

MARKETS IN MOTION

developments that matter in financial markets

MSMEs in Emerging Markets

“Ministry of MSME has taken a lot of initiatives for the development of the MSME sector in the country and a comprehensive package comprising schemes for providing support for marketing, technological upgradation, and credit facilitation to assist the sector in meeting its financial requirements is being implemented by the ministry.”
Dinsha J Patel, India's Minister of State for MSMEs

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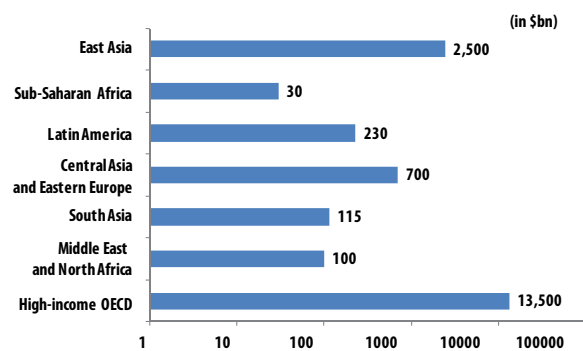
Introduction

Micro, small, and medium enterprises (MSMEs) contribute significantly to economic development, particularly in emerging economies, where formal (registered) MSMEs account for approximately 45 percent of employment and 33 percent of GDP. When informal (unregistered) MSMEs are included, the contribution to economic development is even greater.

Credit Needs of MSMEs

According to a report released in October 2010 by International Financial Corporation, the total unmet credit needs of all formal and informal MSMEs in emerging markets today are in the range of \$2.1 trillion to \$2.5 trillion. In fact, of the estimated 365 million to 445 million registered and unregistered MSMEs in the developing world, approximately 70 percent do not use external financing from financial institutions, although they are in need of it. The gap is equivalent to approximately 14 percent of total developing countries' GDP and about one-third of the current total credit outstanding to MSMEs in emerging markets, globally.

The credit outstanding of formal MSMEs

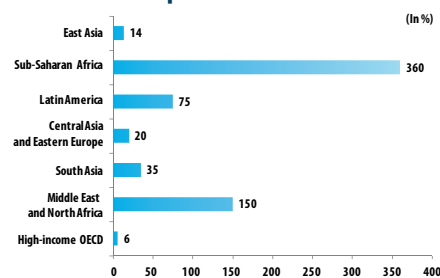


Source: www.ifc.org

MSMEs and Bank Credit

Approximately 70 to 76 percent of all MSMEs in emerging markets already have a bank account but do not enjoy formal credit from financial institutions. In fact, 80 to 88 percent of the value of the credit gap for formal MSMEs in emerging markets (that is, roughly \$600 billion to \$730 billion out of \$700 billion to \$850 billion) comes from MSMEs with a bank account.

MSME Credit Gap



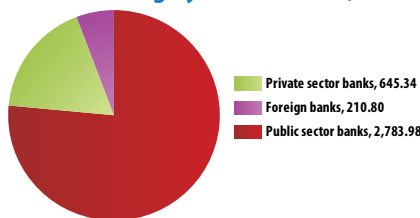
Source: www.ifc.org

Latin America has the highest percentage of MSMEs with access to finance (approximately 60 percent), followed by Central Asia and Eastern Europe (approximately 45 percent). By contrast, more than 85 percent of MSMEs in East Asia, South Asia, and Sub-Saharan Africa are unserved or underserved.

India and MSMEs

The MSME sector plays a crucial role in the Indian economy in employment generation, exports, and economic empowerment of a vast section of the people. As per data released by the Ministry of MSMEs, there are about 26 million enterprises in this sector. The sector accounts for 45 percent of manufactured output and eight percent of GDP. MSMEs contribute close to 40 percent of all exports from the country and employ nearly 60 million people, next to the agricultural sector.

MSME Lending by Indian Banks (March 2010) (in Rs bn)



Source: RBI

MSMEs have significant unmet credit needs. The barriers to meeting these are driven by weaknesses in the enabling environment such as the regulatory environment for financial institutions and enterprises' ability to collateralize assets, limited current financial infrastructure, and banks' capacity and capability in working effectively with MSMEs. A significant majority of MSMEs already has a bank account and a functioning relationship with a financial institution can be easily built. Leveraging these relationships will be the key to addressing the MSME challenge.

Contributed by M Ravindran

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Published by
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