MUDRA OFFERINGS

Under the aegis of Pradhan Mantri MUDRA Yojana, MUDRA has already created its initial products / schemes. The interventions have been named 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth to look forward to :

- **Shishu** : covering loans upto **50,000/-**
- **Kishor** : covering loans above **50,000/- and upto 5 lakh**
- **Tarun** : covering loans above **5 lakh and upto 10 lakh**

It would be ensured that at least 60% of the credit flows to Shishu Category Units and the balance to Kishor and Tarun Categories.

Within the framework and overall objective of development and growth of Shishu, Kishor and Tarun Units, the products being offered by MUDRA at the rollout stage have been designed to meet requirements of different sectors / business activities as well as business / entrepreneur segments. Brief particulars are as under:

- Sector / activity specific schemes
- Micro Credit Scheme (MCS)
- Refinance Scheme for Regional Rural Banks (RRBs) / Scheduled Co-operative Banks
- Mahila Uddyami Scheme
- Business Loan for Traders & Shopkeepers
- Missing Middle Credit Scheme
- Equipment Finance for Micro Units

The salient features of the schemes and innovative products, being worked upon, which will be offered by MUDRA going forward, are as below:

1 Sector / Activity Focussed Schemes

To maximize coverage of beneficiaries and tailor products to meet requirements of specific business activities, sector / activity focused schemes would be rolled out. To begin with, based on higher concentration of businesses in certain activities / sectors, schemes are being proposed for:

1.1 Land Transport Sector / Activity

Which will inter alia support units for purchase of transport vehicles for goods and personal transport such as auto rickshaw, small goods transport vehicle, 3 wheelers, e-rickshaw, passenger cars, taxis, etc.

1.2 Community, Social & Personal Service Activities

Such as saloons, beauty parlours, gymnasium, boutiques, tailoring shops, dry cleaning, cycle and motorcycle repair shop, DTP and Photocopying Facilities, Medicine Shops, Courier Agents, etc.

1.3 Food Products Sector

Support would be available for undertaking activities such as papad making, achaar making, jam / jelly making, agricultural produce preservation at rural level, sweet shops, small service food stalls and day to day catering / canteen services, cold chain vehicles, cold storages, ice making units, ice cream making units, biscuit, bread and bun making, etc.

1.4 Textile Products Sector / Activity

To provide support for undertaking activities such as handloom, powerloom, chikan work, zari and zardozi work, traditional embroidery and hand work, traditional dyeing and printing, apparel design, knitting, cotton ginning, computerized embroidery, stitching and other textile non garment products such as bags, vehicle accessories, furnishing accessories, etc.

Going forward, schemes would similarly be added for other sectors / activities as well.

2 Micro Credit Scheme

Financial support to MFIs for on lending to individuals/ groups of individuals /JLGs/ SHGs for creation of qualifying assets as per RBI guidelines towards setting up / running micro enterprises as per MSMED Act and non-farm income generating activities.

3 Missing Middle Credit Scheme

Financial support to financial intermediaries for on lending to individuals for setting up / running micro enterprises as per MSMED Act and non-farm income generating activities with beneficiary loan size of 50,000 to 10 lakh per enterprise / borrower.

4 Refinance Scheme for RRBs / Co-operative Banks

Enhancing liquidity of RRBs / Scheduled Co-operative Banks by refinancing loan extended to micro enterprises as per MSMED Act with beneficiary loan size upto 10 lakh per enterprise / borrower for manufacturing and service sector enterprises.

5 Mahila Uddyami Scheme

Timely and adequate financial support to the MFIs, for on lending to women / group of women / JLGs/ SHGs for creation of qualifying assets as per RBI guidelines towards setting up / running micro enterprises as per MSMED Act and non-farm income generating activities.

6 Business loans for Traders and Shopkeepers

Timely and adequate financial support for on lending to individuals for running their shops / trading & business activities / service enterprises and non-farm income generating activities with beneficiary loan size of upto 10 lakh per enterprise / borrower.

