

World Bank Loan for MSME Sector

July 2, 2020

The World Bank has approved a **\$750 million MSME Emergency Response program** to support funding to MSMEs, severely impacted by the COVID-19 pandemic. The programme will help in **improving funding capacity of small finance banks (SFBs) and non-banking financial companies (NBFCs)** for the MSME sector.

World Bank Loan

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.** This operation seeks to achieve both these objectives by furthering the role of NBFCs and SCBs as **effective financial intermediaries and leveraging fintech** to broaden the reach of finance into the MSME sector.

The programme will address the **immediate liquidity and credit needs** of some 1.5 million viable MSMEs to help them withstand the impact of the current shock and protect millions of jobs. The loan has a **maturity of 19 years including a five-year grace period.** In parallel, the **IFC is also providing direct support** to SFBs through loans and equity. The WB package will support the MSME package announced by the government under its **'Self-reliant India' programme.**

Status of MSME sector

India's manufacturing activity surged sharply in June but continued in the contraction mode for a third straight month as demand and output suffered from three months of lockdowns to quell the spread of the coronavirus.

India's MSME sector, which contributes **30% of India's GDP and**

40% of exports, is currently facing severe stress. The sector, which employs **150-180 million people**, is now burdened with cancelled orders, loss of customers and supply chain disruptions, causing a sharp fall in revenues. This cash flow shortage is worsened by constraints to accessing finance, potentially creating solvency problems. The broad-based loss of cash flows has triggered a **chain of non-payments throughout the economy, including to the financial sector.**