

A new financial architecture for Non-Corporate Small Businesses

MUDRA



ACTION COMMITTEE FOR FORMAL FINANCE
FOR NON-CORPORATE SMALL BUSINESSES

Delhi,
April 8, 2015

How was it heralded by the FM?

Jan-Dhan Yojana – Banking the Unbanked

MUDRA – Funding the Unfunded

Who is it for?



Who is it for? (...contd.)

- Millions of proprietorship/partnership firms running as small manufacturing units, shopkeepers, fruits/vegetable sellers, truck operators, food-service units, repair shops, machine operators, small industries, artisans, food processors and others, in rural and urban areas.
- Loosely referred to as the “unorganised” or “informal” sector, they are mostly self-organised.
- Large portion of this sector runs as Own Account Enterprises (OAEs), with no employees ... essentially self-employment.

How will it be constituted?

- Now under SIDBI.
- Soon, the Government will move MUDRA through a statutory enactment as a separate entity.

Who are the players in the sector?

- SHG-Bank linkage started by NABARD.
- Non-banking finance companies
- Others like Trusts, Societies etc.

What is the role of MUDRA?

- Regulating and refinancing all Micro-finance institutions which are in the business of lending to micro/small business entities engaged in manufacturing, trading and service activities.

What is the role of MUDRA? (...contd.)

1. Laying down policy guidelines for micro/small enterprise financing business.
2. Registration of MFI entities.
3. Regulation of MFI entities.
4. Accreditation/rating of MFI entities.
5. Laying down responsible financing practices to ward off indebtedness and ensure proper client protection principles and methods of recovery.

What is the role of MUDRA? (...contd.)

6. Development of standardised set of covenants governing last mile lending in micro/small enterprises.
7. Promoting right technology solutions for the last mile.

What is the role of MUDRA? (...contd.)

8. Formulating and running a Credit Guarantee scheme for providing guarantees to the loans which are being extended to micro enterprises.
9. Creating a good architecture of Last Mile Credit Delivery to micro businesses.

What are the products of MUDRA?

- **Shishu** – Loans up to Rs 50,000/-
- **Kishor** – Loans from Rs 50,000/- to Rs 5 lakhs
- **Tarun** – Loans from Rs 5 to 10 lakhs

How will it be funded?

- Rs 20,000 crs would be allocated to MUDRA from the money available from shortfalls of Priority Sector Lending.
- Rs 3,000 cr would be provided from the budget to create a Credit Guarantee corpus.

Who are the participants?

- Last Mile Financiers: These are individuals, partnerships, companies, trusts, societies, associations and other networks that are providing financing to small business
- State level/Regional level coordinators: These are existing finance companies and intermediaries who will provide the linkage to Last Mile Financiers.

What will MUDRA achieve?

- Increase access of finance to the “unfunded”.
- Bring down the cost of finance from the Last Mile Financiers to the micro/small businesses most of which are in the informal sector.

What is unique in the concept?

MUDRA ...

- Recognises and overcomes difficulties of lending to the non-Corporate Small Businesses.
- Recognises constraints of banks – high HR cost, reach, norms etc.
- Operates outside Western model, it is indigenous thinking designed bottom-up.

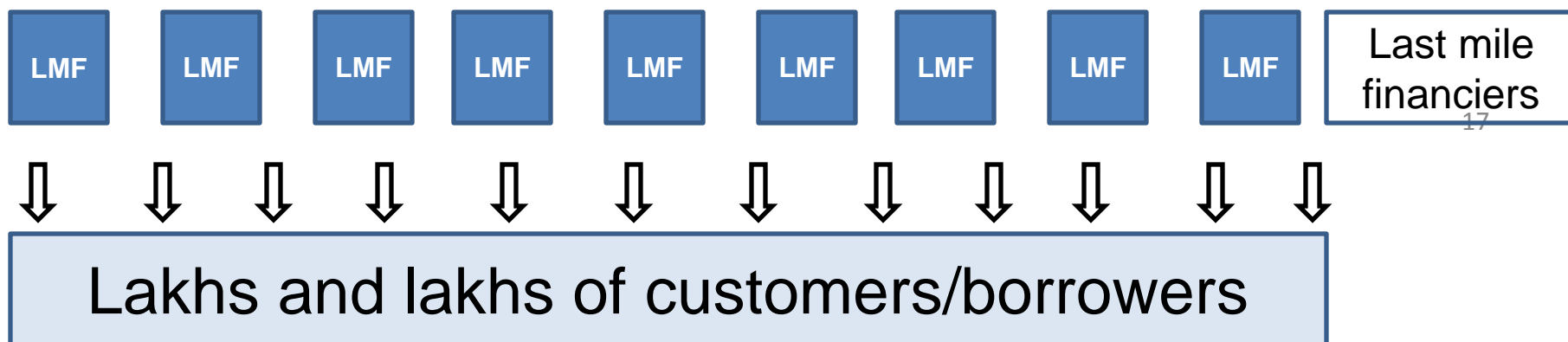
How MUDRA can work?

