

Mudra Yojana - A Strategic Tool for Small Business Financing

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ABSTRACT

The major traffic jam to the growth of entrepreneurs in the Non-Corporate Small scale industries is the lack of financial support to this sector. Majority of this sector does not have access to formal source of funding. In a Developing country having large population like India, small business units play an significant role not only in contributing to nation income but also by providing employment to a large no of people. After identifying the significance of self-employment people and small business units, government of India launched MUDRA Yojana to deal with the financial and other constraints. It is envisaged that it will benefit small entrepreneurs and will also act as a governing body for 'Micro- Finance Institutions (MFIs). Mudra Bank will associate with local coordinators and provide finance to "Last Mile Financiers" of small/micro businesses. The paper highlights the importance and the role of MUDRA bank towards the small business units

Keyword: Small Business Units, MUDRA, MFIs, MSME, last mile lending.

INTRODUCTION

In a Developing country having large population like India, small businesses play an important role not only in contributing to nation GDP but also by providing employment to a large no of people. In India over 6000 products are manufactured by around 5.77 crore units and employ 460 million people in the country, of which 262 million people are self-employed. Micro Small and Medium Enterprises (MSME) contributes around 8per cent to GDP. The small businesses in the country are largely unorganized but employ a sizeable labour force (ASSOCHAM INDIA, SMERA Ratings Limited, 2015). Small businesses are not in a position to play their role effectively due to various constraints. Raising finance is one of the biggest problems for this sector. The scarcity of financial assistance and inadequate availability of credit facilities due to the weak credit worthiness of small businesses are the major causes of this problem.

Government of India (GOI) has been introduced a number of financial inclusion initiatives such as Pradhan Mantri Mudra Yojana (PMMY), Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Jeewan Jyoti Beema Yojana (PMJJBY), Pradhan Mantri Surakhsha BeemaYojana (PMSBY) and Atal Pension Yojana (APY) etc., for the weaker section, low income groups, small business man and micro enterprises. To remove the financial difficulties faced by micro and small business units the government of India launched a scheme on 8th April 2015 called Micro Unit Development and Refinance Agency, or MUDRA to 'fund the unfunded'. MUDRA is still not a fully-fledged bank and is in its initial stages. It will provide its services to small entrepreneurs outside the service area of regular banks, by using last mile agents.

REVIEW OF LITERATURE

Some relevant research studies focus on empirical analysis on their specific areas:

Mol S.TP (2014) has explained that there are certain problems like financial Illiteracy, lack of awareness and customer acquisition is high. Reserve Bank of India has initiated various initiatives to enhanced financial inclusion. Information and communication technology offers the opportunity for the banks to enhance financial inclusion for the people who are unbanked. Mehar L (2014) has displayed that financial inclusion has increase in India in the last few years with many new innovations like mobile banking, ultra small branches etc., but still it is far from adequate.

Verma S. (2015) has focused that the design of MUDRA Bank will not only cater to the financial problems of MSMEs but also give moral support to vast pool of young population to materialize their dreams of becoming an entrepreneur.

Rudrawar, M. A. A., &Uttarwar, V. R. (2016) has concluded that the desired transformation can be achieved from PMMY scheme. If applied properly at the bottom level, it may act as a game changing idea and may increase, boost and prosper the Indian economy. It should include less documentation and easily accessible. In coming few years, MUDRA will be a catalyst for development of employment, GDP and entrepreneurship at large.

Roy, Anup Kumar (2016) has displayed that the small businesses form the foundation of the economic strata needs to be enhanced and supported. A major number of initiatives have been taken in the past few years are a step in the right direction.

OBJECTIVES OF THE STUDY

1. To know the Pradhan Mantri Mudra Yojana
2. To know the Mudra Product under PMMY
3. To evaluate the loan sanction under different mudra product to small business units.

RESEARCH METHODOLOGY

The study is based on secondary data. The data is collected from various sources newspapers, magazines and internet websites. For presentation table is used

MUDRA – AN OVERVIEW

“Funding the unfunded” is the main motive for which Micro Unit Development and Refinance Agency (MUDRA) has been setup. It has an initial corpus of ` 20,000 crore and a credit guarantee corpus of ` 3,000 crore. The initial corpus would be provided by banks from their priority sector lending shortfall. It was established through a statutory enactment which would be accountable for developing and refining MFIs which are in the business of lending to micro and small business units engaged in manufacturing, trading and service activities.

According to the financial services secretary **HasmukhAdhia**, MUDRA is an NBFC and a part of SIDBI and will later take the form of a bank through a bill within one year. MUDRA bank will provide 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 (MFIs) through Pradhan Mantri Mudra Yojana (PMMY). The main motive behind set up of Mudra Bank is, to encourage entrepreneurs and small business units to expand their competences and operations, to diminish over indebtedness and to provide formal and easy system of credit.

MUDRA – MAIN OBJECTIVES

To fulfill the main objective of “fund the unfunded” MUDRA has following important objectives.

