer Corps (FSVC) and German Technical Cooperation (GTZ) jointly organised the MSME Credit Guarantee Consultative Conference on July 8, 2008 at Hotel Trident, Mumbai.

The lack of collateral security is a major constraint to Micro, Small and Medium Enterprise (MSME) lending, particularly for the fast-growing MSMEs that are backbone of the Indian economy. Internationally, there has been a rich experience of credit guarantee schemes that have had very significant impact on leveraging MSME loans. The conference was arranged to bring out together the key stakeholders in MSME lending in India to learn about the international experience with credit guarantee schemes and to get an update on CGMSEME Trust and its plans for the future.

Welcoming the delegates, Rajendra Mohan Malla, chairman and managing director, Small Industries Development Bank of India (SIDBI) and Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), stressed that the micro and SME sectors are the ones that are propelling growth in the country and it was essential that they get proper assistance.

Though lending to SMEs has grown substantially in the recent past, it is not commensurate with their share in the economy. Ms Usha Thorat, deputy governor, Reserve Bank of India (RBI) in her keynote address urged banks to explore using the self-help group (SHG) model for lending to over 31 million small and micro units to ensure them easy access to funds and low default rates. Banks could also

use the group collateral approach along with SHG model, both of which will help in improving financial inclusion for MSME units. She further urged the banks to price the credit to SMEs according to the risk assessment. She also stressed on the need for financial literacy all across the country. According to her, lack of financial awareness in the rural and unbanked areas prevents entrepreneurs from accessing formal credit. The RBI has been pressurising banks to reach out to the huge unbanked population in the country. The deputy governor also made out a case for credit guarantee trusts to charge premium to banks based on the risk of their SME units. The risk fund could also support the growth of SMEs. Credit would become viable where there was growth, insisted the deputy governor.

The other sessions had presentations made on the Malaysian, Italian and Korean experiences, which highlighted the global best practices and lessons learned from MSME guarantee schemes. Presentations were made on analysis perception among MSMEs based on studies at different locations like Delhi, Hyderabad, Chennai and Bangalore. On the other hand, there were presentations on the feedback by the survey done on bankers' perception. Both the sessions were followed by an open panel discussion of 'The Way Forward'. In this panel discussion, G Srinivasan, chief general manager, Rural Planning and Credit Department (RPCD), RBI stressed upon credit rating, which has still not penetrated adequately within the Indian banking system. The final conclusion was that there was a lack of awareness by both, the MSMEs and also the bankers especially in rural areas. Wide publicity should be given to the CGTMSE by organising workshops for bank operational staff and workshops for entrepreneurs.