

Eight Recommendations & One Request

to MUDRA



ACTION COMMITTEE FOR FORMAL FINANCE
FOR NON-CORPORATE SMALL BUSINESSES

Delhi,
April 22, 2015

1. Establish the SBFC Category

- Clearly define the category of Small Business Finance Companies.
- There are two categories of MFIs/NBFCs - those who lend to small business and those who don't.
- Those who lend to Small Businesses should be identified and classified as S B F Cs. These are the players who will come under the MUDRA umbrella, for regulation and participation.
- Others can continue to be called MFIs/NBFCs, remain under the ambit of the RBI.

1. Establish the SBFC Category (...contd.)

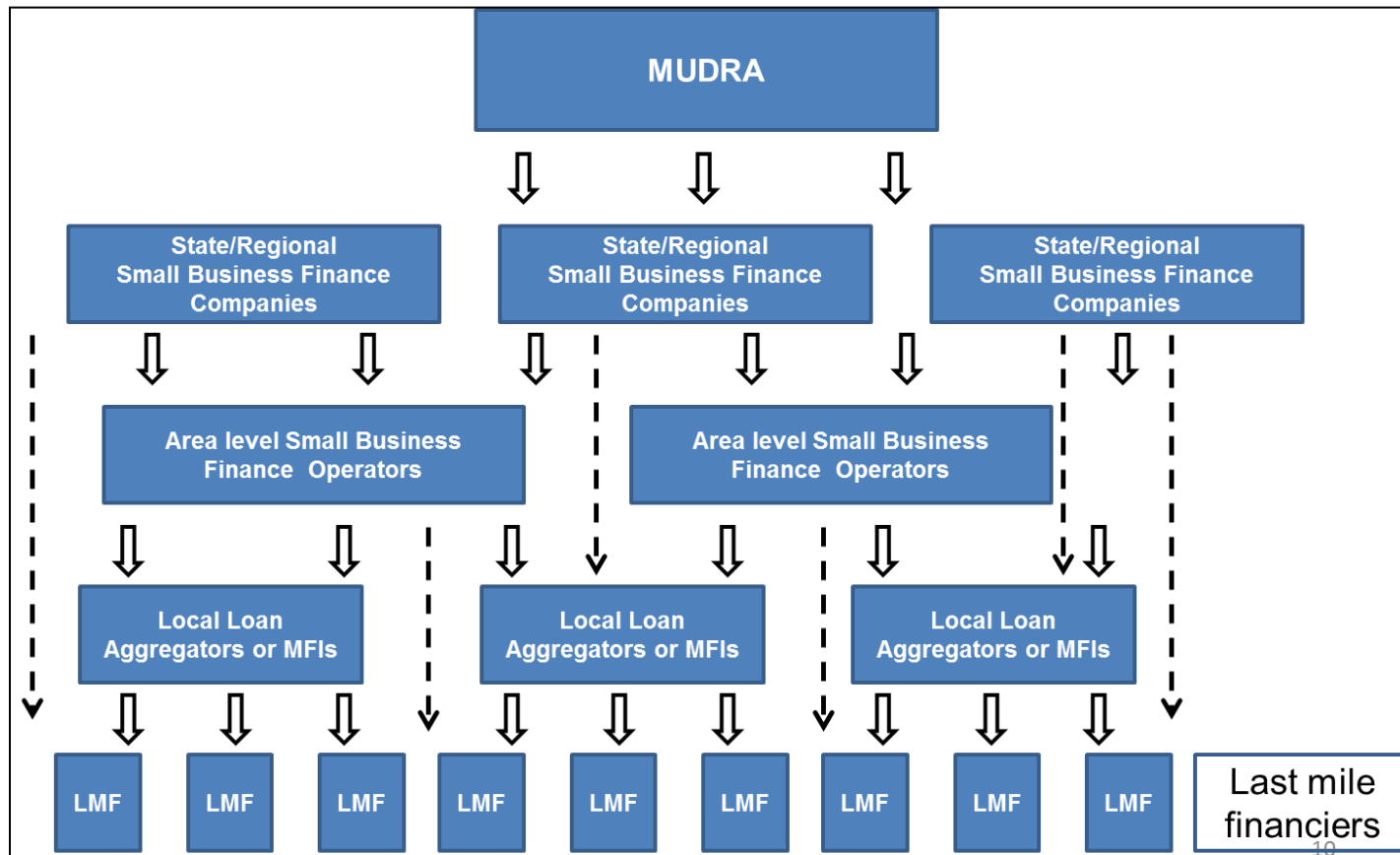
- Other like Trusts, Societies, Co-op Banks etc who lend primarily to Small Business may also be identified as S B F Cs.
- One simple criteria – those whose lending portfolio is at least 60% to Small Business can qualify to become S B F Cs.
- Set targets for enrolment of S B F Cs and get them on board quickly. They will be the drivers.

