World Bank’s Support to India

Part of: GS-III- Economy (PT-MAINS-PERSONALITY TEST)

World Bank

- With 189 member countries, the World Bank Group is a unique global partnership which consists of five development institutions.
- **International Bank for Reconstruction and Development (IBRD)** provides loans, credits, and grants.
- **International Development Association (IDA)** provides low- or no-interest loans to low-income countries.
- **The International Finance Corporation (IFC)** provides investment, advice, and asset management to companies and governments.
- **The Multilateral Guarantee Agency (MIGA)** insures lenders and investors against political risk such as war.
- **The International Centre for the Settlement of Investment Disputes (ICSID)** settles investment disputes between investors and countries. India is not a member of ICSID.

In NEWS

Recently, the World Bank (WB) and the Government of India has signed the USD 750 million agreement for an Emergency Response Programme for Micro, Small, and Medium Enterprises (MSMEs).

Emergency Response Programmes are dedicated towards enhancing the resilience of communities and livelihoods in order to address fragility, poverty and vulnerability to conflict and disaster.

Financial Support:

- The USD 750 million loan which is being granted from the International Bank for Reconstruction and Development (IBRD - a part of the WB group), has a maturity of 19 years including a 5-year grace period.
- The WB groups and its private sector arm – the International Finance Corporation (IFC), will support the government’s initiatives to protect the MSME sector which is severely impacted by the Covid-19 crisis.
- Covid-19 pandemic has severely impacted the MSME sector leading to loss of livelihoods and employment.
- Earlier, the World Bank has committed to support India’s emergency Covid-19 response, including the new MSME project with USD 2.75 billion.
  - The first USD 1 billion emergency support was announced in April 2020 for immediate support to India’s health sector.
  - Another USD 1 billion project was approved in May to increase cash
transfers and food benefits to the poor and vulnerable, including a more consolidated delivery platform – accessible to both rural and urban populations.

Significance:

- **Unlocking Liquidity:** Considering the current uncertainties, lenders remain concerned about borrowers’ ability to repay – resulting in limited flow of credit.
- Therefore, the program will support the government’s efforts to channel liquidity to the MSME sector by de-risking lending from banks and **Non-Banking Financial Companies (NBFCs)** to MSMEs through a range of instruments, including credit guarantees.
- **Strengthening NBFCs and SFBs:** The programme will address the urgent and varied needs of the MSMEs by **improving the funding capacity** of key market-oriented channels of credit, such as the **NBFCs and Small Finance Bank (SFBs)**. This will support the government’s **refinance facility for NBFCs**. In parallel, the IFC would provide direct support to SFBs through loans and equity.
- **Enabling Financial Innovations:** Currently only about 8% of MSMEs are served by formal credit channels. The program will incentivize and mainstream the use of **fintech** and **digital financial services** in MSME lending and payments.

Way forward

The **MSME sector is central** to India’s growth and job creation and will be key to the pace of **India’s economic recovery**, post Covid-19. The financial support by the **World Bank** is a part of reforms that are needed to propel the MSME sector over time. Indian government has announced **Rs.3-lakh crore collateral-free assistance or sovereign credit guarantee** under **Atmanirbhar Bharat Abhiyan**.

However, 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.