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Mudra Yojana - A Strategic Tool for Small Business Financing

Anup Kumar Roy

Research Scholar

Faculty of Commerce,

Banaras Hindu University

Varanasi, India

Abstract: *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. After identifying the importance of self-employment people and small business units, government of India launched MUDRA Yojana to address the financial and other constraints. This paper is an attempt to know about the MUDRA Yojana and its key objectives. The paper highlights the importance and the role of MUDRA bank towards the small business units.*

Key words: *Small Business Units, MUDRA, MFIs, MSME, last mile lending.*

I. 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. 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.

II. OBJECTIVES OF THE STUDY

- To know the objectives of PMMY
- To know the different scheme under PMMY
- To know the benefits available to small business units.

III. METHODOLOGY

The data and information for the study is gathered from secondary sources like newspapers, magazines, various websites including website of MUDRA Yojana.

IV. MUDRA – AN OVERVIEW

Micro Unit Development and Refinance Agency (MUDRA) has been setup for ‘funding the unfunded’. MUDRA has an initial corpus of Rs. 20,000 crore and a credit guarantee corpus of Rs. 3,000 crore. The initial corpus would be provided by banks from their priority sector lending shortfall. It was set up through a statutory enactment which would be responsible 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 **Hasmukh Adhia**, 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.

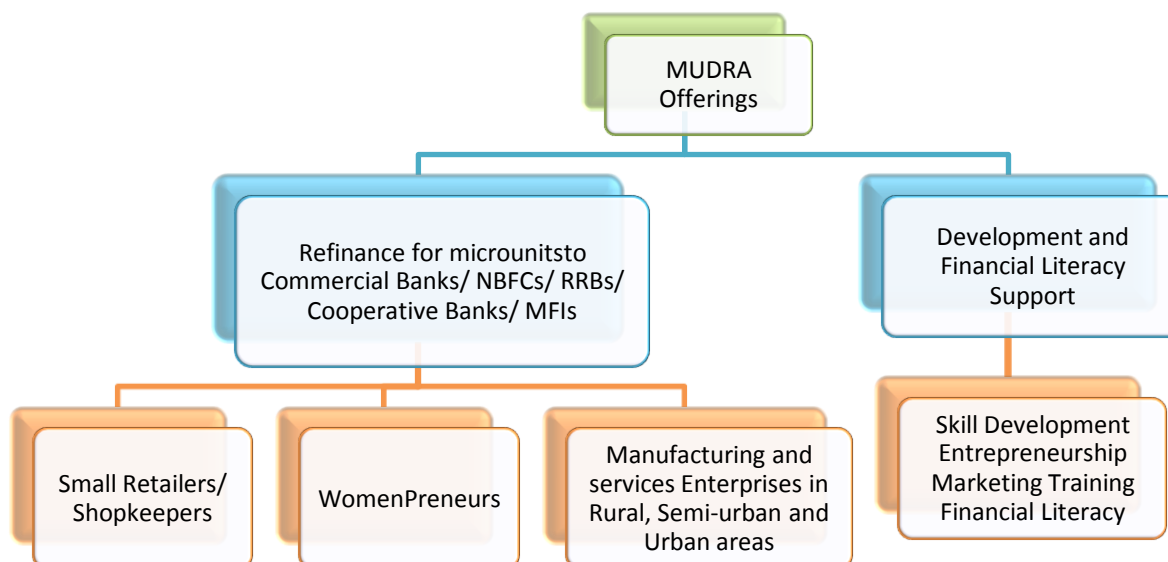
V. MUDRA – KEY OBJECTIVES

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 ensuring regulation and inclusive participation in micro-finance system.
2. To cooperate in financing and lending activities of microfinance institutions (MFIs), and other lending agencies who provide credit to small traders, retailers, self-help groups and individuals.
3. To registration of all MFIs and to introduce 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. This will increase the competitiveness of the MFIs. Borrowers will benefit from it.
4. To provide infrastructure guideline to borrowers, by implementing them business failure can be avoided and appropriate measures can be taken timely. MUDRA will help in making acceptable procedure or guidelines to follow for recover the money owed in case of default.
5. Development of standard set of covenants governing last mile lending to micro units, which in the future will be the backbone of the micro-business.
6. Formulating and running a credit guarantee scheme for providing guarantees to the loan given to micro business units.
7. To monitoring of capital distributed and promoting right technology solutions for last mile.
8. Creating a good architecture to develop an effective system for last mile credit delivery to micro business units under the scheme of Pradhan Mantri MUDRA Yojana (PMMY).

