

# Report on Roundtable on MUDRA Yojana: Status, Opportunities & Challenges

Supported by MUDRA Bank  
Under  
Poorest State Inclusive Growth (PSIG) Programme



4<sup>th</sup> March, 2016  
Hotel Chanakya  
Patna, Bihar



**Introduction:**

The DFID supported Poorest States Inclusive Growth (PSIG) programme is being implemented by SIDBI to enhance income and employment opportunities of poor households in four of the underserved states viz Bihar, Odisha, Uttar Pradesh and Madhya Pradesh. The key purpose of the program is to improve income and reduce vulnerability of poor people and small producers by expanding their access to finance and markets. The PSIG programme is envisaged to benefit the poor and vulnerable, especially women, in the above low-income states, providing financial access to 12 million poor people by way of capacity building of financial institutions, facilitating technology led models, product development and roll-out, setting up risk funds etc.

ACCESS-ASSIST, a specialized affiliate of ACCESS Development Services for Financial Inclusion, has been assigned the task to coordinate the policy component of the programme in the above four states and at national level. One of the identified priorities within the PSIG policy mandate is to work towards making government schemes accessible to everyone, ACCESS-ASSIST has been organizing various thematic workshops, roundtable discussions, consultative meetings etc. at both national and state levels, involving different key stakeholders and facilitating constructive and forward looking discussions specifically between banks and government entities, beneficiaries etc.

**Pradhan Mantri MUDRA Yojana (PMMY):**

The setting up of MUDRA Bank was a part of the 2015-16 Union Budget proposal made by Honourable Finance Minister of India. The goal of government is to use MUDRA as a tool to fund the unfunded. All Non-Corporate Small Business Segment (NCSBS) comprising of proprietorship or partnership firms running as small manufacturing units, service sector units, shopkeepers, fruits/vegetable vendors, truck operators, food-service units, repair shops, machine operators, small industries, food processors and others in rural and urban areas, are eligible for assistance under MUDRA. Bank branches would facilitate collateral free loans under MUDRA scheme as per customer requirements.

MUDRA would be responsible for refinancing all Last Mile Financiers such as Non-Banking Finance Companies, Societies, Trusts, Section 8 Companies [formerly Section 25], Co-operative Societies, Scheduled Commercial Banks and Regional Rural Banks which are in the business of lending to micro/small business entities engaged in manufacturing, trading and services activities. MUDRA would also partner with State/Regional level financial intermediaries to provide finance to Last Mile Financier of small/micro business enterprises.

Under the aegis of Pradhan Mantri MUDRA Yojana (PMMY), MUDRA has created 3 loanproducts i.e. 'Shishu' (covering loans up to Rs. 50, 000), 'Kishore' (covering loans above Rs. 50, 000 and up to Rs. 5 lakhs) and 'Tarun' (covering loans above Rs. 5 lakhs to Rs. 10 lakhs) as per the stages of growth and funding needs of the beneficiary micro units.

MUDRA will be a re-financier, meaning it will finance the microfinance institutions (MFIs) which provide credit to the end-users in the rural hinterland — the micro manufacturer, the artisan, the small businessman, and the small-time trader. At present, MFIs lend to their customers at around 23-24 per

cent after borrowing funds from banks in the 13-14 per cent range. With MUDRA entering the field, MFIs are expected to get finance at a much lower rate, and in turn, pass on the benefit to their customers. MUDRA however won't just be a financier; it will also be tasked with regulation of the sector — lay down guidelines and code of conduct, rate the MFIs, evolve methods of recovery, ensure client protection and spread the use of technology.

Shri Arun Jaitley during budget speech 2016 reported that an amount of Rs 1 lakh crore was sanctioned to 2.5 crore borrowers by February 2016 under the PM Mudra scheme and has proposed an increased allocation of Rs 1.80 lakh crore for the same. Under MUDRA scheme, total disbursements made to banks and others were to the tune of Rs 75,000 crore against the disbursement target of Rs.1.22 Lakh Crore; out of the Rs.1500 Crore refinanced, Rs. 800 Crore was to banks and the balance for MFI including NBFC-MFIs.

#### **Need for a roundtable on MUDRA Yojana:**

During the interactions with bankers and in SFIF meetings under PSIG programme, the need for a detailed round of discussion on the various aspects of MUDRA Yojana was identified by banks, MFIs etc. Participants from various sector pointed out towards a lack of clarity in terms of interest rate, Credit Guarantee funds, support from MUDRA bank to institutions etc. Keeping this as the background a Roundtable on MUDRA Yojana, along with MUDRA Bank's participation was organised for bankers, government officials and other implementing agencies in Patna on 4<sup>th</sup> March, 2016.

#### **Summary of the Roundtable:**

A roundtable on MUDRA Yojana - Status, Opportunities & Challenges was organized in Patna on 4<sup>th</sup> March, 2016, which was attended by 39 participants from different banks (commercial and Regional Rural Banks), SIDBI, NABARD, State Government representatives etc. **(List of participants is provided at Annexure 1)**. The roundtable was formally initiated with welcome address by SIDBI followed by introduction by the participants.

