



MUDRA BANK: A TOOL FOR FINANCIAL ASSISTANCE TO MSME SECTOR

Ahmad Shadab Khan¹ & Dr. Zainus Salikin Siddiqu²

¹Research Scholar, Dept. Commerce, AMU, Aligarh

² Research scholar, department of Economics, AMU, Aligarh

Abstract:

This paper is an attempt to analyse the importance and role of MUDRA bank as a tool for financial assistance to MSME sector. The study is based on the secondary source of data obtained from the official website of MUDRA.org, PMMY report, newspapers and magazines, and other published sources. The Micro Small Medium Enterprises (MSME) segment plays a substantial role in the development of the Indian economy. The progress of this segment is extremely critical to meet the national imperatives of financial inclusion and generation of substantial levels of employment across urban and rural areas across the country. Indian MSME sector gets a significant boost by the implementation of Pradhan Mantri MUDRA Yojana (PMMY) Scheme and a dedicated bank for MSME sector (MUDRA Bank) that spurs the growth of Indian MSME Sector and help them increase their contribution to Indian GDP from its current level of 38%. This bank immensely increases the confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs; existing small businesses, too, will be able to expand their activities. The main objectives of MUDRA Bank are, to encourage entrepreneurs and small business units to expand their capabilities and operations, to reduce over-indebtedness and to provide formal a system of credit.

KEYWORDS: MFI's, MSME's, MUDRA, PMJDY & TReDS

Introduction:

MUDRA stands for Micro-Units Development and Refinance Agency, initiating this -scheme was announced in the Union Budget of the financial year 2015-16. It was actually sketched and outlined by Hon'ble Prime Minister of India under the ambitious PMMY stands for Pradhan Mantri Mudra Yojana, a scheme funding the unfunded. This scheme actually came into force from 8th April 2015. It is being set up through a statutory enactment. But the enactment is likely to take some time, temporarily; MUDRA will start its functioning under SIDBI as a subsidiary and registered as an NBFC stands for Non-Banking Financial Corporation.

MUDRA's main aim is to finance the "Last Mile Financiers" of micro and small entrepreneurs by working with partner local coordinators. The main aim behind launching this scheme is to provide finance to Non- Corporate Small Business Sector (NCSBS). It is expected that the MUDRA scheme will fulfil the financial needs of 5.77 crore small businesses who are spread throughout the boundaries of the country. These entrepreneurs are currently facing many difficulties in getting the credit from the formal banking system.

Mudra bank launched with a corpus of Rs 20000 crores and credit guarantee of Rs.3000 crores. The bank will be responsible for refinancing and credit support to micro finance institutions (MFIs) and agencies. It will act as a regulator for micro-finance institutions and will be responsible for refinancing (provide low-cost loans) MFIs in the business of lending to small entities. It will partner with state and regional level coordinators to provide finance to last mile financiers of small and micro business enterprises.

Supporting and promoting the small and micro entrepreneurs is one of the best solutions to contribute to the country's economic development which will help to groom and prosper at a higher pace. It has been mentioned in the speech of Hon'ble Prime Minister of the nation that, large corporate houses provide employment to 1.25 crore people, who easily get access to organized banking system. On the other hand, small and micro entrepreneurs who always face many problems in getting financial assistance from formal banking generates employment for 12 crore people. It is actually a harsh reality to accept.

Involving these enterprises in the regular banking system will not only help in uplifting the standard of life of the people but also will substantially contribute to the economic growth of the nation's economy.

Objectives:

1. To understand an overview of the MUDRA scheme adopted in the country.
2. To know the roles and responsibilities of MUDRA scheme for small and micro businesses.
3. To analyze the impact of MUDRA scheme on the Indian economy.

Research Methodology:

Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Available secondary data was extensively used for the study. The secondary data sourced from journals, magazines, articles and reports available at RBI, the official website of MUDRA, MSME etc.

MSME SECTOR:

India is one amongst very few countries which has a legal framework for the MSME Sector in the form of MSME Act 2006 which has established provisions under which issues like public procurement and delayed payments. In order to enhance the capabilities of MSMEs, Ministry of MSME has been implementing a number of programs and schemes in the areas of finance, infrastructure, technology, marketing and skill development to address the problems confronting the sector. The micro, small and medium enterprise (MSME) sector in India is diverse in terms of its size; levels of technology employed and range of products and services produced, starting from grass root village Industries, the products from the sector spans to auto

components, microprocessors, electronic components and electro-medical devices. MSMEs have shown a constant growth rate of over 10 percent in recent years much ahead of the large-scale corporate sector. This sector contributes 8 percent of the country's GDP, 45 percent of the manufactured output and 40 percent of its exports. The MSMEs provide employment to over 80 million persons through over 36 million enterprises producing over 6000 products. Micro, Small and Medium Enterprises are the backbone of an economy. They are the most prolific job creators and pioneers in developing new ideas. MSME wants to help these businesses in every possible way to facilitate the industry. A fast changing global economic scenario has thrown up various opportunities and challenges to the MSMEs in India. While on the one hand, many opportunities have opened up for this sector to enhance productivity and look for new markets at the national and international level, it has also, on the other hand, put an obligation to upgrade their competencies in various fields like marketing, finance, business development, operations, technology etc.