1. Regulation of lender and borrower of micro-finance and to provide stability by inclusive participation in micro-finance system and ensuring regulation
To cooperate in financing and lending activities of microfinance institutions (MFIs), and other lending agencies who make available finance to small traders, retailers, self-help groups and individuals.
3. For listing of all MFIs and to set up a performance level (performance rating) and system of preferential treatment for first time. This will help in assessment before taking loan and to reach that MFI which will meet the borrower’s needs and whose oldest record is the most satisfactory. It will boost up the competitiveness of the MFIs. Borrowers will assistance from it.
4. To provide infrastructure guideline to borrowers by implementing them. Business crash can be avoided and appropriate measures can be taken timely. MUDRA will assist in making satisfactory procedure or guidelines to follow for recover the money owed in case of default.
5. Development of standard set of covenants regulating last mile lending to micro units, which in the future will be the strength of character of the micro-business.
6. Formulating and implementing a credit guarantee yojana for providing guarantees to the loan given to micro business units.
7. For monitoring of funds distributed and promoting right technology solutions for last mile.

8. To develop an effective system for last mile credit delivery to micro business units creating a good architecture under the scheme of PradhanMantri MUDRA Yojana (PMMY).

MUDRA – PRODUCT AND OFFERINGS

To start-with, MUDRA will need two categories of products; viz; refinance product for the micro units having loan requirement in the range of 50,000 to 10 lakh and support to MFIs for on lending etc. MUDRA will be providing refinance to micro business under the Scheme of PradhanMantri MUDRA Yojana (PMMY). The other products are for development support to the sector. The bouquet of offerings of MUDRA is depicted below. The offerings would be targeted across the spectrum of beneficiary segments

Table-1.

| Categories | Business Type Covered | Loan Limit |
|------------|--|--------------|
| Shishu | The business units that are just started | 0-50000 |
| Kishore | Business units that are set and in medium stage | 50000-500000 |
| Tarun | Good established business units that need more funds to raise business | Upto 1000000 |

MUDRA AND SMALL BUSINESS FINANCE

MUDRA is launched with a purpose to make better the small business in the country so that a large number of people can get employed and self-employed and to add in the GDP of the country. MUDRA would benefit small manufacturing units, fruits and vegetable sellers, shopkeepers, beauty parlours, hair salon, truck operators, hawkers, artisans in rural and urban areas with financing requirements maximum of ` 10 lakh depends upon the business categories (i.e Kishore, Shishu and Tarun) of the entrepreneur. For getting loan under MUDRA Yojana entrepreneurs or business units have to contact their nearest private banks, public or RRBs or other authorized MFIs/ NBFCs with their business plan. After sanctioned the loan from MUDRA Yojana, Entrepreneurs/Business units will get a MUDRA Card like credit card which can be used for purchasing industry raw materials etc. the Cards limit will be 10% of the loan amount subject to maximum `10,000. Many small business units entrepreneurs has availed finance under this scheme since its launching

MUDRA: ROLE AND RESPONSIBILITIES

It will be responsible for developing, enhancing and refinancing all Micro-enterprises zone by supporting the Micro Finance Institutions which are engaged in the business of lending to micro / small business sector. MUDRA is formed to achieve the goal of “funding the unfunded”. MUDRA provides refinance support. It manages the web portal for monitoring the PMMY data. It takes other responsibilities or activities granted to it. Despite of refinance, MUDRA will also give credit guarantee to the eligible loans provided as per the scheme of Pradhan Mantri Mudra Yojana.

FINANCIAL INCLUSION AND PMMY

Reserve Bank of India had set up a committee under Shri Deepak Mohanty, Executive Director to look the medium term path on financial inclusion. The committee formed under the guidance of Shri Deepak Mohanty discussed issue regarding credit and insurance to the financially excluded group's .Towards achieving full financial inclusion across credit and insurance Government of India had launched Pradhan Mantri Mudra Yojana. There is a crucial requirement for enhancing the economic engine is MUDRA. Many entrepreneurs of micro enterprises belong to the economically weaker section of society so that is why they are unable to access financial services. Funding this unfunded section of the society is the main aim behind the formation of Pradhan Mantri MUDRA Yojana (PMMY).

It provides refinance and credit guarantee for the lenders who finance further in such type of activities. MUDRA grants loan such micro enterprises which engaged in trading, manufacturing and service sector for loan amount up to Rs. 10lakh. Micro enterprises establish a major economic portion in our nation. It gives large employment after agriculture in India. This economic portion includes micro units, small business enlist in manufacturing, trading and other sector. Micro Finance is an economic development tool whose objective is to provide income generating opportunities to the people who are financially excluded. It covers a variety of financial services which include, in addition to the provision of credit, many other credit plus services, financial literacy and other social support services. The overdraft granted of Rs.5000 under Pradhan Mantri Jan Dhan Yojana (PMJDY) is also treated as a part of MUDRA loans. Financial inclusion through PMMY increases the opportunities for credit requirement and refinance.