7 Equipment Finance Scheme for Micro Units

Timely and adequate financial support for on lending to individuals for setting up micro enterprises by purchasing necessary machinery / equipments with per beneficiary loan size of upto 10 lakh.

8 Innovative Offerings

8 (i) MUDRA Card

- Going forward, MUDRA would look at improving the offerings basket by looking at innovative ideas like a pre-loaded MUDRA Card, say with an assessed value.

- The credit limit available on MUDRA Card could be 20% of the loan limit sanctioned to the enterprise, with a maximum credit limit on the card being 10,000/-. The principal issuer will be MUDRA and credit risk of upto 20% of the card portfolio could also be covered under the Credit Guarantee Scheme of MUDRA. The remaining risk would remain with the MFI partners.

- The card offering will help provide pre-approved credit line to the members by providing a card that can be utilized to purchase raw materials and components, from registered producers on an online platform.

- The card could be linked with Pradhan Mantri Jan Dhan Yojana Savings Account of the borrower and the drawals could also be enabled through the Bank's ATM network for meeting the immediate liquidity problems of the micro enterprise.

8 (ii) Portfolio Credit Guarantee

- Traditional financing in Indian context adopts an Asset Based lending approach with emphasis on collaterals. Micro units, most of the times, are unable to provide the comfort of collaterals.

- To mitigate the issue of collaterals, MUDRA will be offering a Credit Guarantee Product.

- Further, given the context of the industry / segment, since the individual loan sizes would expectedly be small and number of loans will be large, the option of a Portfolio Guarantee Product will be explored. Under this option, Credit Guarantee or Risk Sharing would be provided for a portfolio of homogenous loans instead of a Scheme for individual loan - by - loan guarantee. This is expected to create administrative efficiencies and increase receptiveness for the Credit Guarantee product. The Guarantee product would be one of the key interventions proposed with the objective of bringing down the cost of funds for the end beneficiary to improve its creditworthiness.

- Further, the time has come when there is a need to move away from the asset based lending approach to other innovative approaches, say Business Idea funding Approach or cash flow based lending schemes, where there may not be underlying tangible primary assets. The comfort of primary lenders for lending to such segment would increase if credit guarantee instrument is available.

8 (iii) Creation of Resources for Credit Enhancement / Guarantee Facility

The corpus proposed for the Credit Guarantee Scheme would be regularly augmented with a charge on the outstanding loans under refinance. The same would be utilized for providing first loss guarantee / credit enhancement for securitized portfolio loans, as discussed below[4].

[4] Credit enhancement : Facilities offered to cover probable losses from a pool of securitized assets in the form of credit risk cover through a letter of credit, guarantee or other assurance from the originator / co-originator or a third party to enhance investment grade in any securitization process. First loss facility is the first level of credit enhancement offered as part of the process in bringing the securities to investment grade. Second loss facility provides the second / subsequent tier of protection against potential losses.

8 (iv) Underwriting for Intermediaries

As MUDRA evolves, it will have to look for newer innovative offerings based on the cardinal principle of 'problem solving.' It is necessary that the intermediaries and last mile financiers which have the real expertise in funding the NCSB sector have access to a steady flow of long term debt capital at a reasonable cost to smoothly continue their onlending activities as also scale up sustainably. As of now, these intermediaries face significant difficulties in raising debt. There is also a need to widen the investor / lender base for such intermediaries.

Securitization would be a useful tool for such long term capital flow. However, as the market for securitization deals from the asset class of NCSB is nascent, it would first need to be nurtured and developed. MUDRA proposes to step in through interventions such as :

Providing credit enhancements : Credit enhancements by way of first loss guarantee / collateral would be provided by MUDRA for securitization pools from the NCSBS asset class to be originated by MFIs and other intermediaries. MUDRA’s support to such transactions will facilitate improvement in credit rating of such asset pools and hence securitization deal flow in the sector.