MUDRA an Overview:

Mudra Bank is for 'funding' the 'unfunded'. This will provide a credit of up to Rs 10 lakh to small entrepreneurs and act as a regulator for 'Micro-Finance Institutions' (MFIs). MUDRA Bank will also refinance Micro-Finance Institutions through Pradhan Mantri Mudra Yojana. Mudra, in Hindi, means currency; the main objectives of Mudra Bank are, to encourage entrepreneurs and small business units to expand their capabilities and operations, to reduce over indebtedness and to provide a formal system of credit. Agriculture & Self-employment will be the focus areas of Mudra Bank. Micro Unit Development and Refinance Agency Ltd, (MUDRA) bank fund the small entrepreneurs was launched under the ambitious Pradhan Mantri Jan Dhan Yojana (PMJDY). The bank will provide credit up to 10 lakhs to small entrepreneurs and act as a regulator for Micro Finance Institutions (MFI). It was set up through a statutory enactment which would be responsible for developing & refining all MFIs which are in the business of lending to micro / small business activities engaged in manufacturing, trading & service activities. The concept of MUDRA bank goes beyond credit approach only & offers a credit plus solution for these enterprises spread across the country.

Setting up of MUDRA Bank as it is a great step forward in providing the much-needed financial access and support to the small and medium enterprises. This will go a long way in stimulating the growth of MSMEs which is crucial for large scale job creation and accelerating GDP growth". MUDRA Bank envisaged as the nodal financing agency as well as the regulator of Micro Finance Institutions, so that financial stress of MSMEs will now be alleviated". The idea of MUDRA Bank was first envisaged in Budget 2015-16. The Micro, Small and Medium Enterprises (MSME) sector employs a large number of people. Nearly 120 million people are employed with 57.5 million entrepreneurs and entities in the MSME sector.

Role of MUDRA Bank:

- Laying down policy guidelines for micro/small enterprise finance business.
- Registration and Regulation of MFI (Micro-Finance Institutions) entities.
- Accreditation/rating of MFI entities.
- To assist the lower income groups to develop and grow their small businesses.
- To help in increasing the access to finance to the un-banked and to also bring down the cost of finance.
- To provide access to Institutional Finance for Small Business Units (SBU).
- Laying down responsible financing practices to prevent over indebtedness, ensuring client protection principles and methods of recovery.

- Development of standardized covenants governing last mile lending to micro/small enterprises.
- Formulating and running a credit guarantee scheme for providing guarantees to the loans which are being extended to micro-enterprises.
- MUDRA bank will also be responsible for regulating and refinancing all micro-finance institutions (MFIs) which are in the business of lending to micro or small business entities engaged in manufacturing, trading and services activities.
- To give priority to SC/ST enterprises in lending.

MUDRA Products & Offerings:

Businesses or Entrepreneurs would include proprietorship or partnership firms running as small manufacturing units, shopkeepers, fruits or vegetable sellers, hair cutting saloon, beauty parlours, transporters, truck operators, hawkers, co-operatives or body of individuals, food service units, repair shops, machine operators, small industries, artisans, food processors, self help groups, professionals and service providers etc. in rural and urban areas with financing requirements up to Rs.10 lakh. The primary product of MUDRA will refinance for lending to micro businesses or units under the aegis of the Pradhan Mantri MUDRA Yojana. It has been proposed to fund the units based on the stage of growth and funding needs of an entrepreneur or a micro unit. The initial products and schemes have already been created and the interventions have been named 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth or development and funding needs of the beneficiary micro unit or entrepreneur as also provides a growth for the entrepreneur to aspire for:

- ❖ **Shishu:** covering loans up to Rs. 50,000 this is the first stage when the business is just starting up
- ❖ **Kishor:** covering loans above Rs. 50,000/- and up to Rs. 5 lakh
- ❖ **Tarun:** covering loans above Rs. 5 lakh and up to Rs. 10 lakh

Apart from these products, the other products are initially being launched as sector/activity specific schemes are like business activities in Land Transport, Community, Social & Personal Services, Food Product and Textile Product sectors. Schemes would similarly be added for other sectors/activities which are as follows:

- 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 other area of responsibility of the MUDRA Bank is more challenging and extensive as it aims to register and regulate MFIs:

- Firstly, the government will have to initiate the tedious task of registering over a thousand MFIs, which are spread across the country. The administrative capabilities of the government will surely be tested during this endeavour.
- Secondly, the regulation of MFIs has been a subject of debate over the years. Currently, MFIs registered as non-banking finance companies (NBFCs) hold self-regulation status.

