

Microfin cos cheer MUDRA

MUMBAI, reuters: A new bank announced in the Budget last week could boost loans and cut borrowing costs for India's cash-starved small businesses who account for around a fifth of the economy.

MUDRA bank, to be set up with \$3.2 billion of capital to help microfinancing firms to lend more, should help leverage up firms which account for 40 per cent of India's exports, lenders and entrepreneurs say.

India's small businesses employ 106 million workers in a country that brings a million new workers into the workforce every month.

Yet according to government estimates, only 4 per cent of 57.7 million small business units in India have access to institutional finance. Industry experts estimate that demand for loans from the sector outstrips supply by \$80 billion.

The creation of the new bank has made executives in microfinance and non-bank finance companies optimistic, however, that the funds to be made available through MUDRA will lower their borrowing costs and in turn the burden on borrowers. Microfinance and non-bank financing companies currently charge interest rates of more than 20 per cent, more than twice banks' base rate, which they attribute to high cost of funds.

"The big question mark was who would finance these institutions who lend to this segment," said Anurag Agrawal, Chief Executive at Intellectap, which has NBF units and is looking to enter small business lending.

Crisil estimates that microfinance lenders have loan assets totalling \$5.6 billion. But they have had a limited impact on small businesses as they primarily target lending to individuals or groups of individuals among the poor.

Even for the microfinance institutions that would like to lend more to businesses, rules cap the amount they can lend to a single borrower at Rs 50,000 (\$803), making them an unviable option for many businesses.

"The micro and small enterprises have been starved of credit," sectoral regulatory body Microfinance Institutions Network (MFIN) CEO Alok Prasad said.

Mumbai entrepreneur Vipul Vora chased more than a dozen banks for two-and-a-half years before a lender agreed to give him a Rs 1 crore loan to set up a plant to produce jaggery.