

Govt to enact law to provide Mudra Bank statutory mandate

The proposed legislation will also include many provisions of the microfinance bill that lapsed last year



Prime Minister Narendra Modi (centre) with finance minister Arun Jaitley, MoS for finance Jayant Sinha and RBI governor Raghuram Rajan during the launch of Pradhan Mantri Mudra Yojana, in New Delhi. Photo: PTI

New Delhi: The government will enact a law to provide a statutory mandate to Mudra Bank, which aims to refinance loans given to micro enterprises. The proposed legislation will also include many provisions of the microfinance bill that lapsed last year.

The Pradhan Mantri Mudra Yojana, launched by Prime Minister [Narendra Modi](#) on Wednesday, seeks to ease funding problems faced by more than 57 million small businesses across India. It also aims to reduce borrowing costs of these borrowers as it will provide refinancing at a relatively low 7% rate of interest.

“Mudra will fund the unfunded,” Modi said. Although the average per unit debt of these units is only `17,000, they employ more than 120 million people, he said.

Finance minister [Arun Jaitley](#) had announced the launch of Mudra Bank, short for micro units development refinance agency, with a refinance corpus of `20,000 crore and a credit guarantee corpus of `3,000 crore, to address the issue of lack of access to funds faced by small entrepreneurs.

The Mudra bill will be tabled in Parliament in the next one year, financial services secretary [Hasmukh Adhia](#) said after the launch, which will make Mudra a statutory body. “Some components of MFI (microfinance institution) bill will be included in the Mudra bill. There will not be a separate MFI bill,” he said.

The Microfinance Institutions (Development and Regulation) Bill, 2012, was envisaged as an overarching legislative framework that would have taken MFIs outside the purview of state legislation. The proposed legislation was rejected by the parliamentary standing committee of finance, which forced the finance ministry to take it back to the drawing board.

Mudra Bank is likely to evolve as a regulatory body for microfinance institutions though it is yet not clear if it will emerge as the sole regulator of the sector, replacing the Reserve Bank of India, which regulates MFIs that are registered as non-banking finance companies (NBFCs).

Adhia said a decision if the Mudra Bank will regulate NBFC-MFIs will be taken at the time when the bill will be framed.

Till the government passes the bill, Mudra Bank, a subsidiary of Small Industries Development Bank of India, will be registered as an NBFC. The government has appointed [Jiji Mammen](#), a chief general manager at the National Bank for Agriculture and Rural Development, as chief executive officer of the company.

The role envisaged for Mudra Bank includes registration and rating of MFIs, laying down policy guidelines for micro-enterprise financing business and putting in place financing practices to ensure there is no indebtedness, the finance ministry said in a statement.

Mudra will refinance financial institutions for lending to micro businesses and entrepreneurs covering loans from `50,000 to `10 lakh. The government is hoping the agency will help shopkeepers, fruit and vegetable vendors, truck operators and self-help groups to meet their funding requirements.

The move will spur rural economy and encourage entrepreneurs, Chandrajit Banerjee, director general of lobby group Confederation of Indian Industry, said in a note.

“This initiative will lay down the norms for responsible financing practices for microfinance institutions so that the small businesses do not face hardship over indebtedness, while getting a fair environment for repayment,” he said.

PTI contributed to this story.