TABLE-2 Progress Report of FY 2015-16

| Category | No. Of Accounts (Thousands) | Amount Disbursed (Rs. Crore) |
|---------------------|-----------------------------|------------------------------|
| Shishu | 324.02 | 62028 |
| Kishore | 20.69 | 41073 |
| Tarun | 4.10 | 29854 |
| Total | 348.81 | 132955 |
| Out of the above | | |
| New Entrepreneurs | 124.74(36%) | 58908 |
| Women Entrepreneurs | 276.28(79%) | 63190 |
| Share of SC/ST/OBC | 184.00 (53%) | 49196.33 |

Source: www.mudra.org.in

Total sanction & disbursement under PMMY by MFIs during FY 2015-16 stood at 132954.73 crore, thereby achieving 109% of target of Rs. 122188 crore for disbursement. More than 3.48 crore micro borrowers benefited through PMMY during the year

Table-3 Progress Report of FY 2016-17

| Category | No. Of Accounts (Thousands) | Amount Disbursed (Rs. Crore) |
|---------------------|-----------------------------|------------------------------|
| Shishu | 364.97 | 83891.88 |
| Kishore | 26.63 | 51.63.12 |
| Tarun | 5.39 | 40357.13 |
| Total | 397.01 | 175312.13 |
| Out of the above | | |
| New Entrepreneurs | 81.10 | 18419.78 |
| Women Entrepreneurs | 284.72 | 66185.86 |
| Share of SC/ST/OBC | 225.00 | 66279.82 |

As the table 3 shows that amount of loan disbursed under Shishu product is more than the Kishore and Tarun product in absolute figure. While comparing to previous FY it is found that total loan disbursed are 132955 in 2015-16 but 175312.13 in 2016-17. There is total increase more than 31%. MUDRA will spotlight to formalize and institutionalize the last mile financier or grass root institutions so that a new category of financial institution viz. Small Business Finance Companies can be formed. Under PMMY, these steps taken by MUDRA will surely help to boost up the small business units.

STATE WISE PMMY REPORT: HARYANA

PradhanMantri Mudra Yojana (PMMY) is performing well in the state of Haryana also. The performance and current progress of Mudra Bank in Haryana State has been shown in Table. 4 & 5 below. At a glance the table.4 & 5 shows the success story of the PMMY.

Table-4

| PMMY (2015-2016 -Haryana (Amount Rs. in Crore) | | | | | | | | |
|--|------------------|---|------------------|---|------------------|-----------|------------------|--|
| Shishu (Loans up to Rs. 50,000) | | Kishor (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | Tarun (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | Total | | |
| No Of A/C | Disbursement Amt | No Of A/C | Disbursement Amt | No Of A/C | Disbursement Amt | No Of A/C | Disbursement Amt | |
| 693408 | 1371.96 | 39525 | 847.43 | 12602 | 933.23 | 745535 | 3152.62 | |

Table-5

| PMMY (2016-2017 -Haryana (Amount Rs. in Crore) | | | | | | | | | | | |
|--|----------------|------------------|---|----------------|------------------|---|----------------|------------------|-----------|----------------|------------------|
| Shishu (Loans up to Rs. 50,000) | | | Kishor (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | Tarun (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | Total | | |
| No Of A/C | Sanctioned Amt | Disbursement Amt | No Of A/C | Sanctioned Amt | Disbursement Amt | No Of A/C | Sanctioned Amt | Disbursement Amt | No Of A/C | Sanctioned Amt | Disbursement Amt |
| 652844 | 1499.67 | 1460.35 | 47513 | 1050.82 | 992.33 | 16265 | 1293.04 | 1244.91 | 716622 | 3843.53 | 3697.59 |

Source: (<http://www.mudra.org.in/>). Disclaimer: Information is based upon the data as submitted by different banks.

CONCLUSION

The small businesses form the foundation of the economic development needs to be strengthened and supported. A large number of scheme have been taken in the past few years are a step in the right direction. MUDRA Yojana is the most recent scheme to boost up the small and micro business units in India. We have concluded from the study that due to PMMY there is a bigger change in the area of micro finance. This scheme will promote competition to give credit support to this weaker section, low income group and this unfunded population. Efforts are needed to invite more credit or loan sanctioned. Financial inclusion through PMMY increases the opportunities for credit requirement and refinance. PMMY has yielded expected results. The introduction of the national plan PMMY with other type of financial inclusion initiative, yield a valuable result. The PMMY scheme is sure to take our nation forward to the future and make India a more sustainable developed country. It recognizes that due to launch of this scheme financial inclusion has increased towards positive direction. The desired results achieved from this scheme. If it is implemented properly at the poor people, it may work as a game changing financial inclusion initiative of Government of India and may boost the Indian economy. So on the basis of the study we can MUDRA as a financial tool is found very effective in its early stages across the country. This will definitely make a dramatic change and will help in making a developed India.

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