



ROLE OF SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA FOUNDATION FOR MICRO CREDIT IN INDIA

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ABSTRACT

This paper is purpose of only research. Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

KEYWORDS :

Business Domain of SIDBI:

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 5.1 crore units, creating employment of about 11.7 crore, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports in terms of value, about 37% of GDP.

The business strategy of SIDBI is to address the financial and non-financial gaps in MSME eco-system. Financial support to MSMEs is provided by way of (a) Indirect / refinance to banks / Financial Institutions for onward lending to MSMEs and (b) direct finance in the niche areas like risk capital, sustainable finance, receivable financing, service sector financing, etc. As on March 31, 2016, SIDBI has made cumulative disbursements of about `4.50 lakh crore benefitting about 350 lakh persons. By this way, SIDBI would be complementing and supplementing efforts of banks/ FIs in meeting diverse credit needs of MSMEs.

Development Outlook:

In order to promote and develop the MSME sector, SIDBI adopts a 'Credit Plus' approach, under which, besides credit, SIDBI supports enterprise development, skill up-gradation, marketing support, cluster development, technology modernisation, etc., in the MSME sector through its promotional and developmental support to MSMEs. These P&D support have benefitted more than 2.3 lakh persons in the MSME sector, created more than 1.5 lakh employment and helped in setting up more than 80,000 units, mostly rural enterprises.

SIDBI Foundation for Micro Credit (SFMC) was launched by the Bank in January 1999 for channelizing funds to the poor in line with the success of pilot phase of Micro Credit Scheme. SFMC's mission is to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal and formal financial sector to provide micro finance services to the poor, especially women.

Approach:

SFMC is the apex wholesaler for micro finance in India providing a complete range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) including two-tier MFIs so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the

sector. SFMC is also playing significant role in advocating appropriate policies and regulations and to act as a platform for exchange of information across the sector.

The launch of SFMC by SIDBI has been with a clear focus and strategy to make it as the main purveyor of micro finance in the country. Operations of SFMC in the coming years, are not only expected to contribute significantly towards development of a more formal, extensive and effective micro finance sector serving the poor in India, but also ensure sustainability at all levels viz. at the apex level (SFMC), at the MFI level and at the client level to ensure continuance of such arrangement. Most importantly, SFMC has strived to create a mechanism in which there should be no barriers to growth. Under the dispensation, there is focus on innovation and action research.

Rating of MFIs:

Most micro finance programmes are being operated by NGOs and are not subjected to regulation and supervision as they are registered as Societies or Trusts. Non-regulation of these institutions has worked to their detriment and these institutions are not able to have smooth access to funds from the financial sector which is vary of lending to such entities. This constraint, coupled with the fact that SFMC was launched with a view to upscale the flow of micro credit with enabling policy modifications relating to simplification of the procedures in a ailment of assistance and substantial relaxation in the security/ collateral requirement posed a difficult challenge. Therefore, to meet the requirements of the revised dispensation which called for selection of suitable micro finance intermediaries which could be trusted with bulk assistance without collateral constraints,

Customized Support to MFIs:

MFIs are provided annual need based assistance. One of the unique features of the scheme is the comprehensive Capacity Building Support being provided to the MFIs/ NGOs to expand their operations as well as to increase their efficiency. Customized financial support comprising of loans, capacity building grant as well as equity/ quasi equity is being provided to the client institutions.

Minimal Security Requirement:

Credit worthiness is based on the rating of the borrowing institutions rather than availability of security/ collateral requirements. Term Deposit Receipts (TDRs) issued by Scheduled Commercial Banks/ SIDBI for an amount equivalent to 10% /5% /2.5% (depending upon geographical area of operation and duration of partnership with SIDBI).

Methodology Neutral:

SIDBI's support is not for any specific methodology. MFIs may on lend directly to SHGs/ individuals or route their assistance through their partner NGOs & MFIs. They may also adopt any other lending channel so as to effectively reach financial assistance to the poor clients.

Capacity Building Support for the Sector:

SFMC's capacity building efforts are directed not only towards MFIs but also towards smaller/ grass root institutions engaged in micro finance operations, training, consultancy, rating and impact assessment etc., and other service providers in the form of training, seminars, workshops, orientation and exposure visits.

