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SYNTHESIS OF IMPORTANT DICUSSIONS

ON

VALUE CHAIN FINANCING AND MICRO, SMALL and MEDIUM ENTERPRISES (MSMEs)

2012

United Nations Development Programme
New Delhi

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IMPORTANT DICUSSIONS

ON

FINANCING VALUE CHAINS
AND
MICRO, SMALL and MEDIUM ENTERPRISES (MSMEs)

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Compilation of Key Lessons and Recommendations from the Consolidated Replies

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Background

Micro, Small and Medium Enterprises (MSMEs) have a distinct role ineconomic growth of the country and are considered to be an important vehicle for ushering in inclusive growth and creating local demand and consumption. Besides providing employment to a large number of skilled and unskilled persons, MSMEs are the suppliers of raw material, basic goods, finished parts of components etc. to bigindustries. However, access to finance is a critical issue for the MSMEs, particularly in their initial years.

Finance for MSMEs cannot be scaled up without an ecosystem that helps entrepreneurs to develop plans, raise capital, utilize the capital well and recognize the entrepreneurs. For creating conducive atmosphere, an innovative model can be adopted whereby both financial and non-financial incentives could be provided to the entrepreneurs from time to time in the form of subsidy, tax holidays, easy and soft loans etc.

Critical Gaps in Financing the MSMEs

- Problems in availing early stage finance
- Enterpreneur's lack of 'know how' with regard to providing information in prescribed formats of the financial institutions
- Dearth of availability of grants, schemes etc. given the large number of applicants
- Lack of financing for service products through easy finance options
- Lack of thinking amongst the financial institutions/investors to provide complete solution from the conceptualization of enterprise to its successful operations
- Lack of availability of funds supporting the enterprises focusing on rural areas

Constraints Faced by Microfinance Institutions (MFIs) in Financing the MSMEs

- In the absence of the appropriate incentive mechanism, it is difficult for the MFIs to take risks involved in financing the MSMEs as the loan requirement in MSMEs will be greater than the conventional loan offerings of the MFIs
- Generally, the loan products of the MFIs are forgroups. However, for financing the microenterprises, there is a need of individual lending. Moreover, financing MSMEs requires a focused and a concentrated approach and it may vary for different business cycles
- Given the current state of the MFIs amidst the need of regulation and post Andhra Ordinance, many of the MFIs are facing fund crunch. Financing in the new domain altogether will be a challenging task for the MFIs
- Interest charged by the banks from the MSMEs is generally between 11-14 percent, however the rates charged by the MFIs generally goes above 18 percent. Hence it will be difficult for the MSMEs to explore finances from the MFIs
- In the initial phases of the business, generally the return on investment of the Micro enterprises is less so it is difficult for them to pay interest on the loan taken

Areas of Support for MSMEs

- Market assessment, product development, preparation of appropriate business plans, marketing of the finished products, linkages with sources of raw material, technology adaptation and providing risk coverage
- Development of entrepreneurship related soft-skills and business sector related hard skills

- Networking enterprises of similar nature to bring in economies of scale (in procurement, technology use and marketing)
- Provision of credit at lower interests at the required time with initial moratorium on principal repayment depending on the nature of the business
- Developing local markets for MSME products and/or developing products as per local market requirements
- Building the capacity of entrepreneurs, identification of the items to be produced, handholding in branding, conceptualizing the business plan with all the possible risks to be avoided
- Support in projecting the possible cash flows and maintaining proper accounts as per the requirements of the credit providers

Risks to be addressed for MSME Lending in India

- As there are low entry and exit barriers in micro enterprises, there are chances of entrepreneurs changing the trade or the geographic location during the course of business operations which may affect the loan repayments
- In the absence of clear demarcation between business funds and personal funds, there is a possibility that business surplus could be used by the entrepreneur in meeting out the exigencies, thereby affecting the growth and sustainability of the business
- The potential returns from an enterprise needs to be ascertained in advance before lending. Moreover, there is a need of frequent monitoring and extending handholding support to the entrepreneurs for smooth functioning of their business processes
- Accessing the payment capacity of the entrepreneur is important. Keeping in mind the issue of seasonality of the payments/cash inflows in the business could help the entrepreneur to manage the business properly and effectively

Some PositiveInitiatives for MSMEs

There is a need for coordinated efforts amongst different actors - Government, Banks, MFIs and private organizations. In this context, various initiatives are taken up by Government to enhance credit delivery to SME sector. Some of the initiatives are:

- The Reserve Bank of India (RBI) has advised commercial banks to draw a road map to provide banking services through a banking outlet in every village having a population of over 2000
- Guidelines are issued by RBI to commercial banks for granting collateral free loans up to Rs. 5 lakh sanctioned to the units of MSME sector
- A high level task force constituted for the development of the MSMEs has made relevant recommendations on issues related to credit, taxation, marketing, labour, exit policy, infrastructure/ technology/skill development and special packages for North East and Jammu and Kashmir, etc.

National Best Practices in Servicing Microenterprise Finance

- **UttarakhandParvatiyaAajeevikaSanvardhan Company** (UPASaC) formed under the International Fund for Agricultural Development (IFAD) supported Uttarakhand Livelihoods Improvement Project for Himalayas. The project supported microenterprises in the non-farm sector through financial and marketing support
- **Society for Elimination of Rural Poverty**(SERP) with the support of Banks has supported the MandalSamakhya with micro enterprise loan, which in turn has been channelized to SHGs and members to initiate market led enterprises

International Best Practices in Servicing Microenterprise Finance

- **CARE Niger**has promoted Village Saving and Loan Association (VLSA) and later promoted in 33 countries in Africa, three countries in Latin America and three countries in Asia
- **Honey CARE Africa** established in the year 2000 as a Private Sector Fair Trade organization supported 12000 rural poor households in sustainable bee keeping
- **CARE Bangladesh** supported by Bill and Melinda Gates Foundation is reaching 35,000 households in rural Bangladesh for strengthening Dairy Value Chain Program. To get engaged with market, it has partnered with PRAN and Tetrapack. The impacts can be seen in the milk collection network, increased price, nutrition intake of project participants etc.

Making Markets Work for the Poor Approach (M4P)

It starts by conducting in-depth analysis of livelihoods of poor and related market systems and then uses this knowledge to foster sustainable growth by facilitating market linkages, innovative partnerships and the use of new business models. The M4P relies on facilitating market actors to adjust their services and products in a way that deliver benefits to the poor and as well as other actors in the system.

Based on the needs, microfinance institutions have to move from the microfinance and poverty lending to enterprise lending. Many of the clients of the MFIs have grown as Micro Entrepreneurs and the sector needs to builds its capacity to finance and nurture them. Provision of package of services along with the credit holds importance in developing sustainable enterprises.

Categorizing Enterprises

There is a need to categorize enterprises as micro, small and medium enterprises. Besides categorization on the basis of capital/turnover, it is also important to categorize the enterprises in terms of livelihoods provided by them. This will help the financial institutions in targeting the enterprises and plan the strategies accordingly.

Funding Sources

Some of the sources of funds for MSMEs are - Aavishkar; Seed Fund ;First Light Ventures ;Acumen Fund; Catamaran Venture Fund ; BharatiyaYuva Shakti Trust (BYST) Growth Fund,Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD).

Programmes for Technology Promotion:

- **Technopreneur Promotion Programme** - It is a technology based venture run by Department of Science and Technology (DST) and Department of Scientific and Industrial Research (DSIR)
- **Programme Aimed at Technological Self Reliance (PATSER)** - Another program of DSIR and Technology Development Board (TDB) that has supported small enterprises at various stages with soft loans and grants

Suggestions for Overcoming Constraints Faced by MSMEs

- Disseminating information on procedures for applying for grantassistance for MSMEs
- Easy accessibility, less paper work and provision of assistance for the entrepreneurs interested in initiating an enterprise
- Mentoring the entrepreneurs on preparing business plans, cost estimates and improving their negotiation skills
- Mapping the market for various cost effective and scalable technologies that are available for adapting inIndian conditions

- Identification of the existing clusters and building the SME entrepreneurial ecosystem around them
- Setting up specialized institutions for research and development, marketing, product development, gradation and information dissemination
- Collaboration across manufacturing and services sector to expand the scope and scale of the SMEs
- Allocation of special budgets to the organizations – SIDBI, NABARD and IDBI. These organizations can accommodate technical persons to guide and support the entrepreneur
- Developing special designated departments with offices at the local level. To speed up the process, these offices in consultation with the expert committee can approve the projects based on the feasibility and sustainability

Creating an UmbrellaStructure

Building an umbrella structure with a single window system to guide the infant MSMEs on financing, marketing, synergizing with other industries for raw material requirements, technical know-how and final product disposition will be useful. For promotion and development of MSMEs, Government of India has enacted the Micro, Small and Medium Enterprises Development Act, 2006.

Micro Enterprise Development

Micro Enterprise Development (MED) is being increasingly seen as a logical next step of any successful micro finance initiative that has poverty mitigation as the overarching objective. The MED, especially with the poor and marginalized people, continues to be an extremely challenging task. A range of models have already been tried out in different parts of the country.

The MED is seen as a natural next step for many microfinance practitioners as they are already comfortable with components of enterprise building such as market and opportunity identification, project and product preparation, selection of technology and credit requirement assessment for the enterprise. Yet despite this apparent organic link, there is relative lack of success in microfinance-led MED.

Major Gaps in the Area of CapacityBuilding

- There is a serious dearth of trained human resource that can anchor MED work
- Dearth of training material on how to manage the transition from a pure microfinance operation to MED interventions as it involves a range of complex activities and usually the facilitating agencies do not have the required expertise in-house

Other Factors Important for Promotion of Micro Enterprises

- Availability of timely credit, in required quantity, at affordable rates of interest and with ease of access is a critical factor in grounding a successful micro enterprise
- Providing handholding support to micro entrepreneursso as to ensure that they do not give up in the face of stiff competition and difficulties
- Providing only credit without the necessary infrastructure in terms of education, marketing linkages and social capital can actually turn into a financial burden.

Community Based Enterprises

These enterprises not only enhance the livelihoods of poor women but also have a greater abilityto sustainover a longer period of time as they build on strong community solidarity and support. However, group-based enterprises are likely to face serious operational, managerial and financial difficulties if they are not carried out in an appropriate organizational structure like a co-operative which is member-owned and controlled in the real sense.

Engaging with Multi-National Corporation (MNC)

Initiatives promoted by MNCs such as 'Project Shakti' are good for penetrating the rural markets.Working with the MNCs helps people gain critical marketing and communication skills that help them to become successful dealers and earn a regular and reasonable income; however care should be taken to see that the MNCs do not get to have a stranglehold on the lives of the masses through control of markets and supplies.

Value Chain Financing (Agriculture)

The value chain financing in agriculture includes microfinance services for various strategic activities of the value chain, starting from pre-cultivation to cultivation and up to marketing of produce viz. cultivation, harvesting, grading, packing, storage, transport and marketing.

Financing value chain for different types of collectives such as cooperatives, association of fruits and vegetable growers, federations of farmers, producer companies and farmers interest groups is a more viable option compared to financing to individual farmers and their value chains as the quantity of produce in the case of individuals will be very small. Integrated and strategic approach is necessary in value chain financing particularly in dealing with small scale enterprises. Also, value chains in agriculture require different types of credit arrangements so that individuals, groups and different types of organizations are catered adequately and effectively.

Three Types of Schemes Offered by Commercial Banks in Financing Value Chains

Financial Schemes for Agriculture Activities

Financing agri-business projects with venture capital assistance from Small Farmers' Agri-Business Consortium (SFAC); Financing farmers growing sugarcane crop in tie up arrangement with Sugar Mill acting as Business Facilitator; Financing MFIs for on-lending to individual members or their SHGs/JLGs; Financing against Pledge of Warehouse Receipts issued by National Bulk Handling Corporation Limited; Financing under Kisan Credit Card; Package loan to farmers; Punjab National Bank (PNB) KisanIchchhaPurtiYojana; Credit against gold ornaments/jewellery; Produce (marketing) loan scheme.

Schemes for Infrastructure/Consultancy and Technical Support for Agriculture

Purchase of land for agricultural purpose; Providing credit for projects for development and strengthening of infrastructure facilities for production and distribution of seeds; Capital Investment Subsidy Scheme for commercial production Units of organic inputs under National Project on Organic Farming; Development/strengthening agriculture marketing infrastructure, Grading and standardization; Purchase of second hand tractors; Financing self-propelled combine harvesters; Financing minor irrigation; Farm mechanization scheme; Financing development of horticulture and plantation crops; and Financing agricultural graduates for setting up Agri-Clinics and Agri-business Centers.

Financing Schemes of Agriculture Allied Activities

Financing schemes for agriculture and allied activities include - Venture Capital Fund Scheme for Dairy / Poultry Sector (for individuals, cooperatives, NGOs, public and private sector undertakings); Financing poultry farming; Financing for milk production activity, marine fisheries, apiculture, kitchen gardening and green houses.

Value Chain Financing in Adilabad'sTribal Area– A Successful Experiment

Two types of financing within the value chain –working capital financing and investment finance (for value addition/processing) is seen in this area. There are two important facts related to success of Adilabad's experiment - formation of farmers' cooperatives and its federation; and providing of cash credit limit by Regional Rural Banks (RRBs) to the federation for different activities of the value chain.

Some Good Examples of Agriculture Value Chains

- Dairy Producer Company promoted by Gram and IndurIntideepam wherein dairy farmers are financed by the Indur MACS
- Export oriented Grape cultivation in Maharashtra financed by State Bank of India (SBI)
- Cashew and Mango chains based on Tribal Wadis promoted by BAIF and financed by NABARD
- Litchi Value Chain in Bihar supported by SBI that has led to development of 51 litchi growers associations
- Grape value chain financing by banks to 'MAHAGRAPES' - a cooperative having Grape growers societies of Sangli, Solapur, Latur, Pune and Nasik area, as members in Maharashtra
- NABARD's financing (loan as well as grant component) to Tussar Silk value chain managed by MASUTA - a producer company owned by tribal women of Jharkhand, Chattisgarh and Bihar and promoted by Professional Assistance for Development Action (PRADAN).
- Development of innovative financial products by ICICI and financing for entire agriculture supply chain i.e. financing for seeds, fertilizers and agro-based industries
- Financingto women groups for procuring vegetables and fruits by 'Hand in Hand' - Besides finance, the groups are also supported in grading vegetables and fruits as per the size and quality; packing the produce; pasting the labels with barcodes; and linking the groups with the shopping malls
- Off-season vegetable value chain in Uttarakhand - Microfinance services has to be provided at the producer's level. Also the inputs like quality seeds, fertilizers need to be provided before the sowing of the crop. Further the tie ups with the buyer as per graded produce could be done so that the farmers are not dependent on the traders for their financial requirements for crop production.

Banks and other financial institutions are better positioned as compared to MFIs in terms of financing the value chains. Banks have an advantage over MFIs as they can undertake financing for higher links in the value chains like processing, aggregation, storage, packaging, transport and retailing. Some of the microfinance institutions are playing key role in providing credit products for supporting basic livelihood activities in agriculture. Financing by MFIs for startup and basic strategic activities of the agriculture value chain is important as there are high possibilities of creating links between small or primary producers and the players of upper value chain.

In order to strengthen value chain financing in agriculture, it is important to conceptualize the entire value chain and looking at the different links so as to mitigate the risks to a large extent. Further it is also essential to do identification of different activities, estimating the profitability of the business plan, imparting training to the borrower on accounts and marketing and analyzing the backward as well as forward linkages of the chosen activity.

Note: *This chapter is based on the responses of the members on four discussions taken up by Microfinance Community and Work and Employment Community on MSMEs as well as Value Chain Financing*

Poverty

Microfinance Community

Work and Employment Community

Solution Exchange for the Microfinance Community
Solution Exchange for the Work and Employment Community
Consolidated Reply

Query: Financing the Micro-enterprises through MFIs – Experiences; Examples

Compiled by Navin Anand, Resource Person, Monika Khanna, Research Associate and Warisha Yunus, Moderator - Work and Employment Community

Issue Date: 14 March 2012

From Anand Kumar Srivastava, GIZ MSME Umbrella Programme, New Delhi and Rahul Mittra, Margdarshak, Lucknow

Posted 11 January 2012

Margdarshak, with support from GIZ MSME Umbrella programme, is in the process of developing a **tool-kit for microenterprise lending** by Microfinance Institutions (MFIs). The tool-kit aims at providing broad operational structure, processes and business model, for MFIs desirous of undertaking microenterprise financing (within the range of Rs. 50,000 to 2 lakhs initially).

The Micro, Small and Medium Enterprises (MSMEs) are a vital component of the Indian economy and make significant contribution towards the growth and development of the nation. In January 2010, the Report of Prime Minister's Task Force on Micro, Small and Medium enterprises (MSME) (available here; Size: 1.84 MB) was released which estimates MSMEs contribution to country's GDP to be 8%, manufactured output to be 45% and exports to be 40%. In addition, the 4th All-India Census of MSMEs estimates about 26 million enterprises operational in the country which provide employment to an estimated 60 million persons.

However, very few of the MSMEs operate as registered entities (with at least minimal registration required as per the taxation laws). A large majority (94%) of them operate as very small unregistered proprietary concerns owned by micro entrepreneurs. It is due to its unorganized and unregistered status, the MSME segment lacks access to capital and other associated support services.

Given the success of microfinance and SHG Bank linkage in enabling access to capital and credit for the unorganized segment, the Non-Banking Finance Company (NBFC) MFI segment is suitably placed for addressing the credit needs of the MSMEs. While the **unavailability of funds** for on-lending remains a challenge for the MFIs, the **lack of clear-cut business models** which can serve as reference points for the MFIs is another road-block.

Within this context, we request the members of Microfinance Community and Work and Employment Community to share their inputs on:

- Key constraints faced by the MFIs in financing the Microenterprises in India
- National/international best practices in servicing Microenterprise finance
- Share examples of successful business models of Microenterprise financing.
- Key risks to be addressed for Microenterprise lending in the Indian context.

Inputs by members will enable GIZ and Margdarshak in developing a sector relevant reference document. They will also help in developing the long term agenda to be adapted for enabling access to finance for MSMEs.

Responses were received, with thanks, from

1. **Ajimon.L, ESAF Microfinance and Investments Private Limited (EMFIL), Trichur, Kerala**
2. **Naveen K Shetty, Institute for Social and Economic Change, Bangalore**
3. **Hemantha Kumar Pamarthy, Hand in Hand Microfinance Limited, Chennai**
4. **Naveen Kumar Shukla, Rajiv Gandhi Foundation, Uttar Pradesh**
5. **Liby Johnson, Kudumbashree - Kerala State Poverty Eradication Mission, Trivandrum, Kerala (Response 1; Response2)**
6. **Aziz Ur Rehman, Uttar Pradesh**
7. **BaladebSen, Consultant, Mumbai**
8. **G K Agrawal, Rural Development and Microfinance Consultant, Mumbai**
9. **MH Prasadu, Thrimpact Energy Solutions**
10. **JayshreeVyas, SEWA Bank, Ahmedabad**
11. **Sanmoy Das, Drishtee, Noida, Uttar Pradesh**
12. **TamalSarkar, United Nations Industrial Development Organization (UNIDO), New Delhi**
13. **Smita Premchander, Sampark, Bangalore**
14. **KamleshGururani, Uttaranchal Livelihoods Improvement Project for the Himalayas (ULIPH – AAJEEVIKA), Uttarakhand**
15. **Nicholas Wolf, AusAid, Australia**
16. **SubhenduPratihari, Larsen and Toubro (L & T) Finance, Mumbai**
17. **Prabhat Kumar, Development Professional, Jaipur** *

**Offline Contribution*

Further contributions are welcome!

Summary of Responses
Comparative Experiences
Related Resources
Responses in Full

Summary of Responses

Members appreciated the positive contribution of SMEs in terms of GDP of the nation and providing employment opportunities. However, the Micro Enterprises face constraints in availing the credit facilities and largely remain under-served. Their financial needs are generally too large for microfinance, but too small for commercial banks. This gap hampers growth and limits the development of these enterprises.

Constraints faced by the MFIs in Financing the Microenterprises

Members shared that there is a need to categorize the enterprises on the basis of what is a Micro, Small and Medium enterprise. There is need to classify them on the basis of Capital/Turnover parameters or livelihood that is being provided by the enterprise. This will help the financial institutions in targeting the enterprises and plan the strategies accordingly.

In Indian context, the Microfinance institutions are facing a lot of constraints in financing the micro enterprises. Some of the challenges as identified by the members were:

- In the absence of the appropriate incentive mechanisms it is difficult for the MFIs to go an extra mile and take the risks involved in financing the MSMEs. Since the loan requirement in MSMEs will be greater than the conventional loan offerings of the MFIs
- Generally the loan products of the MFIs are for the groups. However, for financing the microenterprises, there is a need of Individual Lending. Moreover, financing the MSMEs requires a focused and a concentrated approach and it may vary at the different business cycles.
- Given the current state of the MFIs amidst the need of regulation and post Andhra Ordinance, many of the MFIs are facing fund crunch. Financing in the new domain altogether will be a challenging task for the MFIs
- Interest charged by the banks to the SMEs is generally between 11-14 percent, based on the rates charged by the MFI (generally above 18 percent) it will be difficult for the SMEs to explore finances from the MFIs
- In the initial phases of the business, generally the return on investment of the Micro enterprises is less so it is difficult for them to pay interest on the loan taken.

Above mentioned challenges could be dealt with favorable policy changes and implementation of motivating assistance through MFIs. Members also suggested that besides meeting the critical financial requirements of the SMEs there is a need of developing a package of support. Only providing the support in the credit procurement will not serve the purpose. Some of the areas where the support could be extended to the SMEs as identified by the members were:

- Market assessment, product development, preparation of appropriate business plans, marketing of the finished products, linages with raw material sources, technology adaptation and providing risk coverage
- Entrepreneurship related soft-skills and business sector related hard skills development
- Bring in economies of scale (in procurement, technology use and marketing) by networking enterprises of similar nature
- Provision of Credit at lower interests at the required time with initial moratorium on principal repayment depending on the nature of the business
- Developing local markets for Micro Enterprises products and/or developing ME products as per local market requirements
- Building the capacity of the entrepreneurs, identification of the products to be produced, handholding in branding, conceptualizing the business plan with all the possible risks to be avoided
- Support in projecting the possible cash flows and maintaining proper accounts as per the requirements of the credit providers

Risks to be addressed for Micro Enterprise lending in India

While lending to the Micro enterprises, some of the possible risks that the financial institutions may face as identified by the members are:

- As there are low entry and exit barriers in the Micro Enterprises, there may be chances where the entrepreneurs change the trade or the geographic location during the course of business operations, this could have effects on the smooth payback of the loan installments

- Lack of clear demarcation existing between the business funds and personal funds there is a possibility that business surplus could be used by the entrepreneur in meeting out the exigencies, thereby affecting the growth and sustainability of the business
- The potential returns from the enterprise needs to be ascertained in advance before lending to the entrepreneur. Moreover there is a need of frequent monitoring and extending handholding support to the entrepreneur for the smooth functioning of the business processes
- Accessing the payment capacity of the entrepreneur is important. Keeping in mind the issue of seasonality of the payments/cash inflows in the business could help the entrepreneur manage the business properly and effectively.

National/International best practices in servicing Microenterprise finance

- **UttarakhandParvatiyaAajeevikaSanvardhan Company** (UPASaC) had supported the microenterprises in the non-farm sector through financial and marketing support
- **Society for Elimination of Rural Poverty**(SERP) with the support of Banks has supported the MandalSamakhya with micro enterprise loan, which in turn has been channelized to SHGs and members to initiate market led enterprises
- **CARE Niger** promoted Village Saving and Loan Association (VLSA) and later promoted in 33 countries in Africa, 3 countries in Latin America and 3 countries in Asia
- **Honey CARE Africa** established in the year 2000 as a Private Sector Fair Trade organization supported 12000 rural poor Households are involved in sustainable commercial bee keeping
- **CARE Bangladesh** supported by Bill and Melinda Gate Foundation is reaching to 35,000 Households in rural Bangladesh for Strengthening Dairy Value Chain Program. To get engaged with market, it also has partnership with PRAN and Tetrapack. The impacts can be seen in the milk collection network, increased price, nutrition intake of project participants etc.
- **State Bank of India**provides a wide range of financial products and services that can cater to any business or market requirement

Besides suggesting the above mentioned organizations, members also referred to the **Making Markets Work for the Poor approach**(M4P). It starts by conducting in-depth analysis of livelihoods of poor and related market systems and then uses this knowledge to foster sustainable growth by facilitating market linkages, innovative partnerships and the use of new business models. M4P relies on facilitating markets actors to adjust their services and products in a way that deliver benefits to the poor and as well as other actors in the system.

Finally, members shared that there is a need that Microfinance Institutions to move from the microfinance and poverty lending to the enterprise lending. Further members argued that many of the clients of the MFIs have grown as Micro Entrepreneurs (MEs) and the sector needs to builds its capacity to finance and nurture the MEs. While providing the crucial funds at the appropriate time would be a great help to the enterprise, members felt that frequent meeting with the entrepreneur and not losing the human touch in the entire financial value chain will be equally important. Provision of package of services along with the credit holds importance in developing sustainable enterprises.

Comparative Experiences

National

Uttarakhand

Financial and Marketing Support Helps Micro Enterprises, Bageswar*(from Navin Kumar Shukla)*
Micro enterprises in the non-farm sector were developed through financial and marketing support from a company. The enterprises utilized the funds as per the business plan and the entrepreneur returns their installment to the company. Now the enterpreneurs are earning handsome income from their same

businesses. They have also started returning installment and have now employed local youths based on the business scale. Read more

Kerala

Micro Enterprises as a Key Strategy for Economic Empowerment of the Poor, Trivandrum *(from Liby Johnson)*
Developing micro enterprises was a strategy followed by a poverty alleviation programme for economic empowerment of the poor. Later a study was conducted which found that 42% of the enterprises had a turn over of less than Rs. 10,000 and 7% had a turn over above Rs. 1 lakh. They also found that 27% of the units closed down due to market issues, 10% due to bad planning and 15% due to lack of working capital. Read more

Andhra Pradesh

Financing Support from the Banks Help in Developing Market led Micro Enterprises*(from SubhenduPratihari, Larsen and Toubro (L & T) Finance, Mumbai)*
A poverty alleviation programme with the support of the banks have supported women SHG federations with micro enterprise loan which in turn was channelized to SHGs and members to initiate market led enterprises. This support has been provided to 1099 SHG federations bringing a positive change in the lives of the poor women. Read more

International

Bangladesh

Finance as well as partnerships with Relevant organizations Yields Positive Results *(from SubhenduPratihari, Larsen and Toubro (L&T) Finance, Mumbai)*
To develop a Dairy Value Chain Program, an organization got into partnership with PRAN and Tetrapack to engage with the market. The impact today can be seen in the milk collection network, increased price, nutrition intake of project participants. The program today is very succesful and covers 35,000 households. It now wants to focus on dairy value chain finance for small holders.

Related Resources

Recommended Documentation

From Smita Premchander, Sampark, New Delhi

Making Markets Work for the Poor/M4P: Some Key Links 2011
Webpage
Available at http://www.mmw4p.org/dyn/bds/docs/detail/474/6

> *Provides a comprehensive introduction to a wide range of links and documents relating to Making Markets Work, explicitly for the poor.*

Business Knowledge Resource Online
Webpage
Available at http://business.gov.in/business_financing/goverment_fund.php

> *Provides information about the financial services offered by the public sector banks in the form of loans, advances, project financing, term loans and export finance etc.*

The Micro Finance Review *(from TamalSarkar, United Nations Industrial Development Organization (UNIDO), New Delhi)*

Journal; by Bankers Institute for Rural Development (BIRD); Centre for Microfinance Research
Available at http://www.birdindia.org.in/doc/MFR%20Vol%20III%20No%202%20contents.pdf (PDF; Size: 63 KB)

Contains an article 'Financing Micro Enterprise Clusters - Challenges, Opportunities and Way Ahead' that discusses financing issues in clusters.

