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A STUDY ON ROLE OF SIDBI FOR CREDIT SUPPORT SERVICES (WITH SPECIAL REFERENCE TO NORTH EASTERN REGION)

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Abstract

SIDBI achieved a good growth in its credit sanctions and disbursement to the MSNE sector, over the years, SIDBI made a multifarious efforts to develop the MFI sector. Beginning with the exploratory phase when SIDBI had started its intervention by way of extending small loans and grants to different agencies involves in various developmental activities including micro credit, the bank has moved towards the growth phase when it provided need-based financial assistance by way of loans/credit support to MFIs on an annual bases and also adequate and customized package of capacity building grant tailored to the needs of the MFIs with a view to building their operational, financial and institutional capacities.

Keyword- bank, credit support, direct finance, MFIs, refinance.

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Introduction

SIDBI play a role in the growth and development as it provides required infrastructure for economic development of the country. The world has become a global market. The impact of globalization privatization and liberalization has totally changed the style of Banking sector in India.

Small Industries Development Bank of India (SIDBI) Set up by an act of Parliament is 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 institution engaged in similar activities. Financial support is provided by way of (a) refinance to eligible Primary Lending Institutions (PLIs), such as, banks, State Financial Corporations (SFCs), Micro Finance Institutions (MFIs) for onward lending to MSMEs and (b) direct assistance to MSMEs which is channelised through the bank's network of 103 branch offices.

Methodology

The data required for the study has been collected from secondary sources. It includes annual report of SIDBI, various website connected with the relevant topic, megazines etc.

Credit support services by SIDBI

Indirect finance / Refinance

The Bank is primarily a refinancing Institution and provides refinance support to more than 900 Primary Lending Institutions (PLIs) comprising banks, SFCs etc. having a combined network of over 80,000 branches. Refinance support is extended for (i) Setting up of new projects and for technology upgradation / modernisation, diversification, expansion, rehabilitation, energy efficiency, adoption of clean production technologies etc. of existing MSMEs, (ii) Service sector entities and (iii) Infrastructure development and upgradation.

Direct finance

In order to supplement and complement the effort of banks / FIs in augmenting the flow of credit to MSMEs, SIDBI introduced various new products and modified the existing products to meet the diverse credit needs of the MSMEs. In order to serve the MSME better, with enhanced customer satisfaction, the Bank provide tailor – made product and services. Direct credit assistance is provided by way of (a) Term loan (b) Working capital through arrangement with IDBI Bank (c) MSME Receivable finance and (d) Non fund based facility.

Micro finance

SIDBI's micro finance serves as a potent tool of inclusive growth and attainment of Millennium Development Goals by catering to the bottom – of – the – pyramid sections of the society. In that respect, SIDBI works with and through a large number of Micro Finance Institutions (MFIs) who have been nurtured, incubated and strengthened through a comprehensive range of financial and non – financial assistance. Responsible Lending has been one of the top priorities of the Bank. As part of its responsible finance initiative, SIDBI has created a Lenders' forum comprising key MFI Funders with a view to promote cooperation among MFI lenders for leveraging support to MFIs.

SIDBI accords special attention to the development of North Eastern Region (NER) in terms of credit support including micro finance assistance.

Table : SIDBI Credit to NER in last four years (Rs. Crore)

Items	FY 2009		FY 2010		FY2011		FY 2012		Cumulative		
	As on Mar 31, 2012										
	S	D	S	D	S	D	S	D	S	D	No. of unit
Refinance	0.00	0.00	0.00	0.00	0.00	0.00	26.36	26.36	295.62	273.97	14399
Direct credit	34.91	26.99	36.34	18.66	9.98	13.24	13.90	3.09	127.34	87.46	408
(i)Micro credit	44.25	31.00	25.25	33.00	2.50	1.50	15.00	7.50	126.81	118.321	425332
(ii)MEL	0.07	0.07	0.40	0.34	0.17	0.23	0.03	0.02	0.67	0.66	75
Total	79.23	58.06	61.99	52.00	12.65	14.97	55.29	36.97	550.44	480.4	440214

Source : SIDBI report on NER

Other initiatives taken by SIDBI for the N E States

I Credit Enhancement Initiatives: With an objective to augment credit flow to NER, SIDBI has initiated some important measures, such as,

- **Micro & Small Enterprises Fund for North Eastern Region :** Based on the recommendation of the Usha Thorat Committee set up by RBI, the Bank had set up a Micro and Small Enterprises Fund for North Eastern Region and Sikkim with an initial corpus of Rs.10 crore.

