
The Cordial Link Microfinance sector and Make in India

Impact of Make in India on SIDBI

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Abstract

Today as in a 21st century, everything changed very rapidly & continuously for the betterment of future, new technology is simply a modified version & a technique to overcome the drawbacks of previous one. This paper discusses the growth and cordial link of microfinance organizations (MFO) in India. Keeping in with the spirit of 'Make in India' drive of GOI, the Small Industries Development Bank of India SIDBI has set up a Rs 1000 crore 'Make in India' fund for MSMEs. "The objective is to make our MSMEs world class manufacturing hub. SIDBI launches India aspiration fund and SIDBI Make in India loan for enterprises scheme. Under the fund, concessional finance will be provided to the identified MSME sectors", bank added. The paper looks at the growth of microfinance organizations (MFO) in India. Further, the specific objective of the campaign is to attract global investment in the microfinance sector. Shri Arun Jaitley, Honorable Finance Minister launched the India Aspiration Fund [IAF] set up by Small Industries Development Bank of India to boost the start-up Fund-of-funds ecosystem in the country. IAF is a Fund-of-funds managed by Small Industries Development Bank of India (SIDBI), which is India's Principal Financial Institution for the promotion, financing and development of the Micro, Small and Medium Enterprises (MSME) sector. Shri Jaitley also launched the SIDBI Make in India Loan for Small Enterprises [SMILE] Scheme of Rs 10,000 crore. Make in India is a campaign designed to make the country a manufacturing hub leading to economic transformation in India. The sectors being given emphasis under the program include: automobiles, chemicals, IT, textiles, ports, aviation, leather, tourism and hospitality, wellness, railways, design manufacturing, renewable energy, mining, bio-technology, pharmaceuticals and electronics etc. SIDBI plays an important role in microfinance sector of the country. The Micro, Small and Medium Enterprise (MSME) sector plays a vital role in the growth of our country in creating employment, exports, gross industrial value of output, gross value added, investment in fixed assets, contribution to GDP, and giving boost to manufacture, service and infrastructure sectors.

Keywords: Make in India, Microfinance, role of SIDBI

Introduction

MAKE IN INDIA:

Make in India is an initiative launched by the Government of India to encourage multi-national, as well as national companies to manufacture their products in India. It was launched by Prime Minister Narendra Modi on 25 September 2014.

Make in India initiative aims at promoting India as an important investment destination and a global hub for manufacturing design and innovation, to invite both domestic and foreign investors to invest in India. The initiative is aimed at creating a conducive environment for investment, development of modern and efficient infrastructure, opening up new sectors for foreign

investments and forging a partnership between government and industry through a positive mindset. The Make in India" initiative is based on four pillars, which have been identified to give boost to entrepreneurship in India, not only in manufacturing but also other sectors. The four pillars are

(i) New Processes, (ii) New Infrastructure, (iii) New Sectors and (iv) New Mindset.

Although it's clearly visible many advantages, Raghuram Rajan Reserve Bank of India's Governor has raised some of the questions which could not be avoided. Last month in Bharat Ram Memorial lecture he noted observations on India's development opportunity. I personally believe there are some of the factors which

India should consider before creating its image as an exporter country in manufacturing sector. It is one of the goals of this campaign to make manufacturing sector contribute 25% in Indian GDP from current only 16% by 2022 as per website of Make in India. Doing this, we might be avoiding other sectors such as service and agriculture. As the growth of IT sector in India could not be ignored concentrating only on manufacturing sector might affect this sector.

Make in India focuses on the following twenty-five sectors of the economy:

- Automobiles
- Automobile Components
- Aviation
- Biotechnology
- Chemicals
- Construction
- Defence manufacturing
- Electrical Machinery
- Electronic systems
- Food Processing
- Information Technology and Business process management
- Leather
- Media and Entertainment
- Mining
- Oil and Gas
- Pharmaceuticals
- Ports and Shipping
- Railways
- Renewable Energy
- Roads and Highways
- Space and astronomy
- Textiles and Garments
- Thermal Power
- Tourism and Hospitality
- Wellness

100% FDI is permitted in all the above sectors, except for space (74%), defence (49%) and news media (26%). India ranks 130th out of 189 countries in the World Bank's 2016 ease of doing business index, covering the period from

June 2014 and June 2015. India was ranked 134th in the 2015 index.

