

NEED OF THE HOUR: STRENGTHENING CREDIT RATINGS TO INCREASE ACCESS TO FINANCE FOR MICRO AND SMALL BUSINESS ENTERPRISES

Small businesses have played a major role in Indian economy and have remained a major source, both in terms of employment generation and fostering entrepreneurship. Although, the Micro, Small & Medium Enterprises (MSME) as a sector has shown impressive growth potential in recent decade, it faces a number of challenges. One of the major challenge is access to adequate and timely credit facility.

Both, the central and state governments with support from banks and financial institutions, have taken several initiatives and started many schemes in order to ease the access of finance to the sector. Institution like National Small Industries Corporation (NSIC) provides financial and marketing assistance to the small and medium enterprise units. Small Industries Development Agency (SIDA) is a single window system for Small Scale Institutions. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was formed by Small Industries Development Bank of India (SIDBI) and Government of India to provide guarantee to MSMEs. However, success of the these schemes still remains questionable. According to the fourth MSME census 7.23% of the MSME units have availed finance from both institutional as well as non-institutional sources. Which depicts that the major chunk of the sector i.e. 92.77% of the units are either self financed or do not have access to credit facilities. Banks and financial institutions generally think MSMEs as a high risk investment as they generally lack creditworthiness and goodwill, do not have adequate collateral, have a lower growth rate and has higher processing costs due to informal business practices and poor reporting of data.

Interestingly, over the past couple of years, credit ratings of small enterprises have emerged as a tool that has gained acceptance from almost all banking and financial institutions in the country. A recent study which was conducted to analyze the impact of credit ratings on small businesses indicated that ratings have an observable and direct impact on the performance of small businesses. Apart from this, credit ratings are also being used as a marketing tool by the micro & small entities to establish their credibility amongst their stakeholders. Additionally, the availability of timely loans with better interest rates has helped these enterprises in reducing their interest costs as the cost of informally arranged credit is relatively high. There is also an increase in business confidence among many of the entrepreneurs.

Onicra believes that there is an imminent need to promote credit rating among small businesses to help them get easy access to finance. Also, some policy level measures that can help increase the reach of MSME ratings are (a) Removal of SSI registration as a prerequisite for availing subsidies based on MSME credit ratings (b) mandatory reduction in interest rate for the small businesses which fall under top three rating on the rating scale, use of rating not only for access to finance but also to avail other subsidies and support.

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