

CORPORATE SOCIAL RESPONSIBILITY REPORT 2010



Small Industries Development Bank of India
We Empower Micro, Small and Medium Enterprises

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SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

We empower Micro, Small & Medium Enterprises

This is the first Corporate Social Responsibility (CSR) Report of the Small Industries Development Bank of India (SIDBI). To underpin the reporting with robustness and integrity, the Global Reporting Initiative (GRI) G3 Guidelines have been utilized.



The SIDBI CSR Report 2010 is prepared in compliance with the 'B' level indicators of the GRI G3 Guidelines. A collaboration centre of the United Nations Environment Programme, the Global Reporting Initiative (GRI) is the most widely used standardized sustainability reporting framework in the world. To locate the elements and information contained within the guidelines, please refer to the GRI Index at Page 58-63.

GRI Application Levels

To indicate that a report is GRI-based, SIDBI self-declares the level to which it has applied the GRI Reporting Framework via the "Application Levels" system. There are three levels in the system titled as C, B, and A in increasing order of compliance. The reporting criteria at each level reflect a measure of the extent of application or coverage of the GRI Reporting Framework.



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Report Application Level	C	C+	B	B+	A	A+
Standard Disclosures	<p>Report on:</p> <ul style="list-style-type: none"> 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15 	<p>Report Externally Assured</p>	<p>Report on all criteria listed for Level C plus:</p> <ul style="list-style-type: none"> 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17 	<p>Report Externally Assured</p>	<p>Same as requirement for Level B</p>	<p>Report Externally Assured</p>
	<p>Not Required</p>	<p>Report Externally Assured</p>	<p>Management Approach Disclosures for each Indicator Category</p>	<p>Management Approach disclosed for each Indicator Category</p>	<p>Management Approach disclosed for each Indicator Category</p>	
	<p>Report on a minimum of 10 Performance Indicators, including at least one from each of: social, economic, and environment.</p>	<p>Report on a minimum of 20 Performance Indicators, at least one from each of economic, environment, human rights, labor, society, product responsibility.</p>	<p>Respond on each core G3 and Sector Supplement* Indicator with due regard to the materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.</p>	<p>Report Externally Assured</p>	<p>Report Externally Assured</p>	

*Sector supplement in final version



Corporate Social Responsibility 1

Corporate Social Responsibility (CSR) is the commitment of an organization to the well-being of society beyond the profit-making objective. It is the responsibility of an organization to the society at large, which includes the employees, customers, suppliers, shareholders, and the community at large. CSR is a part of an organization's business strategy and is aimed at creating a positive impact on society. The SIDBI CSR Policy is a framework that guides the organization in its CSR activities. It is based on the principles of transparency, accountability, and sustainability. The SIDBI CSR Policy is a part of the organization's overall business strategy and is aimed at creating a positive impact on society.



Sustainable Banking 2

Sustainable Banking is a concept that focuses on the long-term viability of a financial institution. It is based on the principles of transparency, accountability, and sustainability. Sustainable Banking is a part of an organization's business strategy and is aimed at creating a positive impact on society. The SIDBI Sustainable Banking Policy is a framework that guides the organization in its sustainable banking activities. It is based on the principles of transparency, accountability, and sustainability. The SIDBI Sustainable Banking Policy is a part of the organization's overall business strategy and is aimed at creating a positive impact on society.



Environment Protection 3

Environment Protection is a concept that focuses on the long-term viability of the environment. It is based on the principles of transparency, accountability, and sustainability. Environment Protection is a part of an organization's business strategy and is aimed at creating a positive impact on society. The SIDBI Environment Protection Policy is a framework that guides the organization in its environment protection activities. It is based on the principles of transparency, accountability, and sustainability. The SIDBI Environment Protection Policy is a part of the organization's overall business strategy and is aimed at creating a positive impact on society.



Social Commitment 4

Social Commitment is a concept that focuses on the long-term viability of a financial institution. It is based on the principles of transparency, accountability, and sustainability. Social Commitment is a part of an organization's business strategy and is aimed at creating a positive impact on society. The SIDBI Social Commitment Policy is a framework that guides the organization in its social commitment activities. It is based on the principles of transparency, accountability, and sustainability. The SIDBI Social Commitment Policy is a part of the organization's overall business strategy and is aimed at creating a positive impact on society.



Human Resource Development 5

Human Resource Development is a concept that focuses on the long-term viability of a financial institution. It is based on the principles of transparency, accountability, and sustainability. Human Resource Development is a part of an organization's business strategy and is aimed at creating a positive impact on society. The SIDBI Human Resource Development Policy is a framework that guides the organization in its human resource development activities. It is based on the principles of transparency, accountability, and sustainability. The SIDBI Human Resource Development Policy is a part of the organization's overall business strategy and is aimed at creating a positive impact on society.



Stakeholders Engagement 6

Stakeholders Engagement is a concept that focuses on the long-term viability of a financial institution. It is based on the principles of transparency, accountability, and sustainability. Stakeholders Engagement is a part of an organization's business strategy and is aimed at creating a positive impact on society. The SIDBI Stakeholders Engagement Policy is a framework that guides the organization in its stakeholders engagement activities. It is based on the principles of transparency, accountability, and sustainability. The SIDBI Stakeholders Engagement Policy is a part of the organization's overall business strategy and is aimed at creating a positive impact on society.

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"The SIDBI CSR Report is supported under the Technical Assistance of **DFID**, United Kingdom, under the MSME Financing & Development Project, which is being implemented by **SIDBI**. The views expressed are not necessarily those of DFID."

International Awards



SIDBI's initiative towards setting up of India SME Asset Reconstruction Company Limited (ISARC)



Mr. R.M. Malla, Chairman and Managing Director, SIDBI- 'Outstanding CEO of the year 2009'. Under Mr. Malla, SIDBI has strengthened its commitment towards its CSR and the great entrepreneurial spirit of Indian MSMEs, besides achieving greater heights in its business operations.



SIDBI's website (www.sidbi.in) adjudged as the Best Website. The website is highly interactive and informative, which allows borrowers to track down the status of their loan applications and interact with SIDBI officials. The web site also, among others, features industrial policies of state governments.

All these awards have been conferred on SIDBI by Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) whose mission is to advance Sustainable Development through its members – 110 institutions from 42 countries.

Chairman's Message

Dear Stakeholders,

It gives me immense pleasure to present to you the first Corporate Social Responsibility (CSR) Report of SIDBI. In fact, it also gives us an opportunity to highlight the CSR initiatives taken by the Bank, which is in the 20th year of its operations.

CSR has been assuming greater importance in the corporate world, including the banking sector. There is a visible trend in the financial sector of promoting environment friendly and socially responsible lending and investment practices. Reserve Bank of India has also highlighted the importance of CSR and advised all scheduled commercial banks to put in place a suitable and appropriate plan of action towards helping the cause of sustainable development. Recognizing the importance of CSR, the Ministry of Corporate Affairs, Government of India, has recently brought out a set of voluntary guidelines on CSR for corporates. These CSR guidelines pertain to areas, such as, care for all stakeholders, ethical functioning, respect for workers' rights and welfare, respect for human rights, environment and social and inclusive development.



Over the years, we, at SIDBI, have integrated CSR principles with the Bank's financial, promotional and developmental assistance to the MSME sector as well as within our own internal functioning through good corporate governance practices. Our CSR pillars are Sustainable Banking, Environment Protection, Social Commitment, Human Resource Development and Stakeholders Engagement. Our CSR policy, based on these pillars, is largely in conformity with the guidelines of Government of India and the Reserve Bank of India.

At SIDBI, we acknowledge that lending to the MSME sector has significant sustainability impact. The MSME sector accounts for more than 45% of the total manufacturing output; 33% percent of the total exports of the country and is estimated to employ about 60 million persons in over 26 million units throughout the length and breadth of the country. Our CSR initiatives for the MSMEs are oriented towards their sustainability by focussing on their holistic development across economic, social and environmental spheres.

Responsible banking, along with realisation of economic benefits and protection of environment (within the Bank and in its outside business operations), form an integral part of our CSR strategy. Besides, sustainability is enshrined in our financing to the MSME sector as we have incorporated a

number of environmental and social standards in our financial and developmental schemes. For instance, we do not provide credit to Ozone depleting industries. We give credit to the MSMEs after they obtain 'No Objection Certificate' from the Pollution Control Board, wherever required. We provide finance to enable MSMEs in implementing effluent treatment mechanisms in their units and also grant support to set up common effluent treatment plants in the clusters.

Promotion of energy efficiency within SIDBI and in the MSME sector at large has become one of our stepping-stone towards sustainable banking, which over the years, has become the right way of doing business. In this regard, we express our commitment to the National Action Plan on Climate Change (NAPCC) as announced by our Hon'ble Prime Minister. To promote energy efficiency in the MSME sector, we have entered into a Memorandum of Understanding with Bureau of Energy Efficiency (BEE) and collaborate with Ministry of MSME, Government of India under the National Manufacturing Competitiveness Programme (NMCP). Our bilateral lines of credit from Japan International Cooperation Agency (JICA) and Kreditanstalt Für Wiederaufbau (KfW), Germany have helped us greatly in promoting energy efficient technologies in the MSME sector.

Building of institutions to help the MSMEs in meeting their diverse credit and non-credit needs is another CSR drive, which has gained momentum over the years. We have floated SIDBI Venture Capital Ltd. (SVCL) with 100% equity support from us to meet the venture capital needs of knowledge-based MSMEs. We have provided interest-free corpus support to set up Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to provide credit guarantee for collateral free loans upto Rs. 100 lakh. During the FY 2008-09, we have contributed Rs. 34 crore to the corpus, which was as high as about 11.37% of our profit. Cumulatively, we have contributed Rs. 381 crore as corpus support to CGTMSE and in some years, the contribution was as high as over 20% of our net profit. There would probably be no such organization that on average has contributed such a high percentage of its profit for the national cause of promoting entrepreneurship without collateral. We have also pioneered in setting up SME Rating Agency of India Ltd. (SMERA) which is the first independent, third-party rating agency for MSMEs. We have also set up another associate, India SME Technology Services Ltd. (ISTSL) to act as a technology bank for facilitating transfer of technologies, promotion of Clean Development Mechanism (CDM) and aggregation of carbon credits in the MSME sector. Recently, we have established India SME Asset Reconstruction Company Ltd. (ISARC), country's first MSME focused ARC, for speedier resolution of non-performing assets (NPA) by unlocking the idle NPAs for productive purposes, which facilitates greater and easier flow of credit from the banking sector to the MSME sector. The corpus support and equity investment in these subsidiaries and associates are development initiatives with the sole objective of welfare maximisation of the MSME sector.

An important plank of our CSR framework has been to widen and deepen the process of financial inclusion by way of purveying micro credit to the disadvantaged sections, such as, women, minorities

and backward classes in the rural, unorganized and underserved regions of the country. As these sectors remain financially excluded due to non-availability of financial facilities from the formal financial institutions (FFIs), we took an initiative to nurture, develop and strengthen a cadre of more than 140 Micro Finance Institutions (MFIs) who are positioned between FFIs and the local money lenders to provide faster credit at cost effective rates at the doorsteps of socially disadvantaged sections. In order to enable the MFIs to better serve these financially excluded sectors, we provide grant support to build their capacity, equity capital to grow and credit assistance for onlending to the rural poor. Over the years, we have emerged as leader of purveying micro credit through these MFIs with cumulative sanctions of Rs. 6,418 crore, cumulative disbursement of Rs. 4,821 crore and outstanding of Rs. 2,884 crore as on December 31, 2009, which have benefitted more than 20 million poor, mostly women from the rural, disadvantaged sections of the society.

Over the years, these MFIs have grown substantially and are now attracting financial and equity support from national and international institutions. We are happy with this positive trend which is reflective of our CSR strategy of 'making the markets work' for attaining financial inclusion.

Comprehensive HR development is an equally important strand of our CSR fabric. Providing equal opportunities to our employees to develop their professional career, through training and salubrious work environment, sensitising them towards responsible banking and keeping aside a portion of our profit for staff welfare activities are some of our HR oriented CSR initiatives.

During the FY 2008-09, we have incurred an expenditure of 19% of our net profit towards various CSR activities which include capacity building of MSME sector, contribution to corpus of CGTMSE, our own employees as well as for their welfare initiatives.

We also constantly engage with our stakeholders, comply with regulatory standards and policies, promote transparency in our business activities and endeavour that our sustainable activities conform to the canons of Collevocchio Declaration on Financial Inclusion, such as, Commitment to Sustainability, Commitment to 'Do No Harm', Commitment to Responsibility, Commitment to Accountability and Commitment to Transparency. We continue to extend our commitment to Sustainable Development in terms of Triple Bottom line: Profit, People and Planet, as manifested in creation of economic wealth, its distribution for an egalitarian society, and preservation of ecological wealth.

We are confident that each small thing that we do today will contribute to a bigger change for a brighter tomorrow of the MSME sector. Hence, we constantly endeavour to adopt internationally best CSR practices and measure our efforts against the yardstick of guidelines accepted across-the-globe. Thus, we have begun benchmarking our CSR initiatives against the Global Reporting Initiatives (GRI) G3 Guidelines, which are an internationally accepted sustainability reporting format. We have tried to present in this debut CSR Report a fair, balanced and transparent view of our sustainability operations.

We would like to acknowledge the timely and valuable support received from the Government of India and the Reserve Bank of India in our endeavour to strengthen CSR practices. We are also thankful to the World Bank (IBRD); Japan International Cooperation Agency (JICA), Japan; Department for International Development (DFID), UK; International Fund for Agricultural Development (IFAD), Rome; Kreditanstalt für Wiederaufbau (KfW), Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ), Germany and Agence Française de Développement (AFD), France for resource support and technical cooperation. We would also like to express our appreciation for the co-operation extended to SIDBI by banks, state level institutions, industry associations and other stakeholders engaged in the promotion and development of the MSME sector in India.

I also acknowledge the valuable contributions of external CSR Consultant - Ace Global Private Limited - towards preparation of this maiden report.

I am deeply grateful to our strong and dynamic human force of SIDBI towards strengthening and accelerating the process of sustainable banking and inclusive growth and thereby, upholding the CSR spirit of the Bank. In particular, I would like to thank Mr. R.K. Das, our CSR Officer and Project Leader of our first CSR Report for his wholehearted dedication demonstrated from the conception of the project to its successful accomplishment. His team at SIDBI, comprising Dr. R K Singh, Mr. Amit Sethi , Mr. M B L Khan and Ms. Nidhi Sharma also deserves full appreciation.

Being the first report, we reckon that there is still more to achieve and our endeavours are a work-in-progress as we assess our approaches and help streamline our future initiatives to be more strongly aligned towards long term sustainability.

We look forward to further strengthening our partnership with various stakeholders to progressively achieve sustainability in SIDBI as well as in MSME sector. We hope that you will find this report informative and that it ably reflects our commitment towards sustainability. We solicit your feedback and suggestions on our CSR Report which will help us to attain greater heights in pursuing socially responsible activities in future.



R M Malla

Chairman and Managing Director

Preface

If one delves deep into the corporate history, Corporate Social Responsibility (CSR) is almost as old as that of companies. However, the second-half of Twentieth century witnessed increasing awareness about and commitment on inclusive growth and sustainable development through socially responsible business practices. For instance, the United Nations Environment Programme (1972) advocates that the financial sector has a role to play in protecting environment while maintaining profitability of their business. The concept of 'triple bottom –line' espoused by John Elkington, encompasses social, environmental and financial accounting. Keeping these perspectives in view, the Reserve Bank of India has rightly issued 'moral suasion' policy for banks on CSR. Recently, the Ministry of Corporate Affairs has also issued voluntary CSR guidelines for Indian corporate.



SIDBI, being the principal financial institution for MSME sector, has been endeavoring to incorporate the good corporate governance practices and, social and environmental norms in its regular working and operations.

Our CSR policy is based on pillars of Sustainable Banking, Environment Protection, Social Commitment, Human Resource Development and Stakeholders Engagement. Our CSR strategy has been built on SIDBI's core values, on sound risk management policies and sustainable business practices, which mean achieving profits for the Bank's shareholders underpinned by good governance, long-lasting customer relationships and highly committed staff delivering the corporate strategy and managing the social and environmental impact of its business. While we have all along been practicing CSR, we thought it important to upscale our CSR activities and communicate with our stakeholders by bringing out the first CSR Report.

The Report, in essence, demarcates our activities in terms of thematic channels of credit and non-credit support to MSME sector, viz. Finance; Promotion & Development of MSMEs; Institution Building; Coordination Role and Policy Advocacy.

This Report is prepared against the benchmark of internationally accepted norms of Global Reporting Initiative (GRI) G3. We believe that the GRI guidelines provide a well-articulated yardstick to measure our performance. As per the GRI application level check, we have self-declared our report at 'B' level. We express to strengthen our commitment towards CSR in future with the objective of maximum socio-economic welfare of the Nation.