In order to provide major impetus to employment and job creation in India, the government on Monday liberalized its foreign direct investment strategy, bring most of the sector under automatic approval route.

"Now most of the sectors would be under automatic approval route, except a small negative list. With these changes, India is now the most open economy in the world for FDI," an official statement from PMO said.

Key changes include allowing 100% FDI under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India and permitting up to 100 per cent FDI in defence sector. The other sectors that have benefitted include the broadcasting, pharmaceuticals, civil aviation, and single brand retail among others.

Live Projects:

- Five industrial corridor projects have been identified, planned and launched by the Government of India in the Union Budget of 2014-2015, to provide an impetus to industrialization and planned urbanization. In each of these corridors, manufacturing will be a key economic driver and these projects are seen as critical in raising the share of manufacturing in India's Gross Domestic Product from the current levels of 15% to 16% to 25% by 2022.
- Along these corridors, the development of 100 Smart Cities has also been envisaged in the Union Budget of 2014-2015. These cities are being developed to integrate the new workforce that will power manufacturing along the industrial corridors and to decongest India's urban housing scenario.
- A National Industrial Corridor Development Authority (NICDA) is being established to converge and integrate the development of all industrial corridors.

DELHI-MUMBAI INDUSTRIAL CORRIDOR
BENGALURU-MUMBAI ECONOMIC CORRIDOR
CHENNAI-BENGALURU INDUSTRIAL CORRIDOR
PROJECT
VIZAG-CHENNAI INDUSTRIAL CORRIDOR
AMRITSAR-KOLKATA INDUSTRIAL CORRIDOR

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SIDBI launches India aspiration fund and SIDBI Make in India loan for enterprises scheme.

The prime minister's call for "zero defect and zero effect" manufacturing resonates well with our industry as we grow and produce for the world with concern for the environment. The Government of India has taken a number of steps to encourage investment and improve the economy. "Make in India" implies accelerated and state of the art manufacturing and production that constantly requires skill and technology as well as assured supplies of energy. The long term objective of Make in India campaign is to ensure deep rooted growth and employment.

MICROFINANCE SECTOR:

Microfinance in India started in the early 1980s with small efforts at forming informal self-help groups (SHG) to provide access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades. National bodies like the Small Industries Development

Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are devoting significant time and financial resources to microfinance.

The term "microfinance" refers to small-ticket-size loans, savings, insurance, remittances and other financial services which meet the particular needs and characteristics of low-income individuals. Microfinance services are based on the premise that people living in poverty need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks, just like people from higher income groups. Microfinance gives low-income groups and those who have been excluded from formal financial services the chance to access institutional financial services rather than relying on informal providers such as moneylenders, informal deposit collectors, etc. who provide these services at high cost and at high risk to borrowers.

In India, Microfinance has been defined by "The National Microfinance Taskforce, 1999" as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards".

"The poor stay poor, not because they are lazy but because they have no access to capital."

Concept and Features of Micro-finance:

1. It is a tool for empowerment of the poorest.
2. Delivery is normally through Self Help Groups (SHGs).
3. It is essentially for promoting self-employment, generally used for:
 - (a) Direct income generation
 - (b) Rearrangement of assets and liabilities for the household to participate in future opportunities and
 - (c) Consumption smoothing.
4. It is not just a financing system, but a tool for social change, especially for women.
5. Because micro credit is aimed at the poorest, micro-finance lending technology needs to mimic the informal lenders rather than the formal sector lending. It has to:
 - (a) Provide for seasonality

- (b) Allow repayment flexibility
- (c) Fix a ceiling on loan sizes.



Fig 1 Financing System

Associate editor E Kumar Sharma lists the key points Finance Minister ArunJaitley should focus on when he reads out his Budget speech on February 28.

