Credit Delivery for MSMEs: The Solutions Still are Far Away

by

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The Prime Minister's announcement regarding enhancement of the credit limits under the Credit Guarantee Scheme for Micro and Small Enterprises is a welcome step. But its potential relating to meeting the credit needs of the micro and small enterprises, especially in a context of a crisis, need to be considered in relation to the larger picture of credit delivery and of the experience various Credit Guarantee Schemes offered in the country.

As a member of the Dr. S. P. Gupta Committee on Development of Small Enterprises (2001) appointed by the Planning Commission, this author was fortunate to be part of the lengthy deliberations on the vexed question of institutional finance to small enterprises. The recommendation relating to the formation of a Trust Fund under then Ministry of small scale, Agro and Rural Industries, was with great expectations. Over the years, as well known to watchers of the MSME scene, these expectations have not proved to be realised to the extent it was desired. In fact, one of the logical grounds for the setting up of the MUDRA, was the unsatisfactory track record of CGTMSE. While MUDRA and CGTMSE, along with the other three specialised Guarantee Schemes., viz., CGFMU, CGSSI, and ECGC, provide a significant base for credit guarantee, along with broad basing of institutional finance, there are two critical gaps which still remains to be addressed properly. On the one hand, the potential offered by MUDRA and the various Credit Guarantee Schemes do not adequately reach the intended beneficiaries, in order to make a big impact. Neither the Ministry of Finance not the Ministry of MSME have taken any serious attempts to pass on the message among the enterprises and adequate signals to the concerned institutions. Secondly, these schemes are just uncoordinated initiatives by institutions that often do not have a holistic view of the domain of MSME finance and global developments in the area.

The potential impact of the Prime Minister's announcement, therefore, need to be examined against the experience of Credit Guarantee and MSME credit delivery during the past few years.

MSME Credit Needs: Policy Implications Around Enterprise Life Cycle

The RBI’s life cycle approach to credit needs of MSMEs is an important step forward in credit planning and delivery. Credit needs of the SMEs are often inadequately met around the world. Several studies, and particularly for example, IFC(2011),and ILO(2012), have brought out the various dimensions of the problem, in relation to adequacy, accessibility, institutional roles, product development and social distribution of credit. In the Indian context, the India Micro, Small and Medium Enterprise Report series(see, ISED, 2010,2011, 2012, 2013, 2014 and 2015) provide both a survey and analysis of issues.

Start-up and Growth are the two lifecycle-specific stages where finance has to play a substantially major role. Globally, the institutional structure catering to financial needs in these two stages are different. Policy attention comes essentially through the visibility factor, on which SMEs are often deficient Start-up has gained much attention over time. Growth finance, in India, is a relatively neglected area.

It is a known fact that the business doings and financials for SMEs are not necessarily what gets reported. The banker is largely trained to look at the numbers, and in such cases, numbers do not necessarily reveal the entire story. One can also argue that, the due diligence capability of some banks to assess the business strength is also weak. So, amidst this murkiness, the onus on the basis of which disbursements are made is placed on the SME assets and collateral. Lack of adequate collateral translates to lack of adequate funds (required for working capital and/or capital expansion) that leads to lower growth rate.

There are two broad sources of fundraising for SMEs : debt and equity. Banks, mostly public sector banks, provide debt. Friends and family, SFCs, angels, venture capitalists and private equity funds provide equity. A large part of the fund raising for SME's takes place through debt. Banks are mandated primarily to assess the SME's assets and collateral, and much as on business assessment. Loans are largely disbursed based on collateral strength, not business strength. A departure from this conventional approach necessitates much focused attention on knowledge base relating to subsectors and value chains. The question of credit delivery hereafter, need to be focused on this vital aspect.

Discouraged Borrowers

While assessing the per capita access to finance in the country, the presence of the phenomenon of 'discouraged borrowers' is overlooked. This category is composed of individuals who are denied financial services (mostly for un-communicated reasons), those reluctant to approach a financial institution for various inhibiting reasons, including the fear of non-cooperation by the institutions, complexity of procedures and formalities, need to provide collaterals and involved documentation, cost of obtaining credit such as scrutiny fee, valuation fee of official valuator, insurance for the collateral, and the time and money involved in numerous visits to the institution - all partly true and partly perceived. Yet another category is, those who would not seek assistance of a financial institution because they are satisfied with the sources they can command on their own, and are not keen on growth. Again, there are persons who would not deal with an institution which levies or pays interest for religious or other social reasons. Though not fully estimated yet, they form significant category who, with a proper counselling exercise, could be brought into the mainstream, and their energies and resources channelized to value addition. MSME is an appropriate area where they can be usefully inducted, and so the MSME policy framework should find an appropriate slot for this missing link. Credit guarantee and managing discouraged borrowers, are two sides of the same coin. Public policy has not yet been successful in this regard. The recent UK legislation relating to 'Right to information' in banks should be a good example for India.