From Monika Khanna, Research Associate

Microfinance for Microenterprises: A Source Book for Donors
Papers; by Mark Schreiner and Janina León; November 2001
Available at http://www.microfinance.com/English/Papers/Source_Book_for_Donors.pdf (PDF; Size: 134 KB)

Reviews lessons learned and offers practical guidelines for donors in the field of microfinance for microenterprise

Financing Micro, Small and Medium Enterprises
Report; International Finance Corporation; Washington DC; 2008
Available at http://www.ifc.org/ifcext/ieg.nsf/AttachmentsByTitle/MSME-FIFullReport/$FILE/MSME-Full-Report.pdf (PDF; Size: 2.49 MB)

Evaluates outcomes of 21 financial intermediary projects and 72 operationally mature, for-profit, small and medium-size enterprise-oriented financial intermediary projects

Recommended Organizations and Programmes

UttarakhandParvatiyaAajeevikaSanvardhan Company (UPASaC), Uttarakhand *(from Naveen Kumar Shukla)*
272 C/II Vasant Vihar, Dehradun 248006; Tel: 91-135-2762800; Fax: 91-135-2762798; uliph05@yahoo.com

A company registered under Section 25 of Companies Act, promoted by Govt. of Uttarakhand and works for improving livelihoods of vulnerable groups.

National Bank for Agriculture and Rural Development (NABARD), Maharashtra *(from G. K. Agrawal, Rural Development and Microfinance Consultant, Mumbai and SubhenduPratihari, Larsen and Toubro (L&T) Finance, Mumbai)*
Plot No. C-24, "G" Block, Bandra-Kurla Complex, P. B. No 8121, Bandra (E), Mumbai 400051; Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com;
http://www.nabard.org/roles/microfinance/index.htm

Apex institution providing loan funds for microfinance services in the form of revolving fund assistance to NGO-MFIs; can provide funding for financing Microenterprises.

From Liby Johnson, Kudumbashree - Kerala State Poverty Eradication Mission, Trivandrum, Kerala

Kudumbashree, Thiruvananthapuram
State Poverty Eradication Mission, 2nd Floor, TRIDA Rehabilitation Building, Chalakuzhy Road, Medical College PO, Thiruvananthapuram 69501 Kerala; Tel: 91-471-2554714; Fax: 91-471-2334317; http://www.kudumbashree.org/concepts/html/general.html

Multi-sectoral poverty alleviation programme, aims to form Area Development Societies and Community Development Societies to address the socio-economic needs of its SHG members.

State Bank of India (SBI), Maharashtra *(from Smita Premchander, Sampark, Bangalore)*
Tulsini Chamber, 1st Floor, West Wing, 212, Free Press Journal Marg, Nariman Point, Mumbai 400021;
Tel: 91-22-22820427; Fax: 91-22-22820411; crpd@sbi.co.in;
http://www.statebankofindia.com/viewsection.jsp?lang=0&id=0,8,67

Nationalized public sector bank lending for microfinance services; can provide funding to finance micro enterprises too.

Society for Elimination of Rural Poverty (SERP), Hyderabad *(From SubhenduPratihari, Larsen and Toubro (L&T) Finance, Mumbai)*
5-10-192,3rd 4th Floor, Hermitage Office Complex, Huda Building, Hill Fort Road, Nampally, Hyderabad - 500004; Tel: 91-40-23298469; Fax: 91-40-23211848; http://www.serp.ap.gov.in/index.jsp

One of its core functions is to develop grassroots institutions to deliver microfinance services starting from SHGs and building up to VOs and MandalSamakhyas

Bankers Institute of Rural Development (BIRD), Uttar Pradesh *(from TamalSarkar, United Nations Industrial Development Organization (UNIDO), New Delhi)*
Sector - H, LDA Colony, Kanpur Road, Lucknow 226012; Tel: 91-522-2421097; Fax: 91-522-2421047/176; bird@sancharnet.in; http://birdindia.org.in/bird_training.htm

Instituted to offer training, research and consultancy in the field of rural development banking; it can be used to train bankers to provide funding to micro enterprises.

Uttarakhand Livelihoods Improvement Project for Himalayas (ULIPH), Uttaranchal *(from KamleshGurnani)*
Project Management Unit, Aajeevika, BhandariBhawan, P.O. Gauchar, District Chamoli 246429; Tel: 91-1363-240519; uliph05@yahoo.com; http://www.ajeevika.org.in/empowerment.htm

Poverty alleviation project for the mountainous people; the strategies of working with the poor used in the project can be applied in the NRLM.

From Warisha Yunus

National Backward Classes Finance & Development Corporation (N.B.C.F.D.C), New Delhi
5th Floor, NCUI Building, 3, Siri Institutional Area, KhelGaonMarg, New Delhi - 110016; Tel: 91-11-26511027; Fax: 91-11-26850086 nbcfdc@del3.vsnl.net.in; http://nbcfdc.org.in/schemes.html

Aims to promote economic and developmental activities for the benefit of Backward Classes and to assist in skill development and self employment ventures.

National Minority Development and Finance Corporation, New Delhi Core II, Second Floor, Scope Minar, Laxmi Nagar, Delhi - 110092; Tel: 91-11-22441442; Fax: 91-11-22441637; nmdfc@nmdfc.org; http://www.nmdfc.org Contact Mr. Abrar Ahmed; Managing Director; ahmad_abrar@hotmail.com

Wholesale apex organization, which channels funds from the GoI and other donors to retailing intermediate microfinance organizations and builds their institutional capacity.

Recommended Training Courses

Course in Rural Enterprise Administration and Management (CREAM), **Kerala** *(from Liby Johnson, Kudumbashree - Kerala State Poverty Eradication Mission, Trivandrum, Kerala; response 2)*
http://tree-society.org/

A compressed MBA programme for small entrepreneurs and staff of organizations promoting enterprises to enable them to understand business management better.

Related Consolidated Replies

Micro-Enterprise Development for Mature MF Clients, from N. Jeyaseelan, Hand in Hand, Chennai (Experiences). Microfinance Community, Solution Exchange India,
Issued 22 February 2007. Available atftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-22020701-public.pdf(PDF; Size: 149 KB)

Shares challenges and strategies to graduate MF clients from micro-credit to micro-entrepreneurial activities through experiences including using sub-sector approach.

Microenterprise Development as an Extension of Microfinance from Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad (Examples; Experiences). Work and Employment Community and Microfinance community, Solution Exchange,
Issued 28 December 2007. Available atftp://ftp.solutionexchange.net.in/public/emp/cr/cr-se-emp-mf-18100701.pdf (PDF,Size: 100 KB)

Shares examples of micro enterprise programs initiated by MFIs/NGOs that have become successful enterprises and discusses the challenges MFIs face in micro-enterprise development.

Financing for Micro Enterprises and SMEs from Indrani Sharma, Ashoka'sChangemakers, New Delhi (Examples; Advice).Microfinance Community, Solution Exchange, India
Issued 7 September 2010. Available at ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-03081001.pdf (PDF, Size: 120 KB)

Seeks inputs on identifying the gaps in financing Micro Enterprises and SMEs, suggested ways to overcome these gaps and examples of providing complete financial solutions to SMEs that has potential of scaling up.

Responses in Full

Ajimon.L, ESAF Microfinance and Investments Private Limited (EMFIL), Trichur, Kerala

Micro enterprises play a very important role in our economy. Economic changes like share value increase or decrease or investment sectoral changes etc. do not directly affect the micro enterprises owned by the small income groups living in our villages, urban or semi urban regions. Moreover, its contribution to the gross national product (GDP) is 8% and it provides job opportunities to 60 million people.

Before promoting these micro enterprises through MFI financing, there are many risk factors that we need to address. This can be possible only through favorable policy changes and implementation of motivating assistance through MFIs on the basis of their past records and social performance.

Naveen K Shetty, Institute for Social and Economic Change, Bangalore

MFIs and Banks are facing various problems in financing the unorganized/very small micro-enterprises. However, the group approach is playing very vital role in financing micro-enterprises.

In my view the SHG clusters and federation will be a better intermediary to finance the micro-enterprises, where the transaction cost for a MFI/Bank and customers will be low as well as timely and adequate finance is expected to deliver. But, the major challenge of this model is promoting sustainable SHG federations/clusters.

Hemantha Kumar Pamarthy, Hand in Hand Microfinance Limited, Chennai

Here's my take on a couple of questions raise in the query.

Key constraints faced by the MFIs in financing the Microenterprises in India

The first and foremost stumbling block is recognizing what is Micro, Small and Medium enterprise. Should one go by the guidelines prescribed by Reserve Bank of India which is based on Capita/Turnover parameters or should it be based on the livelihood that is being provided by the enterprise.

Or should a new nomenclature Tiny Enterprise or Nano Enterprise be added to the business lexicon?

When the MFIs do take the risks surrounding the lending for Micro enterprises in what way they are being incentivized for encouraging the industry? If at all the MFIs are being incentivized, are the incentives appropriate and adequate?

National/international best practices in servicing Microenterprise finance

I would say that the best practice would start with:

Capacity Building, Skill Training, Market knowledge, Marketing training, Market Linkages maybe through supply / value chain methodology, Identifying product, hand-holding in branding, Business plan making and then Micro Enterprise Financing. Then Utilization checking, monitoring, evaluating profitability, scaling up opportunities.

Checking the Utilization (not just for name sake or to satisfy auditors) should be mandated as an essential part of the enterprise lending.

Key risks to be addressed for Microenterprise lending in the Indian context.

- Microfinance itself being fungible, fungibility of the credit is the first and biggest risk. This has to be negated by ensuring that the **Loan amount has been used for the purpose it was taken/lent**
- The enterprise should be such that it is viable and not created towards some lofty ideal. If there is no income the loans will stand the risk of being over run
- Regular/Frequent monitoring would be required to ensure that the assets purchased with the loan amounts are not coolly sold away
- To ensure that the enterprise is for absolutely legally approved activity and not for some clandestine purpose

These are some of my thoughts.

Naveen Kumar Shukla, Rajiv Gandhi Foundation

I want to share an initiative of UttarakhandParvatiyaAajeevikaSanvardhan Company (UPASaC) Bageshwar, Uttarakhand regarding enterprise finance. Micro enterprises in the non-farm sector were developed through financial and marketing support from UPASaC. The enterprises had utilized the fund as per the business plan and the entrepreneur returns their installment to UPASaC.

Presently, the entrepreneurs are earning handsome income from their same business. Moreover, they have started returning installment and have now employed local youths based on the scale of the business. The fact is that new generation does not see their family owned traditional agriculture work as lucrative. But they are more entrepreneurial, however, no agency (especially bank/financial institution) want to hunt this potential due to their own reasons. Apart from above described success of enterprises development, this initiative gives opportunity to youths who are looking to be an entrepreneur.

Liby Johnson, Kudumbashree - Kerala State Poverty Eradication Mission, Trivandrum, Kerala (response 1)

Before understanding the constraints and challenges related to financing Micro Enterprises (ME) we need to understand the challenges faced by the ME Sector as a whole. Kudumbashree, the State Poverty Eradication Mission, Government of Kerala has adopted self-employment through micro-enterprises as a key strategy in its economic empowerment programme. In 2006-07, Kudumbashree commissioned a Study across Kerala covering micro-enterprises that were promoted as part of poverty alleviation programmes of different State and Non-State agencies. Below is a summary of the key findings of the Study. The comprehensive study of enterprises was supported by various agencies, operated by members of Kudumbashree network

- 50,583 enterprises covered (60% individual, 40% group enterprises)
- 60% in Agriculture sector, 24% in Manufacturing, 16% Service sector enterprises
- 66% of units functional – even across sectors
- 42% reported annual turnover less than Rs.10,000
- Only 7% with turnover above Rs.1 lakh
- 48% units report pricing of product as key issue
- 22% units report marketing related issues
- Of units that closed down 27% due to market issues, 10% due to bad planning, 15% due to lack of working capital
- Inadequate technical knowledge & lack of any back-up support cited by all units

Over the past several years, Kudumbashree has made attempts to understand the findings of the Study and place them in context. To generalize, the challenges faced by micro-enterprises developed as part of poverty alleviation programmes face the following types of challenges.

<u>Issues in selection of entrepreneurs</u>

- Motive or compulsion, as basis for selection
- Quota driven approach of promoting agencies
- Assessment of Entrepreneurial drive
- Assessment of Financial capability vis-a-vis proposed business requirements
- Group dynamics in case of group enterprises

<u>Issues related to Finances</u>

- Stock projects, not always contextually adjusted
- Projects cut to fit guidelines, not based on business requirements
- Inflexible credit terms
- Working capital requirements seldom properly calculated or provided for
- Lack of appropriate accounting system or support
- Gestation period of the business not factored in the financing plan

<u>Scale Issues</u>

- Procurement and production volumes
- Cost of production
- Storage

<u>Technology related issues</u>

- Traditional, Low end technology often the default choice
- Quality management not focused on

<u>Market related issues</u>

- Inappropriate choice of product
- Pricing
- Market access issues (sales channels, terms etc.)
- Branding, labeling issues
- To add to the above challenges is the fact that, the legal environment in which micro-enterprises operate militates against their viability. There is little in the legal framework related to taxes, production standards etc. that provide these very small producers any benefit of scale or size. Rather,

the financial muscle of larger operators in similar markets enable the larger players to influence (legally or illegally) law enforcers to their own benefit.

Financing ME

Any financing scheme for ME has to keep the above challenges in mind. I am not sure if MFI are the best route for financing ME, for the following reasons.

- Typically, the average ROI on investments in products/services that ME can handle is seldom more than 20%. Even in areas such as vending where the nominal returns seem to be higher, the actual final returns will be much lower due to high cost of financing, unforeseen breaks in business (rain, strikes etc.) and inordinately high extra payment (haftas, bribes etc.). The wage component is likely to be less than 20% of the turnover. Thus the total income earned by the owner-operator will be 20% of the investment and 20% of the turnover. Our experience shows that the minimum capital investment needed is Rs.1 lakh for a viable enterprise. Such a enterprise is likely to have a turnover of about Rs.2 lakh per annum. Thus the total income earned by the entrepreneur (if s/he or her family members are the only labourer involved) will be Rs.60,000 per annum or Rs.5000 per month.
- Banks limit the loan amount per person to Rs.50,000 under the Priority Sector Lending schemes (clean loans without any collateral guarantee), arguing that it is the limit set for micro-credit. How many MFIs will take the risk of lending Rs.80-90,000 to an asset-poor individual?
- We also need to consider the interest paying capacity of the enterprise. For typical loans to ME (under various schemes of the Government and Agencies) banks charge anywhere between 11-14% per annum. This often proves a huge burden on the enterprise's finances. Can MFI's lend even at this level?

Potential areas of intervention for ME development, by agencies promoting self-employment based livelihoods through micro enterprises will need to consider a package consisting of the following:

- Support for correct market assessment, product development and preparation of appropriate business plans
- Support for entrepreneurship related soft-skills and business sector related hard skills development
- Efforts to bring in economies of scale (in procurement, technology use and marketing) by networking enterprises of similar nature
- Credit at lower interests with initial moratorium on principal repayment depending on the nature of the business
- Efforts at developing local markets for ME products and/or developing ME products as per local market requirements

Intervention in any one of the above areas, without concern for the others will not be of much use, as experiences across the Country, from schemes of various agencies show us, day-in and day-out.

Aziz Ur Rehman, Uttar Pradesh

I liked the response from Liby simply because it has put on center stage the MEs/People first rather than MFIs or MF. Many thanks for sharing various issues and suggestions.

The biggest and only constraint is that the finance sector only wants to finance and not really focus on people. It is time that MFIs get into the version of working on the needs of People and have a broad base programme where MF is a tiny portion that comes into play when and where it is eligible. Or else Finance sector should only work with good social institutions which run broad based comprehensive programmes with viable business models.

In my opinion we will do well to the cause of people if and only if we discuss about MEs and almost forget MFIs. If business strategy is viable, money will find its way in, we don't need to bother about financers/MFIs. On the other hand a positive indicator for a sustainable business is that it reduces its need for finance from outside for the same business.

BaladebSen, Consultant, Mumbai

It is a pity that even after four decades of microfinance, in theory as also in practice, we have not been able to overcome the age old unresolved issue of "Who comes first and before whom"? I sometimes wonder for how long this unnecessary fuss will continue to plague the healthy and synchronized growth of microfinance. It is now a cliche to argue that microfinance is a cure-all for all the problems of rural and urban poverty.

Basically, finance is a social surplus, called capital that is allocated according to market demand and returns. It is allocated to sectors that are sustainable which again is determined by the relative priorities of people's needs. In the long run, investment of capital in any business enterprise is necessarily guided by the people's needs and entrepreneurial abilities. Microfinance is not a pariah in the world of finance and the earlier it is integrated with the economy's financial system, it is better.

G K Agrawal, Rural Development and Microfinance Consultant, Mumbai

One has to draw distinction between small financial needs of poor and financial needs of Micro enterprises (MEs).

Also, all beneficiaries of SHGs and MFIs cannot be turned MEs overnight or produced in an assembly like production. The trouble in government supported ME programmes is that they want to run it as a target oriented programme, expecting results overnight. While financial needs of MEs are better taken care of by banks/MFIs, support for capacity building, training and backward and forward linkages would have to come from Voluntary Organizations/NGOs which themselves first have to acquire expertize in such areas and then their funding would have to be met either by the promotion funds available with the national level agencies like NABARD/SUDBI and /or as a part of CSR by corporates.

Liby Johnson, Kudumbashree - Kerala State Poverty Eradication Mission, Trivandrum, Kerala *(response 2)*

With respect to the ME sector, an interesting initiative that I have been part of is the Course in Rural Enterprise Administration and Management (CREAM). CREAM is a compressed MBA programme delivered to small entrepreneurs and staff of organizations promoting enterprises to enable them to understand business management better. More details are available here: - http://tree-society.org/

MH Prasadu, Thrimpact Energy Solutions

It's a good area and much is needed to improve, strengthen and empower the BOP and MSMEs too. But lending above 50,000 and up to 2 lakhs may be out Micro Finance. Generally loans less than 50,000 come under Micro Finance.

And lending to these MSMEs needs more care, concern, understanding than lending to the BOP women / low-income clients and Management, Operations and Legalities will be the core issues along with Macro Economic conditions.

JayshreeVyas, SEWA Bank, Ahmedabad

This is a very interesting discussion. I feel, Microfinance movement has matured now. Many of our clients have also grown as MEs and the sector needs to build its capacity to Finance and nurture MEs.

Sanmoy Das, Drishtee, Noida, Uttar Pradesh

Most of us working in the micro-financing sector would be aware of the constraints, good practices and associated risks of financing micro-enterprises. I herewith present my views on the queries raised.

Constraints Faced by MFIs in financing Micro-enterprises in India

Constraints faced by MFIs in financing micro enterprises are manifold. Some of the constraints faced are listed hereunder.

Most of the MFIs in India follow the group lending model. However, considering the fact that micro enterprises can be extremely varied in nature and can have distinctly different business cycles, the need arises for a more focused and concentrated approach (for financing) – Individual lending route.

As individual lending model is not very prevalent in the micro-finance space in India, if a MFI adopts this model, they will have to develop various products, processes and control mechanisms to effect seamless functioning. Since financing of micro-enterprises through the MF route is in its infancy in India, much of performance benchmarks will also not be available for the entrant MFI.

The fund requirement of a micro-enterprise may be in excess of the conventional initial offering bracket of Rs 5,000 – Rs. 10,000. While this may test the risk appetite of the MFI vis-a-vis a new customer, the composite fund requirement to run the business (of financing micro-enterprises) will surely move northwards.

Recent developments in the MF sector, has shaken the investor / lender confidence, and they are fairly apprehensive about their exposure in the Micro-finance sector. Hence a new MFI could be faced with the problem of availability of capital or could be cash strapped.

In certain pockets of the country, micro entrepreneurs are averse to the idea of availing of credit facilities i.e. loans. At the same time, there are certain pockets, where micro-entrepreneurs identify the need for credit and want it, but desist from availing it, fearing the message it shall send out to the community (i.e. in some rural/semi urban areas it is perceived that if a person avails of credit to run his trade then the business is not faring well and it may go bust). These sentiments could somewhat dampen the business prospects of the MFI in certain pockets.

In order to provide a loan to a micro enterprise, the enterprise will have to be evaluated to determine its credit worthiness. However, micro enterprises may neither have formal set-ups nor 'pucca' documents to back up business transactions. Hence, majority of the financial details with respect to the business will be backed by 'kuccha' bills/ documents or no bills at all. To add on, forecasting future growth, evaluating business sustainability etc., are difficult to infer, considering the availability of inferred data and supporting documents. This could impair the attempts made by a MFI to evaluate a micro business, the conventional way.

On the financial front, it is also difficult to segregate the income / expenses of the micro-entrepreneur and that of his business. Mixing of funds, irrespective of source, is a fairly prevalent practice among micro-enterprises.

In the absence of formal documentation (illustrating buying, selling etc.), it becomes extremely difficult to determine the end use of funds. With the loan funds ploughed into the business, the business may grow and this will facilitate easy repayment of dues. However, if the loan amount is used to cater to the consumption needs of the micro-entrepreneur, then over a period of time, loan repayment could be under pressure. Hence faced with the constraint of non-availability of documents to establish proper end use of funds, could hinder the MFI's lending practice.

Some micro enterprises, operating in the rural hinterland, continue to use the barter system even today. Example: A grocer can accept certain amount of wheat from a farmer of the village, in exchange for a certain quantity of sugar. Such practices complicate the business appraisal process furthermore, in an already frail environment (i.e. limited availability of data and documents).

National / International Best Practices & successful business models of Micro-enterprise financing

Mapping of the functional micro enterprises in a particular geography and understanding of market demand vis-a-vis financing needs: This has to be done to better understand the business potential that a said geography holds. This exercise will also throw light on the kinds of micro-enterprises thriving in the region, the financial needs of the various micro-enterprises, access to finance etc.

Only Permanent residents of a region engaged in some micro-enterprise should be eligible for the micro-enterprise loan (i.e. no migrants or candidates, who have their business in a different geography than the one they reside in, may be considered for this kind of product offering.)

The appraisal procedure for micro enterprise loans has to be fairly exhaustive and it should be carried out on the basis of available documentation, visual inspection and feedback gathered. To gather a whole-some view on the case, the appraisal exercise has to be carried out at the business premises/location as well as home of the prospect. This has to be complemented by third party feedback on the prospect and the business the prospect runs.

Interface with an existing client (i.e. micro-entrepreneur who's availed a loan) has to be stepped up. MF representative servicing a said geography, has to develop and nurture a relationship with client/s to better understand ,the loan fund utilization, the client's business performance , the arising needs of the client from time to time, the challenges faced etc.

To attribute seriousness, to these post sales services, some factors (like client attrition, delinquency etc.) could be incorporated as key result areas, in the performance management system. However, any staff member servicing clients must act under the supervision of a senior personnel and his job must be monitored through a monitoring guy, to reduce chances of any malpractices creeping into the system.

Risks to be addressed for micro enterprise lending in India

Some of the risks that a MFI can be confronted with (while financing micro enterprises) are as follows:
While most micro-entrepreneurs are restricted to a specific geographic location , others have a fairly mobile business set up (i.e. pheriwallahs , thelewallahs etc.). The nature of the trade these people are engaged in, makes them mobile thereby somewhat impairing their accessibility to personnel of MFIs at different points in time.

Another associated impediment experienced is with regards to the low entry and exit barriers the micro-enterprises have. Faced with adverse situations / conditions, some micro entrepreneurs can change the trade they pursue or their geographic area of operation, in an attempt to augment their revenues or to revive a dying business. With the interest rate cap existing in the MF sector, all associated costs (micro-enterprise financing) should be identified. Any costs not identified, could have significant effect on the available spread, thereby affecting the sustainability of the business, on the long run.

Over exposure to a particular type of micro-enterprise could open the MFI to risks like concentration risk. Effect of seasonality , effect of regulatory changes , effect of festivals , increasing competition among players of a sector leading to undercutting etc. are few allied risks that have be gauged well and mitigated against, to facilitate smooth running of the business.Micro-entrepreneurs wanting to avail of micro-enterprise loan (through the IL route) could already be over leveraged by being part of some groups or by having availed of credit from some formal / informal set up.

With no clear demarcation existing between business funds and personal funds, in a micro enterprise, mixing of funds is a given. While a micro entrepreneur strives to plough back his business surplus into the business, he also has to sustain his livelihood through a part of the same surplus. Exigencies like festivities, death, disease etc., could divert a major portion of the business surplus into consumption, thereby affecting business growth or business sustainability.

To add on, if the loan amount is not ploughed into the business and is used to cater to the consumption needs of the micro-entrepreneur, it could seriously impair the repayment capability of the business.

Hence, while the end use of the loan funds needs to be monitored, special causes like seasonality of demand, death, disease etc. should be provisioned for while evaluating/appraising the micro-business.

TamalSarkar, United Nations Industrial Development Organization (UNIDO), New Delhi

Most of the Indian micro, small and medium enterprises are available in clusters, with micro enterprises being the majority among them and simultaneously, finance related challenges are paramount among micro enterprises. Two-third of Indian manufacturing MSMEs are present in cluster, with 95 percent of them being micro and 72 percent of them being micro-micro enterprises (MMEs). It is clearly observed in many clusters that there is a problem in availability and accessibility of financial services that suit the demands and circumstances of ME clients. Poor households increasingly have access to small loans from microfinance institutions, and small & medium enterprises can get credit through commercial banks. But micro enterprises (MEs) and micro-micro enterprises (MMEs) remain under-served. Their financial needs are generally too large for microfinance, but too small for commercial banks. This gap hampers growth and limits the development of MEs. It is also a loss to the financial sector, which ignores millions of potential micro clients.

Again, based on a Discriminant Analysis (DA) technique and taking data from 6 clusters (150 micro enterprise units) we found the following:

- The most important factor in promoting financing to micro enterprises are "finance plus" models which means the micro enterprises demand finance along with other add on services like marketing of the finished products, linking with raw material sources, technology and also insurance facilities. This is understandable as business model of most micro manufacturing enterprises (MMEs) is vulnerable to market fluctuations with high operational risk and they are hesitant to source finance without a guaranteed outcome, e.g. orders received (marketing) or raw material received (input) or appropriate technology delivered (technology up-gradation) and also minimising unforeseen exigencies.

- The second most important factor is "ease of finance". The need of credit of most of the MEs remained unanswered due to either lack of physical collaterals or in the absence of appropriate business intelligence, improper loan assessment done by a financial agency and also improper articulation of requirement by micro enterprises due to adequate loan and business education. It is also seen that the turnaround time for disbursing the loan is too long. Bureaucratic problems and too much documents requested by the banks dampens the spirit of the micro entrepreneurs. Most of the financial institutions normally require the borrower to prepare detailed working paper together with cash flow projections. Due to lack of knowledge, most micro entrepreneurs are ignorant of proper accounting principles and values to reflect their financial position and therefore they do not articulate the right requirements in a right procedure. High cost of borrowings, high bank charges and fees have made the MMEs seeking informal credit with high interest rates. Sometimes, MMEs need flexi-credits to meet consumption expenditures during off seasons or to improve holding capacity to try and innovate new products/explore new markets, etc.

- Finance with respect to business needs" come out to be the next important factor. Here the role of financial institutes to understand the need of business and estimate right product and right interest rate becomes crucial. There is also a well felt need to develop the understanding of the MEs on business assessment/credit requirements/credit disciplines, etc. and for this they need support and service of financial experts and banks.

A key concern is how to define these products, in other words, how to package the services and ensure a cost effective, risk free and sustainable delivery mechanism. In this regards, given below are few suggestions and recommendations which are thought to be appropriate to the deal with the concerns and help towards building more inclusive financial system for the micro enterprises either through banks or micro finance institutions or other financial institutions.

a) Order based finance can be a solution for this under which the purchase order can be used as collateral for the loan. The accounts receivable can be transferred to the lending institution and becomes the source of loan repayment. The financial institution may then collect payment for the loan plus interest and fees from the buyer once the product has been delivered. Risks can be reduced for financial institutions to lend by creating an accounts-receivable mechanism based on buyer demand.

b) Where orders are not sure, and MMEs are doing own marketing, raw material needs can be fulfilled by giving voucher to bank approved raw material suppliers (RMS). RMS here would be just a facilitating agent/ agency and things can move with issues of regular transactions, old history of buying from that RMS, etc. Here the liability will not be on the RMS, but his relation can be used as collateral.

c) The above can be applied to technology needs also, which can be fulfilled by giving approved voucher by the technology provider/ machine supplier

It is observed that finance in many clusters is not perceived as a major issue by the stakeholders. Hence taking finance as a product might not work. However, solutions to most of the problems need finance and therefore it is considered to be a derived demand. Thus, there is a need for grant element to look into pressure points of the clusters. Once those are attended the need for finance will come out naturally.