Adopting Co/ Multiple Originator Models : There would be a need to bring about cost and administrative efficiencies in securitization transactions. Further, as the loan sizes are small, many smaller intermediaries may not be able to provide by themselves a threshold size of assets for securitization. To address such issues, the multiple originator model would be encouraged whereby asset pools of more than one originator / intermediary could be bundled for securitization.

MUDRA will build on experiences of some of the existing players who have demonstrated ability to cater to the NCSB segment. Models developed in the industry would be looked at for adaptation. Being an apex agency with whom intermediaries would be registered / availing refinance from, MUDRA would be well placed to play an effective role in helping crystallize such securitization deals under multiple originator models.

Similar other interventions for market making and creation of the right ecosystem would be taken up by MUDRA.

8 (v) Business / Banking Correspondent Model

- To capitalize on expertise in lending and collections [which is often segment / region specific] developed by intermediaries / last mile financiers in the small / informal business segment as also to meet their capital requirements, a product for lending through the Business / Banking Correspondent Model is envisaged.

MUDRA Offerings- Addressing the Non-Credit Gaps

Besides the credit constraints, the NCSBs face many non-credit challenges, like,

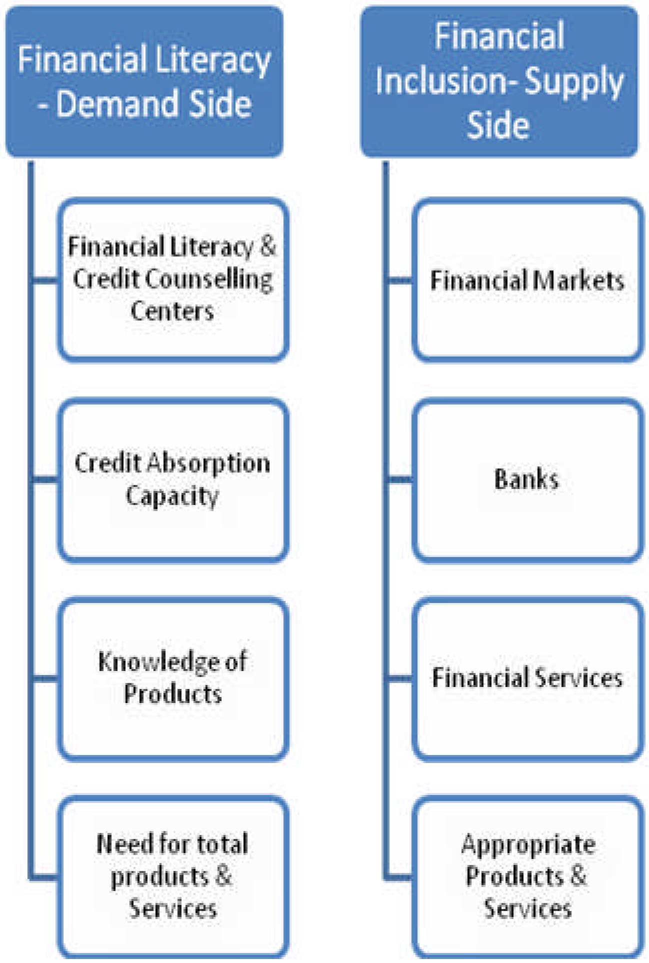
- Skill Development Gaps
- Knowledge Gaps
- Information Asymmetry
- Financial Literacy
- Lack of growth orientation

To address these constraints, MUDRA will have to adopt a credit- plus approach and offer Developmental and Support services to the target audience. It will have to act as a market maker and build –up an ecosystem with capacities to deliver value in an efficient and sustainable manner.

Supporting Financial Literacy

Financial literacy or financial education can broadly be defined as 'providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices.'

Financial Inclusion and Financial Literacy are twin pillars. While Financial Inclusion acts from supply side providing the financial market / services that people demand, Financial Literacy stimulates the demand side – making people aware of what they can demand. Supporting the financial literacy drive will contribute substantially from the demand side to the national agenda of financial inclusion.



