

MUDRA Bank promises easy credit to small units

Modi to launch Bank today

OUR BUREAU

New Delhi, April 7

Getting cheaper credit will become easy for small and micro businesses after the establishment of MUDRA Bank, which will be launched by Prime Minister Narendra Modi on Wednesday.

MUDRA - Micro Units Development and Refinance Agency Ltd - Bank, which will refinance for lending to micro businesses or units, will initially have products and schemes under its umbrella, named Shishu (loans up to ₹50,000), Kishor (loans between ₹50,000 and ₹5 lakh) and Tarun (loans between ₹5 lakh and ₹10 lakh).

It will be responsible for developing and refinancing through a Pradhan Mantri MUDRA Yojana and all micro-finance institutions (MFIs) that are in the business of lending to micro or small business entities engaged in manufacturing, trading and service activities.

It will also partner with State or regional-level coordinators to provide finance to last-mile financiers of small/micro business enterprises. It will go beyond the 'credit only approach' and offer a 'credit-plus solution' for enterprises spread across the country.

The bank will start with a corpus of Rs ₹20,000 crore. This will come from the amount earmarked for priority sector but not lent and is

deposited by banks with the Reserve Bank of India. The government will give ₹3,000 crore as guarantee corpus. Finance Ministry officials said this fund can guarantee loans up to ₹40-45 crore.

Officials said this will enable various small banks, non-banking finance companies and MFIs to give loans at cheaper rates.

The risk margin comes down once guarantee is assured.

Risk is a major reason for higher rates charged to people as also failure of not getting back loans, an official said.

In this year's Budget, Finance Minister Arun Jaitley had announced the setting up this bank, which will play a dual role of providing refi-

nance facility and regulating MFIs. MUDRA Bank will cover proprietorship/partnership firms running as small manufacturing units, shopkeepers, fruits/vegetable sellers, hair cutting salons, beauty parlours, transporters, truck operators, hawkers, co-operatives or body of individuals among others in rural and urban areas with financing requirements up to ₹10 lakh.

The role envisaged for MUDRA includes laying down policy guidelines for micro enterprise financing business, registration, accreditation & ratings of MFIs, laying down responsible financing practices to ward off over-indebtedness and ensure proper client protection principles and methods of recovery among others.