

Sixth Meeting of State Financial Inclusion Forum (SFIF), Uttar Pradesh

2nd February, 2016

Bankers Institute of Rural Development (BIRD), Lucknow



Organized Under:

Poorest States Inclusive Growth (PSIG) programme

6th State Financial Inclusion Forum (SFIF) Meeting, Uttar Pradesh

Key Theme: Micro Units Development & Refinance Agency Ltd. (MUDRA): Status, Opportunities, and Challenges

Date: 2nd Feb 2016, Time: 10:30 AM – 2.30 PM

Venue: Bankers Institute of Rural Development (BIRD), Lucknow



Proceedings of the meeting

SIDBI in partnership with Department for International Development (DFID), UK, is implementing a bilateral project titled “Poorest States Inclusive Growth (PSIG)” programme. The programme aims at to facilitate better access to financial services by the poor and to promote pro-poor investments in India’s four poor states viz. Uttar Pradesh, Bihar, Odhisa, and Madhya Pradesh. The key mandate of the programme as earlier said is to improve access to both financial as well as non-financial services (savings, credit, insurance, pension, remittance, mobile banking etc) for poor people and to strengthen the institutional framework so as to help the poor in improving their income and quality of life through multifarious initiatives.

While SIDBI is the implementing agency for PSIG, ACCESS-ASSIST has been assigned as Secretariat to coordinate the initiatives on policy advocacy in the above four states as well as at the national level. Setting up of multi-stakeholder State Financial Inclusion Forum (SFIF) in each focus state has been agreed as one of the key mechanisms to achieve the objectives under the policy advocacy component. The SFIF is expected to act as an exchange and deliberation Forum to promote effective coordination and synergy among various stakeholders for accelerating the process of financial inclusion in the state. The Fifth meeting of the UP-SFIF was organized on 15th October at Bankers Institute of Rural Development (BIRD), Lucknow.

Micro Units Development & Refinance Agency Ltd. (MUDRA) is a new institution set up by Government of India to provide funding to the non-corporate; non-farm sector income generating activities of micro and small enterprises whose credit needs are below 10 Lakh. Under the aegis of Pradhan Mantri MUDRA Yojana (PMMY), MUDRA has created three products i.e. 'Shishu', 'Kishore' and 'Tarun' as per the stage of growth and funding needs of the beneficiary micro unit. The setting up of the MUDRA Bank was a part of the 2015-16 Union Budget proposal made by Finance Minister Shri Arun Jaitley. The goal of the government, as explained by Prime Minister Shri Narendra Modi, 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 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.

SUMMARY OF PROCEEDINGS

The 6th SFIF meeting was organized on the theme of “**Micro Units Development & Refinance Agency Ltd. (MUDRA): Status, Opportunities, and Challenges**”. Besides the members, key officials from Nationalized Banks, RRB’s, Cooperative Banks, MFIs, and NGOs etc. participated in the meeting. The list of participants is provided in **Annexure1**.

1. Presentation on MUDRA by Mr. Rahate:-

MUDRA was launched as a wholly owned subsidiary of SIDBI as a NBFI, pending enactment of MUDRA Act Commenced operations from 08 April 2015 at this corporate office in SIDBI office, BKC, Mumbai. It operates through the 97 offices of SIDBI, which act as nodal agencies and also support sanction of loans. As announced by the Hon’ble FM, RBI allocated Rs 20,000 Cr corpus for refinance and Rs 5000 cr has been obtained for refinance operations. Eligibility criteria for scheduled commercial banks, RRBs and NBFC-MFIs/NBFCs finalized and communicated. 27 Public Sector Banks, 17 Private Sector Banks, 31 Regional Rural Banks, 1 State Cooperative Banks (Gujarat SCB), 11 Urban Cooperative Banks, 45 MFIs (**including 10 non NBFC MFIs**), and 26 NBFCs, (**totalling to 158**) shortlisted as partners. 27 Public Sector banks, 4 Pvt Commercial Banks and 23 RRBs/State Coop Bank executed General Refinance Agreement. Separate schemes formulated and approved for refinancing Commercial banks, RRBs and Cooperative Banks. Schemes for financing MFIs and NBFCs approved and communicated. A list of 10 indicative schemes including Women Enterprises schemes have been prepared and announced. 27 project profiles are uploaded on MUDRA website. Banks to lend to the eligible borrowers, and claim refinance from MUDRA by submitting a simple application.

