

MUDRA Bank: Theoretical Depth and Practical Wisdom

by S Gurumurthy

Jobless Corporate Growth

They have been the most trusted and celebrated economic players in the last two decades. They got foreign investments and local bank credits of over ₹50 lakh cr in 21 years since 1991 when the government red-carpet welcomed foreign capital and multinational companies. But these celebrities, who absorbed capital that equalled almost half the GDP, added only 2.8 million jobs in 21 years -- just a little over 2 lakh jobs a year!

And more. Citing the global meltdown, they also got extra tax cuts of over ₹15 lakh crore from 2009 as stimulus for growth which, P Chidambaram now says, did the economy down. Who are these economic players? All public and private sector companies, including the listed and unlisted ones and multinational corporates, added together. The corporates which led this sector -- known as the organised sector in economic jargon -- came to be regarded as the growth icons after India began liberalising and globalising its economy. Their promoters and executives adorned the Prime Minister's Economic Advisory Council. Celebrated by the elite media and government circles, they dominated economic summits and their concerns monopolise policy making. The powerful print and digital media turned into their advocates.

Yet, the formal sector generated 26.8 million jobs till 1991 and by 2012 it had improved the number by just 2.8 million to 29.6 million. This shocking data was no secret. Year after year, the Economic Survey had printed this data in the Statistical Appendices attached to it and the RBI had reported this every year in Table 14 of its Hand Book of Statistics on the Indian economy. But not many looked at the data to get the message it explicitly conveyed, namely that the organised sector can't employ India.

Small as Big Employer

Who else employs India? The answer to this contained in the data provided by the surveys of the National Sample Survey Organisation [NSSO]. The NSSO has been reporting in its Economic

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Census every 10 years that it is the non-corporate sector -- derogatorily as informal sector by economists -- which keeps India employed and sustaining its economic, even public, order.

Its latest Economic Census [2014] says that some 57.8 million small and micro [most of them unregistered and largely

self-employment concerns] provide 128 million jobs. This does not include the construction sector or

all limbs of the unorganised sector. The entire unorganised sector put together provide over 460 million jobs. Take the 57.8 million small businesses. Their asset base is ₹11.4 lakh cr. But annual value addition is ₹6.28 lakh cr -- that is over 55 per cent. But the value addition by Indian corporate sector -- the crown jewel of our economy -- is about 34 per cent of their gross assets. While the organised sector, that provides just a tenth

of the non-farm jobs in the country, has almost monopolised the organised capital supply, domestic and foreign, the 57.8 million micro and small businesses that provide 128 million jobs has got only 4 per cent of its

capital needs from organised institutions! Who owns and operates the millions of micro units? Almost two thirds of them belong to the Scheduled Castes, Scheduled Tribes and Other Backward Castes. More than half of these units operate from rural areas, where it is difficult to deliver economic growth. More than a third of them are engaged in manufacturing. About a third of them in trade. The rest in different services. Where do they get their finances which is the life-line of businesses. It is from extortionate money lenders, who charge usurious rates ranging from 36 per cent to 365 per cent depending on the type of borrower. This has been the status of this Kama-

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dhenu of employment creation in India.

Birth of MUDRA

When Narendra Modi took over the nearly ruined economy from the UPA, which had celebrated jobless growth, someone must have brought this telling data of the highly funded corporates which have failed to deliver on jobs and the unfunded non-corporates which have provided most of the jobs in India. Modi must have immediately recognised the urgent and the unattended financial needs of these unfunded millions of micro units. In the Budget the new government presented in July last, the idea of creating a financial architecture for funding these micro business units was seeded in para 102 of the Budget speech and a Committee was constituted for the purpose. The Committee submitted the report days before the 2015-16 Budget. But it rejected a suggestion to create a separate development and regulatory bank like the National Housing Bank to register and regulate and arrange wholesale finance to provide retail finance for the unfunded micro businesses and also appraise, register, regulate and

refinance the existing small finance providers after due appraisal and make them Last Mile Financiers. The Committee rejected these suggestions saying that the

Reserve Bank of India had opposed it as theoretically a risk-prone idea. Normally this would be sufficient to close the file.

But Narendra Modi would not close the file. Because he was perhaps convinced that the existing financial institutions would not fund these unfunded micro businesses which he must have understood as the backbone of job creation in India. Modi shredded the Committee report and went ahead with what he thought would work in and for India. The

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Finance Minister emphasised "inclusive growth" has to come from only the non-formal sector, without saying the corporate sector cannot do it.

Referring how the unfunded non-formal sector, largely operated by the economically weaker communities, provides the maximum employment and pointed out how they are unfunded, he

proposed the MUDRA Bank for funding the unfunded businesses. The MUDRA Bank has theoretical depth and practical wisdom. In July 2013, a study titled 'India's better half: the informal

economy' by the Credit Suisse Asia Pacific Equity Division on the non-formal sector in India told the world that nine out of 10 jobs in India and half of its GDP originated in the non-formal sector including the 57.7 million micro businesses. The study reduced the status of the corporates in the Indian economy as the "tail cannot wag the dog". The sheer size of the non-formal business in India obviously persuaded even The Economist magazine to see the reality and to say that the best way to organise the non-formal sector in India was to provide formal finance to it.

MUDRA Idea Potential Game Changer

The Press Brief of the Ministry of Finance Department of Financial Services on MUDRA brings out how it is a Made in India idea for funding micro businesses. As a bank to be established under a new law, MUDRA will register, regulate and refinance all small business finance institutions.

It will partner state level and regional level coordinators to enable them to provide refinance to Last Mile Financiers [LMFs] of micro businesses. The inclusion of the local LMFs is a very innovative idea. And a potential game changer. The MUDRA idea realises that only the LMFs can have local knowledge and of the bor-

rowers' character and worth and seeks to formalise their involvement in credit distribution to micro businesses. A real innovation indeed. MUDRA will Register small financiers of micro businesses. Regulate them. Accredite them. Rate them. Fix responsible financial practices, client protection principles and methods of recovery.

Formulate and run credit guarantee schemes for credit extended to micro businesses. Integrating the LMFS to deliver credit to micro businesses is entirely an indigenous idea. An ingenious too. If LMFs are evaluated, appraised, registered and given refinance at lower rates, the ultimate interest rate for micro businesses would be far lower.

But this would call for huge scaling up of execution and that is where governments normally fail. But Modi Government has shown remarkable capacity to scale up operations -- the Jan Dhan Yojana where it hooked 12.5 million people to banks in less than six months testifies to it. As compared to that scale, the integration of hundreds of thousands of more informed existing and new LMFs into the regulatory and refinance architecture of MUDRA bank does not seem to be a tall order at all. MUDRA, which is a practical idea, is a potential game changer for the country.

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