



# Policy on Credit Rating for MSMEs

## Why in News

The government is in the process of **formulating a policy on [credit ratings](#)** for **micro, small and medium enterprises (MSMEs)** to help investors and other players take an informed decision.

- The government plans to start **digital data-based credit system**.

## Key Points

### ▪ Challenges with the current system-

- **Under-served:** MSMEs have remained largely **under-served by Financial Institutions** despite their contribution to the economy.
- **Creditworthiness:** It is a **difficult task** for banks and financial institutions **to assess the creditworthiness, choosing enterprises with good CIBIL score, detailed audited financial statements or have assets to offer as collateral.**
- **Availability of Finance:** **Service-oriented SMEs are unable to mortgage their equipment against loans** like the manufacturing sector, posing a challenge for them to avail finance.
- **Credit Flow:** There is a **gap in the availability of funds to the SMEs and the government's focus on increasing credit flow** to this segment which needs to be filled up.

### ▪ How will the digital data-based credit system help the sector?

- Alternative credit scoring based on digital data gives the lender a **more holistic view of a borrower's creditworthiness and associated risks for credit underwriting.**
- New sources such as **transaction data and surrogate data like utility payments, bill payments** give a **detailed view of the business.**
- **Deploying credit underwriting mechanisms** powered by advanced technologies such as **Artificial Intelligence (AI), machine learning and data analytics** can provide **useful insights.**
- Each of the **data points can be treated as variables for credit appraisal** and can be **assigned specific weightage depending on the nature of the businesses** within the overall MSME segment.

Source: TH