Pradhan Mantri Mudra Yojana (PMMY) was launched on 08 April 2015 envisaging all Banks (PSBs, Pvt CBs, RRBs, Co-operative Banks) to lend for micro enterprises with credit needs up to Rs. 10 lakh. Loans to be given in three categories:

- Shishu - upto Rs 50,000
- Kishore - Rs 50,000 to Rs 5 lakh
- Tarun - Rs 5 lakh to Rs 10 lakh

MUDRA Card- A hassle free credit to small borrowers (especially to those in lower segment viz., *Shishu* loans) with loan withdrawal on demand and flexibility in operation. The card will help in digitizing MUDRA loan transactions and also facilitate towards a less cash regime. A co-branded card with MUDRA and the issuing bank, issued directly or in association with MFI. Layout / design for MUDRA card, is approved by NPCI and circulated to all Banks. Mudra Card is a debit card on RuPay platform and is operable on ATMs and POS machines. All Public Sector Banks, ICICI Bank, Karnataka Bank, Tamilnad Merchantile Bank and 10 RRBs have launched the product. 3.96 lakh cards for Rs 1,050 crore have been issued.

A target of Rs.122, 118 crore has been set under PMMY for FY 2015-16. Over Draft (OD) facility of Rs 5000 in Prime Minister Jan Dhan Yojana (PMJDY) has to be included under PMMY. All PMMY loans will be governed by MUDRA Charter Refinance / credit guarantee to be provided from MUDRA. Special module is developed

to capture daily progress in credit camp target. Implementation of PMMY is being monitored at national level by DFS through their regular VCs and state level by SLBCs. The progress of PMMY is captured through a portal developed by MUDRA Ltd and that portal is linked to Mudra website. Banks are given login access to update the data. Information about state wise / bank wise performance with disaggregated data on category of loan, category of borrowers is captured.

MUDRA Credit Guarantee Scheme- Under the MUDRA Credit Guarantee scheme an amount of Rs 3000 crore is being provided. National Credit Guarantee Trustee Company (NCGTC) is to implement the MUDRA Credit Guarantee scheme. A Draft Mudra Credit Guarantee scheme prepared and submitted to DFS for approval by Govt. of India. GOI has since approved the Guarantee Scheme which is expected to enhance the flow of credit at ground level and also refinance off take.

2. Summary of Discussion on issues and suggestions

- All the bankers shared their banks progress on MUDRA and shared the various operational issues faced during implementation of the scheme on field.
- Bankers shared that MUDRA scheme is in demand and people are approaching the banks to apply for MUDRA Loan, but in lack of clarity on list of activities it gets difficult for a banker to grant loan.
- The fear of NPA is one of the primary reasons that Shishu loan is easily provided to people rather than Tarun or Kishore as the amount of Shishu is low.
- Bankers also raised the issues in credit guarantee provided by Govt. to cover NPA citing that tedious legal compliances in claiming the guarantee makes it difficult. The procedures should be made easier for MUDRA loan portfolio.
- Customer awareness about the product in terms of its availability is high; however the eligibility norms and documentation required may not be feasible for all clients approaching the banks. However, banks are under pressure from local political groups to sanction loans and it is difficult to refuse loan applications.
- A uniform appraisal form for MUDRA loans in vernacular language can be made available to all the bankers for ease of customers.
- The bankers also voiced for Aadhar card to be made mandatory as it gives the client more authentication and benefit of credit data reporting and will ease the bankers in reducing NPAs.
- Communication and publicity by the government particularly through mass media should also include sensitization of borrowers regarding KYC requirements and discipline of regular loan repayment.
- MFI partners expressed the need for certificates to be issued by MUDRA qualifying them to be registered agencies/partners for MUDRA. They were informed that the MoU is the only 'qualifying' document available.
- Communication on uniformity of KYC documents and specification of activities to carried out by borrowers from MUDRA Loan.
- Bankers expressed need for support from the local government (block and district level) in recovery of bad debts may be through a joint drive.

