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**GOVERNMENT OF INDIA
MINISTRY OF SSI
OFFICE OF THE DEVELOPMENT COMMISSIONER
(SMALL SCALE INDUSTRIES)**

Nirman Bhavan, New Delhi
Dated :17th March, 2004

OFFICE MEMORANDUM

Subject: - Scheme of Micro Finance Programme

Background

Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. There are over 24 crore people below the poverty line in the country. The Scheme of Micro-Credit has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. Total requirement of micro-credit in the country has been assessed at Rs.50,000 crore. Micro-credit programme works through NGOs/SHGs and the merit lies in weekly monitoring and refund of instalments. The rate of recovery under SIDBI's Micro credit programme is as high as 98%. Though there are various Departments and Organisations implementing micro-credit schemes in the areas of activity falling under their purview but their total reach is very low i.e. not more than Rs.5,000 crore. Thus the existing programmes cater to only 5 to 10% of total requirements and there is considerable scope for expansion of such programmes.

In India, Micro-credit programmes are run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB). The success of Micro-credit programme lies in diversification of services. Micro Finance Scheme of SIDBI is under operation since January, 1999 with a corpus of Rs. 100 crore and a network of about 190 capacity assessed rated MFIs/NGOs. Under the programme, total amount of Rs. 191 crore have been sanctioned upto 31st December, 2003, benefiting over 9 lakh beneficiaries. Under the programme, NGOs/MFIs are supposed to provide equity support in order to avail SIDBI finance. But they find it difficult to manage the needed equity support because of their poor financial condition. The problem has got aggravated due to declining interest rate on deposits. The Office of the Development Commissioner (Small Scale Industries) under Ministry of SSI is launching a new scheme of Micro Finance Programme to overcome the constraints in the existing scheme of SIDBI, whose reach is currently very low. It is felt that Government's role can be critical in expanding reach of the scheme, ensuring long term sustainability of NGOs / MFIs and development of Intermediaries for identification of viable projects.

2. **Salient features of Micro- Finance Programme**

Under the Scheme of Micro-Finance Programme, the following activities would be undertaken.

a. **Arranging Fixed Deposits for MFIs/NGOs:**

The SIDBI is already running a Micro-Credit Programme with a network of capacity assessed rated MFIs/NGOs. The scheme of Micro-Finance Programme has been tied-up with SIDBI by way of contributing towards security deposits required from the MFIs/NGOs to get loans from SIDBI as per details given under:

- i. The Government of India will provide funds for Micro-Finance Programme to SIDBI, which shall be called 'Portfolio Risk Fund' (PRF). This fund would be used for security deposit requirement of the loan amount from the MFIs/NGOs and to meet the cost of interest loss. At present, SIDBI takes fixed deposit equal to 10% of the loan amount. The share of MFIs/NGOs would be 2.5% of the loan amount (i.e. 25% of security deposit) and balance 7.5% (i.e. 75% of security deposit) would be adjusted from the funds provided by the Government of India. The MFIs/NGOs may avail the loan from the SIDBI for further on lending on the support of the security deposit.
- ii. The Government would provide the needed fund in four years of the Xth Plan and release the fund on half-yearly basis based on demands for security deposit. By contributing an amount of Rs.6 crore during the Xth Plan under Micro-Finance Programme, SIDBI can provide loan of Rs.80.00 crore to MFIs/NGOs. This would benefit approximately 1.60 lakhs beneficiaries, assuming an average loan of Rs. 5,000/- per beneficiary.
- iii. The SIDBI will pay interest to the Govt. on the fixed deposit made available by the Government at the same rate as allowed to NGOs. Other terms and conditions will be fixed mutually by SIDBI and GOI.
- iv. The recovery of loan/interests will be the sole responsibility of the SIDBI. In case of non recovery of loan, SIDBI would first adjust fixed deposit and interest accrued thereon for 2.5% security deposit of the loan pledged by the MFIs / NGOs and thereafter adjust 7.5% security deposit of the loan amount provided by the Government of India and the interest accrued thereon with the approval of Committee of Govt. of India.
- v. After full recovery of loan from the MFIs/NGOs, the 7.5% security deposit of the loan amount provided by Govt. of India and interest accrued thereon would be rotated further as a security deposit for MFIs/NGOs with the approval of Committee of the Govt. of India or the same will be returned to the Govt. of India.
- vi. As SIDBI is already running the Micro-Credit Programme, they will monitor the scheme. They would also provide the monthly/ quarterly progress report along with details of beneficiaries, utilization of funds provided by Government of India and loan sanctioned/ utilized by the beneficiaries.
- vii. The activities covered under the scheme are manufacturing, service sector and non-farming activities.

b. Training and Studies on Micro-Finance Programme: The Government of India would help SIDBI in meeting the training needs of NGOs, SHGs, intermediaries and entrepreneurs and also in enhancing awareness about the programme. This task would be performed through National Level Entrepreneurship Development Institutes (EDIs) and Small Industries Service Institutes (SISIs). The Research Studies would also be arranged through reputed agencies.

c. Institution Building for 'Intermediaries' for identification of viable projects : The Government of India would help in institution building through identification and development of 'intermediary organization', which would help the NGOs/SHGs in identification of product, preparation of project report, working out forward and backward linkages and in fixing marketing/ technology tie-ups. The SISIs would help in the identification of such intermediaries in different areas.

3. Budgetary Provision for the Scheme during 10th Plan

The Budgetary provision for the scheme in the Tenth Five Year Plan is Rs. 7 crore and the provision in the current financial year 2003-04 is Rs. 0.25 crore. The entire amount of Rs. 0.25 crore is to be provided to SIDBI as 'Portfolio Risk Fund' (PRF) during the year 2003-04. Under the scheme, allocation of an amount of Rs. 1 crore is for studies, training, awareness, etc. and amount of Rs. 6 crore is for contribution to SIDBI as 'Portfolio Risk Fund' (PRF). Savings if any, under any activity would be utilized on other activity of the scheme so that the budget allocated may be fully utilized.

4. Administrative Arrangement

A Committee under the Chairmanship of Additional Secretary & Development Commissioner (SSI) is to be constituted. Other members of the Committee would be Additional Development Commissioner & EA, Director (IFW), Chairman-cum- Managing Director (SIDBI) and Director (EA). Any other member can be co-opted by the Committee, if required. The Committee would review the progress made under the scheme, approve the adjustment of security provided by the Government of India and interest accrued thereon in case of non-recovery of loan by SIDBI, approve further rotation of funds provided by the Government of India and other related matters.

5. This issues with the concurrence of Integrated Finance Wing of the Ministry, vide their Dy.No. 387/Fin.I/04 dated: 01.3.2004.

**(Praveen Mahto)
Director (EA)**