Rakesh Rewari
Deputy Managing Director

Corporate Social Responsibility

1



Corporate Social Responsibility (CSR) for us is the underlying philosophy of good corporate governance which guides us to integrate environmental and social aspects with the Bank's working and functions and particularly, with our promotional, financing and developmental support to the Micro, Small and Medium Enterprises (MSME) sector. In other words, our CSR is based on our commitment and furtherance of responsible banking through environment protection both within the Bank and outside, in the MSME sector, enhancement of social welfare, capacity building of human resources of both SIDBI and the MSME sector as well as constant coordination and engagement with various stakeholders. These are our CSR pillars (Figure 1.1) which not only guide us on our road to sustainable development, but also enable us to maintain our relationships with the people that matter to the business most effectively – whether they are customers, employees, suppliers, local communities or investors. Our sustainability strategy has been built on our values, sound risk management and sustainable business which means achieving profits for our shareholders underpinned by good governance, long-lasting customer relationships, adherence of our corporate strategy by highly committed staff. Various facets and key issues of our CSR approach are given in Figure 1.2.



Our approach to Sustainability

Our banking practices are based on sustainability which places importance on the environmental and social consequences of projects and financial products, rather than just economic impact. We constantly endeavour to understand the direct and indirect impacts, both positive and negative, that are created by our operations, products and services on the environment and society. With this in mind, we are working to integrate environmental and social considerations

into our day-to-day business decision-making and operational practices. In nutshell, our sustainable banking is guided by the Canons of Colavecchio Declaration on Financial Institutions and Sustainability (Box 1.1).

While adopting sustainable financing and bearing responsibility of our actions on the Bank, the MSME sector, environment and society, we maintain transparency in terms of standard disclosures and accountability to our stakeholders. We

Box 1.1

Colavecchio Declaration on Financial Institutions and Sustainability

With an obligation towards responsible banking, we endeavour to follow the canons of Colavecchio Declaration on Financial Institutions and Sustainability as given below:

Commitment to Sustainability under which, the Bank reiterates its commitment to a stage of social and environmental sustainability.

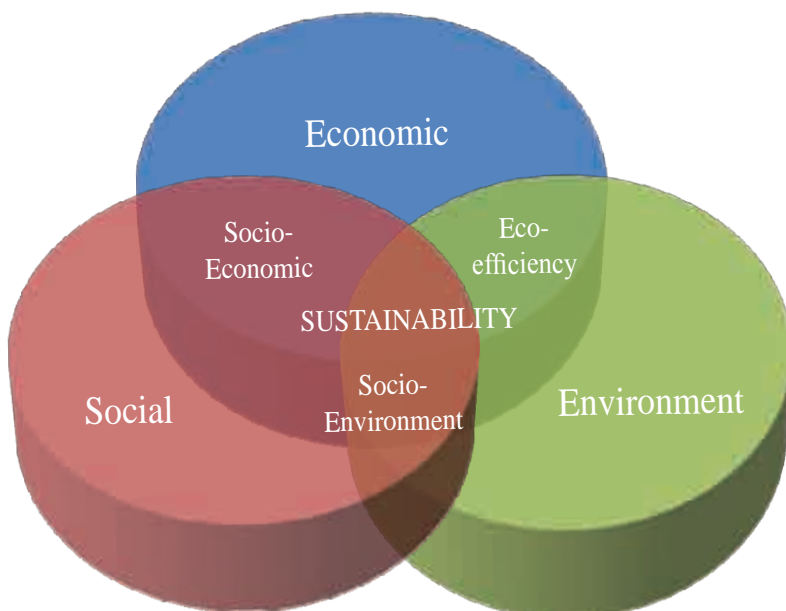
Commitment to 'Do No Harm' under which, the Bank minimizes the environmentally and socially detrimental impacts of its portfolios and operations.

Commitment to Responsibility which emphasizes the Bank's commitment to bear full responsibility for the environmental and social impacts of its transactions.

Commitment to Accountability under which, the Bank reiterates that it is accountable to its stakeholders, particularly those that are affected by the activities and side effects of our policies and activities.

Commitment to Transparency under which, the Bank ensures that it is not only transparent to stakeholders, in terms of its robust, regular and standardized disclosure, but also through being responsive to stakeholders, needs for specialized information on the Bank's policies, procedures and transactions.

Figure 1.2 : Key CSR Issues



Opportunities and Challenges

We also need to identify challenges and opportunities to meet the needs of our employees; customers and stakeholders in the future. This will help build a customer-focused and ethical business where we openly engage in meaningful dialogue with our stakeholders, which lead to better decisions and improved business performance trends. The potential opportunities and threats indicate the way in which SIDBI should bring about sustainable growth in its financial services and business operations.

Opportunities:

- SIDBI is the only MSME focussed institution with a wide range of products.
- Good opportunity to lend MSME sector for technology up gradation / energy efficiency / clean production options / renewable energy, etc.
- Raising resources at cheaper rates for specialized lending (energy efficiency, cleaner production, pollution control, etc.) to MSMEs at concessional rate.
- Potential to scale up micro finance business through MFIs.
- Draw our customers' attention to potential social, ethical or environmental risks affecting their sector or business operations.

Challenges:

- High risk profile of the customers in the segment with less transparency and financial discipline.
- Increased competition from other commercial banks/FIs.

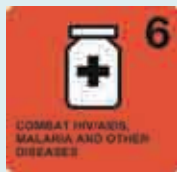
also enable the market to work towards sustainable development through supporting public policy, advocating appropriate policies for MSME sector and suitable capacity building of market making agents (i.e. SIDBI staff, Officials of banks/FIs, Industry Associations and other MSME stakeholders). While leveraging on our opportunities and bracing the challenges (Box 1.2), we orient our CSR activities towards holistic development of the MSME sector, they are also undertaken to meet growing public expectations, to build reputation, to use them as a tool for risk management, improve our own operational efficiency and productivity as well as to create an enabling environment for functioning effectively.

We believe, this will add value to our business by reducing risk, improving our operational efficiency, productivity, products and customer service as well as creating a great place to work.

SIDBI and the Millennium Development Goals

United Nations Millennium Development Goals (MDGs) are eight international development goals adopted by the international community to be achieved by 2015. Focus on MSMEs at the national levels reinforces our aspirations to achieve the MDGs at national level. SIDBI's thrust on financing, development and promotion for the holistic development of the MSMEs has an important bearing towards the achievements of eight MDGs, viz. Eradicate Extreme Poverty and Hunger; Achieve Universal Primary Education, Promote Gender Equality and Empower Women; Reduce Child Mortality; Improve Maternal Health; Combat HIV/AIDS, Malaria and other Diseases; Ensure Environmental Sustainability and Develop a Global Partnership for Development (Box 1.3).

SIDBI and the Millennium Development Goals (MDGs)



SIDBI endeavors to contribute towards national goals of reducing poverty, the foremost MDG, by working towards holistic development of Indian MSMEs through financial, promotional and developmental support. By subscribing to the values of devising enterprise solutions to poverty, SIDBI believes that development through MSMEs has a lot of avenues beckoning to it, as there is a huge scope for action on this front and thus opportunities are unlimited.

SIDBI's Micro Finance (MF) programme is committed to achieve universal primary education through its partners, i.e. Micro Finance Institutions (MFIs).

SIDBI's micro finance programme aims at larger social objectives of poverty alleviation and socio-economic upliftment of women continues to receive foremost priority under this scheme.

The Bank's Rural industries Programme and Entrepreneurship Development Programme (as a part of Promotional & Development activities) are aimed at promoting viable enterprises and self-employed ventures, especially in the underserved states.

Over 80% women beneficiaries are under MF programme and more guarantee coverage under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) are being given for women entrepreneurs. SIDBI has extended support to organisations involved in marketing of products manufactured by women entrepreneurs in order to increase their reach in markets.

SIDBI's micro finance programme is committed to reduce child mortality through its partner MFIs.

SIDBI's micro finance programme is committed to improve maternal health through its partner MFIs.

SIDBI's micro finance programme is committed to combat HIV/AIDS, malaria and other diseases through its partner MFIs.

Reconciling the growth of the MSMEs with the economic and social upliftment of women under the MSME Financing and Development Project has been one of the most sustainable solutions for women empowerment.

SIDBI is committed to promoting diversity and inclusion by being an equal opportunity employer (EOE)

Under Japan International Cooperation Agency (JICA), Japan and KfW, Germany Lines of Credit, SIDBI provides loans at concessional terms for promoting energy saving projects, clean production and pollution control measures in the MSME sector.

The Bank has adopted the World Bank's Environmental & Social guidelines under its Line of Credit.

The Bank's in-house initiatives (move towards environment friendly recycled paper, conscious attempt to minimize paper-printing for meetings and investing in video conference equipments) along with commitment to introduce ISO 14001 environmental management system, have been aimed at ensuring environmental sustainability within the organization.

SIDBI has endorsed the Global Reporting Initiative (GRI) G3 for its first CSR report.

"The Bank is committed to contribute towards national goal of attaining inclusive growth by promoting the great spirit of micro, small, and medium entrepreneurs as well as reaching out to those at the bottom-of-the pyramid by extending developmental and financial support through its own network and that of banks, FIs and Micro Finance Institutions. As a part of our philosophy of responsible banking, SIDBI envisions sustainable development of the MSME sector across its social, economic and environmental spheres."

Sustainable Banking

2



Sept 02

Small Industries Development Bank of India (SIDBI) set up in April 1990 under an Act of Indian Parliament, acts as the principal financial institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprises (MSME) sector and Co-ordination of the functions of the institutions engaged in similar activities.

OUR MISSION

“To empower the MSME sector with a view to contributing to the process of economic growth, employment and balanced regional development.”

OUR VISION

“To emerge as a single window for meeting financial and developmental needs of the Indian micro, small and medium enterprises (MSME) sector, to make it strong, vibrant and globally competitive, to position SIDBI brand as the preferred and customer friendly institution and for enhancement of shareholders’ wealth and highest corporate values through modern technology platform.”

Our Mission and Vision are sought to be achieved through a well-defined organizational structure and the branch network at important MSME clusters to deliver efficient services to the MSMEs. The Head Office in Lucknow, Uttar Pradesh; six Zonal Offices (ZOs) at Chennai, Delhi, Guwahati, Kolkata, Lucknow and Mumbai are ably supported by 103 branch offices across the country.

The Bank opened 27 new branches including 7 Micro Finance branches¹ during FY 2008-09 taking the total branch network to 100 branches as on March 31, 2009, as against 73 branches on March 31, 2008 (Annexure). The present network of 103 branches now cater to more than 600 MSME clusters in the country. The Thematic Channel of Assistance to MSME sector are given in Figure 2.1.

¹Seven dedicated microfinance branches were opened at Lucknow, Chennai, Hyderabad, Bangalore, Kolkata, Bhubaneswar and Guwahati to deliver micro finance services through intermediaries in a more timely and customer-friendly manner.

A. Finance – Widening Financial Access through Innovative, need-based products

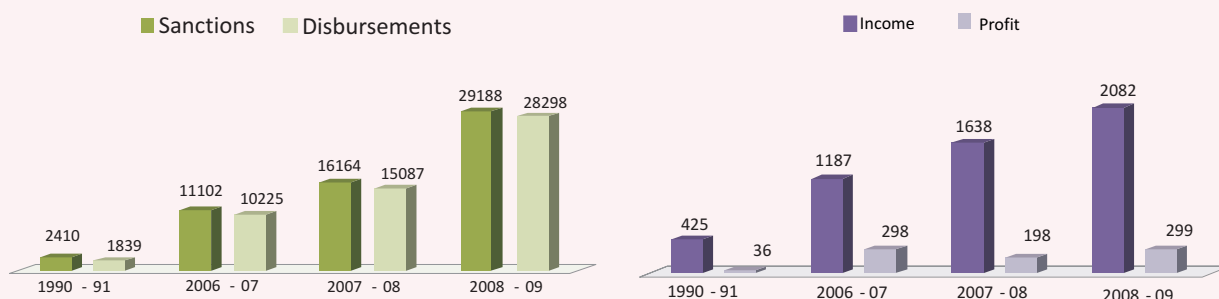
Indirect Assistance / Refinance

Indirect assistance in the form of Refinance is provided to more than 900 Primary Lending Institutions (PLIs), consisting of banks, State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), MFIs, etc. having a network of over 82,000 branches all over India. The main objective of the Bank’s Refinance Scheme is to augment the resource position of PLIs which would ultimately facilitate greater flow of credit to MSMEs. Refinance support is extended for:

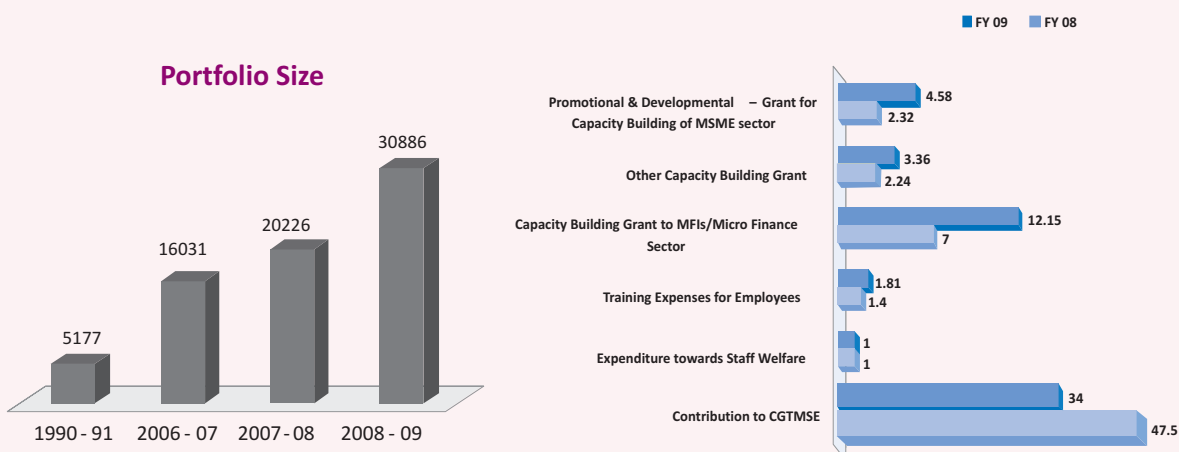
Snapshot of Finances and Operations

The importance of running a sustainable business for the long term has been highlighted by the global financial crisis. Notwithstanding the economic slowdown, the FY 2008-09 turned out to be an eventful year for us with the achievement of a number of operational milestones.

(Rs. crore)



Social Expenditure



Distribution of Economic Benefits

Items	2007-08	2008-09
Employees ¹ (Remuneration)	40.44	45.52
Governments (Taxation)	126	350
Shareholders (Dividends)	67.5 (15%)	67.5 (15%)
Suppliers ² (procurement and premises)	19.8	18

¹Includes Salaries, Dearness Allowances and other Allowances

²Includes Expenditure on Rent, Taxes, Insurance, Lighting, Law Charges, Postage, Telegram & Stamps, Stationery, Printing, Advertising, etc.

Figure 2.1 : Thematic Channels of Assistance



- Setting up new MSME projects and for technology upgradation, diversification, expansion, etc. of existing MSMEs;
- Service Sector entities; and
- Infrastructure development & upgradation.

Direct Assistance

Direct finance is primarily channelized to supplement and complement the efforts of the banks/SFCs/SIDCs/MFIs to meet adequate credit needs of MSMEs at affordable rates. It is also undertaken to showcase to the banking system that loans to micro enterprises can be made profitably and lending to the MSME sector is a viable proposition. SIDBI has evolved itself to meet the various types of credit requirements of the MSME sector by directly offering tailor-made financial products

and services. Direct Finance is being provided through fund-based facilities in the form of term loan assistance, resource support, working capital term loan, MSME receivable finance, risk capital assistance, equity support, scheme for energy saving projects in MSME sector and non-fund based facilities in the form of letters of credit, guarantees, etc.

Fighting Poverty with Micro Finance

Micro Finance has emerged as a new paradigm for inclusive

Our thrust on micro finance is towards extending 'credit plus facilities' to our partners with special emphasis in underserved regions, through our capacity building initiatives.

growth by empowering hitherto neglected sections of our society, such as,

women, minorities, backward communities and the poor in the rural, unorganized sector of economy.

SIDBI is committed to attain the national goal of a broad-based equitable and inclusive growth by providing micro credit through its partner Micro Finance Institutions (MFIs) for on-lending to those at the bottom-of-the-pyramid, with special thrust on the under-served regions of the country. The details of SIDBI's Micro Finance endeavours and achievements are given in the ensuing chapter "Social Commitment". More than 20 million poor clients, mostly women, are estimated to have been benefitted through MFIs supported under SIDBI's micro finance programme.

B. Promotion & Development of MSMEs

In order to impart competitive advantage to MSMEs, SIDBI

engages in comprehensive Promotional & Developmental (P&D) activities to achieve the twin objectives of:

- **Enterprise Promotion** resulting in self-employment and creation of additional employment through pioneering programmes, such as, its flagship Rural Industries Programme (RIP), Entrepreneurship Development Programme (EDP), Vocational Training Programmes, etc.
- **Enterprise Strengthening** to enable MSMEs to face the emerging challenges of globalization and growing competition through select interventions, such as, Skill-cum-Technology Up-gradation Programme (STUP), Small Industries Management Programme (SIMAP), Cluster Development Programme (CDP), Marketing Assistance, etc.