**Opening remarks by Mr. David Elliott, DFID:** Promoting entrepreneurship will improve the quality of life for individuals in rural and urban areas. It too helps add economic value to the region. MUDRA scheme is a noteworthy scheme to support promotion and nurturing of small scale entrepreneurs. Financial literacy may equip small entrepreneurs with the ability to understand the scheme better and make best use of it. This roundtable will definitely help to obtain more information about MUDRA Yojana.

**Presentation on MUDRA Scheme by Shri P.S.N. Murthy, AGM, MUDRA(HO) Mumbai:** Major points covered under presentation were:

- **Genesis of MUDRA and MUDRA architecture**
- **MUDRA at a glance**
- **Progress so far:**
  - **Enrolment of Partner Institutions**
    1. Eligibility criteria for scheduled commercial banks, RRBs and NBFC-MFIs/NBFCs finalized and communicated.
    2. 27 Public Sector Banks, 17 Private Sector Banks, 31 Regional Rural Banks, 1 State Cooperative Banks, 12 Urban Cooperative Banks, 46 MFIs (including 10 Non-NBFC MFIs), and 26 NBFCs (totalling to 160) shortlisted as partners.

3. 27 Public Sector banks, 4 Pvt. CB and 25 RRBs/State Coop Bank executed General Refinance Agreement.

➤ **Schemes for funding Lending Institutions**

1. Separate scheme formulated and approved for refinancing Commercial banks, RRBs and Cooperative Banks.
2. Scheme for financing MFIs and NBFCs approved and communicated.
3. Women enterprises scheme has 25 bps interest rebate.
4. Banks to lend to the eligible borrowers, and claim refinance from MUDRA by submitting a simple application.

➤ **Interest rates**

Sl No.	Institution	Interest rate by MUDRA	Ceiling on interest rate to be charged by lending institutions to the ultimate borrowers
1	Commercial Banks	6.72%	Not more than base rate of refinanced banks
2	RRBs/Co-operative Banks	6.72%	Shall not be more than 3.5% above MUDRA lending rate
3	NBFCs	Differential rate of interest. Varying from average of the base rates of 5 largest commercial banks to SIDBI's PLR based on rating. Presently it ranges from 9.45% to 11.95%	Shall not be more than 6% on and above MUDRA's lending rate.
4	NBFC-MFIs		Shall be governed by the norms of priority sector lending by banks to MFIs, which provides for 10 to 12% interest margin to MFI.

➤ **MUDRA Card**

1. A hassle free credit to small borrowers (especially to those in lower segment viz., Shishu loans); Loan withdrawal on demand with flexibility in operation.
2. MUDRA card will help in digitizing MUDRA loan transactions and also facilitate towards a less cash regime.
3. A co-branded card with MUDRA and the issuing bank, issued directly or in association with MFI.
4. MUDRA to provide refinance/credit guarantee against loans granted under MUDRA Card.

➤ **MUDRA Loan Charter**

1. Finalized MUDRA Loan Charter to be adopted by all lending institutions providing MUDRA loans and has forwarded the same to DFS, GoI for its concurrence for its circulation among the banks/ other lending agencies.
2. Mudra loan charter will form the basis for delivery of financial services to retail clients under PMMY / MUDRA segment which is expected to significantly enhance customer experience in terms of quality of service, transparency, efficiency etc.

3. Once approved by Gol, a guidance note and rating mechanism will be prepared with the help of a professional agency for measuring the adoption of the charter.

➤ **Other points**

1. Rs. 5000 overdraft (OD) facility in Prime Minister Jan DanYojana to be under PMMY.
2. All PMMY loans will be governed by MUDRA Charter/credit guarantee to be provided from MUDRA.
3. Special module to capture daily progress in credit camp target.
4. Implementation of PMMY monitored at national level by DFS through their regular VCs and state level SLBCs.

➤ **MUDRA Credit Guarantee Scheme**

1. An amount of Rs. 3000 crore is being provided.
2. National Credit Guarantee Trustee Company Ltd. (NCGTC), a subsidiary of SIDBI, to implement the MUDRA Credit Guarantee Scheme
3. Gol has since approved the guarantee scheme; the scheme details are under finalization. The scheme is likely to be launched soon, covering the entire MUDRA loan portfolio.
4. The credit guarantee scheme is expected to enhance the flow of credit at ground level and also refinance off take.
5. The Union Cabinet in its meeting held on January 06, 2016 has approved Credit Guarantee Fund for MUDRA. A detailed guidelines needs to be approved by the Settlers of the Trust after which the scheme will be notified through a Gazette Notification for operationalization.
6. 1<sup>st</sup> meeting of Managing Committee of the Fund Trust was held on Feb. 16, 2016 to work out the detailed guidelines and modalities of the scheme.
7. Gol has earmarked Rs. 500 crore towards corpus fund for providing guarantee to loans extended under PMMY during FY 2015-16 as Grants-in-aid.