For further details, please have a look at the "The Micro Finance Review" by Bankers Institute for Rural Development (BIRD) - http://www.birdindia.org.in/journal.htm, Volume III, Number-2, July-Dec 2011 for an article of us on financing issues in clusters.

Smita Premchander, Sampark, Bangalore

It is good that you have asked this question, because enterprise support vanished for a couple of decades as microfinance industry took precedence, and now as MFIs move from microfinance and poverty lending to enterprise lending, these questions become relevant. With regard to your specific questions:

Key constraints faced by the MFIs in financing the Microenterprises in India

MFIs started with a focus on the micro sector, with group lending models. The first finances in this sector go for a variety for consumption and livelihoods protection purposes, and then in subsequent rounds for income generating activities. The IGAs are relatively small and not yet full-fledged enterprises. The group methodology is good for this level.

As MFIs grow, they also move from serving a predominantly poorer group, to a relatively better off group, which can take loans for small enterprises. The models begin to shift too, and we are seeing mature MFIs moving back to individual financing models, with some collateral over and above the social collateral offered by groups.

Many MFIs that have started with the group based model do not find this an easy transition, are in the pilot stage, and are not yet learning from earlier existing experience in India. They need to study the shifts needed, and change the organizational mandate, systems, products and processes; which are different for enterprise lending as compared to poverty lending.

National/international best practices in servicing Microenterprise finance and Share examples of successful business models of Microenterprise financing

One approach that is gaining popularity is the **market development approach.** This approach is particularly suited to rural, remote regions, where the market is not developed to provide enterprise opportunities. Here, instead of a household based approach, the intervening agency identifies a sector wherein to intervene, does sub-sector planning, and develops enterprises across the whole value chain. Not all the stakeholders are supported by the donor agency, some may be private enterprises quite capable of growing on their own. It is popularly called the Making Markets Work for the Poor (M4P) approach.

The M4P approach relies on facilitating market actors to adjust their services and products in a way that deliver benefits to the poor and as well as other actors in the system, and promotes a competitive environment that "crowds in" other actors, such that once the project or intervention is finished the services/products will continue to be delivered to beneficiaries including bearing the costs associated with that (by the system). It does not include directly dealing with beneficiaries or providing them with services or subsidies. This contrasts with the approach many poverty focused projects take, of directly delivering products and services, often at subsidized rates, to beneficiaries, or supporting other agents to do so. Asking the question "who will continue to deliver those services, and who will pay for them?" is a good way to assess the sustainability of a project's interventions. More information can be found on http://www.mmw4p.org/dyn/bds/docs/detail/474/6

I do believe, however, that though these new approaches have a value in poor and remote regions, the best practices for SME financing are still to be gleaned from the Indian commercial banking sector, especially organizations such as the State Bank of India. A lot of information on products and government subsidies for SMEs can be found online, for eg. http://business.gov.in/business_financing/goverment_fund.php

Key risks to be addressed for Microenterprise lending in the Indian context

The key risks in microfinance sector have been two: from the suppliers, the costs are high, along with coercive recovery practices, which put undue pressure on clients, given the short repayment periods. New product design for micro enterprise financing will be essential. The other risk is political, which creates a larger environment in which borrowers are encouraged to not repay. Again, micro enterprise funding beyond a certain level will need to have a different product design, perhaps with physical or financial collateral.

Finally, financing women entrepreneurs needs to be an emphasis, as they face special constraints. They lack collateral and relaxations will be needed for those. Secondly, social norms, especially relating to family care and mobility outside the house, both of which restrict women's ability to advance as entrepreneurs. Affirmative action and capacity building of women entrepreneurs will go a long way in promoting women's economic, and consequently, social empowerment.

KamleshGururani, Uttaranchal Livelihoods Improvement Project for the Himalayas (ULIPH – AAJEEVIKA), Uttarakhand

With reference to the query I would like to share few of my experiences with mountain community.Earlier I worked with one of the leading organization of Uttarakhand working for enterprise development as well as microfinance. During my tenure with that organization I felt that we had made lots of rigorous effort to get back our loan amount and on the other hand the documentation of enterprise is very poor and most of the time the entrepreneurs provide vague information about the enterprise. Presently I am working with Aajeevika Project, Uttarakhand and here also we tried to finance the enterprise in rural non-farm sector and most of the time I feel that the community treat us as a subsidized project. For enterprise financing I have following suggestions:

- The staff which handles the program should be competent and understand the concept clearly because I also found that staff members have submitted loan application on behalf of entrepreneur but used the loan amount for their own interest.
- The documentation process should be transparent and handled by expert staff.
- Other important thing is to understand the difference between microfinance and enterprise finance. In India most of the financing is based on group lending and it might be the best possible way to create peer pressure for the loan recovery but in the case of enterprise financing, business opportunity identification for entrepreneurs will be quite important for the sustainability of enterprise as well as the organization who will invest in the venture.
- Frequent meeting with the entrepreneurs should be the necessity of the program.
- It should be assured that wherever the program is implemented, the detail assessment of Government schemes should be understood in terms of the trends of financing as well as the attitude of the community.

The efforts of GIZ and Margdarshak are remarkable and I hope this joint venture will open a new avenue for the entrepreneurs.

Nicholas Wolf, AusAid, Australia

In response to Smita's mention of the Markets for the Poor approach, I would like to add:

Markets in developing countries often do not meet the needs of the poor. They may be informal, inefficient, too costly for the poor to access, disadvantage small producers, too remote, or uncompetitive. One increasingly popular approach being used to combat these issues and allow the poor to realize greater benefits from market growth is the Making Markets Work for the Poor (M4P) approach. The M4P approach starts by conducting in-depth analysis of livelihoods of the poor and related market systems, and then uses this knowledge to foster sustainable growth by facilitating market linkages, innovative partnerships and the use of new business models.

A M4P program tends not to work directly with its ultimate beneficiaries (the poor), but instead works indirectly by partnering with relevant market actors, especially private enterprises. The support provided is very flexible, and frequently includes a mixture of funding or co-funding, research, training and capacity building, information including technical advice, and business ideas.

By creating partnerships with enterprises that have commercial incentives to change their behaviour or business models, an M4P program ensures that beneficial changes that occur will be continue beyond the life of the program (sustainability) and will impact a greater number of poor (scale).

SubhenduPratihari, Larsen and Toubro (L & T) Finance, Mumbai

I would like to share following points on the query- Financing micro enterprises through MFIs.

Key constraints faced by the MFIs in financing the Microenterprises in India:

1. Capital: There is scarcity of adequate capital to operate a sustainable business model. Problem related to adequacy of capital perhaps is less to NBFC promoted MFIs and some top level NBFC MFIs. But it is more to 90 percent of the MFIs in this segment and 100 percent segment in NGO promoted MFIs. Availability of capital with cheaper cost will help these MFIs fulfill its social as well as business objective.
2. Business Model: Microfinance SHG Based linkage programme got initiated with strong patronage and guidance of NABARD in India during early 80's. Later the concept of JLG model got prominent as Grameen Bank model was successful in Bangladesh. Post 2006, we saw an uprising in the MFIs growth as many players: NGOs, NBFC, Corporate and Bank joined with an aim to make business in

microfinance sector. From 2006 to 2010, one finds that most of the MFIs are grappled in expanding business, without adequately considering quality, sometimes charging exorbitant rate of interest,

3. Policy Issues: MFI Bill yet to be an act, there are still issues related to approaches such as SHG based bank linkages or JLG based microfinance programme. When NABARD promotes SBLP, Banks promotes JLG based microfinance programme. There seems no synergy at that level.
4. Competition from new development approaches: Development professionals advocating new ideas were waiting to strike in a suitable moment. Now we find many approaches which are more logical and have evidence to be more appropriate development tools: Value Chain and Market led Approaches, BoP approach, Making Market work for poor and Micro franchising. For example recently Business Houses and donors are focusing on approaches such as BoP and market led. They invest substantial amount in these field.

National/international best practices in servicing Microenterprise finance

Sharing some of the best practices related to microfinance and micro enterprise finance across countries:

1. MandalSamakhya: A success story in Andhra Pradesh, India. There are 11.45 lakh Self-help Groups forming 37884 Village Organizations and Village Organizations federating in to 1099 MandalSamakhya. Society for Elimination of Rural Poverty (SERP) an autonomous body created by Government of AP is the nodal agency which facilitates the implementation of this programme. SERP with the support of Banks have supported the MandalSamakhya with micro enterprise loan, which in turn has been channelized to SHGs and members to initiate market led enterprises. The success is definitely empowering and needs to be replicated in large scale.
2. Village Saving and Loan Association (VLSA): Originally planned by CARE Niger and later promoted in 33 countries in Africa, 3 countries in latin America and 3 countries in Asia. Project participants: 3 Million
3. Access Africa: A CARE USA "Signature Programme" replicating VLSA programme in 18 African Countries and touching 30 million Households.
4. Honey CARE Africa: Established in the year 2000 as a Private Sector Fair Trade organization. Now has partnership with 25 INGOs/ Donors & MFIs, 100 CBOs/ Farmer Groups/ Youth Club, Government of Kenya, IFC and Academics Institution. Now 12000 rural poor Households are involved in sustainable commercial bee keeping.
5. Strengthening Dairy Value Chain Program, CARE Bangladesh supported by Bill and Melinda Gate Foundation is reaching to 35000 Households in rural Bangladesh. To get engaged with market, it also has partnership with PRAN and Tetrapack. The impacts can be seen in the milk collection network, increased price, nutrition intake of project participants etc. The program is a successful one and now intends to provide focus on dairy value chain finance for small holders.

Key risks to be addressed for Microenterprise lending in the Indian context

1. Policy issue: Advocating Government and Policy Group to bring clear strategy on addressing issues relating covering large no of small holders and their demand for finance for micro enterprise. Present MFI Bill to be placed has many limitations related to financing to poor in terms of size. Therefore, MFI at the present form would be able to play role in Micro enterprise financing.
2. Micro enterprise finance will advocate finance size to be Rs 50000 to Rs 2 lakh. However the question is more towards business idea and making poor to compete in market. In a large scale, how the same is to be addressed. What will be the model, to choose between group enterprises vs individual enterprise?
3. Finally, while in large size loan, Bank and Financial Institutions will require collateral. And in case Base of Pyramid or poorest people, then they lack adequate collateral to offer Bank and Financial Institutions. Therefore, question is to how to make micro enterprise loan available to them without collateral or with collateral without compromising on the repayment norm.

Conclusion

The following are some suggestions on finance for micro enterprise model:

1. Kindly have further review and reflection that whether MFIs at its present form and the shape it might get after present MFI bill become act allows it to effectively facilitate enterprise promotion, or the role will be limited to provisioning of microfinance loan. Though the bill says that MFIs to do microfinance plus activities such as training, helping groups to develop business plan etc. But is it really going to occur? While NGO promoted MFIs certainly will be interested to undertake microfinance plus activities, but NBFC MFIs will have to be grappled between their business target and such initiative.
2. The proposed tool kits for MFIs on financing micro enterprise is definitely is very good step. Margdarkshak and GTZ MSME Umbrella programme must undertake a wider consultation and robust research and come out with clear strategy before going for developing tool kits.
3. The tool kits must address issues (more than only financing micro enterprises) related to skill base of MFIs to get engaged with market and market development approach, value chain finance, value chain governance etc.

Prabhat Kumar, Development Professional, Jaipur *

Making markets work for Poor (M4P) indeed is an interesting concept involving altering market systems in favour of the poor. However, I wonder whether it is that an easy task as it is made to sound. We have had giants like NDDB (National Dairy Development Board) in India failing to make any significant dent in the market with their famed 'market intervention programme 'they tried out in edible oil, salt etc. I feel market as an institution is too huge and entrenched to be amenable to changes by small players. It makes more sense to find a niche in the existing market system instead of trying to change it. This is analogous to advice given to new small producers to try and respond to existing demand rather than attempting to create a new demand. I think there is a need to work directly with the entrepreneurs and enable them (through institution and capacity building) to access markets and other players viz. Government and other BDS providers.

Many thanks to all who contributed to this query!

If you have further information to share on this topic, please send it to Solution Exchange for the Microfinance Community in India at se-mf@solutionexchange-un.net.in or to the Work and Employment Community in India at se-emp@solutionexchange-un.net.in with the subject heading "Re: [se-mf][se-emp] Query: Financing the Micro-enterprises through MFIs – Experiences; Examples. Additional Reply."

Disclaimer: *In posting messages or incorporating these messages into synthesized responses, the UN accepts no responsibility for their veracity or authenticity. Members intending to use or transmit the information contained in these messages should be aware that they are relying on their own judgment.*

Solution Exchange for the Microfinance Community
Solution Exchange for the Work and Employment Community
Consolidated Reply

Query: Microfinance Services for Agricultural Value Chains - Experiences; Examples

Compiled by Navin Anand, Resource Person and Monika Khanna and Warisha Yunus, Research Associates

Issue Date: 14 September 2010

From Prasun Kumar Das, School of Rural Management, KIIT University, Bhubaneswar

Posted 20 July 2010

I work with School of Rural Management, KIIT University. I teach rural finance and agri-business management and agricultural value chain. Financing agricultural value chain is a new subject on the horizon and the missing link too, hence the need to raise this query.

The agriculture and allied sector accounts for 15.7 percent of the Gross Domestic Product (GDP) and provides employment to around 52 per cent of the workforce (Economic Survey of 2009 – 2010 of India). Commercial banks in India are mandated to lend 18 percent of the Adjusted Net Bank Credit to the agriculture sector. However, access to finance for the small and marginal farmers is still a big challenge for countries like ours which has huge number of small holder cultivators. About 45.9 million farmer households out of a total of 89.3 million households do not have access to credit neither from the institutional nor non-institutional sources (NSSO 2008).

One way to bridge this gap could be identifying the agricultural value chains and financing along the chains. Identification of the value chains and providing finance along the chain will not only encourage the Micro Small and Medium Agri-enterprises to start their new venture but will also help to upscale the agriculture finance to newer horizons. There are certain encouraging examples of adequate financing along the agricultural value chains (e.g. rice, wheat, potato, sugarcane etc.) but the real challenges still remains on mainstreaming the other agricultural value chains (fruits and vegetables) and their access to finance at a competitive rate so the entire value chains get the encouragement and wastages can be minimized.

With this background, I would like to request the members to provide their inputs on the following questions:

- Are there any experiences of adopting and financing 'Agricultural Value Chain Business models' by the commercial banks, Regional Rural Banks, Cooperatives, NGOs and MFIs? How it has helped the Financial Institutions to increase their outreach?

- Are there any comparative studies available that analyze the power of value chain financing in comparison to standalone financing in agriculture? What has been the impact of financing agricultural value chains?

- Are there any studies conducted for mapping value chains in the areas of fruits and vegetables and other non staple crops?

The contributions of the members will help in developing a strategy for the value chain financing and also provide inputs for the policy and regulatory changes related to agriculture financing especially for small and marginal farmers who require variety of microfinance services along the value chains.

Responses were received, with thanks, from

1. **TrilochanSastry, Indian Institute of Management, Bangalore**
2. **KalikaMohapatra, Independent Consultant, Bhubaneswar**
3. **Sunil Kumar, Bankers Institute of Rural Development (BIRD), Lucknow**
4. **PSM Rao, Independent Consultant, Hyderabad**
5. **Umesh Chandra Gaur, Confederation of Community Based Organizations of India, New Delhi (Response 1; Response 2)**
6. **M L Sukhdeve, National Bank for Agriculture and Rural Development, Mumbai**
7. **Krishan Khanna, i Watch, Mumbai**
8. **SaurabhVikas, Luna Ergonomics Private Limited, Noida**
9. **Hemantha Kumar Pamarthy, Hand in Hand Micro Finance Limited, Chennai**
10. **N. Srinivasan, Independent Consultant, Pune**
11. **Nitin Bembalkar, Independent Consultant, Pune**
12. **Mahendra Parida, Center for Child and Women Development (CCWD), Bhubaneswar**
13. **R. K. Swarnkar, Madhya Pradesh Consultancy Organization Limited (MPCON), Indore**
14. **R. V. Kotnala, Institute of Cooperative Management, Dehradun (Response 1; Response 2)**
15. **Bibhuti B. Pradhan, Vasundhara, Bhubaneswar**
16. **L. P. Semwal, ShriJagdambaSamiti, Dehradun** *
17. **Manoj Singh, Agribusiness Consultant, New Delhi** *

**Offline Contributions*

Further contributions are welcome!

Summary of Responses
Comparative Experiences
Related Resources
Responses in Full

Summary of Responses

Responding to the query on Microfinance Services for Agricultural Value Chains, members suggested that integrated and strategic approach is necessary in value chain financing particularly in dealing with small scale enterprises. Also, value chains in agriculture require different types of credit arrangements so that individuals, groups and different types of organizations are catered adequately and effectively.

Members highlighted that financing for the value chain of fruits and vegetables to individual farmers is not feasible and practical as the quantity of produce will be very small and they cannot afford to involve in the value chain. However, financing value chain for different types of collectives such as cooperatives, Association of fruits and vegetable growers, federations of farmers, producer companies and Farmers Interest groups is a more viable option. The value chain financing in agriculture includes MF services for various strategic activities of the value chain starting from pre-cultivation to cultivation and up to marketing of produce viz. cultivation, harvesting, grading, packing, storage, transport and marketing.

Sharing the experiences of value chain financing in Adilabad's tribal area, members identified two types of financing within the value chain – investment finance (for value addition/Processing) and working capital financing. They highlighted two important facts related to successful experiment - formation of farmers' cooperatives and its federation; and providing of cash credit limit by Regional Rural Banks to the federation for different activities of the value chain.

Members viewed that financing strategies needs to respond to the changing scenario of agriculture value chains including agriculture food systems. In this regard, members mentioned that nowadays many commercial banks have realized that innovative financial solutions are essential for developing effective loan delivery mechanisms. Referring to the experiences of adopting and financing the Agricultural Value Chain models, members mentioned that many organizations have developed professionally managed value chains in various sub-sectors. Some of the initiatives shared by the members were:

- Dairy Producer Company promoted by Gram and IndurIntideepam wherein dairy farmers are financed by the Indur MACS
- Export oriented Grape cultivation in Maharashtra financed by State Bank of India
- Cashew and Mango chains based on Tribal Wadis promoted by BAIF and financed by NABARD
- Litchi Value Chain in Bihar supported by State Bank of India that has led to development of 51 litchi growers associations
- Grape value chain financing by banks to 'MAHAGRAPES' (A cooperative having Grape growers societies of Sangli, Solapur, Latur, Pune and Nasik area, as members) in Maharashtra
- NABARD's financing (Loan as well as grant component) to Tussar Silk value chain managed by MASUTA (a producer company owned by tribal women of Jharkhand, Chattisgarh and Bihar and promoted by PRADAN)
- Development of innovative financial products by ICICI and financing for entire agriculture supply chain i.e. financing for seeds, fertilizers and agro-based industries

Members also appreciated the initiative undertaken by a MFI – 'Hand in Hand', where the group of women was financed for procuring vegetables and fruits. Besides this, the groups were also supported in grading the vegetables and fruits as per the size and quality; packing the produce; pasting the labels with barcodes; and linking the groups with the shopping malls.

Sharing the examples of Off-Season Vegetable value chain in Uttarakhand, members highlighted that most of the farmers take advance from the traders before the crop is cultivated. Moreover these farmers are dependent upon traders for inputs, marketing of produce, grading and quality standard of different off season vegetables cultivated in the region. In this value chain, members suggested that microfinance services have to be provided at the producer's level. Also the inputs like quality seeds, fertilizers need to be provided before the sowing of the crop. Further the tie ups with the buyer as per graded produce could be done so that the farmers are not dependent on the traders for their financial requirements for crop production.

Members viewed that banks and other financial institutions are better positioned as compared to MFIs in terms of financing the value chains. Banks have an advantage over MFIs as they can undertake financing for higher links in the value chains like processing, aggregation, storage, packaging, transport and retailing. Some of the microfinance institutions are playing key role in providing credit products for supporting basic livelihood activities in agriculture. Financing by MFIs for startup and basic strategic activities of the agriculture value chain is important as there are high possibilities of creating links between small or primary producers and the players of upper value chain.

Members enumerated various schemes that are offered by commercial banks in financing the value chains in agriculture. These schemes can be classified into following three categories:

Financial schemes for Agriculture Activities: Financing Agri-Business Projects with venture capital assistance from Small Farmers' Agri-Business Consortium (SFAC); Financing Farmers Growing Sugar Cane Crop in Tie up Arrangement with Sugar Mill Acting as Business Facilitator; Financing micro-financing Institutions (MFIs) For On-lending to individual members or their SHGs/JLGs; Financing against Pledge of Warehouse Receipts issued by National Bulk Handling Corporation Ltd; Financing under Kisan Credit Card; Package loan to farmers; PNB KisanIchchhaPurtiYojana; Credit against gold ornaments/jewellery, Produce (marketing) loan scheme; mushroom cultivation

Schemes for Infrastructure /Consultancy and Technical support for Agriculture: Purchase of land for agricultural purpose; Providing credit for projects for development and strengthening of infrastructure facilities for production and distribution of seeds; Capital Investment Subsidy Scheme for Commercial Production Units of Organic Inputs under National Project on Organic Farming; Development/strengthening of Agriculture Marketing Infrastructure, Grading and Standardization; Purchase of Second Hand Tractors; financing self-propelled combine harvesters; financing minor irrigation; Farm Mechanization Scheme; financing development of horticulture and plantation crops; financing agricultural graduates for setting up Agri-Clinics and Agri-Business Centers;

Financing schemes of Agriculture Allied Activities: Venture Capital Fund Scheme for Dairy / Poultry Sector (for individuals, cooperatives, NGOs, public and private sector undertakings); financing poultry farming; Financing for milk production activity, marine fisheries, apiculture, kitchen gardening and green houses.

Members cautioned that financing in any value chains requires the financial institution to consider the other links in the chain as well. They also suggested the following to strengthen value chain financing in agriculture –

- Conceptualizing the entire value chain and looking at the different links so as to mitigate the risks to a large extent

- Adopting an exercise – identification of the activity, estimating the profitability of the business plan, imparting training to the borrower on accounts and marketing and analyzing the backward as well as forward linkages of the chosen activity

Members viewed that there is a possibility for the Microfinance Institutions to finance primary activities of the agriculture value chains. Also it is pertinent that the entire value chain has to be closely analyzed by the financial institutions so the chosen activity is beneficial for the farmer as well the financing agency. In a nutshell, members shared various successful experiments of agriculture value chain financing; differentiated the role of MFIs and banks in financing different strategic activities of the value chains; enumerated the schemes of NABARD and government to propose convergence possibilities; identified gaps in financing value chains and finally suggested for adoption of a holistic approach to finance the complete value chain through different delivery mechanisms and financing institutions.

Comparative Experiences

Bihar

Finance Along the Value Chain Benefits all the Value Chain Actors, Muzaffarpur District*(from KalikaMahapatra, Independent Consultant, Bhubaneswar)*
To support the Litchi Fruit Growers association, the State Bank of India Litchi supports value chain in Bihar. The money is lent to litchi fruit grower associations, litchi processors, pre-harvest contractors and wholesalers of litchi fruits in various stages after assessing the needs as well as the risks. The model has worked in favor of all value chain actors leading to the development of 51 litchi growers' association each having 15-25 growers per group. Read more

Maharashtra

Concept of Joint Liability Groups Helpful in Accessing Finance and Timely Repayments, Ahmednagar District*(from M. L. Sukhdeve, National Bank for Agriculture and Rural Development (NABARD), Mumbai)*
Commercial banks in Ahmednagar District provided finance to individual farmers for cultivation and to a group of farmers for purchase of packaging material and mini truck for transport. This approach not only helped the individual farmers in getting support to buy inputs but also helped in timely repayments. The concept of JLG works in financing value chain in agriculture and has worked for Growers Associations in other parts of the country too.

Procuring Finance in the Initial Stages Helps the Initiative in Taking Off *(from N. Srinivasan, Independent Consultant, Pune)*
An organization in Maharashtra had a problem in procuring finance in the initial stages for the cashew and mango value chains which were based on tribal wadis. NABARD's support gave a breather to the initiative and is today a significant intervention enjoying finance facilities from the banks too. Getting finance in the early stages of an initiative is critical and helps in making the intervention successful for the growers as well as for the banks.

Multiple Locations

Finance to Meet the Soft Needs is also Critical, *(from Sunil Kumar, Bankers Institute of Rural Development (BIRD), Lucknow)*
NABARD financed a producer company owned by tribal women in multiple states with a loan and grant component. The loan provided covered the entire value chain and supported buying/selling of tasar cocoons, reeling/spinning/storage of cocoons, buying/selling of yarns, weaving and fabric making, trading/marketing of yarns/fabric etc. The grant met the soft needs like capacity building of members, staff training, market promotion etc. to strengthen the initiative. Read more

Related Resources

Recommended Documentation

From Warisha Yunus, Research Associate

South East Asian Regional Conference on Agricultural Value Chain Financing
Conference Proceedings; Asian Productivity Organization (APO)
Available at http://www.apo-tokyo.org/projreps_acd/16-07-AG-29-GE-CON-B.pdf (PDF 2288)

> *Presents the key issues, challenges, opportunities and lessons learnt from cases of value chain financing in the Southeast Asia region.*

Value Chain Finance
Publications; Food and Agriculture Organization (FAO)
Available at http://www.fao.org/ag/ags/subjects/en/ruralfinance/valuechain.html

Gives detail on what agriculture value chain finance is and on financing agricultural marketing and developing agricultural markets.

Agricultural Value Chain Finance - Tools and Lessons
Book; by Calvin Miller and Linda Jones
Available at http://practicalaction.org/text/print/docs/sudan/sudan/about-us/publishing/agricultural-value-chain-finance

Provides details on the models, tools and approaches used in developing countries for development of the agriculture sector.

The Value Chain Approach: Strengthening Value Chains to Promote Economic Opportunities
Report; by ACDI/VOCA
Available at http://www.acdivoca.org/site/ID/resources_worldreportfall06

Gives detail on ACDI/VOCA activities to strengthen value chains for promotion of economic opportunities for the poor.

From Monika Khanna, Research Associate

Integrated Financing for Value Chains
Technical Guide; Jennifer Bernhardt, Stephanie GrellAzar and Janette Klaehn; World Council of Credit Unions; April 2009
Available at http://www.microfinancegateway.org/gm/document-1.9.34543/Integrated%20finance%20for%20value%20chain.pdf (PDF; Size: 3.08 MB)

Provides an overview of World Council of Credit Unions' recent initiatives to help credit unions finance agricultural production in Peru and Kenya

Analyzing and Financing Value Chains: Cutting Edge Developments in Value Chain Analysis
Paper; Richard L. Meyer; Rural Finance Learning Centre; 2007
Available at http://www.microfinancegateway.org/gm/document-1.9.31159/Analyzing_Paper.pdf (PDF; 241 KB)

Highlights key features of value chain analysis and suggests how it can help identify interventions to improve financial services outreach to farmers and rural communities

Recommended Organizations and Programmes

Centre for Collective Development (CCD), Karnataka*(from TrilochanSastry, Indian Institute of Management (IIM), Bangalore)*
C/o Indian Institute Of Management, Bannerghatta Road, Bengaluru, Karnataka 560076; Tel: 91-80-26993285; Fax: 91-80-26584050;

Works with around 30 farmers' cooperatives and helps them sell their produce which has had a positive impact on the farmers' income.

