

PM launches MUDRA to fund small biz

Micro Unit Development and Refinance Agency to be an NBFC, initially with ₹20,000-crore corpus; to be later converted into a bank

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Prime Minister Narendra Modi on Wednesday launched Micro Unit Development and Refinance Agency, or MUDRA to fund and promote microfinance institutions (MFIs), which would in turn provide loans to small and vulnerable sections of the businesses.

Modi said these businesses would provide almost 10 times jobs to what was being generated by big companies.

MUDRA will have an initial corpus of ₹20,000 crore and a credit guarantee corpus of ₹3,000 crore. The initial corpus would be provided by banks from their priority sector lending shortfall.

To be a Non-banking financial company (NBFC) and a part of Sidbi, MUDRA will later take the form of a bank through a Bill, which the government will present in Parliament within the next one year, according to financial services secretary Hasmukh Adhia. With this, the long-awaited Bill on MFIs would not come and some of its provisions would be incorporated in the Bill on MUDRA, Adhia added. "It will also put in place entire mechanism as to how much interest rate can be charged for micro sector," he said. The issue had become quite contentious after the MFI sector had faced tough time, particularly in Andhra Pradesh when the state government tightened the noose on MFIs for recovery of loans in the wake of over-indebtedness of the loanees.

On whether MUDRA would regulate the NBFC (MFI), Adhia said, "That decision would be taken when the Bill will be framed." He added the government was yet to take a call on whether MUDRA would be transformed into a



FUNDING PUSH

Primary product of MUDRA will be refinance for lending to micro businesses and units. The initial products are:

SHISHU: Covering loans up to ₹50,000

KISHOR: Covering loans above ₹50,000 and up to ₹5 lakh

TARUN: Covering loans above ₹5 lakh and up to ₹10 lakh

MUDRA's role will include:

- Laying down policy guidelines for micro enterprise financing business, registration of MFI entities
- Accreditation, rating of MFI entities
- Laying down responsible financing practices to ward off over-indebtedness and ensure proper client protection principles and methods of recovery
- Development of standardised set of covenants governing last-mile lending to micro enterprises
- Promoting right technology solutions for the last mile
- Formulating and running a credit guarantee scheme for providing guarantees to loans and portfolios being extended to micro enterprises
- Support development and promotional activities in the sector
- Creating a good architecture for last-mile credit delivery to micro businesses

universal bank.

"The government can decide to make it a policy bank like NHB (National Housing Bank) or it can decide to make it a universal bank," he said.

Speaking about the broad contours of the proposed Bill, he said: "It will define what is going to be MFI. What is our def-

inition of MFI. It will try and put in some process of registering new MFIs with MUDRA Bank."

It will also define functioning and objective of MUDRA Bank, Adhia said.

During the launch, the Prime Minister said the MUDRA scheme was aimed at "funding the unfunded". He said India's

small entrepreneurs were used to exploitation at the hands of money lenders so far, but MUDRA would instill new confidence in them.

Small businesses can avail loan up to ₹50,000; businesses that are a little bigger could avail loan of up to ₹5 lakh; the highest bracket of loans available to the MSME sector would be up to ₹10 lakh.

For further financing, the MSME sector affiliated entrepreneurs would be given a 'MUDRA card', which could provide further credit of up to ₹20,000.

MUDRA would also partner with state, regional level co-ordinators to provide finance to the last-mile financiers of small and micro business enterprises.

The idea of MUDRA Bank was first envisaged in Budget 2015-16.

During his address, Modi noted that the Micro, Small and Medium Enterprises (MSME) sector employs a large number of people. Nearly 120 million people are employed with 57.5 million entrepreneurs and entities in the MSME sector.

"People think it's big industries and corporate houses that provide higher employment. The truth is, only 12.5 million people are employed by big corporate houses, against 120 million by the MSME sector. We need to understand the energy of the bottom of the pyramid of individuals and provide them with means for upliftment. We want to study and adopt best practices on micro financing," said Modi.

According to him, there's a need to focus on these 57.5 million self-employed people who use funds of ₹11 lakh crore, with an average per unit debt of merely ₹17,000, he said.

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