➤ **Other initiatives**

1. Launch of MUDRA App - A plan to launch mobile app, a handy tool available anytime for customers' ease.
2. IT platform (to build a data warehouse for the purpose of doing analytics; analytics to provide useful information to the stakeholders for effective delivery of financial services by multiple and competing players. IT platform envisages on-boarding smaller lending institution by providing software as a Service (SAAS) arrangement.
3. Financial literacy programme.

## **Discussion**

Mr. P.S.N. Murthy, AGM, MUDRA and Mr. Surendra Srivastava, DGM, SIDBI conducted an interactive session on various feature of MUDRA. The participants took active part in the discussion by putting across a number of interesting questions and queries. Key discussion points during the sessions are mentioned below:-

**1. Create precise demand for MUDRA Loan:** Bihar is the state which offers limited entrepreneurial opportunities specifically at rural vicinity (which covers more than 80% population). The result is lower demand of the product and hence leads to squat outreach of MUDRA loan. The first and foremost step

before intervention is to create a demand of the product which can only be possible, if the targeted population is skilled enough to be interested in MUDRA loan. The skill development will catalyze the activity which can ensure a greater outreach.

**2. Need of Financial Literacy before and after launching of the product:** Financial Literacy through formal (like banks, FLCs) and informal channels (with support of TSPs, NGOs, and MFIs) can create an enabling environment for MUDRA scheme expansion. Financial literacy can help proper orientation; help educate people to take credits from formal financial systems and avoid access to local moneylenders which capture exorbitant interest rates (still informal lending is a biggest challenge for the bank). This too will help low NPA status, more classified target selection, and willingness among clients to payback money to the bank. MUDRA has approached PSIG programme for Financial Literacy and capacity building of frontline staff members of banks and other channel partners. PSIG has agreed to provide support in this regard. SIDBI too under PSIG project can take up additional Financial Literacy initiatives in the state with the support of different institutions.

**3. Assign a part of MUDRA loan for consumption purpose:** Funding the unfunded to increase their income is key objective of launching MUDRA yojana, but consumption expenses like marriages, education, household expenses cannot be neglected. A part of MUDRA loan can be made available for their consumption purpose as well. Currently, only MFIs through their credit products are offering consumption loan. It can be extended through banking channels as well.

**4. Infrastructure creation for expansion of MUDRA scheme:** Specifically for rural communities, a huge demand of credit exists; banks are only formal system available to aid them. Still there is a huge mismatch between both demand (targeted beneficiaries) and supply (formal banking system) side which leads to poor credit services. The reasons could be unavailability of quality human resources, poor asset availability, lack of skills, zeal to undertake new activity etc. The infrastructure in the form of institutions working solely on skill development; small industries/enterprises/infrastructure for enterprise development could be setup with the help of state and central government etc. to lessen the demand and supply gap.

**5. Microfinance institutions can be a game changer for MUDRA loan:** MFIs outreach in remote areas is outstanding. So, scheme can be effectual if MUDRA lends through MFIs in the state.

**6. Proper and timely information dissemination by the government:** The Government has launched MUDRA scheme and had set aim for banks to provide credits to the targeted segments. However, lack of proper set of guidelines for implementation, created problems in smooth rolling out of MUDRA scheme at the bankers' level.

**7. Stamp duty relaxation:** A stamp duty is fixed for customers availing loan through banks. It too exists with clients availing MUDRA loan. If the target customers are filtered, they are poor enough to pay stamp duty charges therefore, the Stamp duty charge can be relaxed by the state government.

**8. Developing the mechanism to tackle with wilful defaulters:** Banks under MUDRA yojana within a short period of time has disbursed a fair amount of credit. With advent of time and future concern, there could be wilful defaulters that could come up during the processes. The information/advertisement has been made in a way that MUDRA loan is government money, where people may have assumed not to repay back. This may be a matter of concern for the banks in near future. The wilful defaulter could set example for others not pay back to their bank, leading to mass default which might lead to NPA. A mechanism could be developed in order to stop such wilful default.

**9. Create IT/MIS system for smooth data capturing:** The bank has number of different channels like Brick & Mortar branches, BCAs, kiosk model etc., which help disbursement of MUDRA Loans. There are number of data/information which is demanded from MUDRA, Apex Government and Bank Department, it

becomes cumbersome to collect data from different channel and compile within a short period of time. A worthy IT system could be developed, which within a short span can help in real and authentic data collection.

**Action point (Role of PSIG):** Since need for financial literacy on the MUDRA scheme came up significantly in the roundtable; it can be pursued under the programme by the SFIF.

**Vote of Thanks:** The roundtable was concluded with vote of thanks given by Tushar Krishna from ACCESS-ASSIST. He thanked the participants for actively participating in the discussion. He expressed his gratitude towards officials from MUDRA to give insights on the subject and addressing doubts and question of the participants.

**Annexure -1 : List of Participants**

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