As on March 31, 2009, the Bank's aggregate grant support for various P&D activities amounted to over Rs. 79 crore in the form of grants (with

Rs. 4.58 crore having been contributed during FY 2008-09). Our P&D support has benefitted 0.2 million persons.

- **International Partnership** SIDBI is implementing a multi-activity, multi-agency, MSME Financing and Development Project (MSMEFDP) aimed at making MSME lending an attractive and viable financing option as also to facilitate increased turnover and employment in the MSME sector. The objective of the Project is to attend to demand and supply side issues of MSME sector through financial and non-financial services. Principal partners/donors for the project are World Bank; Department for International Development, UK; KfW and GTZ, Germany. While Department of Financial Services, Ministry of Finance, Government of India is the Nodal Agency, SIDBI is the Implementing Agency of the Project. The highlights of the Project are given in Box 2.1.

C. Institution Building

While finance is the basic need of the MSMEs, they also require different non-credit facilities, such as, equity capital, credit rating, technology transfer and up gradation, etc. to gain extra miles in their endeavour to attain competitiveness.

As a part of corporate responsibility to the MSME sector, SIDBI has taken upon itself the challenging task of building various institutional mechanisms to cater to the emerging needs of the MSME sector. Such institutional set-ups are the subsidiaries / associates of SIDBI, which have been highlighted in the following sections.

SIDBI Venture Capital Limited (SVCL)



“To catalyse entrepreneurship by providing capital and other strategic inputs for building businesses around growth opportunities and maximize returns on investment”.

Venture Funds are recognized globally as the most suitable mechanism for providing

MSME Financing and Development Project : Key Components

◆ CREDIT FACILITY:

Long term financing is a critical input for supporting capital formation and technological upgradation. Looking beyond traditional approaches, the Project helps facilitate MSME growth for survival and sustainability by providing Credit Facility. The component has utilized lines of credit (LoC) from World Bank (USD 120 million) and KfW, Germany (Euro 43.5 million) well ahead of schedule and benefited 1294 MSMEs. The World Bank has rated this project as '**Satisfactory**'. Encouraged by the success, the World Bank and SIDBI have contracted additional LoC of USD 400 million on June 05, 2009. The utilization of this additional LoC has been making good progress and the World Bank has rated this progress as '**Highly Satisfactory**'.

◆ RISK SHARING FACILITY:

This component aims at accelerating commercial banks' financing to MSMEs through the establishment of Risk Sharing Facility (RSF). The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been instrumental in implementing the pilot Project. Risk is shared on a *pari passu* basis between Member Lending Institutions (MLIs) and CGTMSE. Under this facility, CGTMSE has launched a pilot product for providing guarantee cover in the range of Rs 5-10 million as against the then existing loan limit under guarantee at Rs 5 million. Looking at the success of this initiative, CGTMSE has institutionalized this pilot project as a regular feature of Credit Guarantee Scheme.

◆ TECHNICAL ASSISTANCE:

An ambit of initiatives is covered under the Technical Assistance component of the project aimed at enabling policy environment and institutional structure that deepens access to finance and business development services. Cornerstone of the MSMEFDP, technical assistance helps address policy, regulatory and institutional constraints to the efficiency of the MSME credit markets.

■ **Business Development Services (BDS):** Being implemented in 21 clusters all over the country. Initiatives include: marketing support, IT trainings, skill development, regulatory compliance awareness programmes, testing facilities, business information and counseling centres for micro enterprises, promotion of energy efficiency measures, BDS Clinic, special BDS programme in underserved/ rural regions, etc. Over 350 programmes have been conducted reaching out to more than 10,000 beneficiaries.

■ Improving Credit Information and Rating Mechanism:

- With Project's support, Credit Information Bureau of India Ltd. (CIBIL) has set up a dedicated commercial bureau for MSMEs for fulfilling the need of lending institutions for comprehensive credit information on MSMEs.
- The project has helped setting up of SME Rating Agency of India Ltd. (SMERA), the country's first MSME dedicated, independent rating agency to provide comprehensive, transparent and reliable ratings and risk profiling of MSMEs.

■ **Capacity Building of Banks:** Project supports institutional capacity within participating banks for enabling internal and external environment through innovative mechanisms, such as,

- Training to officials of different banks and FIs
- Capacity building support to State Financial Corporations (SFCs) and Non-Banking Financial Companies (NBFCs).
- New models of lending to reduce transaction costs and turnaround time.
- Better risk management practices for banks.

■ **Policy Advocacy:** MSMEs require a strong policy framework with all stakeholders of the sector ensuring proper synergy in this regard. The project aims at playing a significant role to influence policy making for MSMEs by attending to key policy, legal and regulatory measures that are critical in establishing a facilitating framework to promote MSMEs. This is done by supporting workshops, events and bringing out policy papers, walk-in kits, CDs, informational dissemination material free of cost, etc.

risk capital to knowledge-based, innovative and high technology businesses. Recognizing this thrust area, SIDBI set up SVCL in July, 1999 to act as an exclusive asset management company for managing venture capital fund, with an aim to catalyze entrepreneurship by providing capital and other strategic inputs for building businesses around growth opportunities and maximize returns on investment. At present, SVCL manages two SEBI registered venture capital funds, viz. National Venture Fund for Software and Information Technology Industry (NFSIT) and SME Growth Fund (SGF). The Growth Fund has the main focus on growing sectors of the economy, such as, life sciences, retailing, light engineering, food processing, information technology, health care, logistics and distribution, etc. The cumulative commitment under these two funds aggregated at Rs. 531 crore to 55 companies as on March 31, 2009, which has further improved to Rs. 551 crore to 56 companies as on December 31, 2009.

**Credit
Guarantee
Fund Trust
for Micro
and Small
Enterprises (CGTMSE)**



“To facilitate collateral-free loans to Micro and Small Enterprises from banks and financial institutions”

Credit to Micro and Small Enterprises (MSE) sector is generally perceived as high risk lending, more so in absence of any collateral. In order to encourage banks to lend more to this sector, the Government of India (GoI) and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE, erstwhile CGTSE) in July, 2000 to provide credit guarantee support to collateral free / third-party guarantee free loans up to Rs. 100 lakh extended by banks and other lending institutions to MSEs. This is the only credit guarantee institution in the country exclusively set up for the benefit of MSEs in the country. The corpus of CGTMSE is contributed by Government of India and SIDBI in the ratio of 4:1. During FY 2008-09, SIDBI's contribution was Rs. 34 crore which was 1.63% of its income

and 11.37% of its profits. The cumulative contribution of SIDBI till March 31, 2009 was Rs. 351 crore, which has been further enhanced to Rs. 381.31 crore by December 31, 2009. This corpus contribution does not yield any financial return to SIDBI. Notwithstanding the same, SIDBI is committed to provide Rs. 500 crore to the said corpus to subserve the larger objective of facilitating collateral free credit to MSEs.

During FY 2008-09, CGTMSE has provided 53,708 credit guarantees and during FY 2009-10 (April-January), CGTMSE has already provided more than 1,00,000 credit guarantees ahead of stipulated time of March 31, 2010.

In order to widen its coverage and encourage banks to provide collateral free loans to MSEs, CGTMSE has raised the guarantee cover to 85% for loans up to Rs. 5 lakh to micro enterprises and reduced the lock-in period for claims settlement to 18 months. CGTMSE provides higher guarantee cover for loans in the range of Rs 5-50 lakh to women entrepreneurs as compared to 75% for others. For availing guarantee cover, the one-time guarantee fee

and annual service fee have been reduced to 1.0% and 0.5%, respectively, in respect of all loans upto Rs 5 lakh. The recent period has witnessed strong inclination of banks to augment credit flow to the MSME sector under the Credit Guarantee Scheme of CGTMSE.

While it took 8 years to cover the milestone of one lakh guarantees, the next one lakh guarantees could be achieved in a little over one year's time. As on March 31, 2009, CGTMSE has approved 1,50,034 guarantees for an aggregate amount of Rs. 4,824.34 crore which has increased to 2,49,164 credit guarantees for Rs. 9,192.27 crore as on December 31, 2009.

SME Rating Agency of India Limited (SMERA)



“To be a facilitator in creating an enabling environment for growth of MSMEs through qualitative input for financial intermediation, action research and policy advocacy”

Information asymmetry restricts MSMEs growth

potential due to lack of timely access to credit information. Bankers find it difficult to have accurate risk assessment of MSMEs as the desired information is not readily available. Hence, different banks assess MSME loan proposals with different yardsticks. Thus, there has always been a need for an independent rating agency for unbiased normative risk assessment of MSMEs. In order to fill up this gap, SIDBI, as a part of its corporate responsibility, along with leading public, foreign and private sector banks and Dun & Bradstreet Information Services India Private Limited (D&B), set up SME Rating Agency of India Ltd. (SMERA) in September 2005, as an MSME dedicated third-party rating agency to provide comprehensive, transparent and reliable ratings and risk profiling.

Ratings have proven beneficial for a number of reasons for both MSMEs and financial institutions. For MSMEs, ratings add credibility to their status and help open doors to deal with large companies, especially those who engage with a big number of vendors. SMERA ratings also serve as motivation to adopt good governance

practices which are beneficial in the long run and also act as a tool for self-correction and self-improvement. From the perspective of the financial institutions, SMERA ratings facilitate pricing of loan products on attractive terms and prove useful in promoting compliance with regulatory and capital adequacy norms. SIDBI provides interest rate rebate upto 1% to SMERA-rated MSMEs.

In a short span of time, SMERA has achieved market leader position in MSME rating by evaluating around 3400 MSMEs upto March, 2009, which has further increased to around 5,400 MSMEs by December 31, 2009.

India SME Technology Services Ltd. (ISTSL)



“To render services for technology transfer and attendant support services in order to enhance market competitiveness of Micro, Small & Medium Enterprises and promote sustainable development”

India SME Technology Services Limited (ISTSL) provides a platform for MSME to tap

opportunities at the global level for acquisition of modern technologies. Set up in November, 2005, it acts as a Technology Bank for MSMEs in India at the national level. ISTSL continues to pursue its strategy of rendering services for technology transfer and promotion of energy efficient, environment friendly technologies in the MSME sector. Efforts are being made to facilitate reduction in Green House Gases (GHG) in the sector. Such initiatives of ISTSL are expected to strengthen and accelerate the process of sustainable development in the MSME sector.

**India SME
Asset
Reconstruction
Company
Ltd. (ISARC)**



To facilitate unlocking of value out of non-performing loans, with a focus on the Micro, Small and Medium Enterprises sector by resorting to innovative resolution mechanisms.

Indian SME Asset Reconstruction Company Ltd. (ISARC) is the country's first MSME focused Asset Reconstruction Company (ARC)

striving for speedier resolution of non-performing assets (NPA) by unlocking the idle NPAs for productive purposes which facilitates greater and easier flow of credit from the banking sector to the MSMEs. Set up in April, 2008, ISARC's objective is to acquire non-performing assets (NPAs) and strive to maximize recovery value through its innovative resolution methods. ISARC has been granted Reserve Bank of India's Certificate of Registration, on March 05, 2009 and has commenced the business of securitization or asset reconstruction under SARFAESI Act, 2002.

D. Coordination Role

With the objective of all-round development of the MSME sector, SIDBI coordinates with a number of accredited technical and management institutions across the country to synergize their services to the sector. In its promotional & development initiatives, the Bank has ongoing collaboration with various Ministries of Government of India, voluntary, non-governmental, and many other developmental organizations. At an international level,

SIDBI enjoys confidence and close partnership with various multilateral and bilateral institutions, such as, the World Bank; Japan International Cooperation Agency (JICA), Japan; Department for International Development (DFID), UK; International Fund for Agricultural Development (IFAD), Rome; KfW and GTZ Germany and Agence Française de Développement (AFD), France for their resource support and technical co-operation on various capacity building programmes for MSMEs in India.

E. Policy Advocacy

In line with its charter as the principal financial institution for MSMEs, SIDBI has been actively involved in playing an effective policy advocacy role towards sound MSME policies and frameworks by the Government of India (GoI), Planning Commission, Reserve Bank of India, Indian Banks' Association, etc. SIDBI is represented on the apex Board set up by GoI for MSME policy formulation and is also associated with various key committees and expert groups. Some of the notable engagements are listed in the Box 2.2.

Policy Advocacy Engagements

- SIDBI is a permanent member on the National Board of MSME.
- The Chairman and Managing Director (CMD), SIDBI is a member of the Liquidity Committee and Task Force, constituted by the Hon'ble Prime Minister.
- SIDBI prepared a blue print of 'Credit and Fiscal issues for the MSME sector for 11th Plan' for Planning Commission.
- SIDBI, along with Ministry of MSME, Government of India prepared a report on 'Private Sector Resource Estimate of the MSME Sector during the 11th Plan', for Reserve Bank of India / Planning Commission.
- CMD, SIDBI is a member of RBI Committee on 'Lead Bank Scheme'.
- SIDBI was a member in the Dr. K.C. Chakraborty Committee on Sickness in MSME sector.
- SIDBI is a member in the SEBI Primary Advisory Committee and Committee on Venture Capital Guidelines.
- In FY 2009, SIDBI has brought out Policy Papers on Corporatisation, Risk Capital and launched Advocacy Challenge Fund.

Precautionary Principle - Managing Risk

With the growing financial innovation, internationalization and market integration, the financial risks have become more complex and widespread. As a result, it has become imperative to put in place a robust risk measurement tool as also a risk prevention mechanism. SIDBI has put in place a comprehensive Credit Risk Management (CRM) system which is sensitive and responsive to various risks emanating from its business dealings and oriented to meet the BASEL II norms. The Bank has set up a Credit Risk Organization Structure (Figure 2.2) on the lines prescribed by RBI. Also, the Bank has put in place an Asset Liability Management Committee (ALCO) which reviews and monitors the liquidity risk and interest rate risk in the Bank on regular basis. The overall risk management process is given in Figure 2.3 and some important risk management tools in Box 2.3.

Good Corporate Governance Practices

A strong commitment to Good Corporate Governance

Practices (GCGPs) is the underlying principle of functioning of SIDBI. Our GCGPs encompass an entire gamut of professional management, compliance to various codes of conduct, adherence to ethical business practices and laws of the land, vigilance and transparency in business dealings.

The Board - Selection & Performance

As per the SIDBI Act, 1989, the general superintendence, direction and management of affairs and business of the Bank vests with the Board of Directors which exercises all powers and does all such acts and things as may be exercised or done by the Bank. The overall affairs of SIDBI are professionally managed by the Board, which is the highest governing body.

The Small Industries Development Bank of India (Amendment) Act, 2000 provides for a fifteen member Board of Directors. Out of these, eight Directors are appointed/nominated by the Central Government. They are Chairman and Managing Director (CMD),

**Box
2.3**

**Risk Management
Tools at SIDBI**

- Internal rating/ scoring models as a tool for measuring credit risk for its various borrower segments. The Bank generates the gap statements, undertakes duration & Value at Risk (VaR) analysis of investment portfolio, etc. to evaluate its market risks.
- Credit Appraisal and Rating Tool (CART) an E-Tool for rating loans up to Rs. 200 lakh to existing profit making MSMEs and Risk Assessment Model (RAM) for rating loans above Rs. 200 lakh to MSME and service sector projects, banks, NBFCs, infrastructure projects.
- A well-defined internal as well as external audits.
- Most of the MoU SFCs have adopted the Calendar of Reviews to ensure regular flow of information to the Board on all vital issues concerning operations of SFCs.
- Refinance and training programmes for project appraisal, risk management and management of Non-Performing Assets (NPA) to SFCs.

