

# MUDRA Bank to fund small enterprises

## Priority in lending to firms run by socially disadvantaged classes

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After payments bank, women's bank and small bank, now comes MUDRA bank. In a bid to give financial confidence to budding entrepreneurs, especially those in the socially backward category, the Centre has proposed creation of a special bank — MUDRA — to fund small

enterprises. MUDRA, or the Micro Units Development Refinance Agency Bank, will have a corpus of ₹20,000 crore and credit guarantee corpus of ₹3,000 crore.

“MUDRA Bank will refinance micro-finance institutions through a Pradhan Mantri Mudra Yojana,” Finance Minister Arun Jaitley said.

Jaitley said priority in lending will be given to enterprises run by people belonging to the scheduled castes and scheduled tribes.

The government estimates that there are 3.57 crore small units run by people belonging to the socially disadvantaged classes (including other backward class) out of a total of 5.77 crore small business units in the country.

“These bottom-of-the-pyramid, hard-working entrepreneurs find it difficult, if not impossible, to access formal

systems of credit,” the Finance Minister said.

It remains to be seen at what terms the small units will get loans. This will be clear only when the contours of MUDRA Bank emerge.

Typically, microfinance institutions, whose borrowing cost is about 12-14 per cent, lend at an interest rate of 24-26 per cent.

Refinancing would mean that MUDRA Bank will refinance MFIs at cheaper interest rates, which can then on-lend to small units seeking loans.