From KalikaMohapatra, Independent Consultant, Bhubaneswar

State Bank of India (SBI), Bihar
Sahibganj, Muzaffarpur; Tel: 91-9546009925; http://www.sbi.co.in

Finances Litchi Value Chain in Muzaffarpur by conducting it needs and risk assessment which has led to creation of 51 Litchi Growers Association.

ICICI Bank Limited, Maharashtra
ICICI Bank Towers, Bandra-Kurla Complex, Mumbai 400051; Tel: 91-22-26536425; Fax: 91-22-26531233; http://www.icicibank.com

Offers innovative supply chain solutions to agricultural finance and develops products for financing along the entire value chain of agricultural commodities.

National Bank for Agriculture and Rural Development (NABARD), Maharashtra
Plot No. C-24, "G" Block, Bandra-Kurla Complex, P. B. No 8121, Bandra (E), Mumbai 400051; Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; http://www.nabard.org/modelbankprojects/modelbankprojects.asp

Follows national strategies for accelerating the flow of credit to farm sector which includes doubling the flow of agricultural credit in 3 years.

Small Industries Development Bank of India (SIDBI), Lucknow
SIDBI Tower, 15, Ashok Marg, Lucknow 226001; Tel: 91-522-2288547; http://www.sidbi.in/

Works for strengthening the micro, small and medium enterprises; Banks park money with SIDBI to provide 40% funds to the priority sector.

From Sunil Kumar, Bankers Institute of Rural Development (BIRD), Lucknow

MASUTA Producers Company Limited, Jharkhand
Chetna Apartment, Flat No - 2, Opposite Deputy Commissioner's Residence, Circular Road, Barmasia, B.Deoghar 814112; Tel: 91-6432-238661; http://www.masuta.org/aboutus.html

Owned by tribal women, it works for their sustainable livelihoods; receives financial assistance from NABARD for the entire value chain.

Professional Assistance for Development Action (PRADAN), Delhi
3, Community Shopping Centre, NitiBagh, P. B. No. 3827, New Delhi 110049; Tel: 91-11- 26518619; Fax: 91-11- 26514682; headoffice@pradan.net; http://www.pradan.net/

Works to promote women's Self-Help Groups, suitable economic activities, mobilizes finances to improve livelihoods of the rural poor along the value chain.

MAHAGRAPE, Maharashtra*(from M. L. Sukhdeve, National Bank for Agriculture and Rural Development (NABARD), Mumbai)*
E-15, Nisarg, Market Yard, Gultekdi, Pune 411037; Tel: 91-20-24270758; Fax: 91-20-24271873; freshpro@vsnl.com; http://www.mahagrapes.com/

Leading exporter of grapes from India, it has been successfully financed by commercial banks to run and expand it operations.

BAIF Development Research Foundation, Pune*(from N. Srinivasan, Independent Consultant, Pune)*
Dr. Manibhai Desai Nagar, Warje, Pune 411058; Tel: 91-20-25231661; Fax: 91-20-25231661; baif@vsnl.com; http://www.baif.org.in/aspx_pages/programs.asp

Works to promote sustainable livelihoods through research, effective use of resources, and technology transfers; have organized and well managed value chain.

Madhya Pradesh Consultancy Organization Limited (MPCON), Multiple Location*(from R. K. Swarnkar)*
Block 2, 3rd Floor, ParyavasBhavan, Arera Hills, Bhopal - 462011; Tel: 91-755 4002264; Fax: 91-755-2774244; mpconbpl@yahoo.com; http://www.mpconsultancy.org/default.html

Offers consultancy services to entrepreneurs in the Cottage, Small, Medium and Large Industrial Units.

Hand in Hand, Chennai *(from Hemantha Kumar Pamarthy)*
Vaishna Roy, No 12/26, 3rd floor "Coats Villa" / Southern Foundation Coats Road, T. Nagar Chennai - 600 017; Tel: 91-44-42555535; vaishna.roy@hihseed.org; http://www.hihseed.org

Aims to work in the sectors of microfinance, education and health

From R. V. Kotnala, Consultant, Dehradun

Small Farmers Agri Business Consortium (SFAC), Delhi
NCUI Auditorium Building, 5h Floor, 3 Siri Institutional Area, August KrantiMarg, HauzKhas, New Delhi 110016; Tel: 91-11-26862365; Fax: 91-11-26862367; info@sfacindia.com; http://www.sfacindia.com/;

Finances agri-business projects with venture capital assistance to set up a Project Development Facility to help producer groups develop economically viable projects.

Reserve Bank of India (RBI), Maharashtra
Rural Planning and Credit Department, Central Office Building, 13th Floor, Mumbai 400001; Tel: 91-22-22610261; Fax: 91-22-22658276; http://www.rbi.org.in/scripts/AboutUsDisplay.aspx?pg=Depts.htm#RPCD

Credit Department of RBI formulates policies relating to rural credit and monitors timely and adequate flow of credit inlcuding for value chain financing.

National Bulk Handling Corporation Limited (NBHC), Maharashtra
401, 4th Floor, Boston House, Suren Road, Chakala, Andheri (East), Mumbai 400093; Tel: 91-22-30631000; Fax: 91-22-30631010; info@nbhcindia.com; http://www.nbhcindia.com/aboutus/aboutus.html

Provides integrated commodity and collateral management services to its customers and helps them in decreasing costs and mitigating risks along the entire value chain.

Punjab National Bank (PNB), New Delhi
Head Office, 7, BikaijiCama Place, New Delhi 110066; Fax: 91-11-26196176; http://www.pnbindia.in/

Implements various schemes and variety of financial products including the one on financing the value chain in agriculture.

Swarnajayanti Gram SwarozgarYojana (SGSY), Delhi
KrishiBhawan, New Delhi 110001; Tel: 91-11-23782373; Fax: 91-11-23385876; http://www.rural.nic.in

Anti-poverty alleviation programme that provides micro-credit services to the poor inlcuding value chain financing.

SwarnaJayantiShahariRozgarYojana (SJSRY), India
Ministry of Urban Development, Government of India

A unified centrally sponsored scheme for urban poverty alleviation through self-employment and wage employment programmes.

Responses in Full

TrilochanSastry, Indian Institute of Management, Bangalore

I am aware of at least one such experience. The Centre for Collective Development (CCD), an NGO, does this in Adilabad's tribal area for farmer cooperatives and their federation. The financing is for two purposes - investment in value adding/processing units, and for working capital. The investment is partly provided by CCD and partly by the local banks.

Mainstream Banks are still reluctant to finance these activities, and after 5 years of effort, CCD has managed to get some financing from the Regional Rural Bank (RRB). Hopefully this will continue, with enhanced amounts in the years to come. The RRB in fact has given the Farmer Federation a cash credit limit facility. This way, they pay interest only on the amount drawn. In other types of financing through

MFIs, the interest is on the whole amount sanctioned, and cash credit facility is not available. In agriculture it is very difficult to estimate the amount of loan required in advance because both the crop yield and the prices cannot be accurately forecast. With a cash credit limit this problem is sorted out. So if you ask for say Rs.1 crore and you utilize only Rs.80 lakhs, you still pay interest on the entire Rs. 1 crore. If you end up needing Rs.1.2 crores, you fall short of funds. With a cash credit limit this problem disappears. This is the facility that corporate anyway get from Banks. I feel that same facility should be given to the farmer organizations after due diligence. A lot more work needs to be done to get Banks to finance such activities.

Last year, this financing has resulted in additional income of around Rs. 50 lakhs for the tribal farmers. The federation has also reduced its dependence on external borrowing for inputs by taking a fertilizer dealership for well-known companies. They get a credit facility. Another way of reducing external borrowings is through their own accumulated surplus and reserves. The tribal federation has been able to steadily increase its reserves over the last 5 years.

KalikaMohapatra, Independent Consultant, Bhubaneswar

Currently most of the commercial banks have been favoring indirect rather than direct finance to agriculture. Finance to dealers, commission agents, NBFCs and SEBs, and investment in bonds earmarked for the priority sector have gained more priority than basic agricultural finance. This indirect finance will improve the infrastructure facilities in rural areas and create new services.

The State Bank of India (SBI) supports the Litchi value chainin Bihar especially in Muzaffarpur district. SBI lend money to litchi fruit grower associations, litchi processors, pre-harvest contractors, and wholesalers of litchi fruits in various stages based on the need and risk assessment. This approach of the bank has benefited all of the litchi value chain actors involved, from farmers who need finance for inputs such as irrigation, fertilizers, and insecticides to processors who need access to credit to easily transport litchi fruits and pay advances to the litchi growers. This model has led to the development of 51 litchi growers' associations, consisting of 15 to 25 growers per group, all of which now have direct lending agreements with local banks. SBI has disbursed 27 loans for new litchi plantations. Three additional commercial banks and one insurance company have all shown interest in financing litchi growers.

Similarly, ICICI bank has devised innovative supply chain solutions to agricultural finance. The banks understood the entire chain of value creation in farm finance and develop their products accordingly. Agro-based industries, dealers, seed finance and fertilizer finance are major components in this value chain.

I hope now a day's most of the commercial banks have realized that innovative financial solutions are essential for an effective loan delivery mechanism to support the value chain system and banks are parking money to the Rural Infrastructure Development Fund (RIDF) of NABARD or SIDBI deposits in reaching the statutory norm of 40 per cent of net bank credit to the priority sector.

Sunil Kumar, Bankers Institute of Rural Development (BIRD), Lucknow

I would like to share with you one successful experiment of value chain financing in a very backward region of our country. NABARD, through its window of "Umbrella Programme on Natural Resource management" (UPNRM), has financed MASUTA (a producers company owned by tribal women of Jharkhand, Bihar and Chattisgarh). MASUTA (promoted by PRADAN) is engaged in production and marketing of tassar silk and is a democratic institution having a high degree of professionalism. NABARD's assistance of Rs. 2.85 crore to MASUTA includes loan component of Rs. 2.50 crore at 9% p.a. (reducing balance) and grant component of Rs. 37.50 lakh.

The loan amount covers the entire value chain and supports buying/selling of tasar cocoons, reeling/spinning/storage of cocoons, buying/selling of yarns, weaving and fabric making, trading/marketing of yarns/fabric and associated activities. The grant portion meets various expenses like capacity development of members of MASUTA, staff training, market promotion, office automation, consultancy, etc.

PSM Rao, Independent Consultant, Hyderabad

The query's focus is on 'Microfinance Services' and 'Agricultural Value Chains', in other words, financing on a small scale to the agricultural, particularly fruit and vegetable, processing and other activities across the value chain.

In this context, it should be noted that the financial institutions are not reluctant to loan any activity that is financially viable. They have no objection to lend if the repayment is assured; after all they do business with others, say, depositors' money. Due to guaranteed repayment on the dot, is exactly the reason why they have been liberal in lending to the self help groups, without bothering about what activity these groups undertook. Banks did not, and rightly so, bother if the SHGs used the money for consumption purpose alone.

In fact, we find, here and there, the examples of banks lending to the activities like pickle making, lime, sugar cane juice, dry fruits etc which form part of the fruit and vegetable value chain, though on a very low scale. The reason for the banks not financing the agricultural value chains is more on account of non existence of viable models, rather than the reluctance of the banks to lend this activity. So, the process of encouraging value chains should begin with the development of viable models, than looking at the banks and other financial agencies to take the initiative.

Since banks are willingly financing to the SHGs, the schemes can be readily undertaken through these groups. The demonstrated success of the units will surely induce the individuals to start similar ones which can create sufficient demand for loans from the banks. But the big question is - what are the small activities across the value chain relating to fruit, vegetable and other non-staple crops that can survive the competition from the big industry?

Umesh Chandra Gaur, Confederation of Community Based Organizations of India, New Delhi *(response 1)*

In my opinion financing strategies need to change to respond to the changing agri-food systems. Product markets have restructured, driven by changing consumer demand due to increasing income, changing lifestyles and government policies. As a result, value chains have become more coordinated, integrated, concentrated, interdependent, complex and global. Standards have changed and have become more stringent in terms of quality and food safety. More recently, there is more emphasis on marketing than production, product differentiation and niche marketing.

Due to the restructuring of agricultural value chains, all actors in the chains must adjust to be able to respond to the changing rules of the game. This includes not only input suppliers like financial institutions but also producers, marketers, Government and development agents. Adjustments however, may be difficult for small scale enterprises who have limited resources and access to assets like finance. They face the possibility of being excluded in the chain if they are unable to adjust to challenges or tap opportunities brought about by these changes in the chain.

Integrated and strategic approach is necessary in value chain financing particularly in dealing with small scale enterprises. Financing alone may not be enough. In many cases, underlying issues are multi-dimensional and therefore solutions or strategies are also multi-dimensional or integrated. These include technical assistance to meet market requirements, private sector involvement, product differentiation, development of small scale producer groups, use of information and communications technology and effective coordination in the chain are essential in ensuring success. Moreover, these strategies are constrained if the enabling environment that includes policies and institutions is not conducive to the development of agricultural value chains.

In addition, it should not be always the case that financing programs that target small scale producers as beneficiaries should give finance directly to these producers. Other actors that are in the strategic position to enhance linkage with small scale enterprises may be directly tapped to ensure sustained benefits to target beneficiaries. Lead firms for example are in a better position to manage risk in providing financial assistance to their suppliers than traditional financial service providers such as banks as they have a better understanding of the requirements of the chain they operate in.

M L Sukhdeve, National Bank for Agriculture and Rural Development, Mumbai

The inputs sought by Prasun Kumar Das are related to institutional finance for agriculture value chain particularly for fruits and vegetables. Financing for value chain in respect of fruits and vegetable in individual capacity is not feasible and practical as the quantity of produce of individual farmers will be very small and they cannot afford to involve in the value chain. Financing for value chain is possible to Association of Fruits and Vegetable Growers, for the activities (cultivation to supply up to wholesale market) viz. cultivation, harvesting, grading, packing, transport and distribution.

MAHAGRAPE in Maharashtra, a Fruit Growers Association has been financed by banks. I have come across one unique experience in Ahmednagar district of Maharashtra. The farmers of 5-6 villages were identified for vegetable cultivation by a Professor - (motivator) and he also provided the guidance for vegetables to be grown season-wise, common package of practices and pulled together the harvest. Grading and packing was done at field level and transported to Mumbai wholesale market. The finance was provided by a commercial bank to the individual farmers for cultivation and to a group of farmers for purchase of packaging material and mini truck for transport. The farmers were benefited and banks were happy for their prompt recovery. Growers Associations in many part of the country have been financed by banks.

The concept of JLGs introduced by NABARD can be of the good source to provide finance for value chain for fruits and vegetable growers.

Krishan Khanna, i Watch, Mumbai

China has 500,000 Vocational Training Centers where 90 million people are trained per year. 70% of these centers are in rural China. China with arable land 70% of India produces more than 200% food grains than Indian farmers.

I feel that there is need to empower the farmers with skills and knowledge before you give microfinance. I would like to share a video on Vigyan ashram – development through education (Available at: http://video.google.com/videoplay?docid=-7244987184341990763)

SaurabhVikas, Luna Ergonomics Private Limited, Noida

Please allow me to introduce ourselves and subsequently, I shall be explaining how we can be an ideal partner in the supply chain of agriculture produce. Our farmers primarily converse in regional languages and all the digital interfaces available to them are in English. This makes the entire agriculture industry voiceless in the digital arena. We are an award winning company and maker of revolutionary technology, Paninikeypad.

An Indian start up, Luna Ergonomics has developed world's first ergonomic 'dictionary-less' statistical predictive texting technology which uses dynamic allocation of keys and hence obviate the dependence on printed characters on any digital device, specifically mobile handsets. This technology can work in many low cost mobile phones. The lowest cost of such mobile is Rs. 1600 only. Thus Paninikeypad enables people to write in the major Indian languages, namely Hindi, Bengali, Telugu, Marathi, Tamil, Gujarati, Kannada, Malayalam, Oriya, Punjabi and Assamese; conveniently and faster on the existing keypads. The technology, due to its global impact, has won numerous national and prestigious international awards. For more details, please visit: http://www.paninikeypad.com/content/aboutUs.html.

Our similar product, clevertexting is running successfully in 10 languages of the globe, namely English, Spanish, Portuguese, French, Arabic, Russian, Hebrew, Swahili, Korean and Finnish.

This technology will enable farmers to SMS in their mother tongue. The farmers in the lower end of the supply chain can message for the rates of the grains and other food products directly from their mobile phones in their mother tongue. More details are available here for better comprehension.

Hemantha Kumar Pamarthy, Hand in Hand Micro Finance, Chennai

This is quite an appropriate query and about time too. The importance of financing agri-supply chain ventures is no less important. Let me share my few thoughts on the first question from the query:

Are there any experiences of adopting and financing 'Agricultural Value Chain Business models' by the commercial banks, Regional Rural Banks, Cooperatives, NGOs and MFIs? How it has helped the Financial Institutions to increase their outreach?

At our organization - Hand in Hand, we had financed Women SHGs for procuring vegetables and fruits and grading them as per size and quality, pack them, paste the selling labels with barcodes and supported them in linking to shopping malls. In addition to microfinance, this effort required capacity building in procurement, grading, packing and labeling. We also needed to tie up first with the shopping malls.

The problem in this methodology is the interest rates charged on the microfinance, cannot sustain the expenses incurred on the "Credit Plus" activities undertaken and as a result the programme could not be sustained for very long.

This is one of the reasons why we should ask the concerned Government to have a policy on either enabling the MFIs to accept tax free grants or enable the MFIs involved in Credit Plus activities to have tax exemptions or tax holidays.

N. Srinivasan, Independent Consultant, Pune

Very few microfinance institutions have credit products for supporting basic livelihood activities in agriculture. Value chains in agriculture require different types of credit arrangements and to different types of organizations - not always households. At the household level production, investments in productive capacities and primary processing are feasible activities for which microfinance may be able to find answers. The present typical loan disbursement of Rs 10,000 will hardly support crop production in half an acre. This kind of financing will not support investments, primary processing or post harvest holding of produce before marketing.

The higher links in the value chain - such as processing, aggregation, storage, packaging, transport and retailing call for higher money outlays that are far beyond the MFIs' capacity to meet. Further the capacities to appraise such higher order investments in value chain activities beyond the primary level are very different; the risks associated with such financing are also higher and complex. I feel that Value chain financing and microfinance do not go well together.

If professionally organized value chains require small doses of finance at the primary end - small producer household - then Microfinance can have a financing role to play. There are well organized and managed value chains - BAIF (Gujarat, Maharashtra), PRADAN (Bihar, Jharkhand), CCD (Tamil Nadu), that have small producers at the root. Financing however had come from mainstream financial institutions - and not from MFIs. Gram and IndurIntideepam have a dairy producer company that has small dairy farmer at the base, of which some are financed by the Indur MACS.

If organizations promote value chains that provide access to markets for vulnerable (primary producer) households and employment to non-producer households, finance will flow in. Access to markets in itself has the capacity to attract finance. One need not limit financing in such a case to microfinance alone which is not the best option to support entire agricultural value chains.

State Bank of India had undertaken financing grape cultivation for exports in Maharashtra about five years back. It had a positive impact on exports of table grapes. BAIF organized cashew and mango chains based on tribal wadis - but had problems of procuring finance in the initial stages. NABARD had supported the operations, which today is a significant intervention enjoying finance facilities from banks. The sugar industry is a classic example of an agricultural value chain - but one which is unavoidable for both the cane farmer and the sugar mill. The different links of the value chain are funded differently.

Banks have significant loan exposure to Dairy and sugar in a value chain mode. In most other crop sectors, the financing is done without much regard to the other links in the chain. Production loans without looking at where the product is aggregated, a warehouse receipt loan regardless of where the product is sold for processing, a processing unit loan disregarding where raw material comes from or the market for the final produce - are typical of mainstream financing. Conceptualizing the entire value chain and looking to financing the different links and there by mitigating the risks is still not an accepted banking practice.

Nitin Bembalkar, Independent Consultant, Pune

I agree with Mr. Srinivasan. Every link in a value chain is independent in respect of its requirement of finance and its modus operandi though they are connected with each other with single produce or commodity.

The amount of finance and period of repayment is very different than a processor and than a retailer, so the cost of funds also becomes an issue. The basic objective of MFI is to serve those small poor people with reasonable loan amount, who are unserved by the current Banking systems.

Mahendra Parida, Center for Child and Women Development (CCWD), Bhubaneswar

The Microfinance for agriculture sector is not reaching to grass root areas in Orissa. Many small farmers are committing suicide because of harassment by the financial institutions for not paying back the loan. In this context, Gramya bank could play a major role for micro financing for rural marginal farmers. But this aspect is missing in many parts of Orissa. NABARD and other nationalized bank should take this matter urgently.

R. K. Swarnkar, Madhya Pradesh Consultancy Organization Limited (MPCON), Indore

At present I am working with Madhya Pradesh Consultancy Organization Limited (TCO promoted by all India Financial Institution and nationalized Banks) as Zonal Head at its Indore zone. During over last 30 years of working experience as project consultant and trainer in the state of Madhya Pradesh and Chhattisgarh, my experience in the line of microfinance is not quite encouraging. As per my opinion before financing any of the group or as individual borrower, following exercise is must:

- Identification of micro activity
- Profitability Estimates of business plan
- Proper training of loan borrower in the line of accounts and marketing
- Backward and forward linkage of the activity

After proper scrutiny, microfinance for marketing of vegetable, fruits, cereals, flowers and horticulture produce can be extended in large volume.

R. V. Kotnala, Institute of Cooperative Management, Dehradun *(response 1)*

I would like to state that commercial banks appear well positioned to offer financial services to all the segments of society. They have their own sources [deposits and equity capital] of funds; they do not have to depend on scarce and volatile donor resources. They have large network of branches and well established Internal Controls, Administrative and Accounting Systems. Being regulated institutions they fulfill condition of Financial Disclosure and Capital Adequacy which help in ensuring prudent management.

Commercial banks have variety of financial and other products to offer to its different types of clientele. I give below the few schemes of rural lending of a commercial bank [Punjab National Bank] which include Financing Value Chain in agriculture:

1. Scheme for Financing Agri-Business Projects with venture capital assistance from Small Farmers' Agri-Business Consortium (SFAC)

Purpose: To provide Venture Capital Assistance to agri-business projects and to set up a Project Development Facility to assist producer groups/organizations in formulation of economically viable agri-business projects.

2. Venture Capital Fund Scheme for Dairy / Poultry Sector

Purpose: To provide financial assistance to individuals, NGOs, Public and Private Sector Undertakings, Cooperatives, etc for the following purposes.

- To promote setting up of modern dairy farms for production of clean milk.
- To bring structural changes in the unorganized sector processing and marketing of pasteurized milk at village level.
- To bring about up gradation of quality and traditional technology to handle milk on a commercial scale.
- To boost the unorganized poultry sector in states where development is in primitive state and also to give incentive and create infrastructure facilities for export of poultry products by organized sector from advanced states.
- Establishment of poultry and breeding farms with low input technology and also for other poultry species.
- Setting up of poultry feed plant/ laboratory.
- Setting up of egg grading, packing and storing facility for export.
- Marketing of poultry products (specialized transport vehicles, cold storage, etc.).

3. Scheme for providing credit for projects for development and strengthening of infrastructure facilities for production and distribution of seeds

Purpose: The Scheme aims at providing credit for projects for development creation of infrastructure for seed production, i.e., seed cleaning / grading / processing / treating / packaging, seed storage units, seed testing labs, etc.

4. **Capital Investment Subsidy Scheme for Commercial Production Units of Organic Inputs under National Project on Organic Farming**

Purpose : To provide financial assistance for setting up of the commercial production units as well as expansion/renovation of existing units of organic inputs like vermi-compost, bio-fertilizers, fruit & vegetable waste compost, etc.

5. **Scheme for Development/strengthening of Agriculture Marketing Infrastructure, Grading and Standardization**

Purpose: To provide financial assistance to develop/strengthen marketing infrastructure in agriculture and allied sectors.

6. **Scheme for Financing Farmers Growing Sugar Cane Crop in Tie up Arrangement with Sugar Mill Acting as Business Facilitator**

Purpose: To provide Crop Loans for cultivation of sugar Cane under tie up arrangement with Sugar Mills acting as Business Facilitator.

7. **Scheme for Financing Micro-Financing Institutions (MFIs) For On-Lending To Individual Members or their SHGS/JLGS.**

Purpose:

a. Project Based Lending: Bank finance may be extended to MFIs as Project based lending. If the MFI clients desire to set up entrepreneurial activity either at Village/Cluster/Federation level, the project cost of an individual unit may be prepared and all such individual unit costs be aggregated into a comprehensive project cost and based on the viability of the project and number of units proposed to be set up in a particular area, the Bank may consider financing the activity through the MFI.
Example: Setting up of Milk Chilling units by SHGs in areas nearer to Dairy /Milk processing units.

b. Client Based Lending: The client base of MFI is built up over a period of time and they are continuously serviced, nurtured and monitored by the MFIs. Based on the past performance and future projections we may finance the MFIs. The MFI should furnish the particulars of Groups proposed to be assisted in the format suggested below

Eligible intermediaries engaged in Micro finance activities:

i) Not for profit MFIs:
a) Societies registered under Societies Registration Act, 1860 or similar State Acts.
b) Public Trusts registered under the Indian Trusts Act 1882
c) Non Profit companies registered under Section 25 of the Companies Act, 1956.

(ii) Mutual Benefit MFIs:
a) State Cooperative Societies (incorporated under State Co-operative Acts)
b) National Credit Cooperatives (Central Multi State Co-operative Act)
c) Mutually Aided Cooperative Societies (MACS)-only in Andhra Pradesh so far incorporated under Andhra Pradesh Mutually Aided Co-op. Societies Act 1995)

(iii) For Profit MFIs:
Non-Banking Financial Companies (NBFCs) registered under the companies Act, 1956 (Nabco which are accepting deposits are required to be registered with RBI)

8.Scheme for Financing against Pledge of Warehouse Receipts issued by National Bulk Handling Corporation Ltd. (NBHC)

Purpose: The purpose of the scheme is to provide liquidity to the borrowers.

(9) Scheme for financing under PNB Krishi Card (Kisan Credit Card):

Purpose: Loan is provided to cover short term working capital for agriculture activities, other domestic requirements such as education, consumable items, medical expenses, etc., term credit needs of the farmers and credit against debt from non-institutional lenders.

10. Scheme for Package loan to farmers (PNB KisanSampuranRinYojana):

Purpose: Bank will provide package loan to the farmers for undertaking various agricultural and allied activities for production as well as investment purposes and to meet the consumption credit requirements of the farmers. Besides, loan is also provided for processing/storage/value addition activities post harvest technology.

11. PNB KisanIchchhaPurtiYojana:

Purpose: Loan is sanctioned for productive purpose (production and investment credit) related to agriculture and allied activities, Rural Housing related activities, and Consumption.

12. Credit against gold ornaments/jewellery, national savings certificates, fixed deposit receipts and KisanVikas Patra to farmers:

Purpose: Bank accepts gold ornaments and jewellery, fixed deposits, National Savings Certificates and KisanVikas Patra as security for agricultural loans, so long as the quantum of loan required is in consonance with crops grown or the investment proposed and repaying capacity likely to be generated and not with reference to value of securities pledged.

13. Produce (marketing) loan scheme:

Purpose: To meet short term credit requirement to adjust/repay the outstanding crop loan/KCC limit availed by farmers from the bank and to procure better price by storing farm produce and selling it at favorable price within a specified period

14. Farm Mechanization Scheme - Financing for purchase of farm machinery and repair/renovation of tractors and power tillers:

Purpose: Loan is sanctioned for Purchase of new tractors and matching implements/equipments, purchase of new power tillers, purchase of second hand tractors with matching implements, purchase of agricultural machinery and repair/renovation of tractor.

15. Scheme for financing Farmers for Purchase of Second Hand Tractors:

Purpose: To provide loan for purchase of second hand tractor to eligible farmers.

16. Scheme for financing self-propelled combine harvesters:

Purpose: Loan is given for financing purchase of combine harvester.