Loan- size and Credit Flow

Irrespective of the life cycle of a firm, the focus of an MSME policy need to address the relative deprivation of these enterprises. While the larger enterprises get a relative advantage in terms of the cost of credit, the smaller units have a relative disadvantage. The cost of credit constraint applies to the banks as well. As a discouraging factor, although the marginal cost of credit delivery to the MSME, and the marginal benefit beyond a MSME are

absent break even is yet to be established. It is in this context that new institutional structures and policies have come up in the past. For example, MUDRA is a major institutional platform. Prime Minister's Jan Dhan Yojana is a new policy initiative. The question now is to look into the effects of these windows on two counts: a) market sentiments in the financial sector; and b) development impact in the real sector.
There are also key questions such as the distribution of credit among the larger, smaller, and the smallest of smaller enterprises. The very fact that the shrinking credit allotment to, and decline in the number of accounts in, the bottom segment of the Micro enterprises, as shown by RBI data (Please see annexure) read with the substantial success of the MUDRA, should draw attention to an imbalance in the credit delivery system. There is also need for reviewing the credit delivery mechanism especially in relation to credit guarantee and other instruments. It would also appear, as if a high protection of 50% insurance cover offered by MUDRA acted as a strong incentive for the financial institutions to push the scheme up.

Credit-Development Synergies in a Federal System

Much of the discussions relating to credit flow to the MSME sector are generic in nature, and therefore, are not likely to contribute to action significantly. The question we pose relates to two areas: First, given the legal and institutional framework, how can public policy guarantee that, for a novice entrepreneur, credit is available from a window of his choice? Secondly, how can it be ensured that, on the credit front, these enterprises remain insulated to be sustainable? The first question can be answered with two complementary approaches: one - the banks must publicize through media or through a counselling machinery the entire applicable product range with analysis of the products suitability for the novice. 'Finance Parks', advocated by India MSME Report 2012 can be a good vehicles for this purpose.

Enhancing the capacity of BDS provider and facilitator , is also crucial. It has been observed that many NBFCs have developed a unique methodology under which loans are offered. First, they select potential areas on a project or cluster approach so that the cost of credit is evenly distributed over a sizeable clientele, and monitoring and mentoring are easily facilitated. Sourcing of the clientele is done through counselling and education. Extension activity precedes issue of credit. The process, on the one hand, provides an opportunity to the financier to understand the risk he is undertaking more fully, and on the other, builds a rapport between the lender and borrower, creating a level of confidence in the financier. The trust so built up is a sure means to avoid or at least mitigate wilful defaults. Appraisal and a provisional sanctioning process is carried out simultaneously with the extension work, even before the client decides on borrowing. Some NBFCs even incorporate facilitation for other BDS services in their portfolio. The commercial bank may benefit from thus shifting the post-application appraisal etc cost to a pre-application level, any additional costs getting neutralized by possible lower incidence of NPA.

