

# MUDRA Bank: A catalyst for India's 10% GDP growth

Bringing in the untapped informal sector into the formal one will benefit business and economy. It is to address this large population that the Budget has proposed the MUDRA Bank, says **Rajeev Chandrasekhar**

The mandate that the Narendra Modi government was emphatically given in May 2014 by the people of India, was a mandate for change and a break from the *status quo*; change in our governance and politics, as well as a change in the economic architecture, growth and inclusion.

While the Modi government's first Budget was a status-quoist, placeholder Budget, the Budget in 2015, the government's first full year Budget, is surely redrawing the economic architecture of the country.

The Indian economy is structured as a pyramid, with the rich and middle class as the top two layers of the pyramid and the bottom being the poor, which has been the political focus and the 'intended' recipient for several thousand crores of spending by successive governments. The spending on 'programmes' has continued with little or no change, despite evidence of rampant corruption, leakage and an increasing culture of entitlement rather than enterprise that has taken root in our country. It is this Budget that has started the process of restructuring and developing a more effective way of targeting these spends through its JAM (Jan Dhan-Aadhaar-Mobile) platform.

For all these years, a big part of this economic pyramid has been ignored by the spend-and-forget strategy. This slice of our country's population, amounting to several hundred million jobs rooted in enterprise and hard work, is referred to as the non-corporate or informal sector. For the purposes of this article, I will

refer to it as the informal sector.

The Economic Census Survey of 2012 revealed the scale and magnitude of what we have been ignoring for several decades. There are 57.7 million enterprises in India, and it generates employment for 460 million people, of which 262 million people are self-employed. That this long ignored informal sector is a significant part of our economy is obvious from the following statistics. It accounts for 90 per cent of our non-agricultural workforce, 50 per cent of the gross domestic product (GDP) and 40 per cent of the non-farm GDP. This informal GDP is almost completely out of the direct tax net and lacks any formal form of access to credit or risk capital to allow it to grow and join the mainstream economy. A recent Credit Suisse report stated: "Unlike in developed economies, where informality is a deliberate choice to avoid taxation or regulations, in India it is more structural, a reflection of the lack of development and limited government reach."

Reports have concluded that Indian GDP can be raised by almost 15 per cent if the informal sector data is incorporated in the GDP series. Yet, only 4 per cent have access to institutional credit, with loans between ₹50,000 and ₹10 lakh almost impossible, forcing them to go to moneylenders. The non-corporate sector faces stiff competition from larger firms, and are further impeded by the lack of infrastructure and access to easy credit. They are often unable to procure adequate financial resources for the purchase of machinery, equip-



**BATTLING FOR GROWTH** The MUDRA Bank will boost loans and cut borrowing costs for the cash-starved domestic small businesses

PHOTO: PTI

ment or raw materials.

Bringing in the informal sector into the formal has many advantages for both business and economy. It is precisely to address this large population of Indians that have been kept out of the economic radar for the last six decades that the Budget has proposed the Micro Units Development Refinance Agency (MUDRA) Bank, which will be set up with a corpus of ₹20,000 crore and a credit guarantee corpus of ₹3,000 crore

to help microfinance firms to lend more.

The MUDRA Bank will boost loans and cut borrowing costs for the cash-starved domestic small businesses. It will create a framework that regulates and provides refinancing capital flows to micro-finance institutions that are in turn in the business of lending to micro/small business entities engaged in manufacturing, trading and services activities. This will create and expand the financial ecosystem that is a source

of capital and finance to the unbanked and also reduce the cost of capital from the last-mile financiers to the micro/small enterprises, most of which are in the informal sector.

The 'change' to our economic architecture could be deep and transformational. It involves funding the unfunded, and unlocking the potential of a new pool of entrepreneurs and future taxpayers in this country. It is encouraging for entrepreneurship across the economic strata. It is using micro finance, an economic development tool whose objective is to assist the lower income groups to develop and grow their small businesses, many of whose owners are traditionally excluded communities such as Scheduled Castes, Scheduled Tribes or other Backward Classes, who own almost 60 per cent of all enterprises in this sector. It represents a real way to make the dreams of millions in the informal sector, long neglected and ignored, a reality. This formalisation of the informal sector would expand the tax-GDP ratio and expand the number of taxpayers and, in turn, government revenues.

This government is right to see the potential of this sector to drive up jobs and taxes. It has realised the force multiplier impact on the economy and tax revenues by a successful formalisation of the informal sector. It has realised the failure of both the Reserve Bank of India and the banking system in credit-supporting this sector. This also is core to this new economic philosophy of supporting enterprise wherever there is a desire for that in our economy, while continuing with better targeted and well-conceived social security framework for the poor and needy. This also marks an end to the Manmohanomics corporate sector-driven growth era and marks a beginning of a deeper and broader enterprise and entrepreneurship-driven economic model. This clearly fits the expectations of 'change' from this government.

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