- Existing ecosystem of lenders on the ground are brought in as registered “last mile financiers”.
- They know how to lend and collect.
- With the incentive of refinance, they will come in and participate, become part of the system.
- Lower cost to them, will reduce interest costs down the line.

How MUDRA can work?

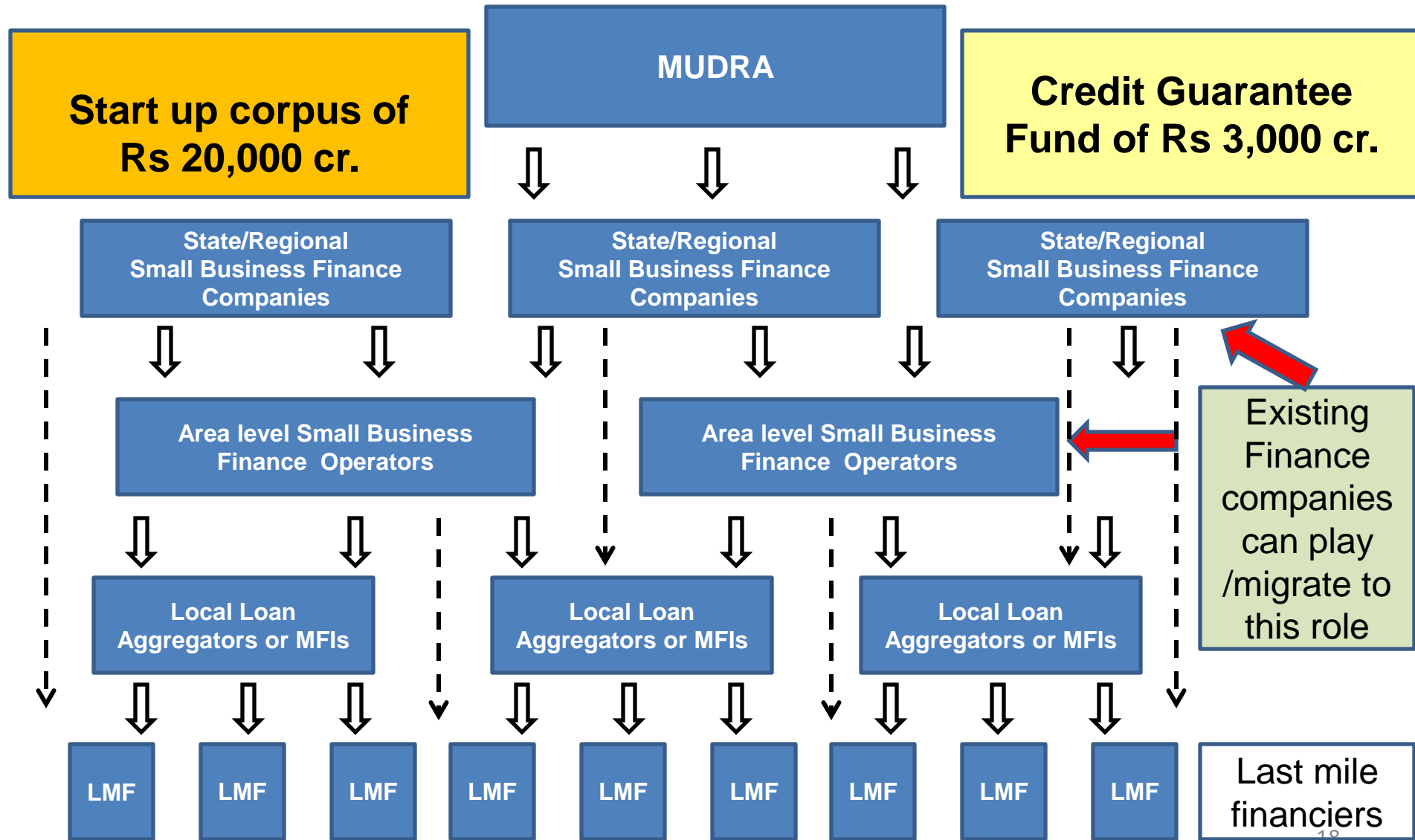
The new financial architecture

- There is an existing system at work, in the form of Last Mile Financiers. Instead of wishing them away, MUDRA proposes to bring them into its fold.