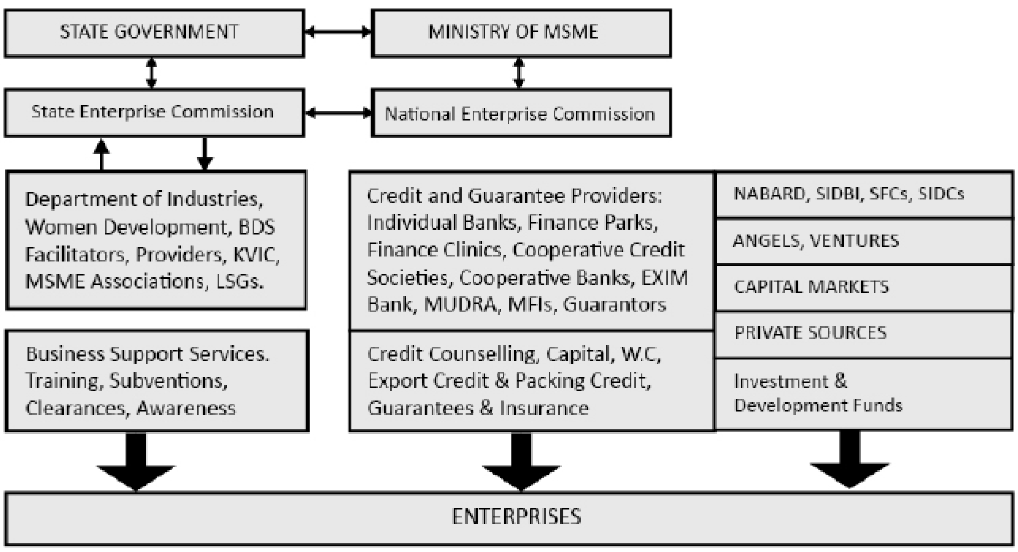
An Answer to the second question requires development of differential products and differential terms according to the nature of the business, the first division being between manufacturing and services. The second division being made according to the nature of the business depending on the asset turn over, payback period, break even characteristics etc. As this is an area where RBI has to provide guidelines, we recommend that Ministry of Finance and RBI formulate appropriate guidelines in order to assist the banks and other financial institutions in developing differentiated products.

While MSMEs is essentially a regional subject with the predominant role of the State governments, the financial resources available at the disposal of the State governments is often minimal. Since the beginning of the century, there has been an enhanced tendency towards centralization of MSME financing, through the hegemonic role of the Public sector banks and the SIDBI as the refinancing agency. The State Finance Corporations, which were key players in the pre-1990s, got seriously weakened. This would essentially mean two things: 1) poor credit off- take from the State level sources; and 2) a progressive distancing of all-India DFIs from their developmental activities. This has created a new space for NBFCs, which need to be examined in relation to their commitment to the overall development of the MSME sector.

It is important to examine the role of SFCs, as also the relevance and constraints of the SFC Act(1951), in the special context of the national policy of decentralization and empowerment of the State governments. Similarly, it is also important to critically examine the role of the co-operative banks in relation to MSME finance, as the co-operative credit system in the country shows a mixed picture differing from State to State.. In the context of the general spirit of a massive broad basing of finance unleashed by MUDRA, the direction of policy need to be the maximum exploitation of all State level financial intermediaries. This may probably demand significant steps towards legislative reforms, especially the SFC Act and the Co-operatives Act.

While provision of credit is the task of financial institutions, and MSME promotion that of the Governments, policies of the past have not been very successful to provide the necessary synergies. Today, this task has been ensured through the consultative platform of State Level Inter institutional Committees, such as SLBC, and SLIIC.

Figure 1: Real Financial Sector Synergies : ISED Model



Source: ISED Small Enterprise Observatory

The Usha Thorat Committee (2010) has recommended professionalization of the SLBCs from their limited role as a meeting place of government and the banks. Before 1990s, the SLBCs were a meeting place of diversified expertise that can contribute to policy making; it is important to bring back this legacy. We also recommend that the Standing Advisory Committee on MSME Finance, at the RBI, also has to imbibe the spirit of the Usha Thorat Committee's recommendations and made a more broad based platform.

Credit Guarantee: The Emerging Dimensions

Non-availability of easy credit for Micro and Small Enterprises (MSEs) is a universal problem both in the developed economies and the emerging ones. Banks and other financial institutions continue to be reluctant to support MSEs for want of adequate tangible collaterals, despite the fact that, world over, MSEs pose smaller risk of defaults than larger loans. In India the Credit Guarantee Scheme (CGS) was set up in 2000 to strengthen credit delivery system and facilitate flow of credit to the MSE sector. To operationalize this the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was launched as a subsidiary of SIDBI.

The Credit Guarantee Fund for MUDRA units under Prime Minister's Mudra Yojana (PMMY) was launched in August 2015 to provide guarantee cover to the financial institutions against the MUDRA loans announced in April 2015. The Government has also announced a scheme, for providing financial support to the weaker sections of the population such as SCs, STs and Women, styled 'Stand-up India Loans'. Under this scheme, between Rs. 10 lakh and Rs. 1 crore, were covered by a separate guarantee scheme, the 'Credit Guarantee Scheme for Stand-up India'.

Besides the above credit guarantees the Exim bank provides guarantees for export related advances. It is important to examine the different types of guarantees provided and their modalities in relation to the Indian context as well international practices.

