

# Catalysing Development

# Grassroots

*by Angie K'Singam*

**The NDB has spearheaded Rural Entrepreneurship by opening branches in strategic suburban and rural areas and by directly financing small and medium scale industries.**

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The National Development Bank (NDB) will make its presence felt in the suburban and rural areas with the launch of branch offices in strategic areas in the island.

The first branch office of the Bank was opened in Negombo in August this year, to service the clientele in the environs of Gampaha. The area has a large business and trading community and boasts of several specialized industries ranging from brick making to fishing. The Bank already has an extensive portfolio of clients from the area and the establishment of the branch office will no doubt be a boon to these businessmen.

The General Manager of the Bank, Mr. Ranjit Fernando, says “the NDB as the apex refinance institution for the small and medium scale sector loan scheme has spearheaded the development of rural entrepreneurship. The significant feature of the Bank’s expansion into the districts is the fact that it will directly finance small and medium scale businesses. The Bank has hitherto been providing these loan facilities exclusively through the Participating Credit Institutions (PCIs). This direct loan facility will provide a speedy processing of applications in-house”. In addition to SMI (Small and Medium Industries) financing, the branch office at Negombo will offer all other services offered at the head office which includes leasing, bills discounting and other finance and loan schemes.

## **Small and Medium scale loan scheme**

The SMI loan scheme has assisted around 14,000 projects to date and has served to focus attention on the financial needs of this vital sector. The Bank in its apex refinance capacity has effectively mobilized the commercial banking system into project based lending and has provided expertise and assistance to these banks in

project appraisal and follow-up techniques. The direct employment generated via the projects assisted so far has been estimated at 131,400 while capital formation is estimated at Rs 29.5 billion. The General Manager in his Review of Operation for 1995 says, "... With the scheme now having reached at mature stage, the NDB is itself reviewing its role vis-a-vis small and medium industries as well as actively examining other initiatives with a view to fulfilling its mandate to serve small industries."

The World Bank funded SMI loan scheme launched in 1980 has been an important catalyst of grass roots development, recognizing and fostering micro-enterprises throughout the length and breadth of the country. The entire credit line under SMI IV for which the NDB is the apex refinance agency has been fully committed. However, the Bank is set to expand its activities in the small and medium scale sector through direct financing and utilizing new foreign lines of credit. A total of US\$100 million in long term loans will be available from the Commonwealth Development Corporation, the International Finance Corporation, a constituent of the World Bank and FMO, and the Dutch Development Bank.

### **Sarvodaya Loan scheme**

A new financing project a collaborative effort between the National Development Bank and the Sarvodaya Economic Enterprise Development Services (SEEDS) is also bound to give a new infusion of life to rural entrepreneurs.

Mr AL. Somaratne, AGM Corporate Finance of the Bank says, "The tie-up with Sarvodaya's lending arm is a strategic move to ensure there is an effective rural outreach. SEEDS is already operating in nearly 1800 villages, using village societies as the pulse point of their lending activities and has 400 field officers at work outstation... So that the mechanism is tried and tested and firmly in place. The only hiatus has been the lack of adequate funds. Upto now the ceiling on loans disbursed by SEEDS has been Rs 25,000 for an enterprise. This is where we have stepped in to support grassroots development."



SEEDS has been actively engaged in lending through village societies and overall entrepreneurship and business development in rural areas, since 1986. Their special area of social mobilisation is Women and Youth in rural areas. SEEDS Field Officers in each district oversee village societies in the area. Three types of loans have been provided to date over the counter loans, mid-term loans, and project loans. The quantum of loans ranges from Rs 7,500 to Rs 25,000. To date, SEEDS has disbursed Rs 500 million.

The NDB will make available initially, a sum of Rs.30 million to SEEDS to disburse through its lending network in three areas - Gampaha, Kurunegala and Kegalle on a pilot basis. Based on the success of this scheme, the Bank will further extend the project with additional finances to other areas targeted by SEEDS. The initial three districts were targeted on the basis of loan recovery, anticipated demand for higher loans and convenience in monitoring the project. The maximum loan amount granted per unit will be Rs 100,000.

In view of the high value of the loan, disbursements will only be made to members of advanced village societies, those covering 60% of families in a village with total savings exceeding Rs 150,000 among other qualifying factors. Currently, there are 17 such societies in the Kegalle district, 22 in the Gampaha district and 26 in the Kurunegala district. Only micro enterprises which are commercially viable and which fall into the categories of industry, agro-business, fisheries, trading and other service industries will qualify for loans under this scheme. Loans may be utilised for the purchase of

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fixed assets and for permanent working capital requirements. The flexible repayment period will operate from 24 to 60 months inclusive of a grace period. The NDB will further assist Sarvodaya by conducting training programs for field officers on project appraisal, evaluation and follow-up techniques. The first in this series for 30 SEEDS project officers from the selected districts has already been completed. The Bank has also prepared specialised formats for appraisal purposes in view of the special demands and challenges of this sector.

