

Results Profile: Business in India



FUELING THE ENGINES OF BUSINESS GROWTH

Small- and Medium-Sized Enterprises in India

Overview

Small- and medium-sized enterprises—the engines of economic growth and job creation—need ready access to credit to begin operations and grow. Through a project launched in 2005, [IBRD](#) has helped India channel finance to more than 900 small- and medium-sized enterprises (SMEs), businesses that boosted their productivity and that today employ an estimated 74,000 people. An additional loan in 2009 has extended loans to 1,000 such enterprises.

Full Brief—4 Pages

[Fueling the Engines of Business Growth in India](#)—PDF, April 2010

Challenge

Vibrant small- and medium-sized enterprises are key engines of economic growth. They have significant potential to create and provide jobs, especially for people who are making the transition out of agriculture and into urban environments. However, in India, SMEs' access to adequate and timely financing on competitive terms, particularly longer-term loans, is challenging. This problem has been exacerbated by the global financial crisis, and the ensuing slowdown in credit growth in the Indian financial sector has meant reduced availability of even shorter-term, working capital funding. This slowdown has hampered the growth of SMEs and impacted overall growth and development.

Approach

In 2004, the Government of India, the [Small Industries Development Bank of India](#) (SIDBI, a public sector development finance institution for SMEs), and a number of commercial banks asked IBRD to support efforts to remove the bottlenecks that constrained SME access to finance, and to help foster their development. In response, the World Bank prepared a policy note identifying constraints in SME financing and development, which provided the analytical foundation for a [\\$120 million “parent” project](#), begun in April 2005. In the wake of the global financial crisis and at the request of the Indian government, IBRD provided an additional \$400 million for a [second project in 2009](#). Both projects entail loans to SIDBI.

Under the first project, a credit facility supported by the parent project channeled long-term loans to SMEs, while a

More Results 

\$19

average yearly increase in sales for the small- and medium-sized businesses after receiving financing through SIDBI.

MORE INFORMATION

- » See project documents
- » Feature story SME project snippets
- » European Commission in Botswana
- » Learn more about SIDBI
- » Learn more about the project
- » Our work in India
- » World Bank's Country Strategy for India 2009-2012
- » Contact us in India

new pilot risk-sharing facility offered a new risk-based guarantee product in the Indian financial market. By sharing risk with banks, the facility provided the comfort banks needed to help expand lending to SMEs. The additional IBRD project includes a focus on both term and working capital loans and is expanding the project's reach to areas not covered under the parent project, including India's low-growth states, thereby promoting inclusive growth. The approach has also helped leverage donor funding to build technical capacity.

Results

IBRD has helped channel much-needed funding to Indian SMEs. In the parent project, loans reached 927 SMEs in 10 Indian states. A survey by an independent agency in 2008 showed that two-thirds of the surveyed beneficiary-SMEs have used the funds to upgrade their technology, which, in turn, helped increase productivity (to \$16,110 in sales per employee from \$14,085). Sales and profits in the SMEs surveyed grew on average by 19 percent a year and 15 percent a year respectively, after receiving a SIDBI loan. Extrapolating from the survey sample data for 267 beneficiary SMEs, the estimated annual sales turnover of the 927 beneficiary SMEs, which employed 74,000 people, was \$1.2 billion.

Performance on project outcome indicators for the parent project, such as the growth of loans to SMEs, growth of long-term loans to SMEs, and a reduction in non-performing loans, has been impressive. While a targeted portfolio growth of 37 percent and 26 percent was projected, respectively, for total SME lending and long-term lending, actual growth by the closing date (June 2009) was 98 percent for both. Recovery of loans has been strong and lending practices at the SIDBI branches covered by the project have improved steadily.

In the few months of implementation of the second IBRD project in 2009, more than 1,000 SMEs have been provided term and working capital loans totaling around \$125 million. These include loans against receivables that provided these SMEs much-needed liquidity support as they coped with the legacies of the financial crisis: namely longer inventory and payment cycles from their customers, which are typically large firms.

Partners

The project has benefitted from very close collaboration between SIDBI, the Bank and other development partners, with strong support from the government. The project entails cooperation with donors for the [DfID](#)-financed technical advisory component. Germany's [KfW](#) and [GTZ](#) assisted with additional funding.

IBRD also worked closely with the Bank Group's private sector investment branch, the [International Finance Corporation](#), during the parent project's preparation.

“ My first loan from SIDBI, for just Rs. 4 lakhs (\$8,000) helped me break into the export market. ”

— *I.C. Agarwal, engineer-turned-entrepreneur, Delhi*

Toward the Future

The implementation of the second project is under way. Keeping up the disbursement of loans to SMEs, disseminating the good practices learned, and building the synergies between the credit line and the technical assistance provided are key focus areas. Such synergies can be built through channeling to a greater extent the credit line to areas where technical assistance and SME-cluster development activities are taking place.

Last updated: 2010-04-28