CGTMSE Guarantees

The main objective of CGTMSE is that the lender should give importance to project viability and secure the composite credit facility, involving both term loan and working capital, purely on the primary security of the assets financed. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender, up to a stated percentage of the credit facility. The brief terms of the Guarantee are as follows:

(1) The Scheme is available to institutions that are enrolled as Member Lending Institutions (MLIs)

(2) Any collateral / third party guarantee free credit facility (both fund as well as non fund based) extended by MLIs, to new as well as existing Micro and Small Enterprises, including Service Enterprises, with a maximum credit cap of Rupees one hundred lakh are eligible to be covered.

(3) The guarantee cover available under the scheme is to the extent of 75% with a maximum guarantee cap of Rs.62.50 lakh in general, 80% with a maximum guarantee cap of

Rs.65 lakhs in respect of MSEs operated or owned by women and all credits / loans in the North East Region, of the sanctioned amount of the credit facility.

(4) The extent of guarantee cover is 85% for micro enterprises for credit up to Rs.5 lakh.

(5) Guarantee will commence from the date of payment of guarantee fee and shall run through the agreed tenure of the term credit in case of term loans / composite loans, and for a period of 5 years where working capital facilities alone are extended to borrowers, or for such period as may be specified by the Guarantee Trust in this behalf.

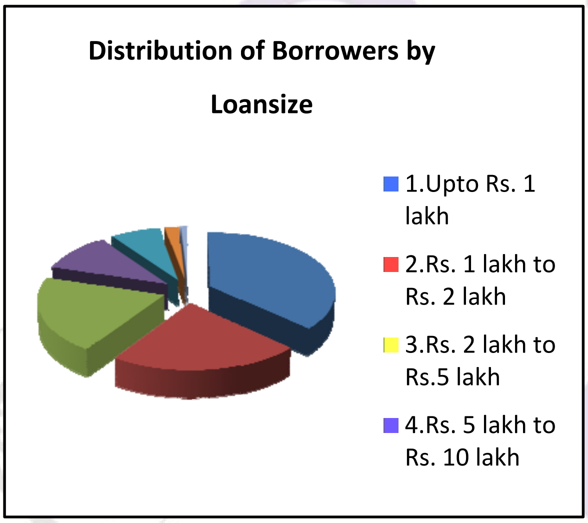
Latest Results

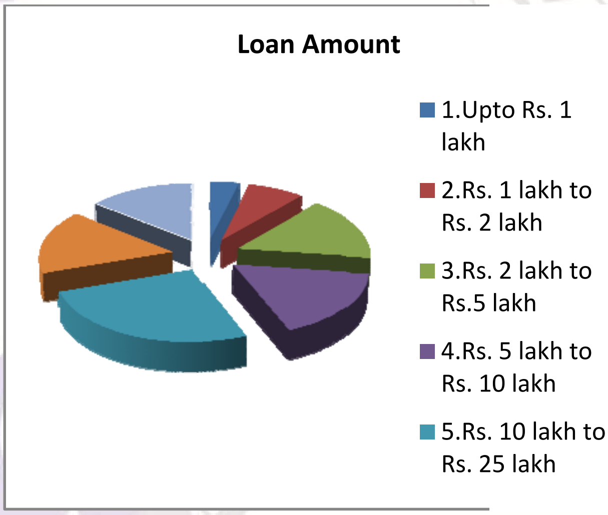
The cumulative number of guarantees approved by the Trust till March 31, 2016 stood at 23.24 lakh for an amount of Rs. 1.09 lakh crore, as follows:

Table 1: CGTMC Guarantees approved upto March 31,2016

Size of the Loan	Guarantees approved	Loan Amount Rs. Crore	Average Loan Size Rs. lakhs
Upto Rs. 1 lakh	856238	4215.61	0.49
Rs. 1 lakh to Rs. 2 lakh	523863	8105.56	1.55
Rs. 2 lakh to Rs.5 lakh	474802	17231.96	3.63
Rs. 5 lakh to Rs. 10 lakh	238585	18274.7	7.66
Rs. 10 lakh to Rs. 25 lakh	163878	28224.76	17.22
Rs. 25 lakh to Rs. 50 lakh	46180	17516.3	37.93
Rs. 50 lakh to Rs. 1 crore	20127	15421.96	76.62
Total	2323673	108990.85	4.69