Financial Literacy and Financial Inclusion

Promotion and Support of Grass Root Institutions

One of the major focus areas will be to formalize and institutionalize the last mile financiers / grass root institutions so that a new category of financial institutions viz. Small Business Finance Companies can be created and ecosystem developed for their growth.

Rural innovations at micro enterprise / unit level would also be one of the key areas for intervention and support. Support to Micro units by way of the facility of incubators would be taken up. This would ensure that at the most grass root levels in the country, there is climate for promotion of innovation as well as incubation of ideas from educated rural youths which would germinate in viable micro enterprises.

Creation of Framework for "Small Business Finance Entities"

An enabling framework for support to "Small Business Finance Entities" would be created leading to formalization of the economy which is presently included in the informal sector.

Synergies with National Rural Livelihoods Mission

NRLM implementation is in a Mission Mode. This enables (a) shift from the present allocation based strategy to a demand driven strategy enabling the States to formulate their own livelihoods-based poverty reduction action plans, (b) focus on targets, outcomes and time bound delivery, (c) continuous capacity building, imparting requisite skills and creating linkages with livelihood opportunities for the poor, including those emerging in the organized sector, and (d) monitoring against targets of poverty outcomes. As NRLM follows a demand driven strategy, the States have the flexibility to develop their livelihoods-based perspective plans and annual action plans for poverty reduction. The overall plans would be within the allocation for the State based on inter-se poverty ratios.

NRLM Mission: "To reduce poverty by enabling the poor households to access gainful self-employment and skilled wage employment opportunities, resulting in appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots institutions of the poor."

Efforts would be made to draw synergies between NRLM and MUDRA interventions for greater public good.

Synergies with National Skill Development Corporation

NSDC is already engaged in the process of skill development at a National scale. Synergizing with NSDC will help MUDRA in augmenting the skill sets of the sectoral players.

Working with Credit Bureaus

With the growth of responsible lending practices, Credit Bureaus (CB) have gained increasing level of acceptability in the micro finance sector. The CB culture will help in creating credit history over a period of time which will facilitate faster credit dispensation as the system evolves.

Working with Rating Agencies

Accreditation / rating of MFI entities is one of the roles earmarked for MUDRA. Further, a segment of financial intermediaries for the non corporate small business sector is envisaged to emerge in the financing architecture. MUDRA would work in coordination with Rating Agencies so that appropriate rating framework(s) which take into account sector specific features are devised for various sector participants. In the longer run, availability of rating for sector participants would facilitate formalization and further flow of capital to the sector.

The MUDRA Pricing

Access to finance is critical and equally critical is the cost of finance to the NCSB/ultimate beneficiary. The funds mobilized by micro units from the informal sources are at high cost. There is scope for cost rationalization. However, the rationalization is intricately linked with the cost of funds for the last mile MFIs.

The NBFC-MFIs are presently regulated by Reserve Bank of India and RBI has already prescribed detailed guidelines for margin cap in respect of MFIs. The margin cap has been pegged at 10% for MFIs having loan portfolio of more than 100 crore and 12% for smaller MFIs having loan portfolio of less than 100 crore. In the backdrop of these guidelines and the fact that MFI sector has been constantly trying to reduce its costs, MUDRA would also help MFIs reduce their cost to bring down the overall cost to the end beneficiaries. Further, at the time of appraisal, MUDRA would be studying / assessing individual MFIs on this as well as other related parameters and suitably price its assistance based on such assessment.

Working on the premise that the cost to the ultimate beneficiary should be reasonable and affordable, the cost of funds of MUDRA should be 150 bps to 200 bps below the benchmark repo rates. This seems to be very much feasible as GoI is willing to support MUDRA in mobilizing low cost funds through refinance support from RBI/multilateral institutions. MUDRA will have to adopt a cost plus approach for pricing its offerings.

MUDRA will thus be a refinancing agency which will need funding below market rates through State interventions which in turn will help it channelise the assistance to the last mile financiers as well as the ultimate beneficiary micro units at reasonable rates. Access to finance in conjunction with rational price is going to be the unique customer value proposition of MUDRA.