17. Scheme for financing minor irrigation:

Purpose: Purchase of Pump sets, construction of Dug wells, deepening of Wells/Repair to wells, Bore wells, Shallow Tube wells, Deep Tube wells, Installation of Persian Wheels/Rehats, Sprinkler Sets, Drip Irrigation, Solar Pumps, Wind Mills, Check Dams, Construction of pump house, water tanks, laying of field channels, pipe lines and water courses, Use of PVC and MS pipes and GI bends Standby Diesel Engines, Pump sets fitted on Trolleys, Bicycle along with Diesel pump sets Replacement of pumping equipment, Generator sets for energisation of pump sets used for agricultural purposes, Lift Irrigation and related activities.

18. Scheme for financing development of horticulture (fruits, flowers & vegetables) and plantation crops:

Purpose: Financial assistance will be made available mainly for establishment and development of new orchards or groves of fruit crops, plantation crops, ornamental crops, medicinal plants, essential oil/aromatic plants etc., rejuvenation of existing orchards or plantation, raising vegetables, raising flower crops, inter-cropping in horticultural crops, Marketing loan to meet picking, grading, crating, forwarding and transportation costs etc.

19. Scheme for financing agricultural graduates for setting up of Agri-Clinics and Agri-Business Centers (ACABC):

Objectives:
(i) To supplement the efforts of Government Extension System.
(ii) To make available supplementary sources of input supply and services to needy farmers.
(iii) To provide gainful employment to Agricultural Graduates in new merging areas in agricultural sector.

Concept:
(i) Agri-clinics: Agri-clinics are envisaged to provide expert services and advice to farmers on cropping practices, technology, dissemination, crop protection from pests and diseases, market trends and prices of various crops in the markets and also clinical services for animal health, etc., which would enhance productivity of crops/animals.

(ii) Agri-business Centers: Agri-Business Centres are envisaged to provide input supply, farm equipments on hire and other services.

Purpose: Financial assistance is provided to the eligible persons for any economically viable activity selected by the Graduates acceptable to the Bank:

(i) Soil and water quality-cum-inputs testing laboratories (with Atomic Absorption Spectrophotometers).
(ii) Pest surveillance, diagnostic and control services.
(iii) Maintenance, repairs and custom hiring of agricultural implements and machinery including micro-irrigation (sprinkler and drip) systems.
(iv) Agri-service centers including the three activities mentioned above (Group activity).
(v) Seed processing units.
(vi) Micro-propagation through Plant Tissue Culture Labs and Hardening Units.
(vii) Setting up of vermi-culture units, production of bio-fertilizers, bio- pesticides, bio-control agents.
(viii) Setting up of Apiaries (bee keeping) and honey & bee products processing units.
(ix) Provision of Extension Consultancy Services.
(x) Facilitation and agency of agricultural/insurance services.
(xi) Hatcheries and production of fish finger-lings for aquaculture.
(xii) Provision of livestock health cover, setting up veterinary dispensaries and services including frozen semen banks and liquid nitrogen supply.
(xiii) Setting up of Information Technology Kiosks in rural areas for access to various agri. related portals.
(xiv) Feed Processing and Testing Units.
(xv) Value Addition Centers
(xvi) Setting up of Cool-Chain from the farm level onwards (Group Activity).
(xvii) Post Harvest Management Centers for sorting, grading, standardization, storage and packaging
(xviii) Setting up of Metallic/Non-Metallic Storage Structures (Group Activity)
(xix) Retail marketing outlets for processed Agri-products.
(xx) Rural marketing dealerships of farm inputs and outputs.
(xxi) Internet kiosks either separately or in combination of any of the eligible project activities selected by the entrepreneurs.

20. Scheme for financing farmers for purchase of land for agricultural purpose:

Purpose: The objective of the Scheme is to finance the farmers to purchase, develop and cultivate agricultural as well as fallow and wasteland.

21. Scheme for financing mushroom cultivation:

Purpose: Loan is considered for Investment Credit and Working Capital (For initial one crop only).

22. Scheme for financing poultry farming:

Scheme for financing poultry farming provides for investment credit for construction of sheds and purchase of equipments on the one hand and production credit for purchase of day old chicks, feed, medicines, etc., on the other hand. Financial assistance shall be made available to the intending borrowers as under: -

Purpose:

For subsidiary activity: Investment credit will be provided in the shape of medium term loan for acquiring fixed assets whereas production credit will be given to meet the working capital requirements in the shape of Short Term Loan.

For main activity: Investment credit will be provided as medium term loan whereas production credit will be given either in the shape of cash credit limit or as an integral component of investment credit.

23. Scheme for financing dairy development programmes:

Dairy projects are financed for the following activities: -

- Financing individuals for purchase of good quality high yielding milch animals, viz., cows/buffaloes or cross bred cows for milk production.
- Financing individuals for purchase and rearing of calves' up to the stage of first lactation.
- Financing for other innovative animal husbandry activities, namely, cattle breeding, salvaging of dry pregnant cattle, milk-processing facilities, construction of milk houses, etc.

24. Financing for milk production activity i.e. purchase and maintenance of milch animals (lactating cows/buffaloes) for milk production:

Purpose:

Bank provides loan for following purposes: -

- Purchase of good quality high milk cows/buffaloes.
- Construction of shed(s) for keeping the animals.
- Purchase of dairy machinery or other equipments of dairy business.
- Providing fodder for the animals.
- Cost of transportation of animal from cattle market.
- Composite loans are also given for purchase of milch cattle and one month concentrate feed requirements as also for cultivation of fodder crops in integrated manner.

25. Dairy vikas card scheme (Implemented in select States):

Purpose: Purchase of good quality high milk yielding cows/buffaloes or exotic cross bred cows; Construction of shed for keeping the animals; Purchase of working capital items like, dairy feeds, veterinary medicines, fodder, dairy machinery or other equipment etc.

26. Scheme for financing inland fisheries development and brackish water fish and prawn culture:

Purpose: Financial assistance is extended for Construction/renovation of ponds/tanks., construction of sluices, purchase of fish prawn, fry and fingerlings/ fish seed/ prawn seed, purchase of inputs like oil cake, fertilizers, organic fertilizers and other feed materials upto the first harvest, purchase of nets, boxes, baskets, ropes, shovels, hooks and other accessories etc.

27. Scheme for financing marine fisheries:

Purpose: Loan can be considered for purchase of mechanized/non-mechanized boats/deep sea fishing vessels/trawlers, purchase of nets - travel net/purse-seine/grill nets, purchase of other deck equipments like travel, winch, wire rope, gallows, net-handler, navigational lights, life jackets, life boats, anchors, direction finders, fish finders, etc. purchase of marine engine etc.

28. Scheme for financing apiculture (Bee Keeping):

Purpose: Financial assistance is made available for meeting:
Fixed cost such as Construction of honey houses; purchase of colonies; purchase of equipments like bee-boxes, honey extractors, smokers & bee veil, bee knife, hive tool, queen gate, feeder, solar wax extractor, plastic drums for storing honey, sting proof rubber gloves, etc.
Recurring Costs such as purchase of foundation sheets, sugar, medicines, gloves, etc.

29. Scheme for financing kitchen gardening:

Purpose: Loan is given for initial expenditure on fencing, purchase of inputs like seeds, fertilizers, plant protection chemicals; Land development, Small gardening equipments.

30. Scheme for financing green houses:

Purpose: Construction of green houses, purchase of equipments/machinery/inputs and other requirements including post harvest operations and marketing.

Likewise other commercial banks have similar schemes of lending which may differ in names. Almost, all the rural activities are covered by the schemes of rural lending of commercials banks. In case of any query nearest bank branch may be contacted for details.

Bibhuti B. Pradhan, Vasundhara, Bhubaneswar

Microfinance sector has boomed in India with a hope to address the need of the poor at their doorstep. But the reality is something else. There is still a long way to go for the MF sector to understand the real need of the poor. My experience working with the rural poor of Orissa says that the MFIs are still in confusion on where to finance and whom to finance. Should it be at the household level supporting the primary producers, or at group level to support collective enterprise, or somewhere at a different level mobilizing the community for saving and generating funds in the name of development, etc.? In western Orissa, the producers hardly get any kind of institutional finance support as an individual or in group to further their production or to add value to their products. MFIs are basically promoting sectoral finance to enhance the household cash income, in the areas like dairy, poultry, cash crop without any proper training or orientation to the producers on accessing the market. This, in turn, results in a failure venture for the producers.

The MFIs feel risk with financing at different levels of value chain as they think that there is a risk of supply chain to turn into 'value add chain'. There is always an exploitative relationship in value chains with lack of competition and lack of proper information dissemination. MFIs should look into interventions that can create links between small or primary producers and the upper value chain players. My experience with NTFP trade analysis reveals that the primary producers of NTFP do not need any kind of financial support related to NTFP trade at household level, rather the nodal traders require finance. Both value chain and financial sector analysis is required for designing the programme for agriculture finance.

Now, when the MF sector is struggling hard to carry forward their schemes and programmes primarily with SHG model, there is an opportunity to intervene into other forms of primary productions and with alternative institutional models in agriculture and NTFP, which is a major base of livelihoods for poor.

Umesh Chandra Gaur, Confederation of Community Based Organizations of India, New Delhi *(response 2)*

Financing strategies need to change to respond to the changing agrifood systems. Product markets have restructured driven by changing consumer demand due to increasing income, changing lifestyles and government policies. As a result, value chains have become more coordinated, integrated, concentrated, interdependent, complex and global. Standards have changed and have become more stringent in terms of quality and food safety. Recently, there is more emphasis on marketing than production, product differentiation and niche marketing.

Due to the restructuring of agricultural value chains, all actors in the chains must adjust to be able to respond to the changing rules of the game. This includes not only input suppliers like financial institutions but also producers, marketers, government and development agents. Adjustments however, may be difficult for small scale enterprises who have limited resources and access to assets like finance. They face the possibility of being excluded in the chain if they are unable to adjust to challenges or tap opportunities brought about by these changes in the chain.

Financing value chains in the agribusiness sector amidst restructuring in the system becomes more challenging as agricultural sector is inherently risky relative to other sectors. The role of information and technology is important in reducing transaction costs in the chain including the costs of delivering services to various actors in the chain. It provides secure structured finance, documents credit histories, creates self-financed credit insurance and formalizes commercial relationships and enforces exchange rules and standards required. It also allows actors in the chain to transact and focus on their main functions by taking over functions such as search for markets and inputs, price negotiation, securing trade credits from stockists and assuring production process is consistent with standard. Farmer clients can organize themselves into groups which co-guarantee credit and which pre-pay for credit insurance.

R. V. Kotnala, Institute of Cooperative Management, Dehradun *(response 2)*

I appreciate the modus operandi of extending the microfinance services for agriculture value chains as stated by Mr. Hemantha Kumar Pamarthy. Procurement, grading, packing, pricing, linking to market and capacity building in all these segments along with providing credit facility is a integrated package. This type of endeavors could really be helpful to the low income groups to earn their livelihood.

On the other hand commercial banks have a Priority Sector and its sub-sectors for credit disbursal. Priority sector consists of Agriculture, Small Scale Industry, Small roads and water transport operators, Retail Trade, Small Business, Professional and Self employed, Education, State sponsored Organizations for SC/ST, Housing, Consumption Loans (under consumption credit scheme for weaker section), Micro-credit, directly or through intermediary, Software Industry, Food and agro processing sector and Investment by banks in venture capital.

There is a **weaker Sector** within Priority Sector which includes the following:

- Small and marginal farmers with land holding of 5 acres and less and landless labourers, tenant farmers and share croppers.
- Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50,000

- Beneficiaries of Swarnjayanti Gram SwarojgarYojana (SGSY)
- Scheduled Castes and Scheduled Tribes
- Beneficiaries of Differential Rate of Interest (DRI) scheme
- Beneficiaries under SwarnaJayantiShahariRojgarYojana (SJSRY)
- Beneficiaries under the Scheme for Liberation and Rehabilitation of Scavangers (SLRS).
- Self Help Groups (SHGs)

Targets for commercial banks:

Total Priority Sector:	40% of net bank credit.
Total Agriculture Advances:	18% of net bank credit.
Advances to weaker sector:	10% of net bank credit

In case of commercial banks having shortfall in lending to priority sector/agriculture, they are allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established in NABARD. Details regarding operationalisation of the RIDF such as the amounts to be deposited by banks, interest rates on deposits, period of deposits etc., are decided every year after announcement in the Union Budget about setting up of RIDF.

Banks are invariably achieving the targets allotted to them but these are in quantitative terms. The credit provided so far has not been able to create livelihood for the poor and thus there is a failure of Government sponsored schemes.

Policies, systems, procedures and schemes for upliftment of poor are suitably framed and implemented, but while we see the impact, it is seen on the papers only and is negligible at the grass root level. For positive impact the modus operandi as opted by 'Hand in Hand Microfinance Chennai' is best suited for creating a livelihood for the low income groups.

L. P. Semwal, ShriJagdambaSamiti, Dehradun *

I would like to share our experiments of promoting small and marginal farmer's owned fruit (Apple as an entry crop) value chain enterprises in Uttarakhand and Himachal Pradesh. In our opinion, Business development in value chain not only requires financing but much more in organization development, collaboration between structure legal entities of producers, service providers and marketing facilitators.

We are working on the joint venture model as attached herewith with focus on meso financing for enterprises development (JVs) and micro finance for yield promotion. For more information, please click here (Doc; Size: 86 KB).

Manoj Singh, Agribusiness Consultant, New Delhi *

I would like to share one of the case studies on Financial Value Chain of Off Season Vegetables (different models being operated by different agencies in Uttarakhand) done by me in Dhari and Ukhalkanda Blocks of district Nainital, Uttarakhand. It was found that farmers are not aware of the grading and quality standards of different off season vegetables cultivated in the region. Transportation from field to market is cumbersome process. Farmers are dependent upon traders for inputs and marketing of produce. Farmers are in touch with the traders for their other consumables requirements (such as food grains, clothes, advances in need etc.) besides inputs for production of Off Season Vegetables and other vegetables (seeds, pesticides, fertilizers etc.). Farmers are getting payments at the end of the season of production and all such settlements for consumables/ inputs etc being done during that time by traders. Most of the farmers take advance from Haldwanimandi traders (70% as advance) before crop is cultivated and are under debt. It was found that most of the farmers have debt of Rs.10,000 – Rs.20,000. There is complete lack of market intelligence at farmer's level; they don't know the prices of the off-season vegetables during production time. Due to fragmentation of land and greater distance from field to road, transportation cost is generally high and collective marketing by farmer is totally absent. Farmer's don't have any infrastructure where primary post-harvest operations could be done together and storage could be possible.

Therefore, there is need of microfinance services to be provided at producers' level so that producers could arrange accordingly. Inputs like quality seeds, fertilizers etc. before the sowing of the crop and also they could establish primary processing units where sorting, grading operations could be performed after harvest of produce and producers could tie-up with buyers as per graded produce and hence they need not to be dependent upon traders for their financial requirement for crop production.

Within the region, there are some successful cases of off-season vegetables value chains also where producers are getting good prices where they are linked up with the organized retailers in Delhi and also being paid in cash for their produce with proper transparency being maintained.

Many thanks to all who contributed to this query!

If you have further information to share on this topic, please send it to Solution Exchange for the Microfinance Community in India at se-mf@solutionexchange-un.net.in and Work and Employment Community in India at se-emp@solutionexchange-un.net.in with the subject heading "Re: [se-mf] [se-emp] Query: Microfinance Services for Agricultural Value Chains – Experiences; Examples. Additional Reply."

Disclaimer: *In posting messages or incorporating these messages into synthesized responses, the UN accepts no responsibility for their veracity or authenticity. Members intending to use or transmit the information contained in these messages should be aware that they are relying on their own judgment.*

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Poverty

Microfinance Community

Solution Exchange for the Microfinance Community Consolidated Reply

Query: Financing for Micro Enterprises and SMEs - Examples; Advice

Compiled by Navin Anand, Resource Person and Monika Khanna, Research Associate
Issue Date: 07 September 2010

From Indrani Sharma, Ashoka'sChangemakers, Gurgaon

Posted 3 August 2010

I work with Ashoka'sChangemakers. Ashoka is a global, non-profit network and support system for social entrepreneurs - people who devise innovative solutions to the social problems that plague society (for more details, please visit: www.changemakers.com). Recently, the Group of 20 and Ashoka'sChangemakers, with support from the Rockefeller Foundation, have launched "The G-20 SME Finance Challenge", an online competition to find the best models worldwide for public-private partnerships that leverage public interventions to catalyze finance for small and medium enterprises (SMEs). By identifying the best financial solutions to support SMEs through this competition, the G-20 is playing a critical role in the global fight to create jobs and reduce poverty.

Small and Medium-sized Enterprises (SMEs) as well as micro enterprises jointly forming the MSME sector, play a major role in economic development and are often the single largest source of job creation, particularly in emerging economies. Lack of access to finance, however, is a major obstacle to these firms' growth. Only an estimated 20% of small firms in low-income countries have access to credit. SMEs are often too small to attract the interest of banks or investors, but too large to benefit from microfinance products. However, microfinance can play role in financing specific strategic activities of the value chain of different subsectors of micro, small and medium enterprises. To date, few scalable solutions to support this "missing middle" tier of businesses have been found.

Besides financing SMEs, building a conducive financial environment for the growth and development of the MSME sector is also critical. There have been a number of innovative initiatives by various stakeholders of the SME sector to fill financial and non-financial need gaps of different subsectors. These stakeholders include financial institutions and MFIs to provide financial services, training, research and academic institutions to build the capacities of human resource and standardize SME operations and incubators to innovate solutions.

There has been a knowledge gap related to the existing innovative experiments of financing micro, small and medium enterprises. There are number of standalone successful experiments that have been taken up in context of financing the whole enterprise or specific strategic activity of the value chain. Financial and non-financial gaps also exist in the sector.

With this background, I would like to request the members of Microfinance community to provide their valuable inputs on the following questions:

- What are the critical gaps in financing Micro Enterprises and SMEs? What are the suggested ways to overcome these gaps through Microfinance and other financial institutions?

- Are there any examples of providing complete financial solutions to SMEs that has potential of scaling up?

- Are there any SME financing trend analysis studies to develop suitable financing solutions for SMEs that can be used by the policy makers?

The contributions of the members on the query will help in identifying the supply-demand gaps in context of financing for Micro enterprises and SMEs. The knowledge product will be uploaded on our website www.changemakers.com for reaching a wider audience. Moreover, this document will be used for developing strategies for financing (including microfinance) SMEs for specific activities of the value chains and undertaking policy advocacy for the sector.

Responses were received, with thanks, from

1. **Suman K Apparusu, Independent Consultant, Hyderabad (Response 1; Response 2)**
2. **SatyaPrakashMehra, Rajputana Society of Natural History, Rajasthan**
3. **Umesh Chandra Gaur, Confederation of Community Based Organizations of India, New Delhi**
4. **VineetRai, Intellecap, Mumbai**
5. **Sandhya Suresh, ESAF Microfinance and Investments Private Limited, Thrissur, Kerala**
6. **BadriNathTiwari, Grameen Development Services, Ajmer**
7. **R. K. Swarnkar, MPCON, Indore**
8. **NamitAgarwal, Samhita Social Ventures, Kolkata**
9. **Susanta Kumar Nayak, BASIX, Orissa**
10. **L. P. Semwal, ShriJagdambaSamiti,Rishikesh, Uttarkhand**
11. **S. N. Ghosal, Microfinance Focus, Kolkata**
12. **R. V. Kotnala, Consultant, Dehradun**

Further contributions are welcome!

Summary of Responses
Related Resources
Responses in Full

Summary of Responses

Responding to the query on Financing the Micro Enterprises and SMEs, members suggested that SMEs have a distinct role in the economic growth. SMEs are considered to be an important vehicle of inclusive growth for creating local demand and consumption. Besides providing the employment to a large number of skilled and unskilled people, SMEs are the supplier of raw material, basic goods, finished parts of components etc. to bigger industries. However, access to finance is a critical issue for the SMEs particularly in their initial years.

Critical gaps in Financing the Micro Enterprises and SMEs

- Problems in availing early stage finance
- Lack of understanding on the part of the entrepreneur to fill the information in the prescribed formats as desired by the financial institutions
- Dearth of availability of grants, schemes given the number of applicants
- Lack of financing for service products through easy finance options

- Lack of thinking amongst the financial institutions/investors to provide complete solution from the conceptualization of enterprise to its successful operations
- Lack of availability of funds supporting the enterprises focusing on rural areas

Members viewed that SME Finance cannot be scaled up without an ecosystem that helps entrepreneurs to develop plans, raise capital, helps in utilizing the capital well and recognize the entrepreneurs. For creating conducive atmosphere members suggested that an innovative models can be adopted whereby both financial and non-financial incentives could be provided to the entrepreneurs from time to time in the forms of subsidy, tax holidays, easy and soft loans etc.

Members argued that there is a need to have the coordinated efforts on the part of different actors - Government, Banks, private organizations and MFIs. In this context, members pointed out various initiatives taken up by Government to enhance credit delivery to SME sector. Some of the initiatives highlighted by the members were:

- RBI has advised the commercial banks to draw a road map to provide banking services through a banking outlet in every village having a population of over 2000, by March 2011.
- Guidelines are issued by RBI to commercial banks for granting collateral free loans up to Rs. 5 lakh sanctioned to the units of SME sector
- A High Level Task Force is constituted for the development of the SMEs. Several recommendations on issues relating to credit, taxation, marketing, labour, exit policy, infrastructure/ technology/skill development and special packages for North East and Jammu and Kashmir, etc. are made by the Task Force.

Referring the funds available for the entrepreneurs, members mentioned – Aavishkar, Seed Fund, First Light Ventures, Acumen Fund, Catamaran Venture Fund and BYST Growth Fund. Sharing the details of Technopreneur Promotion Programme, members informed that it is a technology based venture run by Department of Science and Technology and Department of Scientific and Industrial Research. Similarly, Programme Aimed at Technological Self Reliance (PATSER), another program of DSIR and Technology Development Board has also supported small enterprises at various stages with soft loans and grants.

Further, members shared that SIDBI and NABARD are also having a risk funds that disburses funds to SME sector. Members also pointed out the experiences of Grow fin in Africa, an example of using franchising based financing for scaling up business.

Suggested ways to overcome the gaps

To overcome the various constraints faced by the SMEs, members suggested the following:

- Disseminating the information on procedures for granting assistance for SMEs
- Easy accessibility, less paper work and provision of assistance for the entrepreneurs interested in initiating an enterprise
- Mentoring the entrepreneurs on preparing business plans, cost estimates and improving the negotiation skills
- Mapping the market for various cost effective and scalable technologies that are available for adapting in the Indian conditions
- Identification of the existing clusters and building the SME entrepreneurial ecosystem around them
- Setting up specialized institutions for research and development, marketing, product development, gradation and information dissemination
- Collaboration across Manufacturing and Services sector to expand the scope and scale of the SMEs
- Allocation of special budgets to the organizations – SIDBI, IDBI and NABARD. These organizations to accommodate technical persons to guide and support the entrepreneur

Besides this, members suggested that there is a need to develop special designated departments with offices at the local level. To speed up the process, these offices in consultation with the expert committee can approve the projects based on the feasibility and sustainability. Also, members suggested to build an umbrella structure with single window system to guide the infant SMEs on financing, marketing, synergizing with other industries for raw material requirements, technical know how, final product disposition. In this regard, members informed that for promotion and development of MSMEs, Government of India has enacted the Micro, Small and Medium Enterprises Development Act, 2006.

Finally members concluded that SMEs have a vital role to play in the economy of any country. To promote the spirit of entrepreneurship it is imperative that business environment is conducive for the financing institutions as well the entrepreneur. Thus, for creating conducive atmosphere of entrepreneurship, coordinated efforts from various stakeholders is the need of the hour. In the nutshell, members enumerated the need gaps in SMEs, identified the key initiatives by RBI, Government, informed about the key sources of funds and accordingly suggested a road map to overcome gaps by making structural and regulatory changes, promoting collaborations and making use of funds.

Related Resources

Recommended Documentation

From R. V. Kotnala, Consultant, Dehradun

Micro, Small and Medium Enterprises Development Act 2006
Act; 2006
Available at http://www.and.nic.in/C_charter/indust/msmeact2006.pdf (PDF; 79 KB)

> *Aims to facilitate the promotion, development and enhancing the competitiveness of micro, small and medium enterprises*

Prime Minister's Task Force on Micro, Small and Medium Enterprises
Report; Government of India; January 2010
Available at http://msme.gov.in/PM_MSME_Task_Force_Jan2010.pdf (PDF; 1.84 MB)

> *Report provides a roadmap for the development and promotion of the Micro, Small and Medium Enterprises (MSMEs)*

Murthy's new VC fund Catamaran to focus on Healthcare, Retail and Tech (*from Susanta Kumar Nayak, BASIX, Orissa)*
Article; The Economic Times; 24 October 2009
Available at http://economictimes.indiatimes.com/news/news-by-industry/banking/finance/finance/Murthys-new-VC-fund-Catamaran-to-focus-on-healthcare-retail-tech/articleshow/5154872.cms

> *Narayana Murthy has launched venture capital fund - Catamaran, that will help entrepreneurs across sectors healthcare, retail, technology with early stage investments*

SME Financing Gap (*from Monika Khanna, Research Associate)*
Report; Organization for Economic Co-Operation and Development; 2006
Available at http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?action=display&doc_id=624&userservice_id=1 (PDF; 1.08 MB)

> *Analyses the "financing gap" concept, seeks to determine how prevalent such a gap and recommends measures to foster an improved flow of financing to SMEs*

Recommended Organizations and Programmes

Credit Guarantee Fund Trust for Micro and Small Enterprises, Mumbai *(from Umesh Chandra Gaur, Confederation of Community Based Organisations of India, New Delhi)*
7th floor, SME Development Centre, C-11, G- Block, Bandra - Kurla Complex, Bandra (East), Mumbai - 400051; Tel: 91-22-26541803; http://www.cgtmse.in/default.aspx

Aims to strengthen credit delivery system and facilitate flow of credit to the MSE sector

From VineetRai, Intellecap, Mumbai

Aavishkaar, Mumbai
516, 5th Floor, Palm Spring, Besides D-Mart, Link Road, Malad (W), Mumbai – 400 064; Tel: 91-22-42005757; Fax: 91-22-42005777; info@aavishkaar.org; http://www.aavishkaar.in/index.html

Aavishkaar is a consortium of venture capital funds that provides micro equity and microfinance support

Acumen Fund Advisory Services India Private Limited, Hyderabad
Unit G4, Le Benaka, 6-3-248/F, Banjara Hills Road No. 1, Hyderabad - 500034; Tel: 91-40-66772734; Fax: 91-40-66772731; http://www.acumenfund.org/about-us.html

Non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty

Indian Venture Capital and Private Equity Firm, Hyderabad
8-2-546, Plot No.140, Sheesh Mahal, Road No. 7, Banjara Hills, Hyderabad - 500034; Tel: 91-40-23351044; Fax: 91-40-23351047; info@ventureast.net; http://www.ventureast.net/microequity

Manages BYST Growth fund that provides equity-like financing to small, local, everyday businesses, along with one-on-one mentoring and business development assistance

Gray Ghost Ventures, United States of America
2200 Century Parkway, Suite 100, Atlanta, GA 30345; Tel: 678-365-4700; Fax: 678-365-4752; info@grayghostventures.com; http://www.grayghostventures.com/firstlight.htm

First Light Ventures an independent fund within the Gray Ghost Ventures' initiatives and serves as an incubator and investment partner to seed-stage, for-profit social ventures

Seed Fund, Mumbai
001, Turf Estate, Shakti Mills Lane, Off. Dr. E. Moses Road, Mahalaxmi, Mumbai - 400011; Tel: 91-22-24902201; Fax: 91-22-24902205; info@seedfund.in; http://www.seedfund.in/index.php

Provides venture capital fund to the start-ups mostly focusing on internet, media, mobile, telecom and retail

Department of Science & Technology, New Delhi
Technology Bhavan, New Mehrauli Road, New Delhi - 110016; Tel: 91-11-26567373; Fax: 91-11-26864570; dstinfo@nic.in; http://www.dsir.gov.in/tpdup/tepp/tepp.htm

Launched Technopreneur Promotion Programme that aims to provide financial support to individual innovators

Intellecash, Mumbai
512, Palm Spring, Link Road, Malad (W), Mumbai - 400064; Tel: 91-9899818976; kartikay@intellecap.net; http://intellecash.com/index.htm

An initiative by Intellecap that aims to provide microfinance entrepreneurs with the skills, experience and guidance in their venture

National Bank for Agriculture and Rural Development (NABARD), Mumbai
Plot No. C-24, "G" Block, Bandra-Kurla Complex, P. B. No 8121, Bandra (E), Mumbai 400051; Tel.: 91-22-2653 9244; Fax: 91-22-2652-8141; nabmcid@vsnl.com; http://www.nabard.org/roles/microfinance/index.htm

Apex institution providing loan funds for microfinance services in the form of revolving fund assistance to NGO-MFIs, SHG Federations and NGOs to lend to SHGs

Small Industries Development Bank of India, Lucknow
SIDBI Tower, 15, Ashok Marg, Lucknow - 226001 Uttar Pradesh; Tel: 91 -522-2288547; sfmc@sidbi.in; http://www.sidbi.in/Micro/index.htm

SIDBI Foundation for Micro Credit (SFMC) provides bulk loans and technical support to MFIs

From R.V. Kotnala, Consultant, Dehradun

Reserve Bank of India (RBI), Mumbai
Rural Planning and Credit Department, Central Office Building, 13th Floor, Mumbai 400 001; Tel.: 91-22-22610261; Fax: 91-22- 22658276; http://www.rbi.org.in/scripts/AboutUsDisplay.aspx?pg=Depts.htm#RPCD

Rural Planning and Credit Department of RBI formulates policies relating to rural credit and monitors timely and adequate flow of credit

Industrial Development Bank of India, Mumbai
IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai - 400005; Tel: 91-22-22189111; Fax: 91-22-22181294; customercare@idbi.co.in; http://www.idbi.com/index.asp

Entrepreneurial Development Fund of the bank aims to assistance by way of equity/ interest-free loan for meeting the financial gap for establishing the business

Related Consolidated Replies

Micro-Enterprise Development for Mature MF Clients, from N. Jeyaseelan, Hand in Hand, Chennai (Experiences). Microfinance Community, Solution Exchange India,
Issued 22 February 2007. Available atftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-22020701-public.pdf(PDF; Size: 149 KB)

Shares challenges and strategies to graduate MF clients from micro-credit to micro-entrepreneurial activities through experiences including using sub-sector approach

Microenterprise Development as an Extension of Microfinance from Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad (Examples; Experiences). Work and Employment Community and Microfinance community, Solution Exchange,
Issued 28 December 2007. Available atftp://ftp.solutionexchange.net.in/public/emp/cr/cr-se-emp-mf-18100701.pdf (PDF,Size: 100 KB)

Shares examples of micro enterprise programs initiated by MFIs/NGOs that have become successful enterprises and discusses the challenges MFIs face in micro-enterprise development

Responses in Full

Suman K Apparusu, Independent Consultant, Hyderabad *(response 1)*

This is an interesting post. In my view the query seeks to address gaps and potential financial solutions targeted at both SMEs and MFIs.