On the one hand, due to minimal regulation there have been accounts of coercion of borrowers for repayment of loans, short repayment cycles and high interest rates while on the other, the over-regulation of MFIs resulted in the Andhra Pradesh crisis of 2010. With strict curtailment on a door to door loan recovery by MFIs, recovery rates in the state plummeted causing the closure and downsizing of several MFIs. The immediate effect was the increase in the cost of borrowings by 60 percent leading to a reliance on unregulated financial agencies again. It is thereby essential for the MUDRA to draw the line between no regulation and over-regulation so as to provide entrepreneurs with a suitable credit source.

MUDRA would also adopt a credit plus approach and take up interventions for development support across the entire spectrum of beneficiary segments. The highlights of such proposed interventions/initiatives are as follows:

- ❖ Supporting financial literacy
- ❖ Promotion and Support of Grass Root Institutions
- ❖ Creation of Framework for “Small Business Finance Entities”
- ❖ Synergies with National Rural Livelihoods Mission
- ❖ Synergies with National Skill Development Corporation
- ❖ Working with Credit Bureaus
- ❖ Working with Rating Agencies

Impact on the Indian economy:

1. **Employment Generation:** Approximately 9.56 small businesses are expected to be benefited from MUDRA scheme who employs nearly 15 crores of people. No doubt, with the increase in capital, there will be a rise in employment.
2. **GDP Growth:** Because of MUDRA, availability of organized financial system will be possible and will contribute to developing the country's GDP.
3. **Women empowerment:** The general belief that the role of women is to look after homely affairs, has been changed because of PMMY, as MUDRA scheme focuses on skill development, women will also be economically independent.
4. **Standard of living of people:** Since the increase in the income is achieved, spending will also increase in direct proportion, and as a result of this, the flow of money will be smoothening in the economy.
5. **Promote capital formation:** When job seekers will be the job creators because of MUDRA, automatically capital will be formed and the economy will be strengthened.
6. **Increase entrepreneurial spirit:** MUDRA will act as a PUSH factor for bringing individuals' in the businesses and creating many first Generation entrepreneurs.

Conclusion:

India stands at the threshold of becoming an economic super power with a huge demographic dividend to capitalize on. The small scale industries which form the foundation of the economic strata need to be strengthened and supported. The numerous initiatives introduced in the past few years are a step in the right direction. Besides schemes being introduced for the overall growth and development of the MSME sector, initiatives have been launched which focus solely on entrepreneurs. The schemes will contribute to the well-being of the individuals

engaged in small scale industries which will positively affect the progress of the economy as a whole.

References:

1. MUDRA -Micro Units Development & Refinance Agency. (2015, December 1). Retrieved December 14, 2015, from www.pmawasyojana.in: <http://www.pmawasyojana.in/2015/12/mudra-scheme.html>
2. PM launches MUDRA Bank to fund small businesses. (2015, April 9). New Delhi: Business Standard.
3. PM launches MUDRA Bank to fund small businesses. (2015, April 9). Retrieved December 15, 2015, from business Standard Website: http://www.business-standard.com/article/economy-policy/pm-launches-mudra-bankto-fund-micro-finance-institutions-115040800189_1.html
4. ASSOCHAM INDIA, SMERA Ratings Limited. (2015). Small Business financing through MUDRA Bank - The Way forward Nurturing the start-ups for building the economy. New Delhi.
5. Benefits of Mudra Bank- How to Take Loan from Mudra Bank. (n.d.). Retrieved December 14, 2015, from <http://www.15august.in/>: <http://www.15august.in/2015/04/benefits-of-mudra-bank-how-to-take-loan.html>
6. Dubbudu, R. (2015, October 26). Here is all that you need to know about the MUDRA Loans. Retrieved December 15, 2015, from <https://factly.in/>: <https://factly.in/here-is-all-that-you-need-to-know-about-the-pradhan-mantri-mudra-yojana-loan/>
7. Mudra Offerings, State Wise PMMY Report. (n.d.). Retrieved December 20, 2015, from MUDRA Website: <http://www.mudra.org.in/>
8. Venkatesh, J., & Kumari, R. L. (2015, July). Performance of mudra bank: a study on financial assistance to MSME sector. *International Journal of Research in Economics and Social Sciences*, 5(7), 185-191. ISSN:2249-7382.
9. Alok B.Shriram, .Employment news weekly, Vol XL No. 05, 2-8 May, 2015
10. Roy.A.K. (2016, January). MUDRA Yojana- A strategic tool for small business financing. *International Journal for Advance Research in Computer Science and Management Studies*, ISSN: 2321-7782.
11. http://www.business-standard.com/article/economy-policy/pm-launches-mudra-banktofund-micro-finance-institutions-115040800189_1.html.
12. <http://www.smetimes.in/smetimes/news/top-stories/2015/Mar/02/fm-allocates-rs-20-000-cr-to-mudra-bank-to-enhance-credit708190.html#sthash.H9PlmP6V.dpuf>