1. Announce measures that provide a specific role for microfinance institutions (MFIs) in the financial inclusion agenda of the government. MFIs need not be just agents but could be direct players. This holds for both for-profit and not-for-profit MFIs.
2. Broaden the definition of priority sector lending to include different loan products, taking it beyond livelihood-related loans. It can include loans for education, health, water and sanitation, and even solar energy products. This should only be for low-income households. While it may be argued that the Reserve Bank of India has a greater role in this, the Budget can still look at this area.
3. Increase the fund allocation for Sidbi's India Microfinance Equity Fund beyond Rs 300 crore. It should have a corpus of at least Rs 1,000 crore so that it can extend more equity to MFIs. Plus, take measures to make its access easier for MFIs, with more equitable terms and conditions.
4. Exempt service tax on the processing fee charged by MFIs as it is the poor borrower who has to ultimately bear the cost.
5. Exempt service tax on micro insurance services offered by MFIs.

6. Provide tax holiday to MFIs. This will encourage more investments in the sector and benefit end borrowers through lower interest rates.
7. Liberalise domestic/ foreign ownership norms for small and medium MFIs with total loan outstandings of less than Rs 100 crore.
8. Make a statement on the Microfinance Bill and its re-introduction.

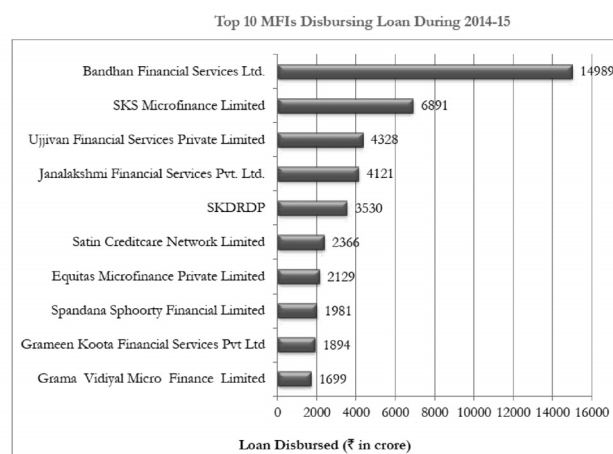


Fig 1.1 Top 10 MFIs Distributing Loan during 2014-2015

SIDBI provides micro finance services to the millions of poor in the country through a network of strong and vibrant financial intermediaries. SFMC also implemented the National Micro Finance Support Project (NMFSP) in collaboration with the Govt. of India, the Department for International Development (DFID), UK and the International Fund for Agricultural Development (IFAD), Rome which was designed to address the lack of access to financial services by the poor in India and was expected to develop a more formal, extensive and effective micro finance sector on a national scale. The overall goal of NMFSP was to bring about substantial poverty elimination and reduced vulnerability in India amongst users of micro finance services, particularly women. It sought to make a contribution towards India's efforts of halving percentage of people in absolute poverty by 2015, by creation and expansion of micro enterprises by poor people that would, in turn, lead to increased income and employment avenues as also increased assets of poor.

SIDBI (Small Industries Development Bank of India)

Small Industries Development Bank of India is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises

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.

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. Keeping in with the spirit of 'Make in India' drive of GOI, the Small Industries Development Bank of India SIDBI has set up a Rs 1000 crore 'Make in India' fund for MSMEs. "The objective is to make our MSMEs world class manufacturing hub. Under the fund, concessional finance will be provided to the identified MSME sectors", bank added.

SIDBI plays an important role in microfinance sector of the country. So far, it has provided microcredit of Rs 9374 crore through MFIs. SIDBI has committed an amount of Rs 162 crore equity support to 56 MFIs to strengthen their capital base for more credit to the microfinance sector. SIDBI's microfinance support has benefited around 332 lakh disadvantaged people, most of them being women, in terms of improved quality of life, improved social security, asset status and improvement in health and education parameters.