On SMEs:

As members might be aware the Indian Energy Efficiency market is pegged at Rs.74,000 crores by recent Bureau Of Energy Efficiency (BEE) estimate.

Further, in line with the national enhanced energy efficiency mission launch and a slew of measures announced for capturing the energy efficiency savings and unlocking the true potential of the area especially w.r.t to SMEs is worth noting.

Measures such as Energy Efficiency Financing Platform, Energy Efficiency Venture Fund and Partial Risk Guarantee coupled with the super ESCO creation (EE Services Ltd) and Perform, Achieve and Trade Mechanism are noteworthy.

Given such national importance and various banks slowly signing separate MoUs with Bureau of Energy Efficiency to commit to provide various financial products targeted at SMEs and large designated consumers, it is pertinent to consider the gaps and potential solution offerings targeting the EE finance space.

Gap 1: Energy Efficiency Start -up Funding : A modest estimate of 10,000 entrepreneurs each requiring say 2 crores of initial investment to set up energy service companies and start offering ESCO services amounts to 20,000 crore potential investment.

Gap 1 - Solution - Combination Product : Here smart combination products of debt, equity and risk guarantees by potential investors and banks can go a long way in kick starting the ESCO market.

Gap 2: SME Energy Efficient technology/savings capture Project Funding: Majority of SMEs do not have the financial wherewithal to take up EE improvement projects that can mean up grading the technology or access to knowledge products that can help them save on operational costs and consequently improve their bottom lines. To address this gap 2 initiatives from the MSME foundation and the SIDBI/KfW are working with SMEs across industrial clusters to capture the detailed findings and devise suitable solutions therein.

Gap 2 - Solution - Non recourse Debt Financial Product: Banks could build upon these initiatives and potentially offer non recourse financing on favorable terms for such one-off yet important technology upgrade/EE improvement projects. Further, if they can combine with specialist technology expertise access, it can prove a win-win for all parties - the EE technology suppliers, the bankers and the SMEs who seek to undertake such projects.

Gap 3 - Input/Raw Material Financing: Majority of SMEs work on a combination of relationship, favorable purchase terms and in a input markets that are unorganized or semi-organized. Further, their upstream relationships with larger players are heavily dependent on their being able to supply both inputs/labor on timely basis. The typical challenges in such a model of operation are uncertainty and access to timely finance to maintain both customer/supplier relationships in good stead.

Gap 3 – Solution- Fission Debt Product: Banks, financial institutions can consider chain or fission debt (on the lines of a nuclear fission reaction) product that picks and helps choose its top 20 credit worthy SMEs and offering a set of debt and risk guarantee products that flow down to their supply chain partners who in turn pass it on to their downstream partners. The benefits of such a product are manifold - SMEs themselves know who their best suppliers are and financial institutions could leverage this understanding to help both identify and fund creditworthy SME supply chain partners.

On MFIs:

MFI funding to my mind so far has been to act as a bridge between consumers and producers separated by time and geography and mostly in a push mode. Turning the concept on its head could unlock tremendous financing potential by treating the current MFI customers as producers.

If financial products could be designed to support production of goods/services along with support in the form of forward market linkages- then the entire MFI funding landscape presents opportunities for economic change.

As an example, if the MFIs fund production of EE cook stoves, competitive consumer appliances or ICT enabled citizen services et al along with support with forward market linkages then consumers can turn into major producers unlocking their economic potential. Further such a push model means potential alliances with larger banks/financial institutions to serve such producer/consumer markets.

SatyaPrakashMehra, Rajputana Society of Natural History, Rajasthan

As per the questions put up by Indrani, I would like to forward my views in this regard:

Most important gaps as per my experiences are the lack of dissemination of information on such aspects among the major portion of the country's population and that is rural and tribal sector.

While working on the Nature Conservation in the rural/ tribal belt of Rajasthan, I found lot of ideas on income generation sources as well as talents of developing small scale enterprises. However, there were constraints in terms of encouragement/ promotion/ marketing etc and the major one is financial support.

Secondly, if somebody tries approach the institutions that can provide finance at the rural/tribal level then in most cases the proposal is rejected or disapproved as the individual that has approached may not be able to justify the idea through big glamorous report. I have seen many cases in southern Rajasthan where persons without innovative ideas or income generating work receive financial assistance whereas person who is not having capacity to generate big documents, despite of innovative ideas, returns back.

My suggestions:

- For getting the true change makers, we have to disseminate the information on procedures for granting assistance for SME in the rural/ tribal population
- Easy accessibility and less paper work should be there or assistance in completing minimum formalities should be given to such sector where we could find real change makers

Umesh Chandra Gaur, Confederation of Community Based Organizations of India, New Delhi

Small and medium-sized enterprises (SMEs), and particularly new firms, have a distinct role in economic growth and in the development of innovation. Recent studies show that SMEs are as important as large firms in the creation of gross and net new jobs. In terms of innovation, SMEs have a greater tolerance for higher-risk initiatives and the capacity to reap substantial market rewards in niche markets. SME access to the formal financial sector, however, is constrained by the high risks and transaction costs associated with commercial lending to that segment of the market. The government should provide a wide variety of programmes to assist SMEs. A financial system can influence the allocation of real resources between surplus and deficit units. In addition, a financial intermediating system can be used to channel financial resources to certain favored deficit units that are expected to use these sources for specific purposes, or the terms on which the financial resources are provided can be manipulated to influence the decisions of potential users. Access to financing can be a critical issue for SMEs, particularly in their early years. The current financial support system for SMEs aims to facilitate SME access to banks and non-bank financial institutions, and to lower the cost of borrowing from banks and such institutions. Financing for SMEs should be extended in various forms through diversified financial institutions and can be summarized in four major categories.

- Commercial banks provide loans and discount commercial bills to SMEs.

- Industrial Bank of India, a special bank to be formed by the Government specifically for SMEs.

- Special loans are provided to SMEs under various schemes. These include Government-sponsored programme loans, which are extended through the Industrial Bank to encourage SMEs in facility investment and to strengthen research and development activities. Others include Energy Consumption Rationalization Fund loans and Start-up Company Promotion Fund loans.

- A credit guarantees system to facilitate bank lending to SMEs. The Credit Guarantee Fund (CGF) and the Technology Credit Guarantee Fund (TCGF) should be undertaken to guarantee businesses with a special emphasis on guarantees for SMEs that have difficulties in qualifying for bank loans.

VineetRai, Intellecap, Mumbai

Two key things that any discourse on the above subject should keep in mind is:

a) Microfinance and SME are not really in sync as terms more so in South Asia because of the loan size and the nature of the product. In Latin America and Easter Europe there is some linkages but otherwise Microfinance is basically linked to very tiny businesses which would not qualify as SME
b) The SME finance conundrum can be looked at multiple levels and I would try to lay down some for you to take into account. My personal work has only been in this space and hence my thoughts are more biased toward what I do but I would try to bring in elements of other people work as well

Start a SME - The first step in SME finance would be to help good entrepreneurs to start a business. The key need for that is Equity and the normal steps to get equity is Personal Savings, Family, Friend, Angel investors, early stage investors etc. In India most of the SME have depended on the first three options and the angel investors as a category has just started evolving. You have couple of angel networks based out of Mumbai and Delhi which are quite active but they are very urban, very mainstream business focused and have very little appetite for too much deviation from the normal kind of business. Early stage venture capital business in knowledge industry like Information technology have existed for some time but even in those industry the number of investors are very few. In businesses that have social/ rural bias or are in new domains there are very few funds. Aavishkaar (www.aavishkaar.in), a fund I manage is possibly one of the oldest in the world but we have started seeing peers only lately. We have worked closely with mainstream funds like Seed fund but there have not been many others. First Light ventures, a fund started by Grey Ghost venture, has done some very early stage investing in India, and very recently I have noticed Acumen Fund also doing some early stage investing but those has been very few and far between. BYST Growth Fund, a fund named after BYST NGO and managed by Aavishkaar and Venture east jointly also does equity investing in early stage businesses started by people coming with a discriminated or poor background. IFMR had also launched a venture fund in supply chain companies which did make some investments; I am not sure about its current status.

Government Role – Technology based venture have received support from the government through Technopreneur Promotion Programme (Tepp) run by Department of Science and Technology (DST) and Department of Scientific and Industrial Research (DSIR). Similarly, Programme Aimed at Technological Self Reliance (PATSER), another program of DSIR and Technology Development Board has also supported small enterprises at various stages with soft loans and grants. Time consuming but sometime very useful.

Financing - SME Finance has been a challenge, and if you are in early stage getting finance is impossible. The only enterprises that receive finance from Banks in first years of their operation are either heavily capitalized or are doing microfinance and no one else. SIDBI has a risk fund that has been trying to disburse funds to SME sector with moderate success in my view and NABARD also has a risk fund that is doing similar lending. A initiative by Intellecap, by the name Intellecash (www.intellecash.com) is launching a SME lending initiatives to early stage SME social business space with partnerships with some foundations to test waters soon, they may start with small loans to make it work. Supply chain financing has been one of the biggest challenges and if done well can really scale up.

Intellecash is trying that and some of the banks have done a great job, the partnership with Supplier region companies of FAB India and Axis Bank is a very good example of a strong partnership delivering results. Grow fin in Africa is another good example of supply chain financing and Business Partners, with operations in South Africa is another good example of using franchising based financing for scaling up business.

Finally, In my view SME Finance cannot be scaled up without building an ecosystem that provides intellectual capital across the board in helping entrepreneur develop plans, help them whet those plans, and then present and communicate those plans, raise capital for them and help them utilize that capital well, celebrate their success and recognize these entrepreneurs.

www.intellecap.com has tried to build an ecosystem in India around these financing mechanism through its consulting and investing banking arm as also by developing platforms like www.sankalpforum.com and magazines such as www.beyondprofit.com but much more long term and similar initiatives need to be launched or the same initiatives need to be scaled up

Sandhya Suresh, ESAF Microfinance and Investments Private Limited, Thrissur, Kerala

Financing for Micro Enterprises is definitely a crucial factor for the promotion and scale up of the micro among the micro- enterprises. According to MSME standards an investment up to 25 lakhs INR in manufacturing sector and 10 lakhs INR in trading sector are considered as microenterprises. But most of the clients of MFIs are from low income groups whose investments are not beyond 5 lakhs INR and thus do not necessarily are as potential as the small entrepreneurs whose investments are between 25 lakhs to 5 crores in manufacturing sector and between 10 lakhs and 2 crores in the trading sector. These vulnerable groups of micro among the micro entrepreneurs remain as a disadvantaged group with no deliberate efforts on the part of DIC or MSME to identify and mainstream them. Registration or filing of the business units should become a compulsion whereby the acknowledgment of same can be attached for availing loans from the banks (scheduled and cooperative).Those who wish to seek financial support from banks need to be schooled on the preparation of business plans, how to prepare cost estimates so that they stand chances of seeking financial support. Lack of awareness and negotiation skills may mar their possibility of raising funds from appropriate sources. Upon their inquiry with the banks they are out rightly rejected quite often.

Availability of grants (state and central Government schemes) too is limited given the number of applicants. At ESAF, we try to provide mentorship and awareness to our clients on the possibilities of availing higher loans/funds/grants from different sources. We have also modified existing loan product to include higher loan amount within permissible limits for all those who have the potential to grow as micro entrepreneurs. We have sought satisfactory support from DIC and MSME officials too.

Coordinated efforts on the part of Government, Banks and MFIs can help bridge the gap to a large extent.

BadriNathTiwari, Grameen Development Services, Ajmer

I do agree with SatyaPrakashji, that alone information dissemination can not do a big deal for the poor. I would like to share our own experience of Ajmer district in Rajasthan. We are working with SHGs for the last 6 years. We have utilized waste land for income generation activities in our programme area through Aloe vera cultivation on waste land and further processing it. Last year one Assistant Engineer came to me and asked about the whole idea. I shared the idea without any hesitation and proposed him to consider our targeted Aloe Vera farmers for the supply of saplings of Aloe Vera and he promised the same. But at the time of purchasing we were not in the picture and he encashed our idea and just picked up Aloe Vera from farmers bundings and waste land planted under watershed scheme. At that time we were ready to supply our planting material @ Rs.1/ sapling and he purchased @ Rs. 2 more but our farmers didn't get benefits of their resources. Now farmers are engaged in Aloe Vera processing but still information is a big challenge for them. Without full information, poor and disadvantaged section can never get the real benefit of their resources. We know that they have the potential and their skills may be upgrade but again information had blocked the road for the poor and deprived.

R. K. Swarnkar, MPCON, Indore

Presently I work with MPCON Ltd, a leading technical consultancy organization promoted by IFCI, nationalized bank, working in Madhya Pradesh and Chhattisgarh actively with varied nature of job. In the project planning and training cell we are providing specific consultancy for self employment, project consultancy on MSME (micro, small, medium enterprises) since last 1979. For details, please visit: www.mpconsultancy.org

Our professional experience in the field of microfinance in the community is very mixed type. It is necessary that before disbursement of loan/grant it is important to evaluate the promoter's background, market strategy for product and finally the viability of the project for the implementation.

NamitAgarwal, Samhita Social Ventures, Kolkata

I completely agree that micro enterprises and SMEs are two very distinct categories having completely different needs. While working on an international project to develop a 'Business Development Services' market in two industrial clusters in West Bengal I got a field level understanding of the MEs and SMEs.

Most 'successful micro enterprises' (Tier1 MEs) I visited, operated as outsourcing units for SMEs. They were financed by these SMEs in terms of advance or timely payment, installation of advanced machinery and even worker training. Such MEs eventually move up the ladder and grow into SMEs.

The 'not-so-successful micro enterprises' (Tier2 MEs) are those that are left outside the value chain because of their inability to deliver products and services of the desired quality. They need strategic services like industry testing and certification, worker training, quality improvement, designing etc that can catapult them into the active business environment.

The most important financing gap for MEs as I see is financing for such service products bundled with the service product itself. Instead of financing the MEs to buy services let the service providers sell services with easy finance options. This is one area where traditional financial institutions do not venture.

SMEs on the other hand now have the liberty to choose financial products suiting their requirements. With the government having a strong focus on SMEs, most banks have dedicated department to finance SMEs. There are a number of schemes for the MSME sector as a whole offered by DCMSME, DIC, SIDBI, EPC, etc. It is also imperative to create awareness about these schemes and help these enterprises to take maximum benefit of the schemes.

Suman K Apparusu, Independent Consultant, Hyderabad *(response 2)*

The views expressed on this post seem to be getting interesting by the day. On this particular occasion, I would like to add a bit more on the SMEs financing and with an innovation dimension thrown in.

While incubation support, small start-up funds, entrepreneur ecosystem development are all valid, when looked at in the national and global context of open innovation, the on going efforts seem a drop in the ocean, highly disjointed and ground realities very different. As an example the recent ET - Power of Ideas - challenge - clearly points to the fact that < 1% of the ideas in this country get to the actual venture funding stage.

Also, there seems a glaring gap in both integrating with the global innovation networks as well as tapping the large MNE ecosystems to the best advantage of creating and sustaining small SMEs.

As in case in clean energy space, while lot of technological innovation is happening worldwide with concentrated investment, specific effort(s) are not visible in finding clear and cost innovative commercialization pathways and adaptation possibilities to suit to the vast untapped Indian market to unleash the SME entrepreneurial spirit.

For this to happen, to me it seems very imperative that the following gaps be addressed.

- India market mapping for various cost effective and scalable technologies so they can be suitably adapted (either at pilot/market testing phases) to suit Indian conditions. Two things would happen in such a model - clear technology commercialization pathways for Indian context and regions where SME activity is likely to emerge for concentrated development.

- MNE industry/cluster concentrations identification and development - India and elsewhere in the world to learn from the cluster models and build the SME entrepreneurial ecosystems around them using the insights gained. For e.g.: auto ancillary, wind energy supply chain bases.

- Open innovation infrastructure build: Collaboration on innovation both across manufacturing and services is essential for expanding the SME scope, scale and reach. For this it seems quite important to both analyze and build our own innovation infrastructure that causes the SME ecosystem to expand manifold.

- For all the three points mentioned above to happen - multiple actors across the technology and entrepreneurial continuum must come together to build a road map that lays the strong foundation for a SME vibrant economy.

Susanta Kumar Nayak, BASIX, Orissa

In the era of industrialization it is a common fact that any further greedy move towards the same not only attributes environmental concern but also has the potential effect on creating perennial problems like green house gas effect, global warming, ozone layer depletion, and fast exploitation of natural recourses etc. Now all major industrialized and emerging countries have recognized all above facts in a well coordinated way and taking this as a global problem rather confining it at regional level. The last decade has seen drastic changes in global order as well as thinking. All are now well teamed-up to fight major hindrances like poverty, unemployment, mal-nutrition, financial inclusion and other socio-economic maladies. Many multilateral organizations like World Bank, IMF, United Nations and its different arms have come forward and are putting more focus on addressing all global issues which I have out lined in my earlier points. So when we discuss this entire problem, certainly we see some rays of hope in the form of small and medium enterprises as this word has the potential to contain all such global bottlenecks in a dramatic way. So choosing the trade off between setting up mega industries and environmental concern inherited from is very challenging and confusing, so I think the consensus can be reached on SMEs.
Here are reasons to rejoice about SMEs:

- Small and medium enterprises have enough scope to use locally available recourses for creating wealth for the society and nation
- It has enough ambit to create employment for both skilled, semi-skilled, un-skilled labourers as well.
- SME can start up with indigenous technologies which has the impact of creating its own demand with the country
- In a crucial time when all major industries are facing protests for their upcoming projects due to mammoth land requirements, SMEs can be considered as a better option in terms of land and capital requirement side.
- From environmental concern the same can be considered as a boon instead of bane.

- By-products and waste product from major industries can be used by the SME for further production process and create a numbers of forward and backward leakages for the local economy leading to economic activities can be extended in a larger way.

So in a nutshell, SME must be considered as a panacea.

Here is the model frame work of approaching SMEs in different steps:

- It starts with some ideas, innovation and intention of creating small and medium enterprises from individual's side. Moreover it is important the encouragement comes from Government and other successful entrepreneurs like Narayan Murthy (the chief mentor as well as the greatest entrepreneur of our time who created Infosys from scratch. Moreover he has also created a Venture Capital fund – 'Catamaran Venture Fund' to give birth to successful ideas into a project).
- If the individual or the groups of individuals lack finance to start with they must approach local or district authorities or local cell of the special purpose vehicle for augmenting his ideas and resources. Here I intended to say that we must have special designated department with offices at local level to work out this mission. Local level office must in consultation with their expert committees approve this project based on the feasibility and sustainability factor. Once this project is approved, then financing or part financing must be worked out at initial level.
- The role of Government does not end here. They must liaison at ongoing basis for consultations, further financing, marketing and synergizing with other industries for raw –material requirements, technical know-how, final product disposing, and finally advertising with their common network. So a common network must work here with an umbrella like structure with single window structure which can guide an infant SME.
- In a broader policy frame work, Government must encourage and enforce all commercial banks to put in place more financing methods like strategic sector lending tag with certain specified percent of total advance to it.
- Special organizations like SIDBI and IDBI must be encouraged with special budgetary allocation and with accountability. These banks must increase their outreach with higher capacity of finance. These organizations must accommodate technical persons to guide and support the entrepreneur.
- In order to create conducive atmosphere of entrepreneurship, Government has to think out-of-box. There is a need to come out with innovative models with both financial and non-financial motivations from time to time in the form of subsidy, taxes, easy or soft loans and recognitions. Simultaneously, specialized institutions must be set-up for research and development, marketing, product development, gradations, and greater information.
- Students at premiere institutions must be encouraged to prefer entrepreneurship rather than running after jobs. So it must be a part a curriculum with some sort of encouragement in the form of rebate or pay back of course-fees to those who opts entrepreneurship.
- The special ministry not only has to work as a watchdog, rather they have to put greater emphasis on this front by making greater awareness about their agenda, planning, programmes, and on recent happenings. So greater thrust must be on the outreach.
- The financial system as well as the capital market must be supportive in the form of setting up stock exchanges like alternative investment market of London stock exchanges to help small companied to get listed and raise finance from there with easier listing norms, as well as a friendly regulator is the need of the hour for embracing this mission.

Role and Scope of private organizations

In a welfare state almost all the task has been entrusted upon the Government. However it is well experienced that the real efficiency can come up with the involvement of private sector. Now it has become a trend and major socialistic and mixed economies like India are rapidly following this path. So here is the greater scope of Public Private Partnerships (PPP).

- Private sectors must come forward in mentoring young entrepreneurs in terms of information sharing, knowledge sharing, increasing product outreach, and financing etc in the form of joint venture, technical collaborations, to achieve a critical mass in this area
- Good number of venture capitalist and private equity company must come out to finance the greater ideas
- Private sector must include this objective of helping SMEs in their corporate social responsibility part to enhance greater focus on projects with greater potentials of rural upliftment. Moreover, the effort should be undertaken for channelizing this flow by combining people with ideas, innovations, skill sets with investors, Government, marketers, philanthropists, so that a synergy as well as economies of scale can be built up.

L. P. Semwal, ShriJagdambaSamiti,Rishikesh, Uttarkhand

I would like to share our innovation regarding financing of micro enterprises and SMEs. I feel that the critical gap in financing Micro Enterprises and SMEs is because there is a lack of thinking among the financial institutions/investors to provide complete solution from the conceptualization of enterprises to its successful operations. Whereas the large enterprises are conceived, build and operated by the professionals from different backgrounds hired by the companies.

In our model, the suggested way to overcome these gaps through investment planning for business developments is envisaged through eight steps of SMEs development in value addition chain of agriculture produces (may be different for other sectors). These eight steps are - Selection, Feasibility, Funding, Organizing, Engineering, Construction/Technology sourcing, operations and Transfer. For more details, please see the website of our partner organization Fresh Food technology- http://www.fftcompany.com/

We are implementing the Apple project in Uttarakhand and Himachal Pradesh with small and marginal farmers which has the potential of scaling up for other crops and areas. I would like to share an article on 'Fostering Farmer's Organizations with Business Rigour', to read the article, please click here.

Moreover, we are experimenting on providing the suitable financing solutions for SMEs development in agri value chains with collaboration of growers that can be used for further study and brainstorming with different stakeholders. We have already organized one workshop in February 2010 (To read the workshop report, please click here).

S. N. Ghosal, Microfinance Focus, Kolkata

Further to the query raised by Ms. Indrani, I would like to draw your attention to my recent paper on this issue. To read the paper, please click here (PDF: Size: 30.9 KB).

R. V. Kotnala, Consultant, Dehradun

I am emphasizing here the role played by the SMEs in the development of our economy, challenges faced by them, gap of perception between lenders and SME borrowers, RBI's guidelines to bridge up the gap, setting up of different Working Groups and their recommendations as well as Government efforts for development of SMEs. I understand that the members would view the SME sector from banking point of view.

Vital role of Small and Micro Enterprises (SMEs) in Nation's economy.

- They give employment to a large number of skilled and unskilled people;
- They are supplier of raw material, basic goods, finished parts of components etc. to bigger industries;
- There are about 2.6 crores enterprises in this sector;
- It accounts for 45% of manufactured output and 8% of GDP;

- It employ 6 crores people which is next to Agriculture Sector;
- SME is the best vehicle of inclusive growth, to create local demand and consumption;

Keeping in view the importance of the sector and to achieve balanced, sustainable and more equitable and inclusive growth public policy has accorded high priority to this sector and Government of India has enacted the Micro, Small and Medium Enterprises Development Act, 2006. Advances extended to this sector are treated as Priority Sector Advances.

Challenges faced by SMEs:

- Globalization is posing a challenge of competition and innovation
- SMEs are handicapped in achieving economies of scale in procuring equipments, raw material, financing and consulting services due to smallness of their size;
- Unable to identify potential markets to take advantages of market opportunities, which require large volumes, consistent quality, homogeneous standards and assured supply;

Bank Finance: Banks extend the finance to SMEs for variety of purposes including purchase of land, building, plant and machinery and working capital etc.

Comparative figures of credit provided to SMEs:

Total outstanding credit (provided by all Scheduled Commercial Banks)

March, 2009	-	2,56,128 crores
September, 2009	-	3,23,565 crores
February, 2010	-	3,69866 crores

Thus we see that the credit provided by the commercial banks to SMEs is increasing. Despite global financial crisis, there was enough liquidity in Indian banking system and banks were willing to extend credit to viable projects.

Gap of perception between lenders and SME borrowers:

- Lenders [bankers] feel that SME sector is expanding; whereas
- SMEs borrowers feel that lenders are not doing enough and are catering more to the needs of large corporate. Only 4-5% SMEs are covered by Institutional funding. 95% of villages are not covered by banks.

RBI's guidelines to bridge-up this gap:

RBI advised the commercial banks to draw a road map by March 2010 to provide banking services through a banking outlet in every village having a population of over 2000, by March 2011.

Such banking services may not necessarily be extended through the bank branches but can be provided through any of the various forms of Information and Communication Technology [ICT] based Models, including Business Correspondence [BC] Model.

Base Rate System of Charging the Interest: w.e.f. July 1, 2010 Base Rate System has replaced PLR [Prime Lending Rate] System.

Base rate is the minimum rate for all commercial loans. Banks cannot resort to any lending below the base rate. Banks would determine their actual lending rates on loans and advances with reference to base rate.