Source : Compiled by ISED Small Enterprise Observatory





In this context, it is pertinent to note the emerging trends in the area. While the credit Guarantee Scheme emisages a reassurance to the lender, and thereby incentivise it to enhance credit delivery into the MSME sector, the Scheme often fails to ensure the basis conditions. A key condition is safeguards on asset quality. “The levels of NPAs have gradually increased in the CGTMSE portfolio, corresponding to the growth in the programme. The levels of NPAs amongst the MLIs (member lending institutions) and the Indian economy are also a growing concern. The trends in NPA levels in non-collateralized loans are comparatively higher and accordingly, the claims for settlement are on increase with CGTMSE,” (Live Mint, 2016)This tends to synchronise with the fact that NPA in the MSME sector has been rising in the portfolios of premier banks like State Bank of India too. SBI’s MSME loan book is worth Rs.1.89 trillion, where NPAs amount to Rs. 17,032 crore, making about 9%. On the other hand, it is also interesting to note that the Gross NPA level of SIDBI’s MSME Loans, is only about 1.4% after adjusting for “Prudential Write off” and the Net NPA 0.7% after provisioning.(SIDBI, 2016)

The V.K. Sharma Study Group as early as 2010, found that until 30th June 2009, the NPA level of the CGTMC guaranteed loans was 6% of their value, but the claims raised was less than 1% or 16% of the bad loans. The observation of the study Group is important in reflecting the bankers’ attitude towards MSME support measures. In fact field studies by the Institute of Small Enterprises and Development ISED indicate the reluctance of the banks to provide collateral-free loans under CGTMC cover. The Sharma Study Group’s observations are much relevant to the context, “the branch level functionaries prefer to lend against secondary collaterals rather than take guarantee cover from CGTMSE on the assumption that it would be easier for them to recover the dues by liquidation of collaterals. Further, the branch managers were not delegated powers to take the CGTMSE cover for the loans sanctioned by them. The power is normally given to the Controlling Offices. This policy, in fact, delays taking of guarantee cover. The eligible accounts which the branch fails to report to the controlling offices remain uncovered and there is no monitoring mechanism in this regard. These deficiencies needed to be removed.” The ISED research shows that, in cases where loans are referred to the Trust, they are just instantly guaranteed without much assessment of the pay back ability of the borrower as the Trust seems to have put the onus of due diligence on the bankers. CGTMSE, being a union government scheme, doesn’t technically fall under either RBI or IRDA. There is also limited discretion exercised on the kind of loans guaranteed. Once there is some regulatory oversight, maybe these issues can be sorted out and only deserving borrowers can get necessary guarantees. The Sharma Group had further suggested that “as the branch level functionaries have a predilection to lend against collaterals, the Group recommends that the Chief Executive Officers (CEOs) of banks assume complete and total ownership in the matter of strongly encouraging the branch level functionaries to avail of the CGS cover, including making performance in this regard a criterion in the evaluation of their field staff.” The current position, as indicated in the table, above proves that even such action had only marginal effect, as the overall claim level has increased from 1.5 to 2.3% only, over the six years following.

MUDRA Loans Guarantees

MUDRA loans i.e. loans upto Rs.10 lakh, are collateral free. To mitigate the issue of collaterals, MUDRA offers a Credit Guarantee Product to the MLIs of the Credit Guarantee Fund for MUDRA Units(CGFMU). The lending institutions are guaranteed a compensation of 50% of the loan amount in default in the portfolio.(PIB, 2016) All eligible micro loans sanctioned since April 08, 2015, when the Mudra Loans Scheme was launched, have been brought under the Scheme. Taking into consideration that the individual loan sizes would expectedly be small and the number of loans will be large, MUDRA Credit Guarantee scheme provides for a Portfolio Guarantee. Under this, Credit Guarantee or Risk Sharing is provided for a portfolio of homogenous loans instead of a Scheme for individual loan - by - loan guarantee. This is expected to create administrative efficiencies, decrease cost of funds and increase receptiveness for the Credit Guarantee product by lenders and cheaper finance for the entrepreneurs. As at March 31, 2016, Rs. 1,32,954.73 crore has been disbursed to 348.81 lakh borrowers through 160 partner institutions – 27 Public Sector Banks, 17 Private Sector Banks, 31 Regional Rural Banks, 1 State Cooperative Bank, 12 Urban Cooperative Banks, 26 Non Banking Finance Companies(NBFC) and 46 Microfinance Institutions (including 10 non NBFC MFIs). It is yet not time to judge the actual performance of the Scheme and the claims against the Guarantee.