The NDB is also the apex agency for the implementation of the Fisheries Development loan scheme funded by the Asian Development Bank. As with the SMI loan scheme, the Bank is responsible for the training of PCI staff publicity and the overall administration of the scheme in close collaboration with the Fisheries Department.

Also of benefit to small and medium scale entrepreneurs is the Technology Transfer Scheme which provides a non-repayable grant to upgrade technology in factories upto a maximum of USS 5,000 or 50% of the cost of the project, whichever is lower. It is available for consultancies, training and exposure or for the purchase of design or process know-how to improve quality control facilities.

At the launch of the Entrepreneur of the Year Contest '95 organized by the Federation of Chambers of Commerce and Industry, the General Manager stressed the Bank's commitment to assisting micro enterprises. The Bank stepped in as principal sponsor for the event, because, "this type of competition helps to spotlight the achievement of rural entrepreneurs who are significant contributors to the country's economic growth. We are providing a launching pad for them to compete in the larger arena", he said.

Significantly, the inaugural competition in 1994 was won by an NDB client - Samson Industries. Mr D K Rajapakse from Samson commenting on his company's selection recalled the key role played by the Bank in assisting his Company at a time when its was still in its infancy and commercial banks were not willing to commit themselves to assisting what was largely 'a rural based enterprise'.

The bank is also involved in the development efforts of the government in the

Southern and North Central provinces. This unique programme proposes to establish several large agro-industrial projects in these districts, which includes rubber based industries, cultivation of vegetables and fruits for export, prawn culture and poultry farming to invigorate these areas.

### **Landmark in NDB's development**

Mr WD Premachandra, a Manager at NDB says, the Bank has always been supportive of the small scale and rural entrepreneur. One of the features of the Bank's service is that its multidisciplinary staff are in a position to assist micro-enterprises with their expertise ranging from management to marketing matters. "Our exposure to a wide range of sectors and industries gives us that vital experience to help industries become competitive in the market", he says.

The Finance Minister when presenting the National Development Bank Act of 1978 observed, "The National Development Bank Bill for the creation of a National Development Bank in the country, will be the foundation, the harbinger, the forerunner as it were of large-scale development, investment and growth in this land". The Negombo office is the first in a series of offices NDB intends establishing in the future and is a significant landmark in its development.

The Bank has obtained nine lines of credit from the World Bank and Asian Development Bank for direct lending operations, six credit lines for the provision of re-finance facilities for the small and medium scale sector and additional financial resources through loans from other lending agencies. The NDB has been active in all areas of national development providing finance for various kinds of industries as widely different as prawn culture and the manufacture of tyres and has grown into the largest development bank in the country today.

Writing in the Bank's corporate magazine 'Achievers', the General Manager says, "In the areas the bank is mandated to focus its attention, profitability and development go hand in hand. There are of course, questions of long term and short term profitability. Some projects though not profitable in the short term may be undoubtedly profitable in the long term. The Bank has over the years built up more than sufficient resources to enable it to support and sustain such projects without adverse effects on its own profitability."

Project lending has been the principal activity of the NDB. The Bank gives special emphasis to export-oriented projects and those capable of generating substantial

employment. In addition to project lending, the Bank also provides a range of other financial services in selected areas of Merchant Banking. Equipment Finance, Equipment Leasing, Bill Discounting and Working Capital Finance. Merchant Banking activities include the provision of a wide array of services such as the underwriting of public share issues, loan syndication, feasibility studies, diagnostic studies and corporate/financial advisory services. "The Bank is not only a source, indeed the largest single source of term finance to industry, but also a reliable, strong and helpful partner in industrial development."

NDB's diversification strategy is based on entering into new areas of activity through the vehicle of associate/subsidiary companies formed with technical partners. Among its most recent ventures is the launch of a venture investment company 'Ayojana', Environmental Resources Management Lanka (Pvt) Ltd. (ERM), which provides consultancy services in environmental and pollution control matters and NDB Industrial Estates Pvt. Ltd. (NIEL) which will own and operate industrial estates promoted by the bank.

In his Review of Operations for last year, the General Manager says, "The need of the hour is to focus on the positive side and create a mood of optimism, enthusiasm and determination". The Bank has concentrated on this policy with vigour and enthusiasm this year, it seems. It is number two in terms of market capitalization and is the largest development bank in the country listed in the Asiaweek Financial 500 in 1994 and the 10th largest Development Bank in Asia in terms of its assets. At the heart of its business philosophy is its commitment to grassroots development. No one is too small for the largest development bank in the country.

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