RBI measures to enhance credit delivery to SME Sector:

One of the major concerns of the SME sector is the inability to arrange for collateral security and or third party guarantee. As a result, new entrepreneurs find it difficult to access credit from the banking system.

(i) Waiver of Collateral Security: RBI have issued guidelines to commercial banks to grant **collateral free loans up to Rs. 5 lakh** sanctioned to the units of SME sector (both manufacturing and service enterprises).

The units who have **strong financial position and good track record**, RBI have advised banks to lend **collateral free loans upto Rs.25 lakhs**.

Clarification: Extending collateral free loans upto Rs.5 lakhs sanctioned to SMEs [both manufacturing and service enterprises] as defined under MSMED Act, 2006 are mandatory in nature and bank must not obtain collateral security in such cases.

(ii) Recommendation of Working Group Credit Guarantee Fund Trust for Micr and Small Enterprises [CGTMSE]. On the recommendation of Working Group, RBI has issued the guidelines to commercial banks on the following points:

- To increase the limit of collateral free loans upto Rs.10 lakhs from the present limit of Rs.5 lakhs
- Increase in the extent of guarantee cover
- Absorption of guarantee fees for the collateral free loans by Credit Guarantee Fund Trust for Micro and Small Enterprises [CGTMSE] subject to certain conditions
- Simplification of filing claims with CGTMSE
- Increasing awareness about the scheme etc.

(iii) Recommendation of Working Group on Rehabilitation of Sick SMEs: Based on the recommendations of the Working Group banks have been asked to review and evolve a Loan Policy comprising the following points:

- Extension of credit facilities;
- Restructuring/Rehabilitation policy for revival of potentially sick units/enterprises;
- Non-discretionary One Time Settlement scheme for recovery of Non-performing loans.

Creation of funds by Government of India: The Working Group has also recommended to the GOI for creation of several Funds by the Government such as:

- National Equity Fund
- Fund for Technology Up gradation
- Marketing development Fund
- Rehabilitation Fund
- Venture capital /mezzanine finance to encourage the entrepreneurs to innovate new ideas, etc.

(iv) Monitoring: As the progress in rehabilitation of sick units was found to be tardy, the Regional Directors who head the Empowered Committees set up by RBI at its Regional Offices have been advised to ensure that banks strive for timely action for rehabilitation of sick units in the SME sector, and put in place a credible, pro-active and a functional monitoring mechanism to review the progress in actual concrete outcomes. The same is being monitored at the Central Office level.

The non-credit related factors which affect the growth rate of small enterprises sector are:

- Non-availability of power and other infrastructural facilities
- Delay in getting clearance from different agencies,
- Lack of entrepreneurship development,

- Lack of infrastructure and historical/social bottlenecks etc.

The solution of non-credit related factors is in the hands of Central and State Governments by:

- Easing the licensing and documentation requirements;
- Exit policy and labour laws,
- Putting in place an efficient tax structure in conformity with public finance principles,
- Appropriate infrastructure development etc.

Government of India's Action for development of SMEs

Recognizing the importance of the sector and the various constraints being faced by it a High Level Task Force has been constituted by the Government of India.

The Task Force which submitted its final report on January 30, 2010, has made several recommendations on issues relating to credit, taxation, marketing, labour, exit policy, infrastructure/ technology/skill development and special packages for North East and Jammu and Kashmir, etc. A Steering Group on MSME has been set up by the GOI to review the implementation of the recommendations of the Task Force.

In particular, three important recommendations made by the Task Force relating to credit have been considered by the Steering Group and it has been decided that:

- All scheduled commercial banks should achieve a 20 per cent year-on-year growth in credit to micro and small enterprises to ensure enhanced credit flow;
- To increase the flow of credit to micro enterprises all scheduled commercial banks should lend 60% of their MSE lending to micro enterprises in stages viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in 2012-13.
- All scheduled commercial banks should achieve a 10 per cent annual growth in the number of micro enterprise accounts

The recommendations of the Task Force are expected to go a long way to facilitate credit flow to the sector and the implementation of the recommendation is being monitored at the highest level by the Government of India.

Many thanks to all who contributed to this query!

If you have further information to share on this topic, please send it to Solution Exchange for the Microfinance Community in India at se-mf@solutionexchange-un.net.in with the subject heading "Re: [se-mf] Query: Financing for Micro Enterprises and SMEs – Examples; Advice. Additional Reply."

Poverty

Work and Employment Community and Microfinance Community

Solution Exchange for the Work and Employment Community
Solution Exchange for the Microfinance Community
Consolidated Reply

Query: Microenterprise Development as an Extension of Microfinance - Experiences;Examples

Compiled byRanuBhogal, Resource Person, and ArifHussain and AnjumKhalidi Research Associates
Issue Date: 28 December 2007

FromRaman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad
Posted 18 October 2007
Dear Forum Members,

I work with Elitser IT Solutions India Pvt. Ltd. (Formerly Java SoftechPvt Ltd) based at Hyderabad, a leading software developer for microfinance services and products. I have long experience of working on microfinance and micro enterprise development interventions.

On poverty communities (Microfinance and Work & Employment) we have been discussing microfinance and micro enterprise issues in detail looking at different aspects both technical and functional. Having discussed these topics, I would like to draw the attention of forum members to the issue of extending microfinance to micro enterprise.

While working with MART, I had an opportunity of working on a rural initiative popularly known as 'Project Shakti' – a highly appreciated project initiated by Hindustan Lever Limited (HLL) for promoting small business options for rural women by selling some of the useful brands of HLL along with the local Fast Moving Consumer Goods (FMCG) brands. The project was implemented across 14 states in India. From my experience of the project, I can say that rural women are quite receptive and enthusiastic when a profitable venture is available. We found many such initiatives helping the rural women to establish them successfully. To quote even the success of ITC E-Choupal in this context would not be irrelevant, as it has produced several successful examples of village level entrepreneurs.

Income generation for the rural poor has to be given adequate thrust to lift them from poverty. Microfinance alone cannot address all the issues related to alleviation of poverty. However good livelihood options coupled with appropriate Microfinance products can result in workable models for poverty alleviation.

In this regard, I would request the forum members to share their experiences and examples on the following issues:

- Experiences of Micro Enterprise development projects integrating with larger businesses.
- Examples of micro enterprise programs initiated by Microfinance Institutions/Non Governmental Organizations that have become successful like Dairy Enterprises in Gujarat, Handicrafts , Handlooms or simple trading activities etc. that could be replicated as community based group entrepreneurial Income Generating Projects to other areas for benefiting rural poor.
- Experiences of successful microfinance programs dovetailing with micro-enterprise development programs to create micro markets for sustainable livelihoods on a larger scale for a holistic approach in poverty reduction programs.

Looking forward to a fruitful discussion on Micro enterprise as a logical extension of microfinance. Your responses would considerably help us in developing additional service offerings for micro-enterprise clusters, and micro-finance clients graduating to micro-enterprises.

Responses were received, with thanks, from

1. **Shashi Singh, Consortium of Women Entrepreneurs of India, New Delhi (Response1, Response2)**
2. **Aparajita Agrawal, Intellectual Capital Advisory Services Pvt. Ltd., Mumbai**
3. **SantanuBhattacharjee, Bengal Rural Welfare Service, Kolkata (Response1, Response2)**
4. **Nirmala S., The Livelihood School, Bangalore**
5. **BaladebSen, Microfinance Consultant, Chennai**
6. **Raj Jani, Rural Business Hubs, Ministry of Panchayati Raj, GoI, New Delhi**
7. **Sanjeev Kumar, GOAT INDIA, Lucknow**
8. **NilanjanaDasgupta, State Institute of Panchayat and Rural Development, Kalyani, West Bengal**
9. **Anita Sharma, GTZ, New Delhi**
10. **Toms K Thomas, Evangelical Social Action Forum (ESAF), Trichur**
11. **Ramesh Savalia, Centre for Environment Education (CEE), Gujarat**
12. **N.Srinivasan, Consultant, Pune**
13. **G K Agrawal, Rural and Microfinance Consultant, Mumbai**
14. **Julie Thekkudan, PRIA, New Delhi**
15. **N. Jeyaseelan, Microfinance Consultant, Madurai**
16. **Sashi Kumar, CARE India, Trichy**
17. **Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad**
18. **Ramadas.N, Matsyafed, Trivandrum**
19. **S V ChalapathyRao, NABARD, Chennai**
20. **R. Balaji, Independent Consultant, Tanjore, Tamil Nadu**

Further contributions are welcome!

Summary of Responses
Comparative Experiences
Related Resources
Responses in Full

Summary of Responses

Micro enterprise development (MED) is being increasingly seen as a logical next step of any successful micro finance (MF) initiative that has poverty mitigation as the overarching objective. MED, especially with the poor and marginalized people, continues to be an extremely challenging task. In response to the query on **MED as an extension of MF the members** shared a range of experiences and models that have been tried out in different parts of the country. Discussants also elaborated on the reasons for this connection between MF and MED and also pointed out the precautions that need to be taken while following this approach.

MED is seen as the natural next step for many microfinance practitioners as they are already comfortable with components of enterprise building such as market and opportunity identification, project and product preparation, selection of technology and credit requirement assessment for the enterprise. Yet despite this apparent organic link, participants pointed out to the relative lack of success in **microfinance-led MED**. Discussantsemphasized the need for analyzing the efforts made by MFIs and learning from the challenges they faced in attempting to build successful micro enterprises of the poor.

Members agreed that MF is an important supportive activity for MED but **successful MED programmes need more than just MF inputs**. A major gap identified by members is in the area of building capacities. There is a serious dearth of trained human resource that can anchor MED work. In addition the members also pointed out to the dearth of training material on how to manage the transition from a pure MF operation to MED interventions. MED involves a range of complex activities and usually the facilitating agencies do not have the required expertise in-house. Members also stated that availability of timely credit, in required quantity, at affordable rates of interest and with ease of access is the other critical factor in grounding a successful micro enterprise. Furthermore, many members reiterated the necessity of providing 'handholding support' to 'micro entrepreneurs' so as to ensure that they do not give up in the face of stiff competition and difficulties. In other words, members cautioned that by providing only credit without the necessary infrastructure in terms of education, marketing linkages and social capital, the credit can actually turn into a financial burden. A member also stated that it is important to remember that enterprise is not for everybody and some people may simply want to be employed gainfully and may need finance for other purposes.

Participants also discussedthe development of community based enterprises e.g. enterprises undertaken by federations of women. These enterprises not only positively enhance the livelihoods of poor women but also have a greater abilityto sustainover a longer period of time as they build on the strong community solidarity and support. However, members also cautioned that group-based enterprises are likely to face serious operational, managerial and financial difficulties if they are not carried out in an appropriate organizational structure like a co-operative which is member-owned and controlled in the real sense. Participants also shared experiences in **Durgapur** where credit provision has led to success in poultry enterprises. Other examples from**West Bengal**, **Tamil Nadu** and **Kerela** highlighted the success in promoting enterprises relating to fisheries, Khadi and provision of medicines.

Members also debated the issue of engaging with Multi-National Corporation (MNC) promoted initiatives for penetrating the rural markets such as **Project Shakti**. While a few members felt that working with the MNCs helps people gain critical marketing and communication skills that help them to become successful dealers and earn a regular and reasonable income;other members felt that care should be taken to see that the MNCs do not get to have a stranglehold on the lives of the masses through control of markets and supplies. Members suggested that a regulatory mechanism be put in place to take care of this aspect.

Discussions revealed that currently there is little experience in the sector regarding **linkages of small enterprises to larger business chains**; though some members cautioned that such linkages can makes small entrepreneurs vulnerable.

Comparative Experiences

West Bengal

Credit for Microenterprise, Durgapur*(fromSantanu Bhattacharjee, Bengal Rural Welfare Service, Kolkata)*
Four years ago, taking a cue from a Punjab based entrepreneur, poultry activity was started in rural areas of Durgapur. Women were organized into groups and thrift and credit activities were initiated. The Government animal husbandry department helped in sourcing chicks at reasonable prices. Nearby Kolkata provided a ready market and this activity has now now been extended to pisciculture and goatery also.

From Nilanjana Dasgupta, State Institute of Panchayat and Rural Development, Kalyani, West Bengal

From dependence to independence, Howrah
During 1996-97, in the Bagnan Gram Panchayat of Howrah district, 23 of the then Development of Women and Children in Rural Areas (DWCRA) groups came under one umbrella to supply raw materials to Integrated Child Development Services (ICDS) Centres. With contribution of Rs. 5000 per group they started supplying raw materials, but the orders discontinued. Then the women started a new business of selling their products and other finished products in the village market.

Strength to Strength, 24, South Pargana
Five rural women startedSundarban Khadi and Village Industriesin 1975 with only Rs. 500 as their capital. Subsequently in 1978 they received a Khadi loan of Rs 3000. Now they have their own factory at Canning in 24 Pargana (South) and are producing silks. They are now also using vegetable dye in a low cost method developed by them. They exporta major share of their production through Fair Trade Organisation.

Tamil Nadu

From N. Jeyaseelan, Microfinance Consultant, Madurai

Medicines for growth, Madurai
Gandhigram Trust's Lakshmi Seva Sangh (LSS) and Indian Bank has promoted Gandhigarm Sales Representatives (GSRs) which used to provide Sidda medicine in the villages. Indian Bank financed these representatives and also encouraged local SHGs to become GSRs. With improved supply chain from the LSS side and commission to the tune of 10% to 30% most of these GSRs are now earning approximately Rs. 2000 to Rs. 3000 per month.

Project Shakti, Madurai
Hindustan Unilever Limited introduced the project Shakti in Usilampatti in Madurai by appointing Shakti dealers and delivering stocks at their doorsteps. Indian Bank financed these Shakti dealers. These dealers not only learnt marketing and communication skills but also marketed products manufactured by local SHGs. Currently most of these Shakti dealers are earning more than 2000 rs. per month

Kerala

Microenterprise supported by microfinance , Trivandrum*(from Ramadas. N, Matsyafed, Trivandrum)*
Fishery as a livelihood activity requires high initial capital investment and also hight working capital. Earlier, in most parts of Kerala fishermen used to take high interest loans to meet these costs. With the organization of these fishermen into SHGs associated with Primary Fishermen Cooperatives now they avail low interest loans to partially meet their capital and operating expenses.

Related Resources

Recommended Documentation

Microfinance Insights: Financial Service Delivery(*from Aparajita Agrawal, Intellectual Capital Advisory Services Pvt. Ltd., Mumbai)*
Volume 4; Intellecap Capital Advisory Services Pvt. Ltd.; Mumbai; September 2007
Available at http://www.microfinanceinsights.com/Download/Highlights-Issue%204.pdf (PDF Size1.75MB)

> *Explores issues relating to the Bottom Of the Pyramid (BOP) markets; includes interviews from sector leaders on developing viable microenterprises and markets for the poor.*

The Forgotten Sector (*from Sanjeev Kumar, GOAT INDIA, Lucknow)*
Book available at ISBN 9788120411661; by Mr. Vijay Mahajan and Thomas Fisher; BASIX; Practical Action; Location; 1997
Available here

> *In-depth assessment of the successes/failures of development policies; provides strategy to meet national goals of full employment, economic growth and poverty alleviation*

Success story from Usilampatty(*from N. Jeyaseelan, Microfinance Consultant, Madurai)*
Client Profile; Project Shakti; Hindustan Unilever Ltd.; Usilampatty, Tamil Nadu;
Available at http://www.hllshakti.com/sbcms/temp10.asp?pid=46802653&syid=63902166 (File formatFile size)

> *Case study from an entrepreneur's experience in Usilampatty; through Project Shakti she has become financially self-reliant*

The Role of Microfinance in Rural Microenterprise Development*(from Anjum Khalidi, Research Associate)*Report; by Prof. Dr. Hans Dieter Seibel; University of Cologne; Syngenta Foundationfor Sustainable Agriculture; Switzerland; February 2007
Available at http://www.syngentafoundation.org/pdf/Seibel_Report_e.pdf (PDF Size1.35MB)
Covers changing issues in agriculture, rural development and demand for financial services; explores how to foster sustainable access to microfinance in rural areas

Recommended Organizations and Programmes

Shashwat - Consortium of Women Entrepreneurs Of India (CWEI), New Delhi*(from Shashi Singh)*
1204 Rohit house,3 Tolstoy Marg, New Delhi 110001; Tel: 011-20547255; Fax: 011-23356030shashwat_mail@yahoo.co.in, cwei_mail@reddiffmail.com;http://www.cwei.org/marketing.php

> *Shashwat promotes rural, cottage and SSI products to enhance productivity, better quality and improve socio-economic standards of rural women with a cluster approach*

Bengal Rural Welfare Service (BRWS), Kolkata*(from Santanu Bhattacharjee)*
Survey Park, Santoshpur, Kolkata 700075; Tel: 033-24239352;brws@cal.vsnl.net.in;http://www.brws.org/activities.html

> *NGO offering savings-credit to Self Help Groups (SHG); also promotes home based agro-income generation such as poultry, fishery, duckery, etc.*

Covenant Centre for Development (CCD), Madurai*(from S. Nirmala, The Livelihood School, Bangalore)*
18-C/1, Kennett Cross Road, Ellis Nagar, Madurai 625010; Tel: 91-452-2607762; Fax: Fax No.mdu_ccd@sancharnet.in; http://www.grameenfoundation.org/where_we_work/south_asia/india/ccd/

> *Provides livelihood finance as well as marketing support to large-scale livelihood options; promotes community based enterprises through SHG federations*

From Sanjeev Kumar, GOAT INDIA, Lucknow

PRADAN (Professional Assistance for Development Action), New Delhi
3 Community Shopping Centre, Niti Bagh, New Delhi 110049; Tel: 011-26518619, 26514682;headoffice@pradan.net;www.pradan.net.in

Extensive experience in promotion of livelihoods, SHG federations and microenterprises such as poultry rearing, Tasar yarn production, vermi-composting and more

Development Education International Society (DEIS), Pune
56/20A, Prabhat House, Damle Path, Law College Road, Pune 411004; Tel: 20-25439101;deispune@eth.net, deispune@gmail.com;http://deispune.org/video.html

Produces audio video training tools on enterprise promotion in local languages

Gram Nidhi Project, Ahmedabad *(from Ramesh Savalia, Centre for Environment Education (CEE), Gujarat)*
Thaltej Tekra, Ahmedabad 380054; Tel: 079-26858002; Fax: 079-26858010cee@ceeindia.org;http://www.ceeindia.org/cee/rural.html#GRAMNIDHI

Implemented by Centre for Environment Education (CEE), works towards developing financial and human capital to conserve natural resources for sustainable livelihoods

Project Shakti, Andhra Pradesh*(from Julie Thekkudan, PRIA, New Delhi and Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd. and N. Jeyaseelan, Microfinance Consultant, Madurai)*
Hindustan Unilever House, 165/166, Backbay Reclamation, Mumbai 400020; Tel: 022-39830000 ; Fax: 022-22871970;http://www.hllshakti.com/sbcms/temp15.asp

Initiative of Hindustan Unilever Ltd. to createincome-generatingcapabilities for underprivileged rural women by providing a small-scale enterprise opportunities

Related Consolidated Replies

Micro-Enterprise Development for Mature MF Clients, from N. Jeyaseelan, Microfinance Consultant, Madurai (Experiences). Microfinance Community,
Issued 22/02/2007. Available athttp://www.solutionexchange-un.net.in/mf/cr/cr-se-mf-29010701.pdf (PDF,154KB)

Shares challenges and strategies to graduate MF clients from micro-credit to micro-entrepreneurial activities through experiences including using sub-sector approach

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Responses in Full

Shashi Singh, Consortium of Women Entrepreneurs of India, New Delhi*(Response1)*

This subject was long overdue. We have been contemplating in many forums that Micro finance definitely has to lead to micro enterprise development in some form. The micro finance, per se, includes all the components of enterprise building, starting with sensing market opportunities, demands, project and product identification, technology and the credit requirements for the micro enterprise. That is the way the credit/on-lending can be gainfully multiplied.

SHASHWAT, rural wing of Consortium of Women Entrepreneurs of India (CWEI) uses this tool with women in clusters and groups where savings have been accumulated and self employment activities or group entrepreneurship can be initiated.

Groups have been invited to participate in trade shows, haats and bazaars on rotation to get exposure to market needs. An export promotion program is being undertaken by CWEI for women working with clusters and artisans producing exportable goods.

Forthcoming event is a subsidized Buyer- Seller Meet in Damascus, Syria, to explore the West Asia and Middle East market on 27th October, 2007.

An opportunity for marketing will be initiated during the India International Trade fair, from 14th -27th November, 2007 at PragatiMaidan, New Delhi.

We look forward to valuable inputs on the subject and to develop our network further through these programs.

Aparajita Agrawal, Intellectual Capital Advisory Services Pvt. Ltd. (Intellecap), Mumbai

At Intellecap (http://www.intellecap.net), we bring out a quarterly magazine on microfinance called Microfinance Insights. The magazine is available to subscribers only and you can also purchase individual copies/subscription online through the website www.microfinanceinsights.com. The latest issue that focused on Innovations in Financial Services Delivery has an interesting article that explores the markets at the BOP and has interviews from Mr. Sivakumar from ITC (e-choupal) and Padmaja Reddy from Spandana, where they talk about developing viable microenterprises and markets for the poor. The issue also features another article from Ms. Prema Gopalan of SwayamShikshanPrayog (SSP) where she talks about the power of women's/SHG networks in establishing microenterprises.

Through Microfinance Insights, we attempt to raise key issues, serve the knowledge needs of the growing microfinance sector and contribute to building the sector. The magazine seeks to serve as a platform that gathers diverse microfinance voices, analyzes trends and spreads awareness on critical issues in scaling up microfinance and its impact. You could download the Issue 1 and 2 of the magazine at www.microfinanceinsights.com. The previous 3 issues of the magazine have focused on Governance (Issue 1), Urban Microfinance (Issue 2) and Role of Capital Markets (Issue 3), Innovations in Financial Services Delivery (Issue 4). The forthcoming issue due to be released in December 2007 focuses on "Microinsurance".

I hope our magazine would help you find the right answers.

SantanuBhattacharjee, Bengal Rural Welfare Service, Kolkata

I am glad that finally ME (Microenterprise) has come up for discussion on the forum. I would like to share with you an example of Bengal Rural Welfare Service (BRWS), Kolkata, which is working for women empowerment since 2005.

Four years ago a news came in that a commercial organization from Punjab is starting poultries on a large scale in Durgapur district with investment from rural people. The idea was to fulfill the demand of 7.5 million eggs that are consumed daily in West Bengal. We liked the idea and started strengthening the women’s group through emphasis on thrift, training on various aspects of the program, use of local resources and collaboration with the animal husbandry department of the government. The department also helped in identifying places for sourcing of chicks at a reasonable price. The activity was extended to include goat raising and Pisciculture. There was ready acceptance of these activities by rural women since all of the produce had ready market. All these produce, whether chicks, eggs or goats are bought by wholesalers who come to the village. Sometimes the women take the produce to weekly rural markets since it fetches a little better price. There are few things I would like to share about the initiative.

1. The chicks are raised at household level, initially with 20 chicks. The number of chicks being raised goes up to 100 in a year as per performance and experience of the women. The chicks are mostly fed food left over and rice husk etc. No Chemical feed is given as far as possible.

2. The women found raising goats very easy since they have always been doing it albeit on a smaller scale. Scientific training has helped women in raising the goats properly and use of vaccines and de-worming has led to good health of goats. The baby goats (Kids) are purchased at the rate of approx. Rs. 600/kid and sold after 6 to 7 months for approx. Rs. 2000.The major food for the kids are grass, Jackfruit leaves and boiled rice water.

3. Almost all the houses in rural Bengal have a small pond and small scale fish farming (Pisciculture) has been the practice for generations. Two to three times a year fish are taken out for market sales. Buyers come to the village to collect the harvest. An investment of Rs. 1500 fetches around Rs. 4000 to Rs. 5000 a year.

Whatever finances are required is met through micro finance activities out of group savings and bank finances are used rarely.

There is a big food market for fish, chicken, duck and goat in the city of Kolkata, especially if they are grown without the use of chemicals, as demand for bio-food is increasing fast.

Anybody interested in knowing more about the initiatives is welcome to visit our sites.

Nirmala S., The Livelihood School, Bangalore

Promotion of Community Enterprise through Community Based Organizations (CBOs) especially women federation is the dream of many development organizations in Micro Finance Sector. The logic is that Community Enterprises enhance livelihoods of poor families on a large scale that would help them for generating employment to thousands of families and improving their quality of life as a whole. Within these two decades, lot of organizations is working with the objective of providing livelihood finance as well as marketing support to large-scale livelihood options. Covenant centre for Development (CCD) is one such organization that has promoted community based enterprises through SHG federations.

I am working as a Faculty in "The Livelihood School" (research and education institution, promoted by BASIX, pioneer livelihood promotion organization) and I had got an opportunity to document CCD's experiences. I would like to share few things that have created larger impact on livelihoods of rural poor.

A few activities, which had the potential to reach scale, were promoted as Community Enterprises. All the three activities selected by CCD and federations in this category have tremendous potential to improve the quality of living conditions in the villages. There are two perspectives involved in the promotion of community enterprises. One aspect is creating rural employment or livelihoods promotion and the other is creating markets for these products in a way that these interventions can impact the communities as a whole. The three activities promoted on this basis are:

- MooligaiThittam, which is an enterprise to collect, process medicinal plants and creating an alternate rural health market
- AahaaramThittam, which is promoted to rejuvenate the dry land farming and creating a supply chain for the rural food market.
- AadharamThittam, which is promoted to energize houses and pump-sets in the fields and thereby creating a rural energy market.

If you want more details, you can contact Covenant centre for Development (CCD), 18-C/1, Kennett Cross Road, Ellis Nagar, Madurai – 625010, Email: mdu_ccd@sancharnet.in
Phone +91-452-2607762

BaladebSen, Microfinance Consultant, Chennai

With specific reference to the response by Dr. Shashi Singh, It would be interesting to learn how exactly the Group develops the dynamics of entrepreneurship, like risk taking or managing finances without any capacity building (or is it done by hired personnel from the supporting NGO). Identifying product, technology (is it basically trading activity on traditional lines?) marketing of products at profitable prices against competition, assessing its credit needs and finding out fund sources at affordable costs are other areas which require significant skills. Another important factor for such group entrepreneurship is the livelihood pattern of the group members and how does such a group perform all these functions as a homogeneous management team. Without an appropriate organizational structure like a co-operative, member-owned and controlled in the real sense, such group entrepreneurship is likely to face serious operational, managerial and financial difficulties.

I would request Dr. Singh to please elaborate on a few of my apprehensions

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Raj Jani, Rural Business Hubs, Ministry of Panchayati Raj, GoI, New Delhi

I am happy to see my favorite topic being discussed on the forum, which requires a much wider debate across livelihood professionals as to how this goal of 'microfinance to microenterprise' can be achieved, if at all!

I would like to share some of my own experiences of working for over 10 years in the domain of microenterprise clusters.

Given the relative absence of successful cases where microfinance has led to microenterprise development, there needs to be a reality check of the efforts of Micro Finance Institutions (MFIs) in this direction and also an analysis of the factors which are hampering such efforts. To have a better result it would be better that this analysis is done at individual/household as well as at group/cluster level. This will help in finding ways of going beyond support in terms of one-time credit for working capital.

There is a serious need for microfinance, more than credit, as many of these groups, particularly in the context of poverty alleviation projects, do face vulnerability on account of health and accident hazards. Then there is an issue of livelihood finance, which is an overwhelming requirement for many microenterprise especially artisanal and small manufacturing clusters. This type of finance is critical both for hardware (common infrastructure, individual assets/machinery) and software (capacity building). Then comes the most important issue of working capital loan, which again is required in large chunks and liberal bouts for a micro-enterprise to first stabilize its operations and then plan to grow both in scale and quality.

Having said that, one can hardly see this happening in microenterprise sector, because of which these household enterprises/individuals often fall prey to government grants and subsidies, which rather cripples the zeal and commitment of an enterprise, as has been frequently seen in various government programs. Timely credit, available in required quantity, at affordable rates of interest and with ease of access to it, is the key to success of a microenterprise.