Besides being the apex DFI for financing, promotion and development of the MSME sector, SIDBI provides a number of developmental support like promoting youth entrepreneurship, free advisory services through MSME advisory centres covering about 100 clusters, capacity building of RRBs, co-operative banks, etc. to channelize more credit to micro units, skill development, rural industrialization, marketing linkages, etc. "These developmental support of SIDBI helped in setting up of more than 1 lakh units and skill development of more than 2 lakh people in the MSME sector", Shivaji said.

The bank shared that in order to promote energy efficiency in the MSME sector, it has signed an

agreement with World Bank for "Partial Risk Sharing Facility for Energy Efficiency (PRSF) Projects" with a total outlay of USD 43 million, consisting of a Guarantee fund of USD 37 million and technical assistance of a total of USD 6 million. The objective of the project is to support the GoI's efforts to transform the energy efficiency (EE) market in India by promoting increased level of EE investments, particularly through energy service performance contracting (ESPC) delivered through Energy Service Companies (ESCOs).

What are the objectives of SIDBI?

In the setting up of SIDBI, the main purpose of the government was to ensure larger flow of assistance to the small-scale units. To meet this objective, the immediate thrust of the SIDBI was on the following measures:

- (i) Initiating steps for technological up gradation and modernization of existing units;
- (ii) Expanding the channels for marketing the products of the small scale sector; and
- (iii) Promotion of employment-oriented industries, especially in semi-urban areas to create more employment opportunities and thereby checking migration of population to urban areas.

What are the functions of SIDBI?

SIDBI provides assistance to the small-scale industries sector in the country through the existing banking and other financial institutions, such as, State Financial Corporations, State Industrial Development Corporations, commercial banks, cooperative banks and RRBs. etc. The major functions of SIDBI are given below:

- (i) It refinances loans and advances provided by the existing lending institutions to the small-scale units.
- (ii) It discounts and rediscounts bills arising from sale of machinery to and manufactured by small-scale industrial units.
- (iii) It extends seed capital/soft loan assistance under National Equity Fund, Mahila Udyam Nidhi and Mahila Vikas Nidhi and seed capital schemes.
- (iv) It grants direct assistance and refinance loans extended by primary lending institutions for financing exports of products manufactured by small-scale units.

- (v) It provides services like factoring, leasing, etc. to small units.
- (vi) It extends financial support to State Small Industries Corporations for providing scarce raw materials to and marketing the products of the small-scale units.
- (vii) It provides financial support to National Small Industries Corporation for providing; leasing, hire purchase and marketing help to the small-scale units.

SIDBI, SEBI make it easier for startups to raise money.

<http://msme.gov.in/WriteReadData/DocumentFile/MEME%20ANNUAL%20REPORT%202015-16%20ENG.pdf>

Impact of Make in India in SIDBI:

- SIDBI sets up Rs 1000 crore 'Make in India' fund for MSMEs
- SIDBI provides financial assistance of Rs 3.90 lakh crore benefitting 346 lakh people in MSME sector
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- SIDBI's developmental support helps in skill development of more than 2 lakh people in MSME sector

Finance Minister Arun Jaitley launched two funds the India Aspiration Fund (IAF) and SIDBI Make in India Loan for Enterprises (SMILE) under Small Industries Development Bank of India (SIDBI) in line to cater funding for start-ups and to aid small enterprises in India. SIDBI under the first fund India Aspiration Fund (IAF) would invest in venture capital funds for meeting the equity requirement of MSME start-ups and for this the initial corpus of Rs. 2,000 crore has been set. Life Insurance Corp. of India (LIC) will be a partner and co-investor in this fund. Under second fund the SIDBI Make in India Loan for Enterprises (SMILE) is a debt-fund which will cater soft term loans to MSMEs to meet debt-to-equity norms and pursue growth opportunities, SIDBI has set Initial corpus of Rs. 10, 000 crore under SMILE fund. SMILE will offer quasi-equity and term based short term loans to Indian SMEs which will have less stringent rules and regulations.