Figure 2.2: Credit Risk Organization Structure



Figure 2.3: Risk Management Process



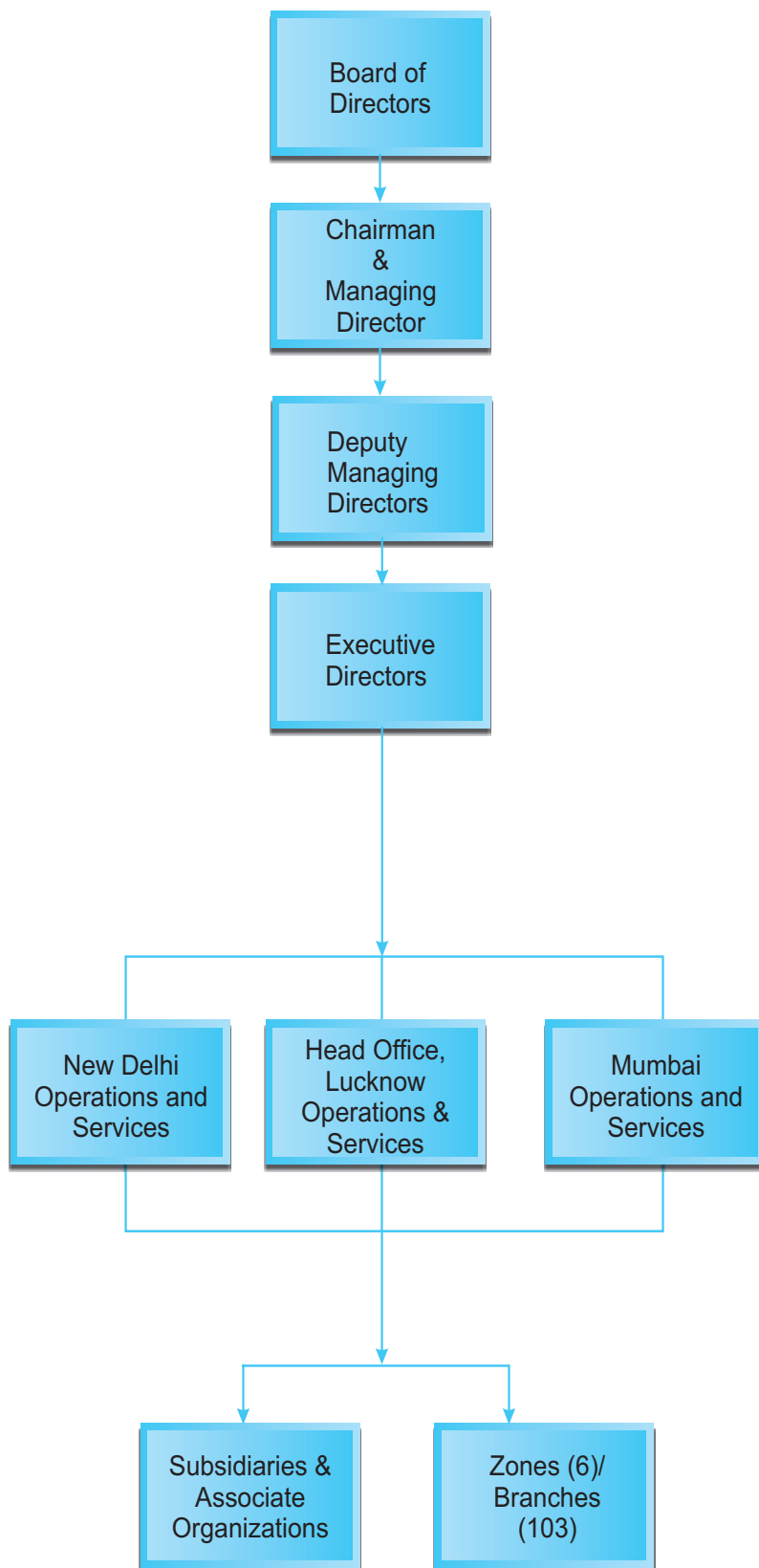
two whole time Directors, two Government officials and three experts (including one from State Financial Corporations) having special knowledge or professional experience. Out of the remaining seven Directors, three are nominated by the three largest shareholding institutions, while four are elected by the public shareholders or alternatively, can be co-opted by the Board. Thus, the Board of SIDBI has fair representation of policy makers, bankers and representatives from the MSME sector.

With the objective of giving focused attention to various important issues, the Board has constituted certain committees, viz. Executive Committee (EC), Audit Committee (AC), Risk Management Committee (RiMC) and Committee for Supervision of SFCs (CfS) as given in the Box 2.4.

Chair of the highest governing body

The Chairman and Managing Director (CMD) of SIDBI is the Chief Executive Authority of the Bank. In exercise of powers conferred by Section 6(1) (a) of SIDBI (Amendment) Act, 2000, Central Government,

Figure 2.4: Organization Structure



Committees of the Board

Executive Committee (EC): Sanctions relating to credit proposals above a threshold limit and other such operational matters are considered by the EC.

Audit Committee (AC): In addition to overseeing the functioning of the Audit Department and reviewing its major observations, the AC also provides guidance in matters relating to finalization of accounts of the Bank and observations made in RBI Inspection.

Risk Management Committee (RiMC): Lays down policy and strategy for integrated Risk Management of the Bank.

Committee for Supervision of SFCs (Cfs): The Cfs guides the Bank in respect of all the policies / matters pertaining to State Financial Corporations.

There are various other committees, some formulated at different branches of the Bank. Some of these include Asset Liability Management Committee (ALCO), Investment Committee, Central Welfare Committee, Vigilance Committee, Internal Advisory Committee on Vigilance, Official Language Implementation Committees, Committee for Implementation of the RTI Act (CIRA), Project Review Committee, etc.

vide its notification dated June 25, 2007, appointed Shri R.M. Malla as the Chairman and Managing Director. Shri Malla took charge as CMD on July 11, 2007.

Compensation for members of the highest governing body

The CMD and the whole-time directors receive compensation as determined by the Government of India. In addition to this, the Directors are paid fees and allowances for attending the meetings of the Board or of any committee constituted in pursuance of SIDBI Act, 1989 and for attending to any other work of the Bank. During the FY 2009, there were 5 Board meetings

held by the Bank. The Directors and Committee Members fees and expenses were Rs. 38.62 lakh and Rs. 18.68 lakh in FY 2007-08 and FY 2008-09, respectively.

Avoidance of conflicts of interest

Adopted by the Board and in line with the Companies Act, Directors, senior management and employees avoid situations in which their personal interest could conflict with the interest of the Bank. The guiding principle is that conflict, if any, is disclosed to higher management for guidance and action as appropriate.

Compliance

Our Compliance System, Codes of Conduct and

Anti Money Laundering (AML) policies constitute the cornerstones upon which SIDBI consolidates its institutional pledge to conduct all its operations and businesses in accordance with ethical norms. We scrupulously comply with all the relevant laws, regulations and guidelines issued by the regulatory authorities and have so far not paid any fine for non-compliance of any regulation during the reporting period. As a reflection of our commitment to the principles of business ethics, we adhere to a number of codes and standards as given in Box 2.5 and Box 2.6 and prefer transparency in our business (Box 2.7).

SIDBI'S CODE OF CONDUCT

CODE OF SIDBI'S COMMITMENT TO MSMEs*

"We accord top priority to customer's satisfaction for the holistic development of MSMEs. SIDBI has prepared its own 'Citizen Charter' and 'Code of SIDBI's Commitment to MSMEs', which are applicable on all-India basis. This is a voluntary Code, reflecting SIDBI's positive commitment to its MSME customers to provide speedy and transparent access to banking services in their day to day operations and in times of financial difficulty. These codes are not only a charter of rights of the MSMEs, but also enshrine their obligations vis-à-vis the Bank."

CITIZEN CHARTER

"Small Industries Development Bank of India [SIDBI] is committed for the promotion, financing and development of Micro, Small and Medium Enterprises [MSMEs] as defined by the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. We provide direct financial assistance to MSME sector for setting up new units, expansion projects, modernization projects, diversification projects and rehabilitation projects. As the principal financial Institution, we strengthen the resources of banks, financial institutions, micro finance institutions and other institutions engaged in the field of promoting MSME sector. We have also actively participated in promotion of subsidiaries / associate institutions, viz. India SME Technology Services Ltd., SIDBI Venture Capital Ltd., Credit Guarantee Fund Trust for Micro and Small Industries, SME Rating Agency of India Ltd. and India SME Asset Reconstruction Company to assist MSME sector. We shall also continue to provide assistance to MSME sector under schemes of Govt. of India for technology upgradation / modernisation. As an apex financial institution in the field of MSME sector, our aim is to create a strong, vibrant and globally competitive MSME sector by providing direct assistance and indirect assistance through other institutions engaged in similar task."

FAIR PRACTICES CODE FOR LENDERS

"As per the RBI guidelines, the Fair Practices Code for Lenders has been adopted by the Bank and hosted on Bank's website. The Code sets out the guidelines for processing of loan applications, appraisal, disbursement, post-disbursement supervision, etc. All information relating to charges/ fees for processing would be disclosed in the loan application forms. Further, the customer would be informed of all costs to be borne in sourcing finance from SIDBI. A copy of signed Loan Agreement should be given to the borrower. A Grievance Redressal Mechanism has also been put in place to resolve the disputes arising out of the Fair Practices Code."

FAIR PRACTICES CODE FOR MICRO FINANCE

"Certain critical issues related with fair practices have emerged alongside growth of MFIs such as cost of credit, transparency in disclosing interest rates and other costs to the borrowers, use of coercive means of recovery, etc. To ensure, that the MFIs applying for assistance to SIDBI provide microfinance services in a manner that benefits clients, a condition regarding putting in place a Fair Practice Code and implementing the same with transparency in regard to loan terms, recovery, rate of interest, management and governance etc. is being insisted upon. Further, most of our MFI partners are members of Sa-dhan, (an Association of Community Development Finance Institutions, whose mission is to build the field of community development finance in India) and abide by the core values and the voluntary mutual code of conduct set out for the Micro Finance Institutions."

KNOW YOUR CUSTOMER (KYC) NORMS AND ANTI MONEY LAUNDERING (AML) STANDARDS

"With the aim to develop and evolve a robust system and to prevent use of financial institution as conduit for money laundering and combating financing of terrorism, a comprehensive guideline has been put in place and the updated list of terrorist individuals/organizations are made available to the operating offices. A system of categorization of the customers into low, medium and high risk categories in terms of the nature of business activity, constitution, location of customer and his clients, mode of payments, etc., at the time of appraisal has later been put in place by the Bank."

* Detail of the same given in Box 2.6

CODE OF SIDBI'S COMMITMENT TO MICRO, SMALL AND MEDIUM ENTERPRISES

(In the Code, 'you' denotes the MSMEs and 'we', the Bank)

1. To act fairly and reasonably in all our dealings with you by:

- Providing speedy and efficient credit and service delivery relating to our lending operations.
- Meeting the commitments and standards in this Code, for the products and services we offer, and in the procedures and practices our staff follow.
- Making sure our products and services meet relevant laws and regulations in letter and spirit.
- Ensuring that our dealings with you rest on ethical principles of integrity and transparency.
- Operating secure and reliable banking and payment and settlement systems.
- Considering cases of financial difficulty sympathetically.

2. To Help You Understand How Our Financial Products And Services Work by

- Giving you information about them in any one or more of the following languages: Hindi, English or the appropriate local language.
- Ensuring that our advertising and promotional literature is clear.
- Ensuring that you are given clear information about our products and services, the terms and conditions and the interest rates/service charges, which apply to them.
- Ensuring that there is no mis-selling of our products.
- Giving you information on what are the facilities provided to you and how you can avail of these, what are their financial implications and whom you can contact for addressing your queries.

3. To Help You Use Your Account Or Service by

- Providing you regular appropriate updates of your account.
- Keeping you informed about changes in the interest rates, charges or terms and conditions.

4. To Deal Quickly And Sympathetically When Things Go Wrong by

- Correcting mistakes promptly and cancelling any bank charges that we apply due to our mistake.
- Handling your complaints promptly.
- Telling you how to take your complaint forward if you are still not satisfied.
- Providing suitable alternative avenues to alleviate problems arising out of technological failures in the Bank.

TRANSPARENCY IN INFORMATION

Right to Information (RTI) Act:

As a part of our compliance to ethical codes and ensuring transparency, we have pledged our commitment to the Right to Information Act, 2005 under which any citizen can request SIDBI for information by directly sending an application in writing or through electronic means in English/Hindi/official language of the areas to the Central Public Information Officer at Head Office, Lucknow or through Central Assistant Public Information Officers (CAPIOs) at various zone/branch or the Appellate Authority, the details of which are available on the Bank's website. We have been promptly submitting the relevant information sought by the applicant under the RTI Act.

Grievance Redressal Mechanism

A Grievance Redressal Mechanism is in place in SIDBI wherein an aggrieved entity has been empowered to get his/her complaint / grievance addressed (against the Bank and/or its constituents) by the Competent Authority. Further, the Bank has implemented Government of India's Centralized Public Grievance Redressal and Monitoring System (CPGRAMS) for prompt and effective online redressal of grievances of citizens of India. The details of such grievances received and action taken thereon is being reported to the Board on half-yearly basis.

Guidelines to Borrowers

We have formulated guidelines to familiarise the prospective borrowers with the various procedural and legal formalities for availing of financial assistance from SIDBI. The guidelines have been divided into three parts for better understanding and convenience of the borrowers - Part I explains the steps to be taken by the borrower from the stage of sanction of assistance for timely drawal of the assistance and implementation of the project. Part II deals with the various legal requirements to be complied with. Part-III includes the various formats in which the information/ reports etc. are required by SIDBI.

Vigilance

We aim at combating corruption and ensure that strict and effective controls are in place at the Bank. The vigilance set-up in SIDBI is headed by a full-time Chief Vigilance Officer (CVO)

appointed by the Ministry of Finance, GoI who is assisted by the In-charges of the Zones, in their ex-officio capacity as Zonal Vigilance Officers of their respective Zones to analyze risks related to corruption. A Vigilance Committee at the Head Office level and an Internal Advisory Committee on Vigilance also form part of the set-up. The Vigilance Department submits a report on the vigilance activities and status of cases of frauds to the Audit Committee /Board of Directors at periodic intervals. All our employees are sensitized regularly about the various vigilance rules, practices and activities. During FY 2009, the Bank's Vigilance Department focused on various initiatives like conducting Vigilance Weeks, strengthening of preventive vigilance measures, simplifying internal rules and procedures and creating awareness about 'Public Interest Disclosure and Protection of Informers' Resolution' (PIDPI).

"We are continuously developing our product line with the institutional building exercise with a vision that no bankable project in the MSME sector should languish for want of resources."

Environment Protection

3



We believe in the principle of good environmental management which makes good business sense. Like any financial institution, we also have an influence on environment, directly — through consumption of natural resources, management of properties, use of paper, travel, etc. and indirectly through the environmental consequences of the products and services offered, especially those related to financing and management of the chain of suppliers.

Risks due to climate change

For SIDBI, the challenge of climate change involves both risks which need to be minimized and real opportunities which need to be seized. For a development financial institution like SIDBI committed towards promoting, developing and financing of the MSMEs in the country, the risks (both regulatory and physical) at large are due to the

implications of climate change on the operations of its MSME stakeholders. According to us, the present concern of Governments across the globe on climate change may lead to capping of Greenhouse gas emission by various countries which, if it happens, is likely to have fallout on the various industrial sectors and may even lead to stipulation of new emission norms for entire industrial sector including MSMEs. This, in turn, would compel the MSMEs in sectors like Foundry, Forging, Auto Parts, Rolling/Re-rolling mills, etc. to adopt more stringent norms for which the necessary technological upgradation and emission reduction methodology shall have to be undertaken. Understanding this, SIDBI has pro-actively started offering various innovative financial products and capacity building measures to the MSME sector. The same has also been documented in our Loan Policy with a view to addressing the risks posed by climate change.

Mainstreaming environmental concerns with our operations

SIDBI, being the principal lender to the MSME sector in the country, has committed itself to achieve sustainability by incorporating Environmental and Social (E&S) aspects in its core business. For instance, a cautious approach is adopted in respect of certain industries, such as, chemical dye intermediates, industrial oxygen, distilleries, etc. Similarly, financial assistance is not provided to industries consuming/producing ozone depleting substances, viz. Chlorofluorocarbons (CFCs), Halon Carbon tetrachloride, Methyl chloroform, Hydrobromofluoro-carbons (HBFCs), hydrochloro-fluorocarbons (HCFCs), Methyl bromide, Bromochloromethane (BCM), etc.

We have stipulated a necessary pre-condition before sanctioning the credit, wherein the enterprise has to obtain No-Objection Certificate (NOC) of 'Consent to Establish'

from the respective State Pollution Control Board (PCB) concerned wherever required, before the enterprise takes up the implementation of the project. Further, it has also to obtain an NoC for 'Consent to Operate', being the final Clearance from the PCB; before permitting the unit to commence commercial production. The final clearance once granted is subject to review and renewal at periodic intervals based on monitoring / inspection by the PCBs to ensure that the unit is actually meeting the prescribed norms and parameters.

Besides, we also provide credit (e.g. under the World Bank Line of Credit) to MSMEs conforming, among others, to E&S standards.

Similarly, under Japan International Cooperation Agency (JICA), Japan and KfW, Germany lines of credit, SIDBI provides loans at concessional terms for promoting energy saving projects, clean production and pollution control measures in the MSME sector. These types of sustainable financing facilities are primarily designed towards protection of our planet 'earth' rather than being a purely economic objective.

Creating awareness

Efficient use of energy by MSMEs is emerging as an area of critical importance as it is a potential tool for reducing costs. The Bank supports this by way of sensitizing and educating its stakeholders in adopting efficient means of energy

Box 3.2

Do's and Don'ts Booklets on Energy Efficiency Measures



SIDBI has prepared the Energy Efficiency booklets under the MSME FDP for Fruit & Vegetable Processing Sector, Foundry, Engineering, and Ceramics sectors, suggesting simple Do's & Don'ts tips to use energy efficiently by adoption of better technologies / equipments & good house-keeping. The booklets have been well received by the MSME sector.

For wider outreach in regional areas, the booklets have been translated and printed in English, Hindi along with 6 more regional languages viz, Bengali, Kannada, Gujarati, Marathi, Oriya and Tamil.

Box 3.1

Assistance to Mumbai Taximen

We provided assistance to more than 700 taxi drivers of Mumbai to phase out their taxis, which were more than 25 years old,



and replace them with latest energy efficient versions using a simplified credit delivery arrangement with active involvement of the two local taxi associations.

National Action Plan on Climate Change

Recently, our Hon'ble Prime Minister has announced India's National Action Plan on Climate Change (NAPCC) which provided a framework for addressing climate change as a core development issue in India. NAPCC has 8 components, viz.