- **Small Loan Scheme for North Eastern Region** : To mitigate the problem faced by MSEs in the North Eastern Region, the Bank introduced a “Small Loan Scheme for North Eastern Region” on pilot basis in Aizawl which has since been extended to all states in NER.
- **Micro Enterprises loans Scheme under Micro Finance dispensation** : To mitigate the problem faced by graduated borrowers under micro finance dispensation, a new scheme viz. Micro Enterprise Loan Scheme was introduced. Under the scheme, assistance ranging between Rs.0.50 lakh to Rs.5 lakh is expended.
- **Increase in coverage and reduction in CGTMSE charges for MSEs in NER**: Credit Guarantee Trust for Micro Small Enterprises (CGTMSE) has raised the credit guarantee cover from 75% to 80% for loans sanctioned in the North-Eastern Region. Further, it has reduced the up-front Guarantee Fee by 50% from 1.5% to 0.75% for all loans in the North Eastern Region.
- **MoU with NEDFI** : The bank had entered into a strategic MoU with North Eastern Development Finance Corporation Ltd., (NEDFi) for channeling the financial assistance for the North Eastern Region.

II. Micro Finance Initiatives in NER:

- Taking cognizance of the special developmental needs of the North Eastern States, SIDBI has accorded special thrust to extension of micro finance in the underserved states of NER.
- The Bank has initiated steps to encourage the leading and well-performing MFIs from the developed Southern States to expand their operations in the North-Eastern parts of the country.
- So far, the Bank has nurtured and developed 95 partners (including 71 MEL partners) in the Region through various capacity building measure. The cumulative status of sanction and disbursement (including sanction to 71 MEL partners) Under Microfinance as on 31.03.2012 is as under:

(Rs. Crore)

Particulars	Sanction	Disbursement
Loan	127.48	118.97
Grant	3.44	3.44

Indian Institution of Management, Bangalore (IIMB) was sanctioned a grant assistance of Rs.15 lakh by SIDBI for undertaking a training programme on Micro Finance Incubation Project

Keeping in view the need for faster and timely credit delivery to the MFIs/NGOs operating in the NER, sanction of loan has been delinked from Capacity Assessment Ratio (CAR) for the start-up NGOs/MFIs requiring loan assistance upto Rs. 50 lakh.

Findings

1. It is observed that during the study period the financial assistance provided by SIDBI has shown fluctuating trends in the amount sanctioned and disbursed.
2. Major financing of SIDBI has been in the form of direct finance.
3. As on March 31, 2012, cumulative sanctions and disbursements of Rs.550 crore and Rs.480 crore respectively have been provided by the Bank in NER, benefiting 440214 units.
4. Under Micro Credit Scheme till March 31, 2012, the Bank has sanctioned term loan of Rs.126.81 crore and disbursed Rs. 118.31 crore to various NGOs / MFIs. It has also provided capacity building grant of Rs.3.44 crore. The outstanding Micro Credit to NER stood at Rs.14.39 crore as on March 31, 2012.

Suggestion

1. There is a vast difference in the total assistance amount of sanctioned and disbursed; it should be minimized.
2. The amount for assistance under different heads has been decreasing, which should be increased.
3. SIDBI should increase its branches with opening of new branches in various parts of the North Eastern Region.

Conclusion

After making a beginning as a refinance institution, SIDBI has grown into a multifaceted organisation, serving the micro, small and medium sectors well by providing a wide range of products and credit support services. It will, however, have to change its operational strategy in view of declining interest rates and availing of refinance from banks.

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