In January this year, the government approved MUDRA Credit Guarantee Fund (CGF), which will offer Rs 3,000

crore for small entrepreneurs, and up to Rs 10 crore each, under the Small Industries Development Bank of India (SIDBI). The SIDBI, in fact, turned out to be the major support for the funds offered. A few weeks ago, SIDBI sanctioned Rs 1,000 crore to 30 venture funds through IAF from IvyCap Ventures, Blume Ventures, and Exfinity Venture Partners. The following are their other major announcements:

- Raising the Rs 10,000 crore corpus from RBI
- Investing Rs 10 crore for the Rs 500 crore fund to back women and SC/ST entrepreneurs
- Raised Rs 1,000 Cr for the 'Make in India Fund' (for bank loans to the manufacturing sector)
- Invested Rs 300 crore of the Rs 10,000 crore 'Smile Fund' for small businesses
- India Aspiration Fund of Rs 2,000 crore to provide capital for startups; Rs 600 crore sanctioned by SIDBI in February

Together, these two Govt. initiated programs will help to create more than 20 lakh direct and indirect jobs in the country.

Impact of Make in India:

State-owned Small Industries Development Bank of India (SIDBI) today reported a 17 per cent decline in net profit at Rs 1,177 crore for the fiscal ended March 2016.

The bank, which is into promotion, financing and development of the MSME sector, had a net profit of Rs 1,417 crore in 2014-15 fiscal.

There was a marginal increase in gross income to Rs 5,784 crore from Rs 5,741 crore in the previous fiscal, SIDBI said in a statement.

Despite sluggish market conditions, the outstanding portfolio of the bank increased 18.6 per cent from Rs 55,343 crore as on March 2015 to Rs 65,632 crore at the end of financial year 2015-16.

Asset size of the bank has also increased by 25.7 per cent to Rs 76,478 crore as against Rs 60,855 crore in the previous fiscal.

The board of the bank has proposed a dividend of 20 per cent for the 2015-16 fiscal.

During the year, gross non-performing assets (NPAs) or bad loans increased to 1.51 per cent of gross advances as of March from 1.33 per cent a year ago.

RBI has granted in-principal approval to SIDBI and NSICL to set up and operate Trade Receivable e-Discounting System (TReDS).

Here's what stands changed after the Startup India has been launched.

- 1) A Rs. 10,000 crore fund for startups: The government will set up a fund with an initial corpus of Rs. 2,500 crore and a total corpus of Rs. 10,000 crore over a period of four years, which will be managed by a board with private professionals drawn from industry bodies, academia, and successful startups. The fund will participate in the capital of SEBI registered venture funds, and invest in sectors such as manufacturing, agriculture, health, and education.
- 2) A single point of registration for startups: The government will launch a mobile app and a portal on April 1, which will enable startups to register their company in a day. The portal will also serve as a single point of contact for clearances, approvals and registrations, and for companies to apply for schemes under the Startup India Action Plan.
- 3) A simplified regulatory regime based on self-certification: To reduce the regulatory burden for startups, the government will allow startups to self-certify compliance on nine labour and environment laws through the startup mobile app. No inspections will be conducted in case of the labour laws for a period of three years.
- 4) A fast-track mechanism filing patent applications: Another landmark announcement is that the Central Government shall bear the cost of patents, trademarks and designs for a startup, with an 80% rebate to encourage the creation and protection of its intellectual property. This move is going to kickstart a culture of innovation in the country.
- 5) A credit guarantee fund for startups: The creation of a credit guarantee mechanism will help startups raise debt funding through the formal banking system through National Credit Guarantee Trust Company (NCGTC)/SIDBI, which has an annual corpus of Rs. 500 crore for the next four years.
- 6) Three year tax exemption: Aimed at facilitating growth and help retain capital, startups will be exempted from income tax for a period of three years. However, the exemption shall be available subject to non-distribution of dividend by the startup.
- 7) Startup India Hub: The Startup India Hub will serve as a single point of contact for startup ecosystem players. The hub will assist startups in obtaining financing, and organize mentorship programs to encourage knowledge exchange.
- 8) Relaxed norms of public-procurement: The Central Government, State Government and PSUs will exempt startups in the manufacturing sector from the criteria of "prior experience/ turnover" as long as they have their own manufacturing facility in India, and have the requisite capabilities and are able to fulfill the project requirements.
- 9) Faster exits for startups: Startups may be wound up within a period of 90 days from making of an application for winding up on a fast track basis, as per the recently tabled Insolvency and Bankruptcy Bill 2015, which has provisions for voluntary closure of businesses. This process will respect the concept of limited liability.
- 10) Atal Innovation Mission: The Atal Innovation Mission will establish sector specific incubators and 500 'Tinkering Labs' to promote entrepreneurship, provide pre-incubation training and a seed fund for high-growth startups. Three innovation awards will be given per state and union territory, along with three national awards, as well as a Grand Innovation Challenge Award for finding ultra-low cost solutions for India.
- 11) Encouraging Innovation among students: An innovation core program targeted at school kids aims to source 10 lakh innovations from five lakh schools, out of which the the best 100 would be shortlisted and showcased at an Annual Festival of Innovations, to be held in RashtrapatiBhavan. A Grand Challenge program called NIDHI (National Initiative for Developing and Harnessing Innovations) shall be instituted through Innovation and Entrepreneurship Development Centers (IEDCs) to support and award Rs 10 lakhs to 20 student innovations. UchhattarAvishkarYojana, a joint MHRD-DST scheme has earmarked Rs. 250 crore annually to foster "very high quality" research amongst IIT students.
- 12) An annual incubator grand challenge: The government will identify and select ten incubators, evaluated on pre-defined Key Performance

