

# MFIs count Mudra gains

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## REACHING OUT



### What does Mudra stand for?

- Micro Units Development and Refinance Agency

### What will it do?

- Regulate and refinance microfinance institutions

### What is the capital required?

- A corpus of Rs 20,000 crore and a credit guarantee corpus of Rs 3,000 crore

### What are the expectations?

- Raise borrowing in Rs 50,000-Rs 10 lakh category

micro enterprises.

Welcoming the decision, the microfinance industry said it expected offtake to rise in the credit range of Rs 50,000 to Rs 10 lakh.

“The decision of the government to set up a Mudra Bank to provide relief to the microfinance institutions is excellent. This will not only ensure enhanced availability of credit to small businesses, but potentially lower

the cost of funds for the MFIs,” said Alok Prasad, chief executive officer of industry body Microfinance Institutions Network.

“At present, the average cost of funds for MFIs is around 14 per cent. Refinancing from agents such as Mudra Bank will cost 3-4 percentage points lower,” he added.

While MFI lending is currently capped at Rs 50,000,

mainstream banks are reluctant to lend to small businesses in the Rs 50,000-10 lakh range. The MFIs will be well-placed to provide funds to this category of borrowers.

“The new bank will refinance the loans of the MFIs at a lower rate. This will result in a lower rate for borrowers and, hence, increase credit demand,” said Kuldeep Maity, managing director of Village Financial Services.

According to the finance ministry, the Mudra Bank will partner coordinators at the state and regional levels to provide funds to the last-mile financier of small and micro businesses.

The measures would not only help to increase the access of finance to the unbanked but also bring down the cost of finance.

The ministry further said a separate sub-limit of 7.5 per cent in priority sector lending is being created for micro enterprises.

**Calcutta, March. 1:** Microfinance institutions (MFI) are eyeing higher credit offtake from small businesses with the setting up of a refinance agency — Mudra Bank — proposed by finance minister Arun Jaitley in the budget.

The microfinance industry, which had a gross loan portfolio of Rs 31,450 crore at the end of the December quarter, expect rates to be lower by 3-4 per cent when the loans are refinanced.

The bank will be set up with a capital of Rs 20,000 crore. It will regulate and refinance all microfinance institutions that lend to micro and small business entities engaged in manufacturing, trading and services activities, the finance ministry said in a statement today.

Another Rs 3,000 crore will be provided from the credit guarantee corpus for guaranteeing loans given to the