

Banks can't shun responsibility of lending to MSMEs at cheaper rates

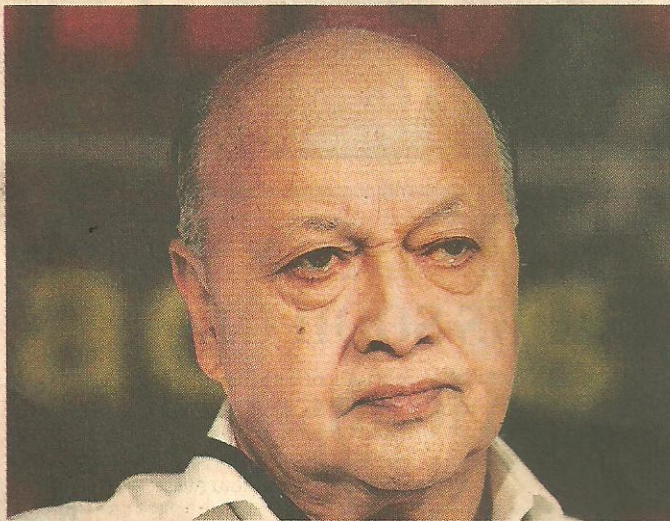
Micro, small and medium enterprises (MSMEs) in India have been growing at a rate of over 10% for the last few years. The sector is facing major hurdles due to unavailability of funds. Virbhadra Singh, minister for MSMEs, in an interview with Parul Chhaparia, says that there is an urgent need to lower interest rates on domestic borrowings and make adequate capital available to MSMEs across the country before the sector takes a bad hit. Excerpts:

What exactly is the problem with domestic funding for MSMEs, especially when it has already been declared a priority sector?

The issue is that the government or private banks, even though required to lend money to MSMEs on priority basis, tend to avoid giving credit to small entrepreneurs. They prefer lending money to big industries, which they think, would be a safer business. But that is sheer perception. If you see the overall scenario, MSMEs have been very good at servicing their debt and repayment. There are lesser defaults in the sector as compared to big companies, partly because the amounts involved are relatively smaller. Even the parliamentary committee has said that the banks are shying away from lending to this sector.

The question is that the government is doing so much to encourage this sector, but it can grow only when there is sufficient fund to do so. In many cases, the collaterals are given by the government, even in such cases, the banks do not lend.

How much cap on interest rate on domestic borrowings for MSMEs do you think would be good enough?



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Virbhadra Singh, MSME minister

The most important thing is that capital should be made available to the small industry. Banks can't shun this responsibility. Whatever money is given should be at a cheaper level. At present, there are government policies, that make it mandatory for banks to lend to SMEs, however, the implementation of these policies depend on the branch managers of the banks. Most of these banks charge more than 10% interest rates. I have received reports that MSMEs have got loan even at 14-15% interest rate. That is why there is a need to fix the interest rates for the sector.

I think an interest rate of 8-10% should be fine for the industry I have already written to the

finance ministry about it. Let us see what their response.

Is there a plan to expand Small Industries Development Bank of India (Sidbi)?

Sidbi should grow. It is the only dedicated bank for the small scale industry but its growth has been minimal. Since its inception, I think, they have only 108-110 branches all over the country and the capital base for these branches is limited. This is despite the fact that this ministry has infused capital in Sidbi every year. The small scale units are operating even in the remotest part of the country. The 110 branches of Sidbi serve no purpose.

The government should increase its capital base and it

should be brought at par with any other nationalised bank. We need more banks for SMEs.

The World Bank in its report has projected global SMEs to grow on an average of just little over 4%. How do we see the growth in India?

Average is always wrong. Our country's GDP (gross domestic product) growth is around 7%, which is far more than the US and other countries. We expect same scenario for Indian MSMEs. It will grow more than last year and will continue contributing to the overall growth of the country.

How about exports? With the global economic crisis, would it not be difficult for Indian MSMEs to sell their products abroad?

Yes, there are financial woes in our traditional exports markets. But to overcome that, we are looking at newer markets. For example, there are not many buyers in old markets like Europe and the US, so we are trying to take our products to countries in Asia and Africa. Our effort would be to continue having 40% of the total exports from the country.

Do you think the mandatory 30% sourcing from SMEs by foreign investors in multi-brand retail will invite trouble from the World Trade Organisation?

It has been done with the approval of Cabinet after going through the comments of all the ministries. The government of India has allowed FDI with reasonable restrictions in the interest of the country. That is how every country has to do. So far, there has been no discussion on the WTO issues, we'll see when it happens.