Credit Guarantee Scheme for Stand Up India (CGSSI)

The Stand Up India scheme was introduced to provide collateral free financial assistance to the enterprises owned by disadvantaged groups, such as SC / ST and women. The range of credit is Rs. 10 lakh to Rs. 1.00 crore. The CGSSI was launched on January 6, 2016 to guarantee the loans sanctioned to Stand –up India beneficiaries and the Credit Guarantee Fund was created by a Gazette notification on April 25, 2016. The Fund shall provide guarantee cover to the extent of 80% of the amount in default for credit facility above Rs.10 lakhs and upto Rs.50 lakhs, subject to a maximum of Rs.40 lakhs. For credit facility above Rs.50 lakhs and upto Rs.100 lakhs - Rs.40 lakh plus 50% of amount in default above Rs.50 lakhs subject to overall ceiling of Rs.65 lakhs of the amount in default.

Export Credit Guarantee

Though not specifically meant to cover MSMEs, the following guarantees are provided to the banks that provide export assistance both funded and non-funded.

a) Financial Guarantees : Financial Guarantees are issued to banks in India to protect them from risks of loss involved in their extending financial support at pre-shipment and post-shipment stages. These also cover a host of non-fund based facilities that are extended to exporters.

b) Export Performance Guarantee : Export Performance Guarantee is an insurance cover for banks, which issues various kinds of guarantees on behalf of exporters in order to facilitate export transactions.

c) Special Schemes : Transfer Guarantee meant to protect banks which add confirmation to Letters of Credit opened by foreign banks, Insurance cover for Buyers Credit and Lines of Credit, and Exchange Fluctuation Risk Insurance.

d) ECGC Whole Turnover Post-shipment Guarantee Scheme : The Whole Turnover Post-shipment Guarantee Scheme of the Export Credit Guarantee Corporation Ltd. (ECGC) provides protection to banks against non-payment of post-shipment credit by exporters. Banks may, in the interest of export promotion, consider opting for the Whole Turnover Post-shipment Policy. As the post-shipment guarantee is mainly intended to benefit the banks, the cost of premium in respect of the Whole Turnover Post-shipment Guarantee taken out by banks may be absorbed by the banks and not passed on to the exporters.

Where the risks are covered by the ECGC, banks should not slacken their efforts towards realisation of their dues against long outstanding export bills.

In the absence of details of the Guarantees issued under the MSME scheme, the risk covered and paid for in the public domain, it has not been possible to study the implications of the ECGC Scheme for MSMEs.

Learning from the Global Practices

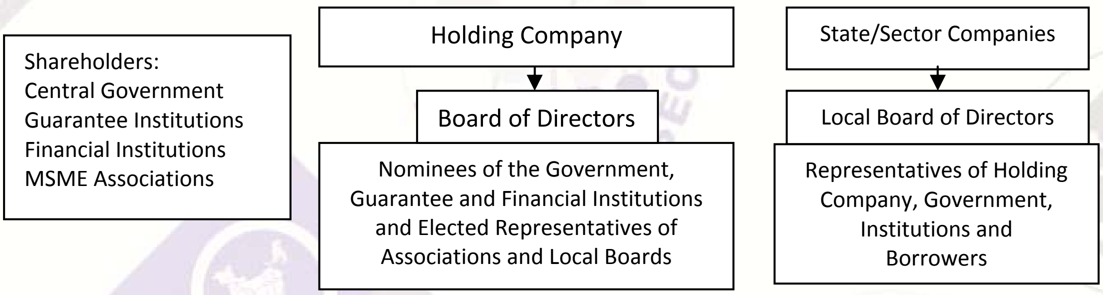
There were more than 2,250 credit guarantee schemes of different types in operation in over 70 countries by the early 2000s (Pombo and Herrero, 2003). Since the 1950s, public credit guarantee schemes, targeted at some sector, region, or type of firm (such as SMEs, young firms, exporters, and innovators) considered to be underserved by private financial intermediaries and/or whose growth is thought to have positive externalities. In Indonesia, the state-owned fund Perum Jaminan Kredit Indonesia (Perum Jamkrindo), established in 1971, provides guarantees and technical assistance to SMEs and cooperatives in all industries. In Thailand, the Small Business Credit Guarantee Corporation (SBCG) was established by the Ministry of Economy and Finance in 1991. Numerous examples of PGSs exist also in advanced economies. Examples of public schemes operated by public agencies include: the Canada Small Business Financing Program (CSBF), a loan loss-sharing programme for government and private sector lenders, managed by Industry Canada, the government’s department with responsibility for regional economic development, investment, R&D and innovation; Chile’s Fondo de Garantía para Pequeños Empresarios (FOGAPE), managed by Banco Estado, the state-owned bank; Denmark’s Vaekstfonden (Growth Fund), a government investment fund which provides guarantees and subordinate loans to SME’s as well as equity funding for early stage businesses; Estonia’s KredEx, a legally independent credit agency 100% owned by the Ministry of Economic Affairs and Communications; the Japanese Credit Guarantee Corporations (CGCs), which are run by the government owned Japanese Finance Corporations (JFCs); the Slovak Republic’s SME guarantee programmes managed by the Slovak Guarantee Development Bank, owned by the Ministry of Finance; the government-owned Slovene Enterprise Fund; and the US Small Business Administration’s (SBA) 7a Loan Program. Public credit guarantee schemes have become increasingly popular during the past few decades and are now widespread in both developed and developing countries. Moreover, all multilateral development banks operate some form of credit guarantee scheme.