Indicators (KPIs) as having the the potential to become world class, and give them Rs.10 crore each as financial assistance to ramp up their infrastructure.

Role of SIDBI:

SIDBI has, over the past seven years, made multifarious efforts to develop the MFI Sector. These have, no doubt, yielded good results, but still much more needs to be done to enable the micro finance sector to increase its outreach and scale as a step towards financial inclusion. While a small number of MFIs have grown into large and sustainable institutions, many are yet to achieve sustainability. The MFI sector is also getting support – particularly financial – from other donor agencies, public and private sector banks and other financial institutions. But capacity building of the MFI sector is of crucial importance and SIDBI, which has developed close association with this sector, will have to address this problem principally, with such support as is available from other institutions.

METHODOLOGY

This study majorly focused on micro, small and medium enterprises located in industrial areas and prominent markets of New Delhi. Various manufacturers, service providers, start-ups from the food industry, IT industry and textile manufacturing industry were interviewed as a part of the study.

The research began by gathering background information i.e. history, present condition and significance of micro, small and medium enterprises and basic study of the sector.

Secondary data was collected for the study. Secondary data was collected from specific reports, articles and other internet sources.

CONCLUSION AND RECOMMENDATIONS

The aim of the paper was to identify and analyze the main regulatory and operational problems faced by Micro, Small and Medium Enterprises in India, study the existing

policies and make further recommendations.

The study concludes that Finance is a major obstacle in the growth of micro, small and medium enterprises. The lower and middle class is capable of driving itself out of poverty; it is ambitious and active in taking up new ventures and starting businesses but most ideas are being nipped in the bud because of lack of capital.

The Make in India Strategy adopted by the Indian Prime Minister Shri Narendra Modi aims to facilitate investment, foster innovation, enhance skill development and build a sustainable eco-system for the manufacturing infrastructure in the country. These measures have succeeded in raising the business confidence in India. The stage has been set through these industry and MSME interventions for a larger share of global business in India which presents opportunities for MSME integration in almost all industry sectors. The Indian MSME sector is poised for rapid growth and integration with major global value chains. Timely policy intervention and due support have promptly resulted in rendering the Indian MSMEs globally competitive. Hence the hypothesis that. SIDBI has created more impact than any other financing agencies does not hold well.

SIDBI held its seventeenth AGM on June 22, 2015 at its head-office in Lucknow. Kshatrapati Shivaji, IAS, CMD, SIDBI pointed out that the bank has completed 25 years of services to the MSME sector in addressing various credit and developmental gaps in the MSME eco-system. "In last 25 years, SIDBI has provided financial assistance of Rs 3.90 lakh crore which benefitted 346 lakh people in the MSME sector", he said

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