- National Solar Mission,
- National Mission for Enhanced Energy Efficiency,
- National Mission on Sustainable Habitat,
- National Water Mission,
- National Mission for Sustaining Himalayan Ecosystem,
- National mission for Green India,
- National Mission for Sustainable Agriculture, and
- National Mission on Strategic Knowledge for Climate Change.

SIDBI, through its best efforts, expresses commitment to the adoption of NAPCC in its working and functioning.

consumption by way of booklets, handbooks, workshops, and energy audit services.

SIDBI has also been actively involved in organizing awareness campaigns in leading MSME clusters to create the awareness regarding the benefits of adopting energy saving equipments and technologies. Of the 40 awareness programmes proposed to be held over a period of three years. SIDBI has organized 10 seminars till January, 2010.

Our associate, India SME Technology Services Ltd. (ISTSL) has been spreading the message of environmental protection amongst the MSME entrepreneurs by organizing awareness campaigns in the MSME clusters on the scope of Clean Development Mechanism (CDM). It has also been progressive in providing these MSME clusters various technological interventions to not only upgrade the technology of MSMEs but also to promote adoption of energy efficient

technologies in order to save the expenditure on fuel consumption.

Energy Efficiency and Clean Development Measures

MSMEs in India have good potential for improving productivity and competitiveness through Energy Efficiency (EE) measures/ investments both in retrofits and technology change.

Energy, being a significant variable in the production economies, EE projects can contribute towards increasing the competitiveness of MSMEs through improvement of the bottom line. If the EE projects get registered under the Clean Development Mechanism (CDM), MSMEs could be eligible for Certified Emission Reduction (CERs) or Carbon Credits, which would further improve the return on EE investments by MSMEs.

Despite the economic benefits of CDM, the MSMEs are still not very inclined for EE measures probably due to the difficult process

involved in technical audits, project registration and sale of Carbon Credits. In this regard, the Bank has taken a significant step towards encouraging new models for EE projects, wherein the total effort and cost for the MSMEs are reduced significantly.

ISTSL has signed an MoU with KfW, Germany wherein CDM activities would be undertaken in various MSME clusters. The stainless steel cluster of Jodhpur has been identified as the pioneer cluster for taking up first such activity. Initially, ISTSL prepared a Techno Economic Viability (TEV) report for ascertaining EE potential in the cluster. TEV study recommended a few technical interventions which would lead to energy efficiency in the form of savings in fuel leading to reduction in CO₂ emission and generation of carbon credits, based on which appropriate actions would be undertaken in due course of time.

The Bank gives thrust on providing financial support to Energy Service Companies

(ESCOs) undertaking energy audits, etc. and MSMEs to draw benefit from improvement in production economies and the opportunities provided by the CDM including trading in CERs (carbon credits).

Under the Bank's Promotional & Development activities, pollution control measures are supported in select MSME clusters and industries, including support for common facility centers and Common Effluent Treatment Plants (CETPs). Along with these, the Bank considers that there is an immense potential in lending for waste disposal & management, effluent treatment, setting up of CETPs, e-waste recycling, etc.

SIDBI has contracted a line of credit with KfW, Germany to fund cleaner production measures to reduce the severe pollution load by MSME units. The scheme provides for not only concessional funding but also handholding (provided by arranging services of expert consultants to the units without any charges).

SIDBI has assisted 21 such projects in the areas of textile, ceramics, sponge iron, foundry and leather for an aggregate loan amount of about Rs.40 crore. It includes assistance for setting up three CETPs in Surat and Bangalore, financed under the project, which are benefiting hundreds of MSMEs in the respective locations. In Surat, we have financed a CETP catering to the needs of 500 MSMEs in and around Surat. Buoyed by the success of the Project, the Bank has subsequently financed creation of another facility in Surat to meet growing demand. Further, some of the projects are unique in nature and would have not otherwise been funded through normal funding channels, e.g. E-Parisara (electronic waste recycling plant). An impact study of the assistance has observed that the units have been able to reduce their energy consumption significantly, in some cases by 25-30%, reduce their waste water discharge and also reduce the raw material consumption by about 15%.

Continuing with our efforts towards sensitizing the MSMEs on improving productivity through energy efficiency, we have recently signed an MoU with the Bureau of Energy Efficiency (BEE), Government of India. The MoU covers the following areas:

- Creation of a shelf of energy efficient technologies for 25 MSME clusters.
- Awareness creation and capacity building of local BDS providers for implementing energy efficient technologies.
- Financing eligible proposals for energy efficient technologies & measures.

Managing our environment impacts

Over the years, there have been major improvements in the system both for managing environmental impacts through our areas of operations and in financing of the MSMEs. Our compliance towards World Bank's E&S guidelines is one such way of ensuring environment

friendly network within our lines of business.

Environmental appraisal of Projects

Following our compliance towards World Bank's E&S norms, we have integrated a similar system for carrying out environmental and social appraisals of projects funded through the micro credit route. These appraisals broadly identify environmental risks associated with some of the most relevant/ common activities funded through our partner MFIs. During the appraisal, gender sensitization is also taken into account.

Initiatives within our organization

Optimal utilization of resources is one of the main objectives of SIDBI. In order to achieve this objective, the Bank has undertaken certain measures, however; exact data pertaining to their consumption details are not yet available but would be collected and reported in phased manner.

**Box
3.4**

Saving Paper



A workshop on 'Business Development Services (BDS) in MSME Clusters' was organized by the Project Management Division (PMD), SIDBI which was attended by representatives from three existing and four new implementing agencies, M&E agency for BDS intervention, SIDBI, representatives from project's partners and associates. An important take-away of the event was saving of over 10,000 paper sheets by way of distributing presentations and other agenda items in CD form.

VIDEO PRESENCE

Another initiative of SIDBI has been to introduce and leverage video conferencing with different offices. As our 103 branches are geographically spread across the country, members of the higher management often use video conferencing facilities to conduct meetings with their teams. This has saved our travel time and costs and also helped increase efficiency. In the recent past, the video conferencing facility has been used between Lucknow, New Delhi, Chennai, Mumbai, Kolkata for Zonal Office review & various internal credit & review committee meetings. Activities like conducting Interviews of candidates at various centers for internal promotion, Customer Interaction (like Customer in Kochi branch interact with Zonal in charge in Chennai), Branch



Inauguration (Greater Noida & seven Micro Finance branches) have been done with the help of such facility.

The main resource consumed at SIDBI is paper and the Bank has undertaken the following measures to reduce its consumption:

- All our branches are computerized. SIDBI has its own Wide Area Network (WAN) through which all the branches are connected through a shared network.
- Our payments are done through a software and authorized online in order to avoid taking printouts.
- As part of Bank's initiatives to provide electronic interface to speed up the communication with its borrowers, issuance of Demand Advice (DA) or payments done from borrowers are being sent through e-mail / SMS to the borrowers instead of dispatching printed version of it hitherto.

Due to the above measures, expenses on stationary and printing was reduced significantly from Rs 7.12 crore in FY 2007-08 to Rs. 3.54 crore in FY 2008-09.

One of our major commitments is to obtain certification of our major areas of operation, in accordance with the international standards of ISO 14001-2004

Besides saving paper, the Bank has also taken up steps to save electricity within its premises. A practice of shutting down computers by the users and automatically shutdown of servers at the end of the day is being followed. All our new upcoming branches are retrofitted with CFL lighting in a phased manner.

We have also started introducing certain other measures, such as, replacing the present bulb/tube lights with CFL lights; greater use of Video conferencing to save travel cost and energy saving; Installing the solar heater system in the Bank's office/residential building which could be used as an

alternative source of energy to generate power; water conservation measures like rain water harvesting; use of recycled paper in official noting/records; doublesided printing of all official notes/memos, etc. The impact of the above measures will be measured and documented in our next CSR Report.

"As a move towards being more transparent and comprehensive in our next sustainability report, which besides being exclusively engaged in taking up environmental initiatives at our areas of operation, would also be measuring and monitoring the environmental impact of such measures."

Social Commitment

4



Our involvement with the society has always been an integral part of our mainstream work. It goes beyond the realm of MSME finance and is oriented towards socio-economic empowerment of the bottom-of-the-pyramid sections of the society, besides capacity building of the MSME sector, interest free contribution to CGTMSE corpus, skill enhancement of our employees, staff welfare, and more importantly, enterprise promotion without collaterals. During the FY 2008-09, our social expenditure on the above heads constituted 19% of our Net Profit.

A two-pronged approach for supporting communities through direct assistance and through social intermediation which includes capacity building is being pursued. Efforts are made to stimulate closer cooperation with governments, NGOs and clients, together with stronger employee engagement.

Towards Inclusive Growth

Way back in 1994, when we had commenced our Micro Credit Programme, we had made a commitment towards inclusive growth by making small loans available to the neglected sections of our country. It includes women, minorities and the backward classes in the rural, unorganized and under-served regions. We have observed that these sectors have long remained excluded from the Formal Financial Institutions (FFIs) and were heavily dependent on local money lenders who used to charge usurious interest rates, leading to perpetual debt trap. In order to alleviate their problem, the Bank formally institutionalized the micro-credit programme by setting up a specialized department called SIDBI Foundation for Micro Credit (SFMC) in 1999 as the "Institutional Answer" to the huge unmet demand for micro finance. The primary objective of SFMC is to "create a national network of strong, viable, and sustainable Micro

Finance Institutions (MFIs) for providing micro finance services to economically disadvantaged people of India, especially women".

The MFIs have the advantage over FFIs in terms of reaching out to the doorstep of rural people and also over local money lenders by charging lower interest rates than that charged by such money lenders. However, these MFIs need strong capacity building support to effectively provide micro credit at affordable rates.

We took the initiative to nurture, develop, strengthen and ultimately partner with more than 140 MFIs. Our partner MFIs are encouraged to promote women's access

Our micro finance programme, that serves the poor, is implemented with long-term focus on commercial viability and is acting as an important vehicle for realizing the Millennium Development Goals

to credit so as to help them acquire productive resources, thereby attempting to redress gender differences and inequalities in the social set-up.

Our micro finance programme is perceived as a “Credit Plus” programme and hence, does not restrict itself to funding alone. Our services include not only meeting the financial needs of MFIs with structured, value-added products, such as, Term Loans, Transformation Loans, and Equity Support, etc. but also provide capacity building grants as well. For this, SIDBI provided a customized package of Rs 12.15 crore in FY 2008-09 (82% increase with respect to grant given in FY 2007-08) as a capacity building grant to the MFIs under the DFID, UK collaboration. The package was designed on an annual diagnostic and intensive Capacity Building Need Assessment (CBNA) exercise and was targeted towards

- Human Resource Development & Management

Strengthening (e.g. a part of the salary of young professionals recruited by MFIs are borne by SIDBI through Young Professionals’ Programme)

- Business Development Services (e.g. IT / Automation- MIS Development and Software, Hardware Support, use of innovative Information & Communication Technologies (ICTs) in credit delivery; Infrastructure, such as, vehicles)

SIDBI has provided cumulative Technical Assistance of Rs. 116 crore for capacity building of MFIs and the micro finance sector in general.

During FY 2008-09, SFMC continued to implement the National Micro Finance Support Project (NMFSP) in collaboration with the Government of India, Department for International Development (DFID, U.K.) and International Fund for Agricultural Development (IFAD), Rome. The project

was designed to address the difficulty of access to financial services by the poor in India and to develop a more formal, extensive and effective Micro Finance sector on a national scale.

Impact Assessment

Our micro finance assistance through MFI route has benefited more than 200 lakh persons, mostly women. An independent seven-year longitudinal study on the impact assessment of our micro finance programme has revealed strong positive socio-economic impact, effectively reaching out to the underprivileged and promoting gender equality and women’s empowerment (Box 4.1).

Women Empowerment

Reconciling the growth of the MSMEs with the economic and social upliftment of women has been one of the most sustainable solutions for women empowerment. As mentioned elsewhere, our 80% of our micro finance beneficiaries are women.

MICROFINANCE OUTREACH

Year	Number of MFI Partners (as at end of year)	No. of MFI partners in the underserved states	Total Outstanding Micro Credit Portfolio (Rs. crore)	Aggregate Assistance sanctioned by way of term loans to MFIs in the underserved states (Rs. crore)
FY 2008	104	58	950	222
FY 2009	131	71	2137 (Over 125% ↑)	445 (Over 100% ↑)
No. of Beneficiaries as on December 31, 2009 : 200 lakh				

Impact Assessment Study of our Micro Finance (MF) Programme

We carried out the longitudinal socio-economic research, conducted during the period 2001-07 of our Micro Finance programme to assess, on a national scale, the development impact of MFI intervention. The highlights of which are:

- **Effective outreach to the underprivileged:**
 - Scheduled Castes/Scheduled Tribes & Backward Classes (73%)
 - Female Clients (80%)
 - Poor Clients (30%) and Vulnerable Borderline Poor (37%)
- **Economic Impact:**
 - 76% able to increase their income through MFI assistance.
 - Better employment opportunities to underemployed family members
 - Increase in enterprise activity of clients: 77% developed their existing activities; 37% diversified into new activities
 - Demand for hired labour increased and that for the casual labour declined.
 - 75% clients engaged in self-employed manufacturing reported increase in income.
- **Social Impact:**
 - 59% considered a rise of social status as a result of association with micro finance movement.
 - 66% improved their food consumption pattern.
 - 56% improved housing conditions.
 - 77% could provide better educational facilities to their children.
 - Increased awareness of health care
- **Gender Equality/ Women Empowerment:**
 - Increase in savings by women in their own name.
 - Created new economic avenues for women; Increased control of women over running family enterprises
 - 65% of female children were going to school

One of many such success stories of women empowerment is portrayed in Box 4.2.

Besides micro finance support, the MSMEFDP has given added thrust to women empowerment in its various programmes being implemented in 21 MSME clusters adopted by the Project. For example, in the Kanpur leather cluster, the role of women was severely limited to home based activities, such as, the manufacture of open footwear or accessories like hunter, etc. The BDS initiated in clusters started sensitizing women on the advantages of their participation in the leather industry along with organizing training programme for enhancing their skill in leather industry. This targeted intervention not only identified a tailor-made solution for meeting the cluster's long term challenges, but also provided the cluster an access to a better and a new talent pool-women. Similar examples are there in other clusters (Box 4.3).

Besides, the BDS team in Kanpur has introduced other

types of skill upgradation programmes wherein new products and designs are introduced and developed, (e.g. mini loom, Hunter products) and corresponding training sessions are provided. Efforts have also been made to establish market linkages wherein new products can enter the market and simultaneously training sessions can be conducted for a continual renewal of their skills to meet the requirements of the new product.

Technical Assistance and infrastructure support

Strengthening infrastructural facilities in MSME clusters has been one of the foremost developmental activities of the Bank.

This component intends to focus on improving the quality of products, services and systems of MSMEs to make them more efficient. The end goal of this activity is to enable each enterprise to scale up and graduate to

a stage of operational and financial sustainability.

For instance, the MSME units in the Jamnagar brass parts cluster were facing problems due to non-availability of a testing facility. They were either dependent on larger units or used to get their products tested from labs in Ahmedabad. To mitigate this problem, we have supported the establishment of a common testing facility centre METALAB, wherein the MSMEs would be able to have the tests conducted locally at a single laboratory. Within a short span of three months of its set-up, METALAB has tested more than 3000 samples for about 600 MSMEs. METALAB is fast emerging as an independent third-party entity providing verification of samples on behalf of buyers. The lab has generated cash surplus and has reduced cost and time in getting the tests done.

We are also actively involved in organizing workshops regularly for sensitizing MSMEs on sustainability issues that can

Transforming Lives

(SIDBI's micro-credit lending initiative through Bandhan – a partner Micro Finance Institution)

Bishakha Bairagi, 37, well known for her brand 'batik print', runs her factory employing more than 100 labourers in the area of Raibaghini, West Bengal

Her name is now resonant of a successful brand of Batik print in her community. Bishakha Bairagi's credits Bandhan, a Micro Finance Institution supported by SIDBI for helping make her aspirations become an inspiration other women.

Bishakha of Raibaghini, started a modest life by marrying a bus conductor, who scarcely earned enough to provide a comfortable life. She still remembers her early days of struggle when she managed a small income to run the household and relied on her husband for money and decisions.

Driven by improving the living conditions of her family, Bishakha stepped out of her cocoon to work in a government Khadi factory where she learnt the art, skill and technology of printing on sarees. She was earning a mere Rs. 500 per month then and she thought it would make more sense and profit if she designed sarees on her own. Even then, her total family income was just Rs. 1500.

The ambitious Bishakha started on a self-employed mode by printing sarees in her own residence. She accepted small orders owing to her lack of capital to run the business in full swing, until she learned about SIDBI's micro-credit initiative with Bandhan – a Kolkata based Micro Finance Institution

Her first loan of Rs. 5000 was well-invested in scaling up her raw material inventory of color, wax, sand, designs, etc. The response from the market grew more positive each day and the demand for her sarees raised the need to address a working capital requirement. In 2007, Bishakha drew her second loan amount worth Rs. 7000 and in 2008 she drew a loan of Rs. 12,000. Slowly and steadily, Bishakha kept pacing up her business, until today when she is accessing her 4th loan worth Rs. 17,000 and is a successful employer of nearly 100 workers, including 85 women who do the printing and 18 labourers, who work in her Batik Print business.

