Watch out for rising bad loans under Mudra scheme: RBI

Banks Need To Focus On Repayment Capacity, Says Dy Guv

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Mumbai:

The RBI has asked banks to monitor loans under the Mudra scheme over concerns of growing levels of nonperforming assets (NPAs) in that category. The warning comes a few months after RBI governor Shaktikanta Das, in a meeting with banks, pulled them up for loose monitoring of these loans in the light of rising defaults.

"Banks need to focus on repayment capacity at the appraisal stage and monitor the loans through the life cycle much more closely," said RBI deputy governor **M K Jain**. "The Mudra is a case in point… while such a massive push would have lifted many beneficiaries out of poverty, there have been some concerns over the growing level of NPAs." He was speaking at a Sidbi microfinance conference here on Tuesday.

The Pradhan Mantri Mudra Yojana was introduced in 2015 to provide relatively inexpensive loans of up to Rs 10 lakh to the under-served small and medium enterprises (SMEs) sector. NPA ratio, or bad loans as a percentage, of Mudra loans was at 2.68% in 2018-19 — up 16 basis points (100bps = 1 percentage point) from 2.52% in the previous year, according to a reply to a query in Parliament in July. However, defaults have been rising even as disbursements under Mudra shot up in FY19 to cross Rs 3.1 lakh crore, according to another parliamentary reply on November 18.

Last year, former RBI governor Raghuram Rajan had red-flagged loans under the scheme. He had stated that advances under Mudra and Kisan Credit Cards needed to be examined "more closely" for potential credit risk. Rajan had also highlighted the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) run by Sidbi as a growing contingent liability that "needs to be examined with urgency". One of the criticisms of the Mudra scheme was that small loans of up to Rs 50,000 could not contribute much toward income-generation and would end up being used for consumption.

In his speech, Jain also warned that in spite of healthy growth in the microfinance sector in the past few quarters, microfinance institutions (MFIs) must be cognizant of the vulnerability of the sector to external developments, technological changes, event risks and income inconsistencies of borrowers, among others.

He also asked Sidbi to help MFIs innovate in new-age technology like AI, machine learning and blockchain using a regulatory sandbox.

"Sidbi could hand-hold the microfinance providers in this process, specifically with regard to lending to micro and small enterprises in areas such as alternate credit-scoring models, predicting perfect probability of default, etc. Sidbi could also take the lead in hosting an ecosystem within a well-defined regulatory sandbox to create infrastructure, which will reduce the turnaround time and provide customer-centric products," Jain said.