2. Last Mile Financiers – Set clear targets

- India has 7,935 towns and 6,40,867 villages (2011 census).
- Please set targets for creating Last Mile Financiers as follows:
 - Year 1 – 10,000
 - Year 2 – 30,000
 - Year 3 – 60,000 (one per 1,000 small businesses)
- Execute with a robust Marketing approach.

3. Promote entrepreneurship in SBFCs

- MUDRA envisages an exciting financial architecture.
- Encourage robust entrepreneurship to ensure competition in supplying funds to Small Businesses.



4. Supply & Reach more important than Rate of Interest

- Initial focus should be on establishing the ecosystem of SBFCs and Last Mile Financiers.
- A robust supply and availability of credit is the primary need.
- While interest rate is important, a competitive supply side will ensure that interest rates are reasonable.
- Let interest rates be substantially determined by the market, rather than micro-managed from the top.

5. Provide head-room for growth in the MUDRA Act

- Take a leaf from the MSME Act being modified now.
- Allow for small business loans to go up to Rs 25 or even 50 lakhs over time.
- The Act should provide for these higher limits. The initial focus can be on the lower end.
- It should be possible for higher amounts of loans to be extended through notifications in the future, rather than requiring amendments to the Act.

6. Coordination/Market Development Group

- MUDRA will be a new 'brand' owned by MUDRA; yet it will be used by SBFCs, Last Mile Financiers, others.
- MUDRA will be a master franchise (like VISA, MasterCard, RuPay).
- Create a Coordination/Market Development Group comprising of MUDRA and SBFCs.
- As participants & beneficiaries, this Group can set aside funds for Market Development, and drive the entire ecosystem with appropriate policies and implementation. MUDRA should play the lead role in this Group.

7. Minimal role for Credit Rating/Bureau

- The responsibility for credit assessment, lending and recovery rests with the SBFCs and the Last Mile Financiers. If they don't have a good track record, they will not be eligible for refinance.
- All information should be compulsorily captured in the Technology platform to be created.
- The Tech platform should provide all the data required on lenders, borrowers, repayments etc. ... in effect the credit information should be available on-tap, reducing the need for credit ratings/bureau.

8. Define role for Trade Groups

- The market-level trade groups – there are hundreds of them across the country – can play a big role.
 - Be catalysts.
 - Be providers of education.
 - Be providers of information, recommenders for credit.
- Trade groups should be certified/registered by MUDRA, and they can be the responsible partners in credit delivery and recovery through SBFCs and Last Mile Financiers.

One Request

- Key role of MUDRA is in Regulation of the ecosystem.
- The Regulator has a huge Development role.
- The Regulator should be like a Parent ... while disciplining the Child is one aspect, the Parent is more interested in the development of the Child and provides all support.

- MUDRA's ultimate success lies in developing the Small Business Finance ecosystem, to drive the economy and bring the benefits to tens of millions!

Many thanks for your attention!



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