Today, Bishakha earns a profit of Rs. 20,000-25,000 per month. She is a proud landowner with 17 kathas of land in her name, where she has built her own house and factory. She has also helped her two sons get established by opening two stationery shops for them.

Throughout her journey from housewife to entrepreneur, Bishakha and her business has earned prestige in her community with constant financial support from SIDBI's micro credit assistance programme to whom she expresses her gratitude. While her aspirations can barely be withheld, the ambitious Bishakha aspires to draw an Micro Enterprise loan to avail of larger sum once she has paid up for her micro loan.

Bishakha is just one of the countless, inherently talented, driven and entrepreneurial women, that SIDBI strives to reach out to, in order to promote financial inclusion and women empowerment.

SUCCESS STORY**The MSMEFDP supports
Woman Entrepreneur
Propagate 'Healthy Habits'**

Mrs. Leena Gokhale, a Computer Engineer by education, decided to set up her own company 'Healthy Habits' which specializes in Herbal Teas. These teas have been developed through her own research and development.

In January 2008, she got in touch with the MSME-FD Project through its Pune cluster portal. The Project assisted her with the information such as, references of consultants capable of preparing project report, financial projections, contacts for factory set up, testing, packaging material and machinery to make pouch packs of herbal tea,

Using references from the project team, she approached NAFARI, and got her products tested. The Project also facilitated her tie up with M/S Synergy Research, for conducting test market survey. Rounds of meetings between consultant of M/S Synergy Research and Ms. Gokhale and successful mediation of the Pune Cluster Office saw the deal through with the Project support. The assignment has already been completed and M/S Healthy Habits have also got a sales lead from one of the top retail outlets of Pune during the study phase itself.

enhance their competitiveness and also reduce their costs of production effectively:-

- In the Alleppey coir cluster, a workshop on “New dyeing and bleaching techniques for coir” was organized under the MSMEFDP to sensitize the enterprises on doing away with usage of traditional and cost intensive methods of dyeing and bleaching. Around 65 MSMEs participated and benefited from this programme.
- A training Workshop on “Post Harvest Technologies and Pack House Activities” was organized in May 2008. This training was aimed to improve the operational practices for harvesting and post-harvest handling in the cluster.
- Similarly, a workshop on Kaizen (meaning continuous improvement) techniques was organized for the footwear units in Kanpur, for enhancing their productivity.

Serving the Under-served

Our focus areas constitute the underserved areas, characterized with high incidence of poverty with most of the low-income households not having access to formal financial services. Of the seven micro finance branches opened during 2008-09, four branches (viz. Lucknow, Kolkata, Bhubaneswar and Guwahati) have been targeted with the primary objective of giving an impetus to microfinance programmes in the underserved areas. Apart from branches, a dedicated cell for the Development of North-Eastern Region (DONER), Guwahati was set up for identifying potential business opportunities in the North Eastern Region and bring about a visible impact on the lives of the poor masses in the region.

We have even initiated programmes which have been solely designed for addressing problems of rural unemployment, urban migration, under-utilisation of know-how and latent rural resources and marketing of

rural products. Being the apex Financial Institution for the MSME sector in India, we feel that it is our responsibility to improve the inherent strength of the rural areas which, in turn, would impart a catalyzing effect on employment generation and economic rehabilitation of the poor.

Our Rural Industries Programme (RIP) and Entrepreneurship Development Programmes (EDPs) – both of which are part of our Promotional & Development activities (P&D) – aim at promoting viable enterprises and self-employed ventures, capable of generating employment opportunities, especially, in rural areas targeting less privileged sections of the society like women and Scheduled Castes / Scheduled Tribes / backward castes / minorities (Box 4.4).

Pilot Project in Murshidabad

As an extended effort to spur growth in the underserved regions, the MSMEFDP has proposed to create models for development

of underserved clusters. In a pilot run, a Detailed Potential Survey of Murshidabad District in West Bengal was undertaken through NABARD Consultancy Services (NABCONS). The survey analyzed the existing infrastructure facilities in the region as well as linkages and suggested development of additional infrastructure to support and promote agro-based industries in the region. As an outcome of the survey, we have already launched a Rural Industries Programme in the area.

Support to the North-Eastern Region

The Bank accords priority to the development of North Eastern Region (NER) – an underdeveloped region of India, through its activities under micro finance, rural industrialisation, handicraft cluster development, entrepreneurship development, marketing support, etc. During FY 2008-09, total assistance of Rs.85 lakh was extended under various such programmes in NER. Under RIP, 4 districts, viz. Champai, Imphal East, South

Box 4.4

RURAL INDUSTRIES PROGRAMME (RIP)

- Extension of RIP to 8 new districts during FY 2008-09 taking it to more than 120 districts in 24 States cumulatively.
- Promotion of 3000 enterprises in FY 2008-09 taking it to more than 32,600 enterprises up till now.
- These enterprises have so far generated more than one lakh employment opportunities.

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME (EDP)

- Support to 100 EDPs during FY 2008-09, including 74 by Rural Development and Self Employment Training Institute (RUDSETI).
- Total number of EDPs supported since inception for various target groups was 2,661 benefitting about 66,000 participants.

Tripura and West Kamang were taken up for development.

We prepared a compendium of 100 project profiles, each giving a brief outline on the micro enterprise sector which can be promoted in the NER region. It is also a useful reference to provide basic guidance to entrepreneurs while helping them in their choice relating to establishment of business.

The Committee on Financial Sector Plan (CFSP) for NER headed by Smt. Usha Thorat, Deputy Governor, RBI has recommended that SIDBI could open counselling wings at all state capitals in NER for MSME entrepreneurs. Accordingly, a "Counselling Centre for Micro and Small Enterprises" at Guwahati, Assam has been made operational since March, 2009.

Investing in human capital

We not only strive to invest in our human capital, but also develop and train the staff of our partner MFIs and SFCs. Our motive behind nurturing minds not only aims at creating a cadre of trained manpower supply for the MSMEs in the

country, but also assisting people who otherwise do not have any economic opportunities to broaden their horizons at the same time.

Our programme under the P&D activities have been specifically designed to remedy the shortcomings of Human Resource development in MSME sector. It enables unemployed to be employed and those employed to realise their full potential. Management development in the sector has been identified as a crucial area of intervention for the viability, competitiveness and profitability of MSMEs. While the Small Industries Management Programme (SIMAP) aims at creating a pool of trained managers specifically to assist the MSMEs in their multiple responsibilities by targeting young graduates who are otherwise not professionally qualified, the Skill-cum-Technology Upgradation Programme (STUP) engages with entrepreneurs and senior functionaries of existing MSMEs for improving their performance by developing/strengthening managerial skills and technical competence. The programme also aims at

creating awareness amongst the MSMEs on process improvements, technological developments, etc. and to induce the units to upgrade their technological level.

Nurturing human resource in MFIs

We are also focussing on nurturing the human capital of our partner MFIs on grounds of sustainability through following measures:-

- Under our Young Professionals Programme (YPP), we have provided support for salary of young professionals recruited by partner MFIs from premier management & technical institutions.
- We provided support to premier management institutes for course development on elective in micro finance.
- We regularly sponsor the management faculty at these institutions, staff of MFIs, consultants and service providers for international exposure visits, workshops, short duration and customized training programmes in various areas of micro finance.

- Keeping in view the importance of effective corporate governance for successful management of MFIs, a three-day training programme on “Board Governance of MFIs” was organized by IIM, Lucknow for our partner MFIs.
- A series of workshops in 6 locations were organized to create awareness and sensitize MFIs on gender related issues and products. The programme was attended by about 100 representatives of partner MFIs and DFID officials.
- Other major initiatives include developing a common chart of accounts for the sector, creating gender & environment awareness, promoting innovations and action research on emerging concepts, etc.

Extended support to State Financial Corporations (SFCs)

Besides providing grant-based financial assistance for setting up and improving the IT systems in the SFCs, SIDBI has also been organizing training programmes for SFC officials at various levels. This initiative has enabled SFCs to improve their credit appraisal, monitoring and recovery skills as also for creating a system - based work culture.

During FY 2008-09, SIDBI organized 5 training programmes for the benefit of SFCs. These programmes were on Credit Rating & Risk Management; Project Appraisal & Follow-up; Project Monitoring & Recovery Management, etc.

SIDBI has also been providing faculty support for training programmes being organized

by Council of State Industrial Development & Investment Corporation of India [COSIDICI] for the benefit of officers of SFCs. During FY 2008-09, two hands-on training programmes on the use of CART system for appraisal of loan proposals and Risk Management were organized for the benefit of officers of 2 SFCs.

Community Services

We also encourage our employees to undertake various community development services, such as, blood donation, volunteering, sports activities, etc. The Bank has also been involved in organising blood donation camps and for this purpose, employees are given eligible special leave on full pay basis. Our employees have risen on many occasions to help the victims of natural disasters like, cyclone, tsunami, floods, earthquakes, etc. by way of monetary and kind support.

We aim at acting responsibly in all our relationships and playing a positive role in the communities we serve. Thus, it is imperative that we conduct our business dealings responsibly and ensure that we have a positive impact on the communities where our customers and employees live and work.

Human Resource Development

5



For SIDBI, Human Resources (HR) are its most valuable asset and thus, form an important stakeholder group which functions in alignment with the Bank's business strategies and corporate goals. Our corporate culture is oriented towards an Inclusive HR Development as it works "through the people for the people". The endeavour is to impart to our employees equal opportunities and provide an enabling environment to enhance their productivity and career growth.

Our Human Resource Strategy

The HR Strategy is based on certain core principles which act as the engine towards attaining the HR Mission and Vision (Box 5.1). Some of these core principles are:

- Source, train and retain effective talent and develop them as the core competitive strength of the organization.
- Clearly define the organizational structure with well articulated career paths and opportunities for

development, ensuring flexibility at the same time.

- Ensure an objective and transparent system for assessing performance.
- Lay greater emphasis on results than merely on process adherence.
- Give employees plenty of independence to meet customer needs.
- Ensure delegation of decision making to the right level.
- Provide rewards and incentives that go beyond monetary compensation, to keep employees inherently motivated.

Employee Profile

We continued to recruit quality talent despite the progressive downturn in the second half of 2008. As on March 31, 2009, the Bank had on its roll a total of 975 full time employees as compared to 911 at the end of the previous financial year. The breakup of employees by various categories is shown in the Box 5.2.

Box 5.1

OUR HR MISSION

To enhance business growth through:

- *Rapid skill upgradation, coaching, knowledge sharing and competency development.*
- *Increased focus on performance orientation and rewarding excellence.*
- *A trusting, exciting and cohesive culture.*
- *To become an employer of choice in the talent market.*

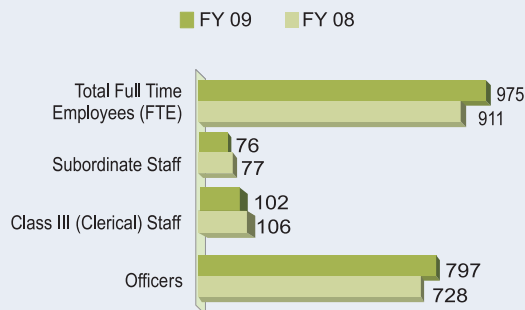
OUR HR VISION

To facilitate development and growth of our people to leverage their fullest potential, and create a spirit of customer intimacy & service excellence for driving rapid business growth.

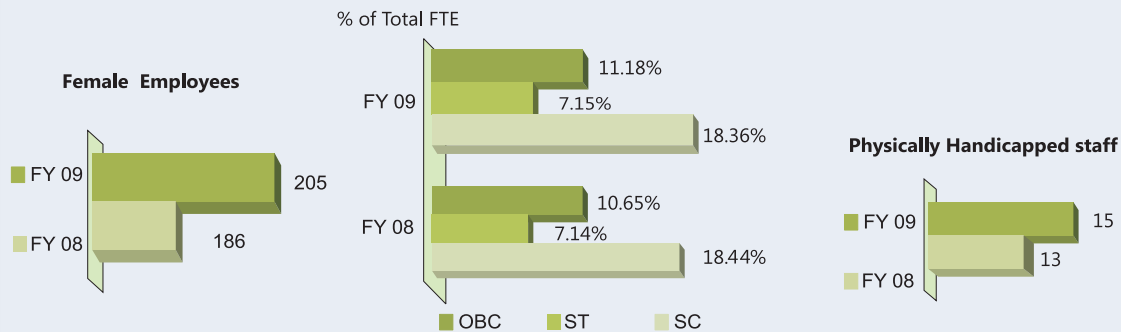
ADDING JOBS DESPITE DOWNTURN

We continue to create a workplace that attracts, develops and retains a highly talented and diverse workforce, facilitating the achievement of the Bank and its objectives on a sustained basis. We aim to meet the challenges of reconciling work and personal life and promoting equal opportunity. The following charts provide a profile of our employees as on March 2008 and 2009.

Employees by category



By Socially Disadvantaged Groups



CROSSING 1000th MARK IN SEPTEMBER 2009

As on September 01, 2009, the Bank had on its roll a total of 1049 full-time employees comprising 871 Officers, 103 Class III staff and 76 subordinate staff. Of the total staff as on September 01, 2009, 188 belonged to Scheduled Castes (SCs), 76 to Scheduled Tribes (STs) and 126 to Other Backward Classes. The staff strength was inclusive of 12 employees in ex-servicemen and 16 employees in physically handicapped categories. The strength of women employees has gone up from 186 as at the end- March 2008 to 205 at end March 2009 and further to 231 as on September 01, 2009, reflecting the Bank's commitment as an equal opportunity employer. The officers of the Bank cut across multi-disciplines, such as, Engineers (153), MBAs (326), CAs/ICWAs/CSs (56), Law Specialty (42) and other professionals of specialised disciplines.

Recruitment of officers in SIDBI is made on pan-India basis. For placement / recruitment in officers' cadre, the Bank takes up recruitment through All India open competition for which advertisements are released in leading National and Regional dailies and the Employment News, whenever the vacancies are notified, besides recruitment of trainees from the campuses of reputed management institutions/ Institute of Chartered Accountants of India.

Our Commitment to Diversity

We are an Equal Opportunity Employer (EOE) and our success is inextricably linked to our diversity. This goes beyond such visible differences as gender or ethnicity. Diversity is central to our brand, heritage and culture. An appreciation of diverse points of view encourages innovation and drives employee engagement and excellence.

During 2008-09, no major incidents of discrimination on grounds of race, colour, sex, religion, political opinion, national extraction, or social origin have been reported. The

concerned authority promptly addressed and resolved any minor issues, as and when raised by the staff members.

In order to support gender diversity at our workplace, we continued to hire female employees on priority basis. The female and male headcount increased by over 10% and 6%, respectively, in 2008-09. As a move towards providing a safe workplace to our female employees, we have set up a Complaints Committee on Harassment of Women at the workplace.

We have been implementing guidelines issued by the Government of India on reservation policy for Scheduled Castes (SCs) / Scheduled Tribes (STs) / Other Backward Classes (OBCs) / Physically Handicapped (PH) and Ex-Servicemen.

Training & Career Development

A large part of the success of any organisation lies in the professionalism of its staff and, to this end, it is necessary to invest in training employees, so that they can gradually acquire the necessary skills for performing their functions

most efficiently. The HR focus of SIDBI during FY 2008-09 has been to give the necessary impetus for the growth in reach and business of the Bank by ensuring that the employees have a meaningful and satisfying career path and requisite skill development.

During FY 2008-09, the Bank deputed 856 employees (including repeat programmes) to various in-house, domestic and international training programmes for their skill enhancement and giving them a wider exposure. Of these, 146 were women, 169 belonged to SCs and 65 to STs category and 52 were Support Staff (36 Class III and 16 Class IV employees). The employee training expenses during 2008-09 stood at Rs. 1.81 crore, compared to Rs. 1.40 crore in 2007-08.

Rewarding our employees

We strive to pay competitive wages and benefits to all employees. Characteristics, such as, gender or race are irrelevant to our compensation practices. The standard entry level wages are higher as compared to

local minimum wage at all locations of operations. The benefits provided to Full-Time Employees (FTEs) and Part-Time Employees (PTEs) are shown in the Box 5.3.

Retirement Plans

SIDBI offers defined benefit and contribution retirement plans to the employees. The benefits

given at the time of retirement are Gratuity, Pension, Leave encashment and Retirement fare concession. The obligations to pay pensions are met out by Pension Trust and Gratuity Trust.

Staff Welfare Activities

We believe that a satisfied and motivated employee is one whose family also appreciates and perceives that the organization is caring and sensitive towards their holistic development.

A Staff Welfare Fund has been set up out of the profits of the Bank, under which various welfare activities for the staff and their families are organised (Box 5.4). These include recreational activities, educational tours, grant of rewards, maintenance and extension of library facilities in the office premises, skill development, etc. Besides, need-based soft loans are also made available out of the Fund to cater to the varying needs of the employees, such as, payment of fees for higher education of their children, emergent medical needs, etc. During 2008-09, allocation for such welfare expenditures amounted to Rs. 1 crore.

