DELIVERING INCLUSIVE & SUSTAINABLE STRATEGIC SECTORS (MICRO, SMES, AGRICULTURE)

Global Symposium on Development Financial Institutions,

Lalit Raina
Kuala Lumpur, September 2017
Key Attributes of a Successful MSME/Agro Operation

• In a multiple beneficiary scenario, the most effective operational product is a “Financial Intermediary” operation to maximize geographical /sector diversity and outreach;

• In case of MDB financing, the best results have been achieved when the Borrower has been a NDB (and not the Government). The Government provides a guarantee to the MDB against NDB risk, sometimes charging a “guarantee fee”;

• The NDB then preferably acts as a wholesaler of funds to other private participating financial intermediaries (PFIs) like banks, leasing companies, credit cooperatives, rather than acting as a “Direct Lender” to the MSMEs and farming beneficiaries;

• The NDB charges a risk based wholesale interest rate spread to the PFIs based on its assessment of the “specific PFI risk”;

THE WORLD BANK
Key Attributes of a Successful MSME/Agro Operation

• The PFIs then lend directly to the ultimate beneficiaries based on their assessment of individual credit risks;

• The PFI downstream interest rates spreads are commercially determined by assessment of individual beneficiary credit risk, typical collateral availability, and competition among PFIs.

• Micro SMEs and Agri sector beneficiary programs sometimes include a credit risk guarantee mechanism;

• The NDBs sometimes provide or should provide:
  - specialized TA to assist MSMEs to prepare bankable credit application packages;
  - One Stop Shop to provide lender and funding choices for MSMEs;
  - Assistance in creating a Credit Information Database for MSMEs