**Micro Finance Operations**

SIDBI with an intention to fill the institutional void in inclusion space, started experimenting in 1994 by dispensing Micro Credit through the NGOs wherein such institutions were used as financial intermediaries for delivering credit to the poor and unreached, mainly women. Looking at the success of the pilot intervention, the program was subsequently, reoriented and scaled up to serve the huge unmet demand for microfinance in the country. The NGOs and such other Community Development Finance Institutions were consciously selected by the bank to build capacity to imbibe in them the necessary lending and institutional borrowing capabilities. A department within SIDBI viz. SIDBI Foundation for Micro Credit (SFMC) was created in 1999 to serve as an apex wholesale unit for microfinance providing a complete range of financial and non-financial services to the MFIs, so as to facilitate their development into financially sustainable entities. Subsequently, other Banks / FIs also followed and started lending to MFIs. With a view to streamline operations, all Institutional Finance business was brought under Institutional Finance Vertical (IFV) alongwith support to Bank, NBFCs, etc.

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| **Mission** |
| To create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) for providing micro finance services to the economically disadvantaged people, especially women. |
| **Approach** |
| SIDBI is 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) so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the sector. SIDBI is also playing significant role in advocating appropriate policies and regulations and to act as a platform for exchange of information across the sector. Bank’s Micro Finance operation in the coming years, is expected to contribute significantly towards development of a more formal, extensive and effective micro finance sector serving the financially excluded in India with focus on innovation and action research. |
| **National Microfinance Support Programme (NMFSP)** |
| With a view to draw upon the international experience and bring in the microfinance best practices within the country, the “National Microfinance Support Programme (NMFSP)” was launched by SIDBI in April 2000.  Under the NMFSP, SIDBI entered into a collaboration with Department for International Development (DFID), UK in April 2000. Subsequently, another collaboration with International Fund for Agricultural Development (IFAD), Rome in April 2002 was made with a view to providing on-lending fund support to partner MFIs.  The purpose of the programme was: (i) to contribute to the development of a more formal, extensive and effective microfinance sector on a national scale that serves poor women and men; and (ii) to assist in the evolution of an appropriate enabling environment for the development of sustainable finance institutions.  SIDBI commissioned a 7-Year Impact Assessment Study to assess on a National Scale the development impact of MFI programme in relation to different product designs and delivery systems. The major highlights of the findings are as under :  i. Micro finance is an effective strategy for extending financial services to the poor and other disadvantaged groups (92% of sample clients had no access to formal sources of credit).  ii. SIDBI’s micro finance has effectively reached out to the underprivileged sections of society with SC/STs and Backward Classes accounting for 73% of the sample.  iii. The programme has predominantly reached out to the rural areas with two-third of the sample households belonging to such areas.  iv. Women constituted around 80% of sample clients, although the proportion of women was as high as 96% in SHG model and 98% in Grameen model.  v. MFI intervention has brought changes in the livelihood pattern by giving impetus to enterprise activity.  vi. Access to formal credit among the sample households increased across almost all wealth ranks and inculcate saving habits among the clients.  vii. The number of school going children increased among the client households post availment of loan from the MFIs |
| **Rating of MFIs** |
| Most micro finance programmes were initially operated by NGOs and were not subjected to regulation and supervision as they were registered as Societies or Trusts. Non-regulation of these institutions worked to their detriment and these institutions were not able to have smooth access to funds from the financial sector which was wary of lending to such entities. This constraint, coupled with the inability to offer collateral security, stood as a bottleneck for the sector to access formal credit. With a view to upscale the flow of micro credit with enabling policy modifications relating to simplification of the procedures in availment of assistance and substantial relaxation in the security/ collateral requirement, SIDBI pioneered the concept of Capacity Assessment Rating (CAR). The MFI rating tool on various parameters, that has become an industry- standard, put the much needed checks in place to assess risk perception of MFIs and is used as proxy for Bank Loan Ratings. On SIDBI initiative, rating of MFIs was started and with ripening of the sector, most of the informal NGOs accepted the rating mechanism and initiated the process to transform themselves into for profit entities/formal NBFCs. Rating of MFIs has gained sector-wide acceptance and has become a pre requisite for getting assistance from the banks/ financial institutions. |
| **Responsible Finance Initiatives** |
| SIDBI implemented a World Bank funded “Scaling Up Sustainable and Responsible Microfinance Project” aimed at scaling up access to sustainable microfinance services to the financially excluded, particularly in under-served areas of India, through, among other things, introduction of innovative financial products and fostering transparency and responsible finance.  SIDBI has been playing a pro-active role in propagating Responsible Finance in the MFI sector. The major initiatives taken by SIDBI in the field of Responsible Finance Practices are –   * Creation of a Lenders’ Forum * Facilitating Development of a common code of conduct for the MFIs and ensuring adherence thereof through COCA exercise by accredited third party agencies. * Laying down standards for the sector through measures like concept of risk rating, portfolio audits, system audits, etc. * Carrying out Sectoral Studies/ Impact Studies * Creating awareness about Clients’ Protection Practices |
| **Lender’s Forum** |
| As part of its responsible finance initiative, SIDBI has facilitated Lenders’ Forum comprising key MFI Funders with a view to promoting cooperation and responsible lending practices among MFI lenders for leveraging support to MFIs across all the stakeholders. All the major lenders of MFIs have agreed to work together to impress upon the MFIs to implement them through a common set of loan covenants. Banks have also agreed to strictly examine and continuously monitor field level practices of their assisted MFIs like adherence to KYC norms, etc. 11 meetings of the Forum have been conducted so far. |
| **Code of Conduct Assessments (COCA)** |
| Under the World Bank project, one of the initiatives undertaken towards responsible finance practices was development of Code of Conduct Assessment (COCA) of MFIs. COCA measures MFIs’ adherence to ethical and sound practices that enable an MFI to maintain good relationship not only with the clients but also with all other stakeholders in the sector. COCA reports provide a fair assessment of adherence to the various Code of Conduct dimensions. Code of Conduct Assessment (COCA) is basically a third party independent assessment of the status of compliance of an MFI with the Common Code of Conduct.  SIDBI has helped to develop a Code of Conduct Assessment Tool, which applies to providing credit services, recovery of credit, collection of thrift, etc., for MFIs to assess their degree of adherence to the voluntary microfinance Code of Conduct. 75 COCA have since been completed in Phase I. |
| **Harmonised Code of Conduct Assessments Tool (HCT)** |
| Based on the learnings of the phase-I and the discussions with other stakeholders/lenders in the 10th Lenders’ Forum meeting, a need was felt to harmonize the COCA tool to make the assessments by various COCA conducting agencies more comparable and also to achieve standardization of the tool. Accordingly, SIDBI developed, piloted and rolled out a Harmonized COCA Tool (HCT) in consultation with other stakeholders. The tool is primarily based on the joint COC issued by MFIN and Sa-Dhan, RBI fair practice code and Smart Campaign’s client protection Principle etc. The HCT involves total of 251 indicators covering 9 dimensions, viz. Integrity and Ethical Behaviour, Sensitive indicator, Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback and Grievance Redressal and Data Sharing. Harmonised COCA of 34 MFIs have since been completed. All the reports are hosted on SIDBI website. |
| **DFLP (Digital Financial Literacy Prog)** |
| To promote digitization, SIDBI has conducted 112 Digital Fin. Literacy Prog (DFLP) across 07 States encompass 107 Micro-business Clusters and able to train nearly 6500 artisans, out of which 40% were female. Around 40% women artisans are now using digital applications for financial transactions. Usage of BHIM, AEPS, \*99#, USSD has gone up. |

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