The objective of such activities is to develop a sense of belonging among all the employees of SIDBI and their families.

Healthcare Benefits

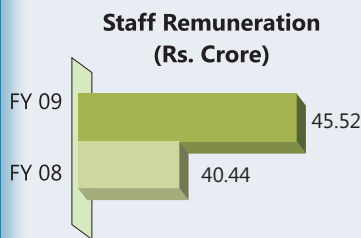
Our healthcare plans include medical reimbursement scheme for workforce members and their dependents.

Comprehensive and periodical health check-up for employees and their spouse above 40 years is provided by the Bank.

Besides, the facility of a doctor

Box 5.3

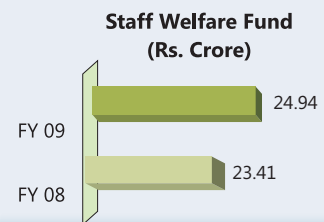
Staff Remuneration and Benefits



Benefits	Provided to Full-Time Employees (FTEs)	Provided to Part-Time Employees (PTEs)
Life insurance	✓	
Health care	✓	✓
Disability/Invalidity coverage	✓	
Maternity Leave	✓	
Retirement provision	✓	✓

Box 5.4

STAFF WELFARE FUND



for visit to the office premises and Bank's residence flats for consultation by the employees and their family members is also provided.

Performance Management

All employees receive regular performance reviews. The standard appraisal of employees' work performance is done on annual basis. The Bank has recently introduced

a scheme for performance incentive to individuals and teams. The promotion policy covers all the levels of employees.

The Bank organizes All India Inter Bank Hindi Essay Competition and has various incentive schemes – Shield Scheme and Cash Award Scheme in place to motivate the learning of Hindi amongst its employees.

Retention

Retention of employees is taken as a challenge for HR management. The total employee turnover by age group, gender, and region is shown in the Box 5.5.

Box 5.5

EMPLOYEE TURNOVER

The zonal employee turnover by age group and gender during FY 2009 was:

Employee Turnover		Age <30	Age 30 - 50	Age >50	Total
East (4)	M	-	2	1	3
	F	-	1	-	1
West (2)	M	1	1	-	2
	F	-	-	-	-
North (11)	M	4	4	-	8
	F	2	1	-	3
South (4)	M	3	1	-	4
	F	-	-	-	-
Central (5)	M	3	1	-	4
	F	1	-	-	1
Total		14	11	1	26

employees to give their best to the organization. Our workplace is barrier free where the employees with physical disabilities have been provided with adequate arrangement at the office premises to minimise their physical hardship. Our environment goes beyond the physical infrastructure of tables, chairs and computers and fosters a culture where every employee performs without fear or favour (Box 5.6). In a nutshell, Safety, Health and Environment (SHE) are embedded in our HR system.

Conducive Work Environment

We accord equal thrust on a safe and healthy work environment that stimulates

Box 5.6

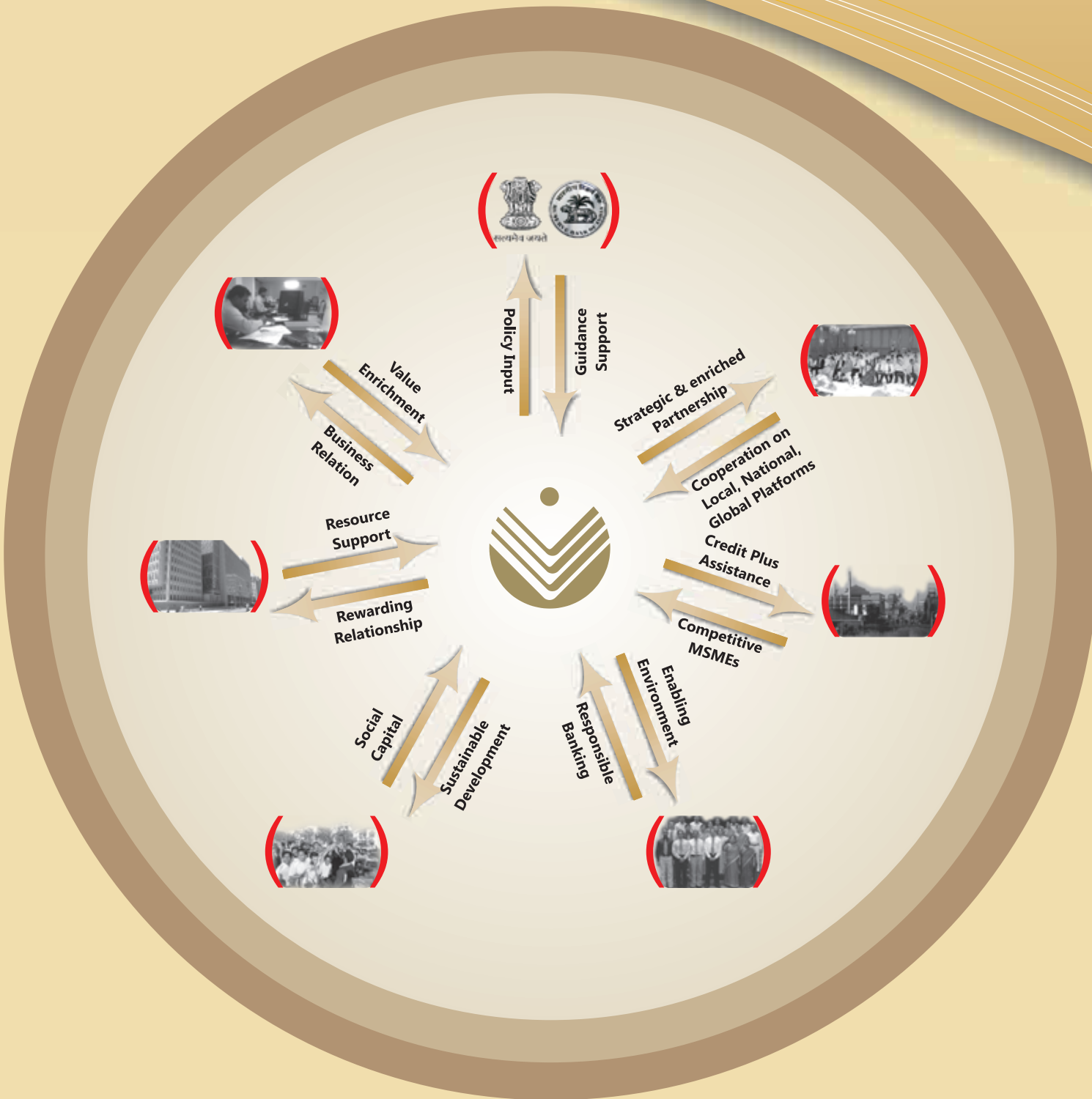
FAIR WORKPLACE

Wherever we operate, we aim to comply with all applicable employment and labor laws. We expressly prohibit child labor, forced or compulsory labor in our operations.

We respect and protect our employees' right to freedom of association and engage in collective bargaining through periodical meetings between the management and the associations of staff members. During FY 2009, there were no operations in which the right to exercise freedom of association and collective bargaining was at significant risk.

“The ultimate objective vis-à-vis our human resources is to create sustainable leaders of change who will be at the centre of Corporate Social Responsibility. SIDBI believes that its talented multi-disciplinary team will not only act as change leaders for achieving its Mission and Vision, but also contribute towards Nation building.”

Stakeholders Engagement



SIDBI professes us to deliver. Recognizing that an intensive dialogue and engagement with various stakeholders is *sine qua non* to ensure successful sustainable management, the stakeholders' engagement and input is central to our entire strategic planning and deployment exercise (Box 6.1). We believe that perspectives of those who hold a stake in our endeavours is an indispensable asset for creating value and meeting the Mission and Vision of SIDBI. Hence, we feel it is important to report

the philosophy of a responsible corporate citizenship through continuous dialogue and engagement with its stakeholders. We have an extensive list of stakeholders – both external and internal viz., Regulators, Shareholders, Customers, Employees, Society, International Partners, Suppliers, Media, MSME Business Member Organisations, Planning Commission, etc. with whom there is regular interaction. (Figure 6.1)

Trust of our stakeholders is the key reason that drives our business and encourages

Box 6.1

Stakeholders Engagement	
Our Prioritized Stakeholder Groups	Channels of Engagement
Regulators	- Regular Meetings
	- Representation in the Board and in the Committees of the Board.
Shareholders	- Annual Report
	- Annual General Meeting
	- Representation in the Board
Clients / Customers	- Customer meets
	- Orientation and exposure visits
	- Customer Grievance & Redressal System
	- Events : MSME related seminars, conferences; trade fairs / exhibitions at national and international levels ; setting up of retail outlets
	- Information Tools: Website, Brochure & Catalogue; Research & Analytical Publications
	- Surveys: Impact Assessment Studies; Action research studies; surveys
	- Capacity Building: Training; Consultancy; Workshops; Capacity Building Need Assessment Exercises (CBNA) for MFIs
Employees	- Open Door Policy
	- In-house Training Programmes & Workshops
	- Competitions and Awards
Society / Community	- Impact Assessment Studies
	- Complaints / Grievance Redressal Mechanism
	- Implementation of RTI Act
	- Training Programmes
International Partners	- Review meetings
	- Events, Workshops
	- MIS, Progress Reports
Suppliers	- Annual Progress Meetings
	- Empanelment
	- Market Enquiry

Figure 6.1: Our Stakeholders



our engagement with our key stakeholders as a matter of priority.

We always strive to meet the expectations and aspirations of our stakeholders. This enables us to form long lasting relationship with our stakeholders on a strong platform of mutual trust and cooperation, thereby ensuring sound business decisions. The subsequent sections reflect how we interact with them and identify their needs and concerns and address the same.

Regulators

The fiscal and monetary regulators of the Indian economy and the banking system, viz. the Government of India (GoI) and the Reserve Bank of India (RBI) are also the regulators of SIDBI. We comply with all applicable regulations and guidelines, pay all relevant taxes and duties and report all relevant parameters/information to the Regulatory authorities/agencies. For instance, the Annual Accounts of the Bank are prepared by the

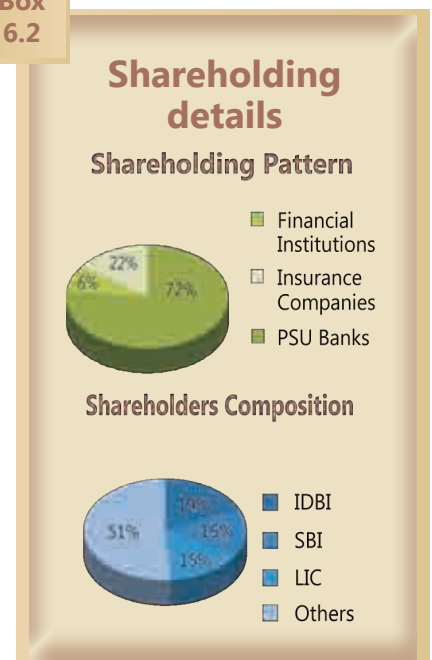
RBI approved auditors, duly approved by the Board and submitted to the Ministry of Finance, Government of India every year in stipulated time; the Government Nominees on the Board ensure that SIDBI functions as per the provisions of its Act. Our officers proactively participate in Government, statutory and business fora on issues relating to regulatory and public policy framework. During FY 2008-09, we have not received any tax relief or grants from the GOI. However, we have received financial assistance by way of soft borrowings from the GoI/RBI.

Shareholders

The shares of SIDBI are now held by 35 institutions - Public Sector Banks, Financial Institutions and Insurance companies owned or controlled by Government of India (Box 6.2). The three largest shareholders of the Bank, viz., IDBI Bank Ltd., State Bank of India (SBI) and Life Insurance Corporation (LIC) of India have representation on the Board. As per the

SIDBI Act, the Board of Directors takes policy decisions on all the matters pertaining to the working and functioning of SIDBI and also on the sustainability related issues. We believe that it is our responsibility to protect and enhance the

Box 6.2



wealth of our shareholders and continue to enjoy their trust. We have rewarded our shareholders by way of 15% dividends, amounting to Rs. 67.5 crore during FY 2009. The issues concerning the policies can be raised by the shareholders in the Annual General Meetings. The Bank also publishes its half-yearly and annual

results/reports in the Bank's website and in the news papers to be transparent to its shareholders.

Customers

SIDBI's customers include Primary Lending Institutions (PLIs) -Banks, State Financial Corporation (SFCs) and State Industrial Development Corporations (SIDCs); Institutions - Non-Banking Financial Companies (NBFCs), Power Corporations, Factoring Companies; MSMEs, and MFIs, etc.

Selection Criteria

The clients are selected through approved norms which include Know Your Customer (KYC) norms, financial viability and overall credit rating. As regard MFIs, we engage with MFIs set up exclusively for providing financial assistance to vulnerable/ underprivileged sections of society and have reached minimum outreach of 3,000 members or demonstrates the capability to reach this scale within a period of next twelve months or so, which can be

further relaxed on case to case basis. Our financial assistance to various customers during the FY 2007-08 and FY 2008-09 is given in Box 6.3.

Addressing needs & concerns: Tools of engagement

We always endeavour to accord top priority to achieve customers' satisfaction and boost their confidence and trust in us. A number of channels have been opened to satisfy customer needs and interests like faster credit decisions through Credit Appraisal and Ratings Tool (CART) for loans upto Rs 200 lakh and Risk Assessment Model (RAM) for loans above Rs 200 lakh. As a result, the average period being taken to sanction a long term loan proposal has come down from 35 days to 25 days and is expected to further reduce gradually. We also offer lower lending rates to MSMEs; our Prime Lending Rate (PLR) being one of the lowest in the Indian banking system. SIDBI extends interest rate benefits to SMERA rated entities.

Box 6.3

Financial Assistance to Our Customers

The financial assistance to our broad customer groups during the reporting period is as follows:

Financial Assistance to our customers	2007-08 (in Rs. crore)	
	Sanctions	Disbursements
Refinance Assistance to Primary Lending Institutions (PLIS)	10,114	9,154
Resource Support to Institutions	826	652
Direct Retail Credit to MSMEs	4,426	4,540
Micro Finance (including P&D Assistance)	773	716

Financial Assistance to our customers	2008-09 (in Rs. crore)	
	Sanctions	Disbursements
Refinance Assistance to Primary Lending Institutions (PLIS)	19,261	18,534
Resource Support to Institutions	1,224	1,197
Direct Retail Credit to MSMEs	6,773	6,811
Micro Finance (including P&D Assistance)	1,921	1,746

Project Implementation Methodology Relies On Stakeholders Engagement

The MSME Financing and Development Project (MSMEFDP) is the best example illustrating our zeal to constantly innovate by exploring new ideas and engaging with our customers. The Project follows 'cluster approach' acknowledging the natural advantage of MSMEs in same sector due to geographical contiguity by installing competitive advantage. The approach concentrates on strengthening the capabilities of the Business Development Services (BDS) providers on the supply side and creating the need for these services from MSMEs on the demand side.

Starting Point: Facilitators or Implementing Agencies (IAs) appointed by us have started to encourage, sensitize and make MSMEs aware about the utility of BDS to increase their competitiveness and also about BDS availability.

Tools used: Awareness/Sensitizing/ training events, one-to-one meetings, Demonstrating Pilot/ Trial transactions. Similar tools have been used for capacity building of existing BDS providers and financial institutions in order to serve the MSME market more effectively.

Identification and addressing of needs:

- After creation of demand and supply forces, IAs identify the needs of each cluster separately through a diagnostic study and prepare an action plan, duly validated by the stakeholders, to address the identified needs.
- For this purpose cluster mapping including diagnostic study involving focused group discussions, one-to-one meetings with key stakeholders, workshops, value chain analysis (VCA), 'who does-who pays' matrix, etc. are carried out to identify key issues for BDS market development.

We identify and address the needs of our MFI clients and design the packages for them by carrying out annual diagnostic and intensive Capacity Building Need Assessment (CBNA) exercises. We organize training programmes and support capacity building of our customers / clients on themes of relevance to them.

In order to solve various issues and problems of our clients,

we hold regular customers meets. An annual meet of the Head office, Zonal offices and Branch offices takes place to take macro view of the concerns of the clients and arrive at acceptable solutions to the utmost satisfaction of customers without sacrificing financial prudence. In order to address various complaints of MSME clients, we have put in place, a Complaints and Grievance Redressal Policy to resolve any dispute.

Accordingly, the In-charges of the Zonal Offices of the Bank have been nominated as Nodal Officers to attend to grievances of the borrowers / clients from their zones in case the complainant is not satisfied with the redressal step. There is also provision of complainant making an appeal to the appellate authority.

On the whole, we have experienced increase in the

number of repeat customers and less than 1 per cent of our customers leave the Bank, which is a true testimony of growing customer satisfaction with SIDBI.