In some countries, particularly those characterised by a strong federal model, public guarantee funds are articulated as a network of local or regional funds, overseen by a central institution. In Russia, for example, the Programme of Guarantee Fund Creation and Development was set up, in 2006, by the Ministry of Economic Development. The Guarantee Fund, is co-funded by the federal and regional governments. The capital contributions vary across regions, with the federal government providing at least 50% of the capital. On an average, regions contribute up to 30%, and the remaining 70% is provided by the Ministry of Economic Development. In some regions, such as Moscow and St. Petersburg the level of co-financing is equal at 50% each, while in some less developed areas the local contribution is as little as 20%. Eighty-three organisations have been created in 79 regions to operate this Fund. (OECD, 2013). In Taiwan, the government owns 99% stake in the Small & Medium Enterprise Credit Fund (SMEG) and the remaining 1% is owned by the financial institutions. In the Philippines, however, the Small Business Guarantee & Finance Corp (national fund) the stakeholders are - National Government 45%; 55% by 5 state banks & insurance company.

Lessons for India

The best models that can be emulated in India will be a composite organization where stake holder participation is ensured. All the Credit Guarantee schemes should brought under a Holding Company umbrella, which should include financing institutions relevant to MSMEs, such as Banks, CGS, CGTMSE, CGFMU, MSME Export Guarantee, Guarantee institutions concerning Cooperatives and MFIs, covering all the three sectors of the economy. Individual sectoral units on a state or region basis may be formed under the holding company. Private sector stake holders including the MSMEs, through their representative associations, may be drawn in. While all the beneficiaries under the system become shareholders, with voting rights to elect at least one director of the respective unit, the fee paid by the borrowers being treated as their share contribution which should be forfeited on the termination of the loan. The representatives of such units and other stakeholders may form the board of the Holding Company. Recognition of the ownership of the guarantee schemes by the banks and financial institutions is essential for them to obtain, for their MSME clients, the full benefits of collateral free advances. In our opinion, the initiative must come from a joint establishment involving NABARD, SIDBI, RBI and Exim Bank.

Suggested Organization for the Credit Guarantee Institutions



Source : ISED Small Enterprise Observatory

The Way Forward

Finance is undoubtedly a necessary, but not a sufficient, condition for MSME sustainability. India has pioneered several experiments in ensuring credit in an inclusive manner. While these social aspects of finance are crucial, it is important to note that, there are several non finance aspects that are critical and pressing in ensuring sustainability of these enterprises. In India, public policy is reflected through recommendations of various expert committees. unfortunately, However, finance on the one hand, and non financial services on the other, proceed rather as parallel systems in our country. It is on top of such a dual system that institutional platforms such as CETMSE and MUDRA attempt to offer solutions. The broad basing of micro lending is an important step forward. But it needs to be supported by an effective knowledge system that can address the challenges of MSME development in the country. Guaranteeing finance is a positive step forward for start-up promotion. But such guarantees can ensure to serve the MSME interests only if a meaningful response comes from the Member Lending Institutions. The *sine qua non* is an efficient economic governance system, which the country is still lacking. Government dictates, by themselves, will not help the MSMEs under an inefficient economic governance system.

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