Since this is a niche area for MFIs, where a good expertise is required to first understand the whole system viz. sources of raw material supply- range, quantity, rate and availability; production organization- skill, processes, technology, problem areas and likely solutions; market dynamics-middlemen's role, costing & pricing, packaging, branding, channels and promotions; competitive analysis-existing and potential competitors, strategies for fighting out, product Unique Selling Propositions (USPs), SWOT Analysis etc. All this analysis goes into formulating a customized recipe for microenterprise promotion, which would eventually impact positively on the bottomline of microfinance institutions, making it a useful tool for 'microfinance to microenterprise' graduation.

Sanjeev Kumar, GOAT INDIA, Lucknow

It was pleasant to note that the integration (not necessarily "extension" since microfinance is itself a part of livelihoods promotion) of microfinance and microenterprise finally came for discussion at this forum. However the issue has been a little confusing by using words like livelihood, income generation and microenterprise interchangeably. Also, the intervention strategy for these different outputs require different in built focus and people's capacity (including promoters).

It is clear that microfinance is one resource for enterprise promotion and it requires other resources like entrepreneurial skills, machinery and technology (may vary on scale) and access to markets. Most often, the confusion begins there only, considering microfinance has always been critical for the promotion of Micro-Enterprise Development (MED). In fact, the book co-authored by Mr. Vijay Mahajan "The forgotten Sector" has clearly shown that it is the alignment of different resources that helps in developing the enterprise.

If we are discussing microfinance with a livelihoods perspective, we can refer to the work of PRADAN (Professional Assistance for Development Action, more information available at the link: www.pradan.net.in) specially in lift irrigation and sericulture; as well as BAIF's work on the Valsad model.

For entrepreneurship and microenterprise development based on Rural Entrepreneurship Development (RED), we had designed a more elaborative and focused program called Rural Livelihood Enhancement Program (RLEP) which Development Alternatives had implemented with 21 Partner NGOs in three states. In a limited period of 3 months post training, this training cum follow up support has generated around 21% unit establishment and significant impact in building the capacity of NGOs. What is critical is building he capacity of potential entrepreneurs and it requires experiential training and simulations.

I must share with you the fact that there is still a significant dearth of training materials on this issue. We hardly have compilation of success stories of small entrepreneurs, rampant in our small cities and rural areas. Audio video training tools on enterprise promotion in local languages has also been of very limited. Development Education International Society (DEIS) Pune has done some commendable work on this front.

In our experiences, investing in entrepreneurship development (essentially achievement motivation), providing systematic planning facilitation and basic business management skills are critical. However we need to select the best and promote them as micro entrepreneurs to provide forward linkages for many others whose livelihood might depend on such business commodity. Invariably, it requires better finance, long-term commitment and the capability of promoters themselves. Honestly speaking, it is much more consuming than microfinance (reaching scale requires much longer gestation) and that has been the reason of so much talk and less action as the stakeholders of sector are dealing with the dilemma of pros and cons.

NilanjanaDasgupta, State Institute of Panchayat and Rural Development, Kalyani, West Bengal

Thanks for raising this query. Being a Government employee I have seen some micro enterprises which developed without much facilitation from professional hands and as such are yet to became sustainable. One such example I have earlier narrated is the example of BagnanMahilaBikash. In a gram Panchayat of Bagnan of Howrah district in the year 1996-97, 23 of the then Development of Women and Children in Rural Areas (DWCRA) groups came under one umbrella as they were given an order to supply raw materials to Integrated Child Development Services (ICDS) Centres of the adjacent Block. As that business required huge capital, those 23 groups formed a so-called cluster by contributing Rs. 5000 per group. They named that cluster as "DWCRA group SamanyaSamity" and started supplying raw materials to ICDS centers. But soon they were not allowed to supply and as such they were compelled to stop that business. But the inherent strength of the organisation enabled them to start a new business. They first stared selling the products of their groups (mainly food products) to villages. After a few years they added some other items which were not produced by them. In the mean time they also increased their organisational strength.

At present there are 667 SHGs in their organisation consisting of 13552 women members. Above the SHG level, they have an 2nd tier organisation called Sansad "SamanyaSamity" and now there are 51 such organisations. Among the members there are 5537 income generating group members. Their total sale for the last year was approximately Rs. 16 lakh. They now have one show room and five rural branches. There are 26 workers (all from SHGs). Last year this organisation had given 12% dividends to its members. This is unique example of an enterprise which gradually increased its strength without any continuous facilitation from any professional body. CARE India (under CASHE-Credit And Savings for Household Enterprises project) has given training and facilitation for microfinance and the State Government has given some funds for building construction. The main reason of success to me is the identification and using the strength of the members themselves.

Another example of a microenterprise is the effort of SundarbanKhadi and Village Industries. Five rural women started this business in 1975 with only Rs. 500 as their capital. Subsequently they received a Khadi loan of Rs 3000 in 1978. Now they have their own factory at Canning in 24 Pargana (South) and are producing silks. They are now also using vegetable dye in a low cost method developed by them. They are also exporting a major share of their production through Fair Trade Organisation. There are also other examples that we are trying to compile.

Anita Sharma, GTZ, New Delhi

I agree with BaladebSen'scomments – it is difficult to lead the group to microenterprise development without capacity building – and even when the training is through, they need to be led and mentored through the gestation period. It is very easy to turn around and get back to square one than face the ups and downs of business. Besides, microenterprises are very vulnerable to deaths due to competition. Continuous support and entrepreneurial skills are required to make them successful.

Toms K Thomas, Evangelical Social Action Forum (ESAF), Trichur

I should be honest in disagreeing with the idea that microenterprise development can be an extension of Microfinance. Rather I would say that microfinance is a supportive activity for microenterprise development. There is a Hen and Egg problem-- if someone asks what the pioneering initiative was. I should still say that enterprise development was a primary concern of microfinance and this was the principle behind initiating microfinance as a strategic tool for poverty reduction in the third world. The adoption of micro finance initiatives has been an outcome of the horizontal expansion of finance access which in turn could facilitate a fast and just trickle-down effect. Regarding the specific questions Mr. Raman asked:

- **Experiences of Micro Enterprise development projects integrating with larger businesses.**

Microenterprise development often aims at establishing business linkages. However, I am not aware of initiatives that been successful in linking with the larger business chains. I should rather suggest that the linking of the small enterprises blindly to the larger business chain often makes the small entrepreneurs vulnerable. Rather, what would be more advisable in such cases would be to think of enterprises that fit into the larger business chain (market, production and supply chains).

- **Examples of micro enterprise programs initiated by Microfinance Institutions/Non Governmental Organizations that have become successful like Dairy Enterprises in Gujarat, Handicrafts, Handlooms or simple trading activities etc, that could be replicated as community based group entrepreneurial Income Generating Projects to other areas for benefiting rural poor.**

For a micro entrepreneur to get established, more than financial resources, other supplementary resources are more important. The failure of most enterprises is not because of a lack of finances but because of the lack of supportive initiatives which create a favorable business environment. It is therefore very important for organizations that promote small enterprises to give importance in setting the playing field and making it favorable for the small entrepreneurs. The examples like dairy cannot be cited as good cases to show the success of microfinance. These are rather initiatives of the community on cooperative lines where pooling of resources happens. It has some element of finance, but moreover it has a very important element of environment setting and provision of various non-financial supplements. In most of the successful cases of enterprises there is strong community solidarity and support as well as it tries to pool the community economy through strengthening the local economic base.

- **Experiences of successful microfinance programs dovetailing with micro-enterprise development programs to create micro markets for sustainable livelihoods on a larger scale for a holistic approach in poverty reduction programs.**

Successful microenterprises that seek to make an impact on poverty reduction should have strong support activities. This should include a range of programs which provide an environment to flourish the business in the right way. Especially more than money, development of an appropriate environment for business to flourish is very important for business nourishing in case of small entrepreneurs.

Ramesh Savalia, Centre for Environment Education (CEE), Gujarat

Microcredit and microfinance have in the last two decades become increasingly important tools to tackle (rural) poverty. These two questions touch upon the question-- what are the long-term sustainable effects of rural finance interventions? By providing just credit without the necessary infrastructure in terms of education, marketing linkages and social capital, the credit can actually turn into a financial burden. In what way can microcredit projects move beyond mere financing and contribute to the integral development of rural communities through microenterprise development?

In this context the Gram Nidhi project, implemented by Centre for Environment Education (CEE), Ahmedabad in villages in the Jasdan area, Rajkot district in Gujarat, is an interesting example of a holistic method of rural financing that builds upon the capacities of communities. Since 1996 CEE has been working with community based organizations, named PVM in the villages around the

Hingolgadhsanctuary in Rajkot, Gujarat. The area can be classified as a fragile semi-arid ecosystem under pressure of the natural resource based livelihoods of the local population.

In 2004-05, we got the award from the World Bank under its first India County level Development Marketplace for the concept of **"**Gram Nidhi **-** Eco enterprises for sustainable livelihood in ecologically fragile semi-arid rural areas". The Gram Nidhi project in its pilot phase addressed to establish environmentally sound and economically viable micro enterprises called "Eco Enterprises". The "Gram Nidhi" project promotes environmentally sound and ecologically sustainable micro enterprises (eco-enterprises) for marginal rural communities using microfinance as a tool. The approach is an amalgamation of two functions of a system: a financial function and institutional development function. Eco-enterprises are based on a combination of micro projects calledEco-packages that are developed based on criteria such as close inter-linkages, maximization of synergy, wealth creation, occupational diversification, viable institutional mechanisms, and growth potential.

Gram Nidhi initiative was undertaken in five villages linking the social capital of the PVMs (ParyavaranVikasMandal - Village Environment and Development Group of youth and Women) with the growing need for sustainable livelihoods in the semi-arid region. The PVMs function as savings groups, providing the members with working capital to start small-scale 'Eco enterprises' that make use of local resources without putting a stress on the fragile resources in the area. These Eco-enterprises are screened on their potential economic viability, their contribution to social equity and the sustainable use of natural resources.

The challenge taken up in the Gram Nidhi project was to create a more entrepreneurial mindset in the community. Many of the small and marginal farmers in the Jasdan area have never perceived themselves as the owner of a potential profitable business. Instead many of them, especially the marginal farmers, are trapped in a debt-cycle in order to procure the necessary material for farming. To change this mindset means to empower people to start planning their livelihoods and create new perspectives. The concept of "Eco-Entrepreneurs" incorporates all these aspects: awareness raising, facilitating a psychological change, and perceiving the participants not as beneficiaries but as partners.

The Gram Nidhi model is based on four E's: Extension service, Economic support and Environmental awareness and Entrepreneur Mind-set. The difference between the Gram Nidhi model of micro-finance and traditional SHG-based micro-credit programs lies in the holistic sustainable livelihood approach that is being implemented. Through thorough extension services and marketing support during all the steps of the production process, the Gram Nidhi project builds sustainable and viable enterprises. Extension services are provided by organizing exposure visits, trainings and providing continuous support from experts to the entrepreneurs. One of the activities undertaken is to create local community centers that also function as a library and resource center. The challenge taken up in the Gram Nidhi project was to create a more entrepreneurial mind set in the farmers. Many of the small and marginal farmers in the Jasdan have never perceived themselves as the owner of a potential profitable business. Instead many of them, especially the marginal farmers, are trapped in a debt-cycle to be able to procure the necessary chemical inputs for farming. To change this mind set means to empower people to start planning their livelihood and creating new perspectives. It also means to train people on the basic principles of enterprises: relating input and output costs. This might seem simple, but in practice many farmers do not perceive it possible to cut down input costs. The concept of Eco Entrepreneurs incorporates all these aspects: awareness raising, facilitating a psychological change, and perceiving the participants not as beneficiaries but as partners. One of the main criteria for accepting a credit proposal within Gram Nidhi is viability. Enterprises that will not be independently viable will not receive credit. The credit is really perceived as providing starting capital and not as a subsidy or funding.

Recently the Gram Nidhi project won the Silver Prize in the FY2007 of The Asia-Pacific Forum for Environment and Development's (APFED) "The 2007 Ryutaro Hashimoto APFED Awards for Good Practices". The award is for recognition of practices that made outstanding contributions in promoting environmental management and sustainable development in Asia and the Pacific. The Gram Nidhi project has also been published in various national and international forums viz.

- Asia Good ESD Practice Project (AGEPP), Japan Council on the UN Decade of Education for Sustainable Development (ESD-J). To learn more, visit the link: http://www.agepp.net/files/India_GramNidhi_s.pdf
- "Livelihood Summit": Challenging Poverty by Enhancing Rural Livelihoods, 2005, Udaipur.
- International Conference "Educational for Sustainable Future" organised by CEE.
- To learn more, visit the link: http://www.ceeindia.org/esf/download/paper2.pdf

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N.Srinivasan,Consultant, Pune

In the recent past, I had visited several MFIs and MFOs in connection with a review. The general state of the sector is that while finance is offered, it is not in a manner geared to nurture and develop enterprise. The product design, processes and the capacity of staff in most institutions do not reflect an enterprise/livelihood finance mindset. Even the institutional missions seem to be "expand, grow but do not involve". Before we achieve integration in the microfinance sector we have some distance to go. Customer surveys leading to product development and process changes; new skill sets for staff, change in the organisational mission and access to long term resources would all be needed if microfinance looks at enterprise finance favourably. The organisational mission and commitment is a key and non-negotiable requirement. Some institutions that have done it is on account of conscious planning and strategizing. It is worth remembering that enterprise is not for everyone. Some may just want to be employed and they may need finance for other purposes.

G. K. Agrawal, Rural and Microfinance Consultant, Mumbai

Micro finance development as an extension of microfinance has to be viewed and seen in the context of the need for an inclusive and comprehensive approach for the microfinance family as a whole. Presently, there is an emphasis on savings and loaning as an instrument of intermediation to improve access to finance to the un-reached / under-served poor. A few MFIs, NGOs, and banks also give loans for production/ investment purposes, housing etc. to microfinance beneficiaries, but its impact is perhaps not so visible.

Probably the time has come to consider the poor family as a unit for any microfinance intermediation and the need for taking care of its other needs to make it socially and economically an empowered family. Some of the areas requiring consideration in an all inclusive approach could be income generating employment/activities, marketing of local products, provision of e-services, technical, marketing and other key information, information on bank and government schemes, linkages with state social programs such as universalisation of primary education, computer education, primary health, AIDS awareness, sanitation etc.

The only caution is that NGOs working as MFIs and/or promoting microfinancing as an intermediary/facilitator do not themselves become microenterprises in the process. They are, at the best , to work as facilitators in encouraging potential micro finance beneficiaries to become micro-enterprenuers, not necessarily as manufacturers/ processors as is commonly understood, but as service providers and/or on a contract basis for established corporates, by assisting them in finding emerging potentials, arranging tie-ups for backward and forward linkages including technical and marketing tie-ups, risk assessment, training, skills upgradation, EDPs, credit assessment and procurement, links between various agencies involved etc.

Capacity building support to such NGOs undertaking the above role may have to seek help and financial support of agencies like NABARD, SIDBI, banks and experienced NGOs/agencies.

The Microfinance Community of Solution Exchange may, besides consolidating various responses, consider taking up emerging issues with the above agencies appropriately.

Shashi Singh, Consortium of Women Entrepreneurs Of India (CWEI), New Delhi *(Response2)*

Answering some of the queries to my comment sent earlier, I'm trying to share insight into my own perception of specific group entrepreneurship mechanism.

I'm sure that India being a very large country, the treatment may differ among the target groups. That is the reason I mentioned the mapping and scoping mission being essential during the diagnostic study and need assessment of the group in question. All of the relevant issues come out clearly and the treatment carried out accordingly.

It goes without saying that capacity building of the group is a must to understand the dynamics of microenterprise. The SHG which is already in existence would have a group identity and form a homogeneous group. They already have savings and have borrowed and repaid over a period of time. The groups I talked about are about two to three years young. Therefore they are in the prime stage of being motivated to use their savings wisely and gainfully.

The whole objective of microfinance is total development of the unit which includes awareness of enterprise development, building capacity of both NGO's and groups (Training Of Trainers preferred} to have a multiplier effect, as it is expected to trickle down to a critical mass.

The concept we put forth is to create USP of one community. This is product specific or skill specific. Usually a whole community is involved in one product group. Therefore the focus is to develop a group manufacturing base to produce excellent quality goods, with adoption of latest techniques and tools, new designs for specific markets. This intervention is given by us. We carry out the market assessment, carry their samples to trade shows and make them participate directly to gather first hand information on their goods.

Definitely the group leader turns out to be the marketing person, another member of the group takes charge of the procurement and the rest of the members participate in the production, packaging and checking process. Surely there comes the competitive spirit of producing more and more so that each individual gets a better value for time contributed and the number of finished goods ready for sale.

It certainly is not smooth sailing as it sounds and a regular handholding, follow up is required till they reach the optimum capacity. But you will appreciate that this intervention produces one good quality manufacturing base and then we have to move on. Besides the project has a time constraint and financial crunch right when it is ripe. We do have to exit when it is self sustainable.

Julie Thekkudan, PRIA, New Delhi

Reading the replies to this query I am very tempted to bring to the notice of the members some of the issues that may need further thinking. Mr. Raman mentioned Project Shakti in the original query regarding the small business options it has generated for rural women.

We have done a small study on Project Shakti in Andhra Pradesh with the objective of understanding the meaning of citizenship for women engaging in livelihood measures promoted by Multi-National Corporations (MNCs). This study is part of a larger study by the Development Research Centre on Citizenship, Participation and Accountability, Institute of Development Studies, Sussex, called Citizen

Engagement in a Globalising World. What we have found is that Project Shakti definitely has had positive impacts as an income generating activity but it has also raised certain questions.

Due to globalisation, changes in governance and emerging forms of transnational social movements, there are new spaces and opportunities for citizen engagements. This study is to see how these citizen engagements have led to new meanings of citizenship and new forms of citizen action. PRIA undertook the analysis of women's livelihood in this context. Project Shakti was the initiative studied. In the course of our research, we found that Project Shakti is a means of integrating individual members of self-help groups into HLL's marketing chain. In other words, these women sold HLL products in their villages. It is in this respect that we (and others like APMAS) has questioned whether this can be seen as a livelihood initiative or not. Our preliminary findings have been that HLL approached the Andhra Pradesh government and some NGOs to collaborate on this project. The AP government played the facilitator by getting the women entrepreneurs and HLL together.

Since then the government department (Commissionerate for Women and Child Development) has gradually backed out and does not have any records whereby it monitors the success or failure of the initiative. NGOs collaborating were those working on livelihood issues over the years who have stopped promoting the initiative within their specific areas. The reasons for this are many but primarily because they felt that the returns from the project were not substantial enough for the hard work that the women put in. The women entrepreneurs that we approached (though a small number as compared to the actual figures) were mostly petty shop owners, some of which were run by the male members of the household. Though there was an increase in respect within the family and community, empowerment of women as agents of change who are able to make informed choices regarding their lives is not very evident. HLL has stated that Project Shakti is partly a Corporate Social Responsibility (CSR) initiative and partly a business process. But it was also evident that it is an effort to enter markets that have been so far untouched. This is very briefly our findings.

N. Jeyaseelan, Microfinance Consultant, Madurai
I would like to share two experiences which I had while I was working at IBSUM (Indian Bank's Special Unit for Micro finance) as its Project Manager.

1. Gandhigram Trust's Lakshmi SevaSangh and Indian Bank has promoted the concept of Gandhigram Sales Representatives (GSR), who are used to sell the products of Gandhigram Trust and herbal products of Lakshmi SevaSangh (LSS). Indian Bank used to identify the potential SHG members, Gandhigram trust and LSS trained them and Indian bank financed them with a loan of Rs.10000. GSR organized health camps in Usilampatti wherein the Siddha Doctors from LSS participated and explained the siddha medicines available for common ailments.

Initially SHG members did not come forward to become a GSR. After some time other GSRs also dropped out. When we analysed the reasons, it became clear that people were not willing to go to Gandhigram for taking replenishment stocks for Rs. 250 to Rs. 500 for which they have to spend half a day plus Rs. 25 to Rs. 30. Then we facilitated LSS to give dealership to one SHG at Usilampatti so that other GSRs can take stock from the local point. Now around 20 people are doing this business. Gandhigram trust / LSS gives a commission of 10% to 30% of sales to GSR. On an average, a GSR easily earns Rs. 2000 to Rs. 3000 per month.

This can be scaled up in other areas also, as the Gandhigram Trust is doing the same in Dindigul district also.

2. Hindustan Unilever Ltd (formerly HLL) introduced their Project Shakti program under tie up with the Indian Bank in our Usilampatti branch area. When I was briefing the partnering NGOs about the project, some NGOs opposed the idea and told us "we should not support multinationals". But, I insisted that we

and our SHGs lack marketing skills and this project will give an opportunity to learn the marketing skill from HUL.

Under the project, HUL delivered stock to the doorstep of the SHG Shakti dealer. Indian Bank financed up to Rs. 15000 per dealer.

Moreover, when the project was implemented in our area, an SHG member was made the project coordinator and the members learnt many marketing techniques like how to organize marketing campaigns involving the rural community and how to push a particular product during special camps and communication skills. During December 2005, out of 300 Shakti dealers in Tamil Nadu state, 75 dealers were from our Usilampatti area. To such an extent, the scheme became very successful in our area. These HUL SHG Shakti dealers started taking their SHG products also during their village visits which made available both HUL and SHG products to the rural people.Shakti dealers earned around Rs. 2,500 to Rs. 3,000 per month. Around 25 dealers were given loans for the purchase of two wheelers also and they reported an increase in their turn over, as they could meet more clients.

This kind of rural network of micro dealers has to be strengthened by continuous capacity building and can be made use of by other companies also for effective penetration of the rural markets.

Building the micro dealers network and bringing them under some technology platform can be taken up as a public good activity by some donors.

Sashi Kumar, CARE India, Trichy

Here are a few thoughts: Micro enterprise gives more emphasis to production that ultimately makes the groups more dependent on NGOs for marketing. Even marketing skills promotion would help groups to bring more sustainability in livelihood promotion.

Many organizations are involved in micro enterprise development, however for years only few have succeeded due to the lack of concentration in certain areas of skill development such as marketing.

Raman V. Machiraju, Elitser IT Solutions India Pvt. Ltd., Hyderabad

I fully concur Dr. Jeyaseelan'sobservations with regards to learning and the kind of awareness we could get for the poor SHG women who were never inclined to initiate any such activity in their lives from this Project Shakti.

I would like to share another example from my experience. One SHG member Rojamma from Mehboobnagar district, Andhra Pradesh who was never into any business activity has really set an example and showed other members how to make use of the opportunities. Similarly a member from Warangal could set her own retail outlet after the project and now successfully operate. Resistance to accept or allow Multi-national Corporations (MNCs) into the markets is always there, however the knowledge sharing and extension to grassroots level micro-entrepreneurs is always a necessity. It all depends on how we take it. While we object or negate support to MNCs we should also try to note that the reach that MNCs have is almost everywhere including the remote tribal belts.

I would also quote another good pilot we could successfully implement through SHGs is TTK Prestige company where we could encourage the rural poor to adopt hygienic cooking habits and train on health issues.

I have personally experienced the great potential these women could exhibit when they are supported for sometime with any innovative idea.

SantanuBhattacharjee, Bengal Rural Welfare Service, Kolkata*(Response2)*

I largely agree with the suggestions mentioned by Shree G.K.Agarwal. Then I would like to mention a few points for the group members' consideration. I feel it is unfortunate that several well-intentioned NGOs have become MFIs focused narrowly on debt recovery and have forgotten any social mission, with the blessings of the government and the banks who are expanding their network through NGOs. Nevertheless, I'd like to share my 30 years of experience with Bengal Rural Welfare Service (BRWS) in this regard, looking at how the socio-economic status of the poor can be raised. I believe NGOs role should be in:

1. Mobilisation of the people and awareness building, making the objective of the programme clear to the beneficiaries
2. Training group members in various aspects of income generation such as the vocation, skill development, financial accounting, possible market linkages, possible sources of fundraising with relation to access and easy repayment with low rate interest, etc.
3. Building linkages with government financial institutions, banks etc.
4. Act as a bridge between groups and sources outside the village, in the interest of income generation and finally family development.

One point I would like to differ with what other members have said, aiming at family development instead of merely looking at individual group member development. As the strength of NGOs is very limited, we can function better at the micro-level or else the quality will be diluted. Let us not forget that the role of the government is for macro-development, which is overall development of any family, community, etc. NGOs can merely be facilitators. If NGOs take up comprehensive development of families, what role would family members, Panchayats and the government play?

Ramadas.N, Matsyafed, Trivandrum

I am working in Kerala State Co-operative federation for fisheries development. We are organizing fishermen and their family members into SHGs which are associated with our Primary Fishermen Co-operatives. The mission was started only a year back but in such a short span the groups have in total mobilized Rs. 4.25 Crores from thrift. Most of this sum is used for internal lending. Fisheries as a livelihood activity require high initial capital investment and working capital. Earlier the group members were dependent upon the middlemen and private financers for these costs which invariable came at usurious rates. Now these costs, at least partially, are being met through lending from the SHGs.

We started micro finance in a small way and the results are promising as far as extending mf to microenterprise are concerned. In another instance, one group was assisted with Rs. 50000/-. They started a small consumer store along with an STD booth. Within a year their turnover has reached approx. Rs. 5 Lakhs.

Apart from the above, small businesses like rabbit farming, sea food catering, production and marketing of value added fish products, fish farming, provision stores, vehicles for fresh fish marketing, embroidery, coir product making etc. are done by the groups through finances sourced from their respective SHGs.

The movement has acquired the required initial momentum and we are looking forward to a sea change in the near future.

S V ChalapathyRao, NABARD, Chennai

I fully agree with Dr Jayaseelan'sview that Multi-National Companies (MNCs) should not be discouraged from extending their network into villages through SHGs. The rural masses organized under SHGs require expertise in various areas of business, marketing being major of them. Let us not forget what Deng Xiaoping of Communist China said of financial reforms in his country; "The color of the cat does not matter as long as it catches mice."

Trading is an important sphere of business activity and requires as great an entrepreneurial skill as manufacturing does. Therefore, while benefiting from the MNC's desire to expand their network by using them for dissemination of trading skills, care should be taken to see that they don't get to have a stranglehold on the lives of the masses through control of markets and supplies. A regulatory mechanism can be put in place to take care of this aspect.

Entrepreneurship, unfortunately, is not everybody's forte. It requires energy, confidence, communication and above all a vision. Therefore, it is important that only those members of SHGs with true potential are identified and then backed fully in their efforts to launch enterprises. In the initial stages, microenterprises, may possibly exclude the very poor/BPL members of SHGs and that need not necessarily be viewed unfavorably. Like perquisites in a career, this very limitation can be used to motivate such BPL members to cooperate in the collective efforts to raise them to the next level where the limitation ceases to operate. Such an approach will also help in avoiding letting microenterprise phase of SHG development becoming a victim, borrowing the expression from Mr. PrabhuGhate, of 'rapid growth' of Indian Microfinance.

It has struck me that financially-literate members of well-established SHGs can be chosen to offer financial services as an enterprise option. The concept combines the advantages of establishing microenterprises, finding agents for financial intermediation at low cost to start with thereby keeping the transaction cost low and a slow but sure attempt at diluting the impact of usurious moneylenders. Competent SHG members as agents of financial services, with proper training and motivation can do 'money lending' with a 'human face.'

I can also foresee SHGs offering 'Money Transfer' facilities in not too distant future.

R. Balaji, Independent Consultant, Tanjore, Tamil Nadu

Going by my experience of working on SHG model and also with Micro Finance Institutions (MFIs), I am of the opinion that if we have good systems in place like proper customer selection, loan appraisal-checking the viability of the enterprise to the core, and good group dynamics, the chances of a properly working enterprise will be high. Repayment model of MFI can be taken into consideration with slight flexibility or scheduling the repayment according to the enterprise being funded.

Many thanks to all who contributed to this query!

If you have further information to share on this topic, please send it to Solution Exchange for the Work and Employment Community in India at se-emp@solutionexchange-un.net.in with the subject heading "Re: [se-emp] Query: Microenterprise Development as an Extension of Microfinance - Experiences; Examples. Additional Reply."

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