Data Protection

SIDBI ensures Protection of Customer privacy and data by bringing these aspects under IT Security Policy: password

**“RISK CAPITAL & MSMEs
IN INDIA” – A WORKSHOP
AND A PAPER**

This white paper draws from the stakeholder deliberations at the workshop titled “Risk Capital for MSMEs in India” held in 2008 at New Delhi. This policy paper is our answer to all the concerns raised by the MSMEs during the workshop, which would provide better understanding and facilitate laying down of a roadmap towards institutionalization of access to such capital on a competitive and sustainable basis by MSMEs.

policy, confidentiality agreement (non-disclosure agreement) and information system security agreement,

restrictions of Privacy Rights, etc. Customer information is classified under Restricted Information category and treated as sensitive to external exposure. Customer data protection is ensured by having physical and logical access controls. Policy on restriction of disclosure of data ensures that the data are not exposed to unauthorized disclosure. Also, our website is established, maintained and administered in a secure environment and a legal statement is included in the website.

Communication Channels: Web Portals

SIDBI has an interactive website which not only allows borrowers to submit loan application directly online, but also track down the status of their loan applications and interact with the SIDBI officials. The website (www.sidbi.in) also features a toll free number (1800 22 6753) for our customers and the general public as a convenient medium to reach us.

Workshops/ Events

We organize various events - seminars, workshops, summits which focus on the development of MSMEs. During FY 2008-09, we co-sponsored Economic Times MSME Summit, wherein leading think-tank of our great country assembled to deliberate on the most pressing current issues of the impacts of global economic slowdown on our MSMEs and addressed their concerns and issues and suggested the way forward.

Other Resource Materials

Besides workshops, we regularly bring out policy papers, publications, booklets and other reports serving as a major tool of information and addressing their needs of lack of knowledge on specific subjects.

Employees

At the core of SIDBI's existence lie its diverse, vibrant and diligent human resources. SIDBI's employees assimilate from across the country, function in a multi-cultural environment bringing valuable perspective

that boost our performance. An open communication channel is maintained with the employees, besides soliciting their feedback through various mechanisms.

For instance, a Grievance Redressal Management System is in place where an employee can submit and follow up for redressal of his /her complaint. As per this policy, the complaints received are resolved in a systematic manner, starting from making a note of it with the appropriate authority, then forwarding it to the authority concerned and ensuring that the complaint is resolved within a specified time period. The Audit Committee of the Board also carries out periodic checking of such complaints and redressal thereof. Similarly, suggestion policy welcomes and rewards employees bringing solutions to serve the sector better.

The employees of the Bank have formed 3 Associations – Officers' Association, Class III/IV Employees'

Association & Schedule Castes (SCs) / Schedule Tribes (STs) Association. The Management holds meetings with the representatives of these Associations on a regular basis and takes necessary steps for resolving the general issues concerning its employees. It is worth mentioning here that the Bank has not faced any strike from any of the three Associations during the reporting period.

Our open door policy encourages employees to raise concerns with any level of management.

Society

It is our belief that the more we do for the society, the more we get back from it. As a Responsible Development Finance Institution (DFI), we actively engage with communities and contribute to their sustainable development. Our priority groups are the underserved and the disadvantaged sections of the society, viz. the people from backward classes and minority groups, women and the poor

International Partners

SIDBI enjoys confidence and close partnership with multilateral and bilateral institutions, such as, the World Bank; Japan International Cooperation Agency (JICA), Japan; Department for International Development (DFID), UK; International Fund for Agricultural Development (IFAD), Rome; KfW and GTZ Germany and Agence Française de Développement (AFD), France for resource support and technical cooperation on various capacity building programmes for MSMEs in India. We value the rewarding relationship with these agencies for providing not only financial resources but also cooperation and commitment to facilitate increased turnover of the sector, thereby bolstering India's efforts for inclusive growth.

Suppliers

We remain committed to ensuring that our suppliers are treated in a fair and reasonable manner and for this purpose, periodic meets are held with

our suppliers. As a principle to build a sustainable business relationship with our suppliers, we have an elaborate written down manual for procurement guidelines which conform to the principles of Economy, Efficiency, Fairness and Transparency during our procurement practices. (Box 6.5).

**Box
6.5**

Our Procurement Principles

Economy: The basic principle remains unaltered; the ultimate purpose of good procurement is to obtain the maximum value of the purchase and also give the purchaser the best value for money. For our procurements, value may imply more than merely price, since quality issues also need to be addressed.

Efficiency: The best procurement is simple and swift, producing positive results without protracted delays. In addition, efficiency implies practicality, especially in terms of compatibility with the administrative resources and professional capabilities of the Bank and its personnel.

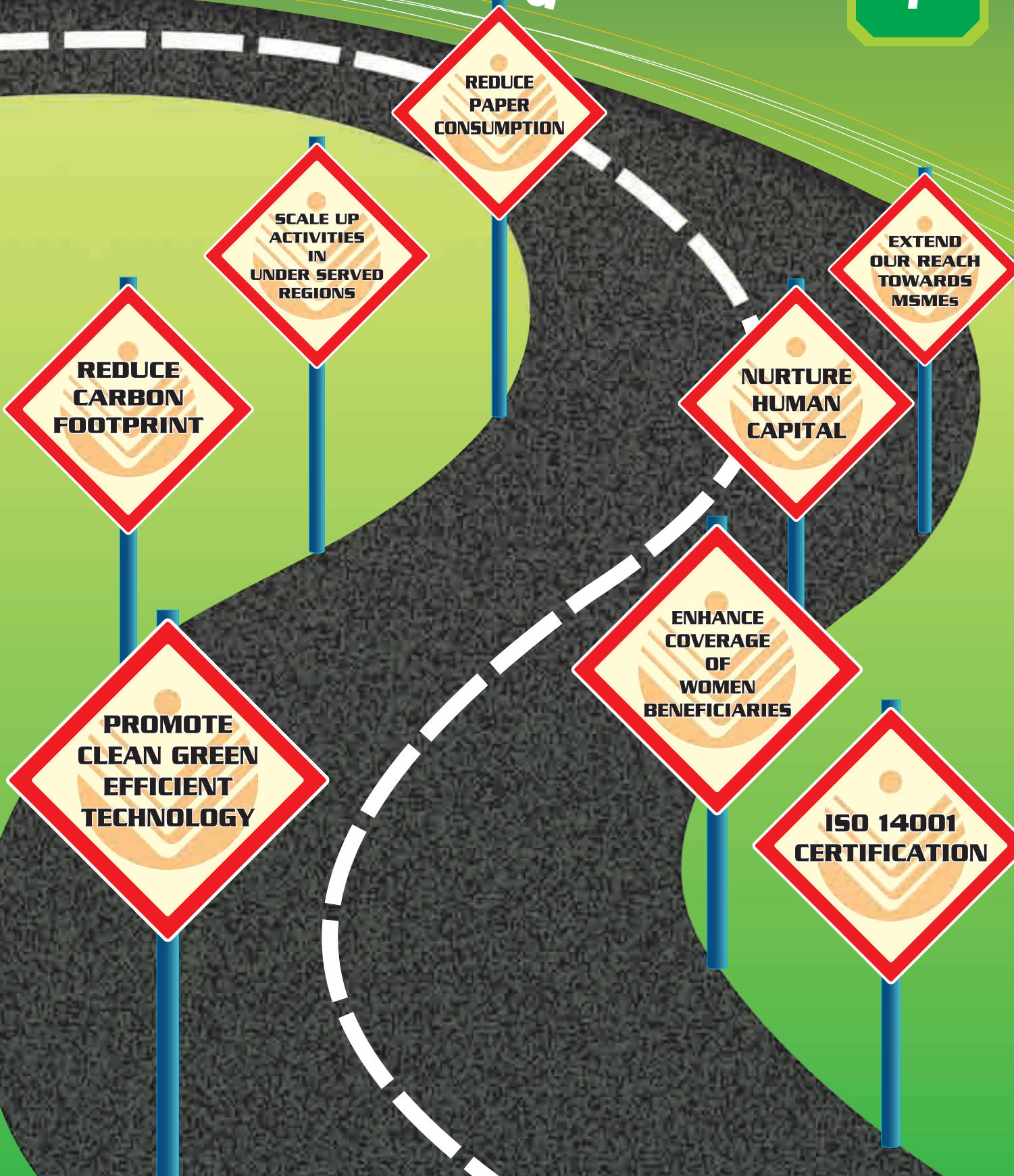
Fairness: Good procurement is impartial, consistent, and, therefore, reliable. It offers all interested vendors, contractors and suppliers, a level playing field on which to compete and, thereby, directly expands the options and opportunities available to the Bank.

Transparency: Good procurement establishes and then maintains rules and procedures that are accessible and unambiguous. It should not only be fair but should also be seen to be fair.

“To be successful as a business, we strive to understand how our stakeholders think and respond to the issues that matter most to them. We engage regularly with them to understand their concerns and expectations”

Looking Forward

7



We reaffirm our overall commitment to maintaining and consolidating our leadership as an MSME-focused Responsible Development Financial Institution, with an increased emphasis on environmentally and socially responsible practices; both within SIDBI and across the value chain, i.e. MSME beneficiaries and other stakeholders.

CUSTOMERS

- Extending our outreach, directly and indirectly further to more MSMEs all over India.
- Expanding our clean development assets portfolio.

COMMUNITY

- Scale up our activities in the underserved regions and increase presence in backward districts.
- Enhance coverage of women beneficiaries and continue development of sustainable products & services.

PEOPLE

- To enhance SIDBI's human capital by reinvesting our net profits toward employee training and management development programmes.
- Capacity building of MSME sector including women empowerment.

ENVIRONMENT

- Obtaining ISO 14001 Certification for SIDBI.
- Measure and report carbon footprint at SIDBI and reduce our CO₂ emissions.
- Increase in lending for the development /induction of environment-friendly technologies and use of clean energy.
- Reduce paper consumption.

Report Parameters

Report Profile

This is the first Corporate Social Responsibility (CSR) Report of SIDBI. The information provided in this report is based on fiscal year 2008-09 and also April-December, 2009, wherever possible. This report has been prepared with the assistance of Ace Global Private Limited, an independent business consulting firm assisting business enterprises, industry associations and government institutions in the development of international business and market strategies and also developing a CSR strategy and undertaking Sustainability Reporting for companies.

Reporting Process & Scope

In order to offer a fair and transparent view that permits comparison, the Bank has

followed the Global Reporting Initiative (GRI) G3 Guidelines along with the supplement for the financial services sector. This Report qualifies to 'B' level of reporting as per the GRI Application Level check. The GRI Content Index identifying the location of the Standard Disclosures and Performance Indicators in the report is on page 58.

Selection of topics and indicators to report that reflects the Bank's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of the stakeholders was carried out in meetings with the senior management officials of SIDBI and with some of the Bank's stakeholders.

This being the Bank's first year of reporting, existing sources of information for monitoring

and reporting data have been used. The prioritized data and information has been aggregated from questionnaires from different departments and one-to-one interviews / discussions with the Bank's management officials.

Report Boundary and Its Limitations

This report covers information on all the 103 branches of SIDBI across the country which reflect the significant economic, environmental and social impacts of its operations. As regards the operations of SIDBI Associates/Subsidiaries, their Management Disclosures and Performance Data have not been included in this report. However, it could be expected that in the coming years, the CSR reporting will improve in terms of clarity, consistency and coverage over time.

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3.10	Re-statements /changes in the presentation of information	Not Applicable. This is the First CSR Report of SIDBI
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report:	Not Applicable. This is the First CSR Report of SIDBI

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EN11	Location and size of land in or adjacent to protected areas	None
EN12	Impacts on biodiversity in protected areas	Given the nature of our business, not a material issue for our direct operations
EN18	Initiatives aimed at reducing greenhouse gas emissions	26-28
EN23	Total number and volume of significant spills of chemicals, oils & fuels.	Not Applicable for a service sector organisation
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous	Not Applicable for a service sector organisation
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Not Applicable for a service sector organisation
EN26	Initiatives to mitigate environmental impacts of products and services	26-28
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not Applicable for a service sector organisation
EN28	Monetary value of significant fines and total no. of non-monetary sanctions for non-compliance with environmental laws and regulations.	No Fines
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LA3	Benefits provided to full-time employees that are not provided to part-time employees	45 (Box 5.3)
LA4	Percentage of employees covered by collective bargaining agreements	None
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	45-46
LA11	Programs for skills management and lifelong learning for employees	44
LA12	Percentage of employees receiving regular performance and career development reviews.	46
LA13	Composition of governance bodies and breakdown of employees per category on indicators of diversity	16, 43
Human Rights Performance Indicator		
	Disclosure on Management Approach	46 (Box 5.6)
HR1	Significant investment agreements that include human rights clauses	None
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights	None
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights	None
HR4	Total number of incidents of discrimination and actions taken.	44
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk	46
HR6	Operations identified as having significant risk for incidents of child labor	46
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor.	46
HR8	Percentage of security personnel trained on aspects of human rights	None
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	None
Society Performance Indicator		
	Disclosure on Management Approach	32
FS13	Access points in low-populated or economically disadvantaged areas by type.	36-38

FS14	Initiatives to improve access to financial services for disadvantaged people.	32-34,36-38
SO2	Percentage & total number of business units analyzed for risks related to corruption.	22, All the units were analysed for risks related to corruption
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	22
SO5	Public policy positions and participation in public policy development and lobbying	16 (Box 2.2), 49
SO6	Total value of financial and in-kind contributions to political parties	None
SO7	Total number of legal actions for anti- competitive behaviour, anti-trust, and monopoly practices and their outcomes.	None
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non- compliance with laws and regulations	No Fines
Product Responsibility Performance Indicator		
	Disclosure on Management Approach	21 (Point 2)
PR1	Life cycle stages in which health and safety impacts of products and services are assessed.	Not Applicable for a service sector organisation
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products	Not Applicable for a service sector organisation
PR3	Type of product and service information required by procedures	21
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	None
PR5	Practices related to customer satisfaction	50-52
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	21
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	None
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	52
PR9	Monetary value of significant fines for non- compliance with laws and regulations concerning the provision and use of products and services.	No Fines

Annexure

List of our Branches (All India)

Andhra Pradesh
Balanagar
Hyderabad
Hyderabad-Micro Fin.Br.
Rajahmundry
Vijayawada
Visakapatnam
Arunachal Pradesh
Itanagar
Assam
Guwahati
Guwahati-Micro Fin.Br.
Bihar
Patna
Chhattisgarh
Bilaspur
Raipur
Delhi
Janakpuri
Kundli
Newdelhi
Okhla
Goa
Panaji
Gujarat
Ahmedabad
Ankleshwar
Baroda
Gandhidham
Jamnagar
Rajkot
Surat
Vapi
Vatva
Haryana
Chandigarh
Faridabad
Gurgaon
Himachal Pradesh
Baddi
Shimla
Jammu & Kashmir
Jammu

Jharkhand
Dhanbad
Jamshedpur
Ranchi
Karnataka
Bangalore
Bangalore-Micro Fin.Br.
Belgaum
Bellary
Hubli
Mangalore
Mysore
Peenya
Kerala
Kochi
Kozhikode
Madhya Pradesh
Bhopal
Indore
Maharashtra
Ahmednagar
Andheri
Aurangabad
Chinchwad
Kolhapur
Mumbai BKC
Mumbai BO
Nagpur
Nasik
Pune
Thane
Waluj
Manipur
Imphal
Meghalaya
Shillong
Mizoram
Aizwal
Nagaland
Dimapur
Orissa
Bhubaneswar
Bhubhaneswar-Micro Fin.Br.
Rourkela

Puducherry
Puducherry
Punjab
Jalandhar
Ludhiana
Rajasthan
Alwar
Jaipur
Jodhpur
Kishangarh
Udaipur
Sikkim
Gangtok
Tamil Nadu
Ambattur
Chennai
Chennai-Micro Fin.Br.
Coimbatore
Erode
Hosur
Madurai
Nellore
Tirupur
Trichi
Tripura
Agartala
Uttar Pradesh
Agra
Aligarh
Bareilly
Ghaziabad
Greater Noida
Kanpur
Lucknow
Lucknow-Micro Fin.Br.
Noida
Varanasi
Uttarakhand
Dehradoon
Roorkee
Rudrapur
West Bengal
Durgapur
Kharagpur
Kolkata
Kolkata-Micro Fin.Br.

Team for the Preparation of SIDBI's Corporate Social Responsibility Report (2010)

PROJECT DIRECTION

Shri R M Malla	Chairman & Managing Director, SIDBI
Shri Rakesh Rewari	Deputy Managing Director, SIDBI
Shri N Raman	Executive Director, SIDBI
Shri K G Alai	Chief General Manager, SIDBI

PROJECT CONSULTANT - ACE GLOBAL PVT. LTD.

Shri S V Divvaakar	Managing Director
Shri Sagar Sachdeva	Business Analyst
Ms Pooja Daga	Business Analyst

PROJECT TEAM OF SIDBI

Shri R K Das	General Manager and CSR Officer (Project Leader)
Dr R K Singh	Deputy General Manager
Shri Amit Sethi	Manager
Shri M B L Khan	Assistant Manager
Ms Nidhi Sharma	MSME Development Researcher (Consultant)

Your feedback is important to us.
For inquiries about this report, please contact at:
Telephone: 011-23682469
Facsimile: 011-23682461
Email: feedback@sidbi.in
Website: www.sidbi.in
www.msme FDP.net
Toll Free No. 1800 22 6753



भारतीय लघु उद्योग विकास बैंक
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Call Toll Free No. : 1800 22 6753 or visit www.sidbi.in