- There is a lot of overlap in MUDRA borrowers and MFI borrowers particularly for *Shishu* loans, it is therefore important that banks report to and access credit information from one the microfinance credit bureaus (HighMark, Equifax, Experian) as part of credit appraisal process. A write up on microfinance credit bureaus is provided in **Annexure II** as requested by some bank participants.
- Participants suggested that the thrust for MUDRA loans should be on purpose of loan for which the fund will be utilized in the enterprise. Also potential borrowers need to be made aware of this so that they do not expect the loan as a 'matter of right' and understand that there is terms and conditions associated with the loan.
- The SFIF requested MUDRA to share an exhaustive the list of activities that can be funded through MUDRA scheme and within these the details of purpose and quantum of loans to be considered. This will help the bank branch staff to appraise loan applications in a structure manner.

Suggestions:

- MUDRA should share exhaustive list of enterprises and activities to be funded.
- A uniform appraisal or rating system along with standard eligibility criteria and paper work requirements needs to be established for these loans as it will reduce the apprehension of banker and will help enable better lending. The rating methodology will also help in bringing down NPAs.
- More awareness is required about MUDRA at banker as well as client level on terms of conditions, eligibility criteria and processes.
- Enterprise loans should be made along with holistic ecosystem development for enterprise development including capacity building, market support, technology etc. MUDRA scheme should be linked with appropriate entrepreneurial and skill training to identified borrowers in order to maximize the utility of the loan. In case there are clusters of enterprises, then some ecosystem and market development support should also be facilitated through tie ups with relevant govt. departments and agencies, NGOs and training institutions.
- Relaxation of NPA criteria for eligibility of RRBs for registration as empaneled MUDRA agencies since many RRBs are not qualifying the current criteria of

3. Action points:-

The meeting concluded with following action points which could be pursued under PSIG by the SFIF secretariat:

- Training for MFI staff on appraisal for large loan sizes (Kishore/ Tarun) of MUDRA
- Advocacy with MUDRA for issue of an exhaustive list of activities to be financed under MUDRA and for developing a standard system for appraisal of MUDRA loans applicable across agencies and effective dissemination of these among partner banks and MFIs.
- Conduct district level sensitization of bankers on details of MUDRA scheme
- To carry out short analytical studies of MUDRA scheme implementation and outreach.

4. Next meeting

Next meeting of SFIF will be organized in the month of May, 2016.

5. Vote of Thanks

The vote of thanks was proposed by Shri Utpal Chakraborty, State Director, PSIG UP, SIDBI. He thanked all the SFIF participants & presenters for their wholehearted participation and providing suggestions. He emphasized to take up the issues discussed with regulatory authorities to work on strategies and come up with solutions.

Annexure I

Sno.	Name	Designation	Organization
1	Prakash Kumar	GM	SIDBI
2	Ragini Chowdhary	Pvt. Sector Advisor	DFID
3	Dr. R K Pandey	AGM	RBI
4	Raghunath B	DGM	NABARD
5	M K Misra	Additional Director	Department of Post
6	S S Srivastava	ASP	Department of Post
7	R K Singh	Senior manager	Grameen bank of Aryavart
8	Rajesh Gupta	AGM	Punjab National Bank
9	Rajesh Khatri	Manager	Oriental bank of Commerce
10	Shyaam Ji Agarwal	Chief Manager	Baroda UP Grameen Bank
11	K K Singh	Senior Manager	Vijaya Bank
12	Suman devi	Manager	Union bank
13	Motilal Verma	Senior Manager	Union bank
14	Sarvesh Singh	Manager	Union Bank
15	Ashwani Kumar	Vice President	Utkarsh Microfinance Pvt. Ltd.
16	Aditya kumar	Chief manager (credit)	Kashi Gomti Samyut Grameen Bank
17	A K Gaur	AGM	Syndicate Bank
18	Ankur Bhawal	Manager- CA	Syndicate bank
19	A K Srivastava	AGM	State bank of India
20	B B Singh	CFO	Cashpor Micro Credit
21	R S Singh	Head MD office	Cashpor Micro Credit
22	Manjeet Roshan	AVP	Margdarshak
23	S K Kulshrestha	AVP	Margdarshak
24	Anurag Gupta	Nodal officer & Vice President	HDFC Bank
25	Anil kr. Singh	CEO	NEED
26	Sudhir Sinha	Project Coordinator	UPMA
27	Vineet Misra	Manager	IDBI Bank
28	Pankhuri Srivastava	Manager	UCO bank
29	Jalendra Singh	Senior Manager	Indian Bank
30	Sudhir Joshi	Chief Manager	Allahabad Bank
31	R B Rahate	AGM	MUDRA
32	Dharmendra Kumar Singh	DVP	Bandhan Bank
33	Amit Misra	Branch Head	Bandhan Bank
34	Utpal Chkraborty	State Director	PSIG-UP, SIDBI
35	Amar Gupta	AM	SIDBI
36	Radhika Agashe	ED	ACCESS ASSIST
37	Priyanka Pathak	Manager UP	ACCESS ASSIST
38	Mohammad Azhar	Sr. project Coordinator	ACCESS ASSIST