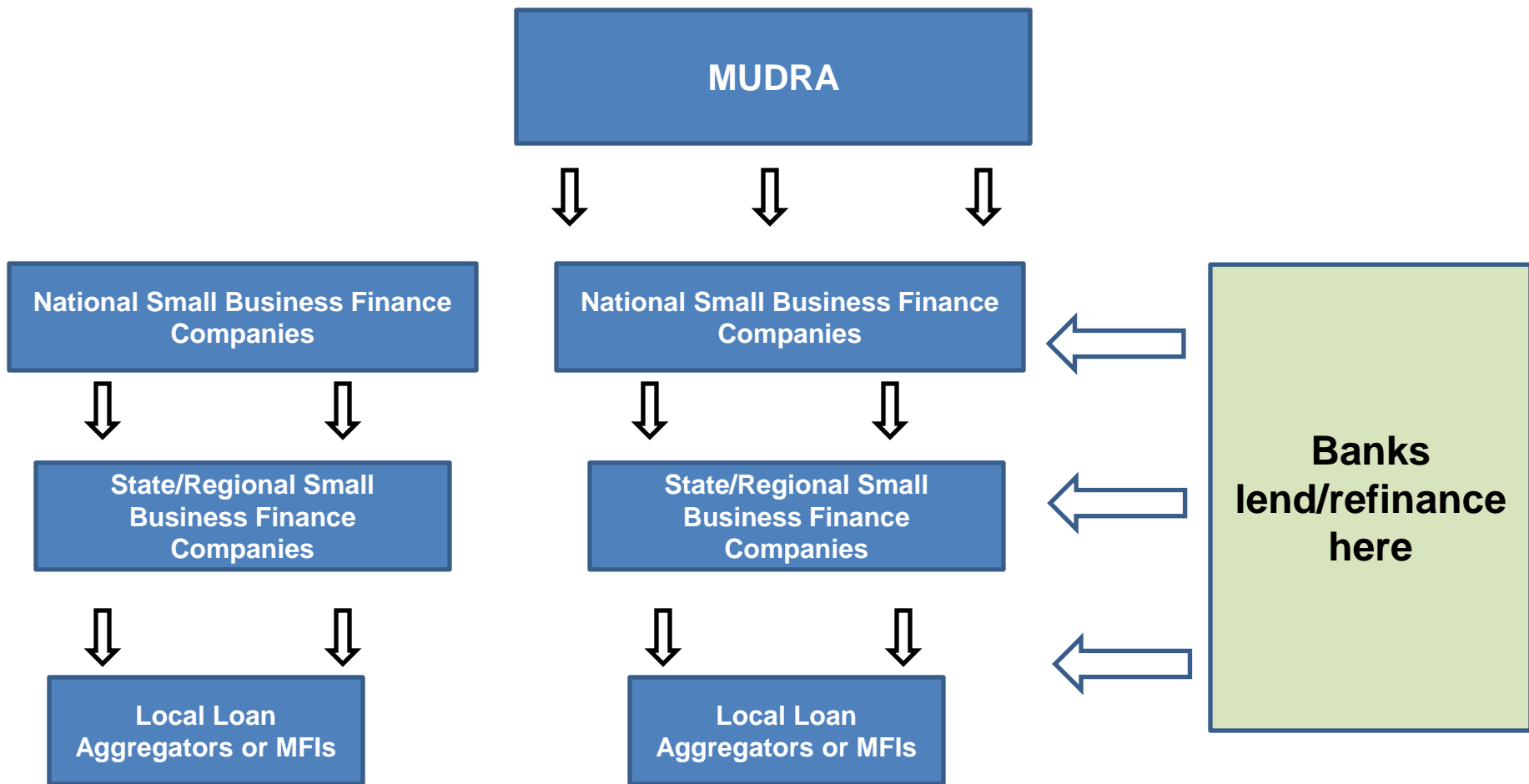
How MUDRA can work?

The new financial architecture (...contd.)



How MUDRA can work?

The new financial architecture (...contd.)



How MUDRA can work?

The new financial architecture (...contd.)

Technology underpinning

- The entire system will be on a Tech platform where all the credit flow is captured, by customer, area, types of activity, seasonality, types of product, community etc.
- Aadhar can be brought into it.
- The entire process can be fast and transparent.

In summary

India already has the largest disaggregated business ecosystem in the world. It deserves recognition and respect.

MUDRA is the first path-breaking initiative to create a robust India-centric financial ecosystem to support the small business sector. It is the single biggest opportunity to bring about a positive change for tens of millions of people.

Many thanks for your attention!



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