Innovation & Action Research:

SIDBI has taken a number of initiatives in launching / facilitating introduction / market-making of new concepts in the sector. The launch of an electronic portal for information dissemination and knowledge sharing within the sector and development of MIS software for MFIs are some such initiatives. Other major initiatives include developing a common charter of accounts for the sector, creating gender and environment awareness, promoting innovations and action research on emerging concepts etc. The environment appraisal of SFMC activities was carried out by the Society for Participatory Research in Asia (PRA), New Delhi and covered areas like identification of environmental risks associated with some of the most relevant activities funded through the SFMC microfinance route, developing a format for identifying these risks in micro-project identification and drawing up some simple guidelines on risk mitigation. The appraisal covered 15 partner MFIs of the Bank located in and around Chennai, Hyderabad, Bhubaneswar and Kolkata.

Opening of Specialized Microfinance Branches:

Seven dedicated microfinance branches have been opened by the Bank at Lucknow, Chennai, Hyderabad, Bangalore, Kolkata, Bhubaneswar and Guwahati to deliver micro finance services through intermediaries in a timely and customer-friendly manner. While Hyderabad, Chennai, Bangalore are major hubs of microfinance activity in the country, the other centres viz. Lucknow, Kolkata, Bhubaneswar and Guwahati have been targeted with the primary objective of giving an impetus to microfinance programmes in the underserved areas.

On-lending:

In keeping with its mission, SIDBI Foundation identifies, nurtures and develops select potential MFIs as long term partners and provides credit support for their micro credit initiatives. The eligible partner institutions of SIDBI Foundation, therefore, comprise large and medium scale MFIs having minimum fund requirement of ` 10 lakh per annum. Large and medium scale MFIs having considerable experience in managing micro credit programmes, high growth potential, good track record, professional expertise and committed to viability are provided financial assistance for on-lending. Under the present dispensation, annual need based assistance is provided to enable MFIs to expand their scale of operations and achieve self sufficiency at the earliest. Lending is based strictly on an intensive in-house appraisal supplemented with the capacity assessment rating by an independent professional agency. Liberal security norms have also been adopted to reduce procedural bottlenecks as well as to facilitate easy disbursements.

Capacity Building:

The long-term future of the micro-finance sector depends on MFIs being able to achieve operational, financial and institutional sustainability. The constraints and challenges vary with the different types and development stage of MFIs. Most MFIs are currently operating below operational viability and use grant funds from donors for financing up-front costs of establishing new groups and covering initial losses incurred until the lending volume builds up to a break-even level. The MFIs are generally constrained in reaching a

break-even level and finally achieving sustainability, primarily due to a narrow client and product base, high operational and administrative costs for delivering credit to the poor, and their inability to mobilize requisite resources.

Liquidity Management:

In view of the fact that liquidity is a major concern of many of the middle level MFIs and a small working capital support can go a long way in their better liquidity management and thus pave way for faster growth, SFMC has introduced a special short term loan scheme, Liquidity Management Support (LMS) for the long term partners.

Equity:

Provision of equity capital to the NBFC-MFIs is perceived as an emerging requirement of the micro finance sector in India. SIDBI provides equity capital to eligible institutions not only to enable them to meet the capital adequacy requirements but also to help them leverage debt funds.

Transformation Loan:

The Transformation Loan (TL) product is envisaged as a quasi-equity type support to partner MFIs that are in the process of transforming themselves / their existing structure into a more formal and regulated set-up for exclusively handling micro finance operations in a focused manner. Being quasi-equity in nature, TL helps the MFIs not only in enhancing their equity base but also in leveraging loan funds and expanding their micro credit operations on a sustainable basis. The product has the feature of conversion into equity after a specified period of time subject to the MFI attaining certain structural, operational and financial benchmarks. This non-interest bearing support facilitates the young but well performing MFIs to make long term institutional investments and acts as a constant incentive to transform themselves into formal and regulated entities.

Micro Enterprise Loans:

In order to build and strengthen new set of intermediaries for Micro Enterprise Loans, the Bank has formulated new scheme for Micro Enterprise Loans. Institutions/ MFIs with minimum fund requirement of ` 25 lakh p.a. and having considerable experience in financial intermediation/ facilitating or setting up of enterprises/ providing escort services to SSI/ tiny units/ networking or active interface with SSIs etc. and having professional expertise and capability to handle on-lending transactions shall be eligible under the dispensation.

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