ANNXURE II

Credit Bureau in India

A credit information bureau works by storing information about a person's credit history. Based on the credit scores that these bureaus assign to customers, banks can come to a decision about their creditworthiness.

The Credit Information Bureau (India) Ltd (Cibil), operating since 2004, was the only agency that assessed a borrower's creditworthiness. The three new bureaus will join this agency to offer an additional level of credit scoring models. Despite the fact that around 13 companies had applied to start credit information bureaus, only three have been allowed to function by the Indian banking regulator—Experian Credit Information Co. of India Pvt. Ltd, Equifax Credit Information Services Pvt. Ltd and High Mark Credit Information Services Pvt. Ltd.

CRIF High Mark

CRIF High Mark is a comprehensive information services provider across the vital segments of micro-finance, consumer and commercial. They are India's leading credit information solutions provider, having the most exhaustive and extensive databases in India providing top-end and in-depth information solutions to banks and lending institutions ranging from micro-finance, consumer and commercial segments.

Its one-stop credit information solutions and packages have been developed in-house and through a rigorous bottom-up process that focused on collating scores of data points for each record before setting up our systems and technology to process them. The information tools provide users with precise, easy-to-read, and extensive reports that enable any financial services organization to process information quickly and accurately. Their analytics tools are highly effective in identifying high risk customers, and forecasting trends on geographies, recoveries and lending. This gives CRIF High Mark the edge in providing integrated data solutions tailored across verticals and customized to the needs of all kinds of financial services firms.

CRIF High Mark is India's only credit information bureau catering to all borrower segments – MSME and Commercial borrowers, Retail consumers, Microfinance borrowers. It is the pioneer in building and operating the country's first and world's largest Microfinance Bureau Database. CRIF High Mark provides Analytics, Data Management and related Software solutions promoting a more mature credit culture in the Indian economic system and sustaining the financial needs of businesses and consumers.

Equifax India

Equifax India is registered as Equifax Credit Information Services Private Limited (ECIS). It is a joint venture between Equifax Inc., USA and seven leading Indian financial institutions - **State Bank of India, Bank of Baroda, Bank of India, Kotak Mahindra Prime Limited, Religare Finvest Limited, Sundaram Finance Limited and Union Bank of India**. Equifax India aims to provide a broad range of solutions related to credit information, business analytics and risk management for our clients, across India. Equifax India is headquartered in Mumbai and has branch offices in Bangalore and Delhi.

Equifax India was granted its 'Certificate of Registration' on 26th March, 2010 by the Reserve Bank of India (RBI) to establish a credit information company under 'The Credit Information Companies (Regulation) Act' 2005 (CIC Act). Launched their consumer credit bureau in September 2010 and also launched a separate dedicated bureau to address the growing lending and regulatory needs of the Microfinance Institutions in May 2011. Currently they have more than 1300 registered members and are regularly adding new members and data into the bureau.

They collect information from members, process the data into a readable and usable form and provide credit information reports and other related products on individual consumers for a variety of uses within the purview of the CIC Act. In addition to identification information (as provided by their members) they also provide information on individuals' borrowing and bill paying habits. This helps lenders assess credit worthiness of their borrowers and their ability to pay back a loan if granted.

Their main goal is to assist lending institutions manage risk efficiently through a combination of data and robust analytics. The unique insights that they deliver, help lending institutions make better business and credit decisions, using global proprietary tools customized to meet Indian requirements.

They currently have a wide range of products on offer for credit grantors and borrowers - Basic Consumer Information Reports, Enhanced Consumer Information Reports, Microfinance Institution Credit Information Report and Equifax Alerts. To improve the data quality and thereby the quality of the credit information available, data enrichment and cleansing services are also on offer.