VI. 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 Pradhan Mantri 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.



Source: www.mudra.org.in

Borrowers are divided into three categories under MUDRA based on the stage of growth and funding needs of an entrepreneur or a micro unit. The initial products of MUDRA are as follows:

1. **Shishu:** the business units that are just started are covered under this category. Business units under this category can get a loan up to Rs. 50,000.
2. **Kishore:** Business units that are set and in medium stage can get Rs. 50,000 to Rs. 5 lakh of loan cover from MUDRA.
3. **Tarun:** Good established business units that need more funds to raise business cover under this category and get loan cover up to Rs. 10 lakh.

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

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

VII. MUDRA AND SMALL BUSINESS FINANCE

MUDRA is launched with a motive to boost the small business in the country so that a large number of people can get employed and self-employed and to contribute in the GDP of the country. The major constraints of development of small business are unavailability of credit at required time, lack of skill development, knowledge gaps, lack of financial literacy, lack of growth orientation etc. one of the most significant constraints in formation and growth of small business units is the unavailability of credit or difficulty process to avail credit facilities. The average debt of Small business enterprises in India is around Rs. 17,000. If lending is increased to Rs. 5 or 10 Lakh, the sector would benefit immensely and may generate lot of self-employment opportunities. Small business units generally face lot of challenges to get loans from Banks. So, they required to taking high-cost loans from financiers or money lenders. To remove this type of financial restraints government of India launched MUDRA with a corpus of Rs. 20,000 crore, and credit gurantee corpus of Rs. 3,000 crore. MUDRA would benefit small manufacturing units, shopkeepers, fruits and vegetable sellers, hair salon, beauty parlours, truck operators, hawkers, artisans in rural and urban areas with financing requirements up to Rs. 10 lakh depends upon the business categories (i.e. Shishu, Kishore and Tarun) of the business unit or entrepreneur. For getting loan under MUDRA Yojana business units or entrepreneurs have to contact their nearest public or private banks or RRBs or other authorized NBFCs/MFIs with their business plan. After sanctioned the loan from MUDRA Yojana, Business units/ entrepreneurs will get a MUDRA Card like credit card which can be used for purchasing business raw materials etc. the Card's limit will be 10% of the loan amount subject to maximum Rs. 10,000. Many entrepreneurs or small business units has availed finance under this scheme since its launching. The details are given below in Table-1.

Table-1 Category wise Details of Loan Sanctioned and disbursed under MUDRA Yojana(Up to 25th Dec 2015)

	Shishu	Kishore	Tarun	Total
No. of Loan sanctioned	10296461	1261600	224416	11782477
Amount of Loan Sanctioned (Rs.)	20799.53	26713.96	17445.1	64958.59
Amount of Loan Disbursed (Rs.)	19916.77	25265.62	16131.03	61313.40

Source: www.mudra.org.in/ PMMY Report (compiled from State wise data)

Besides this to address other constraints, MUDRA will have to adopt a credit plus approach and offer development and support services to 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. MUDRA will focus 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 created. These steps taken by MUDRA under PMMY will surly help to boost the small business units.

VIII. CONCLUSION

The small businesses form the foundation of the economic strata needs to be strengthened and supported. A large number of initiatives have been taken in the past few years are a step in the right direction. MUDRA Yojana is the latest scheme to boost the small and micro businesses in India. This initiative has been taken to focus exclusively on entrepreneurs. This scheme 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. MUDRA as a financial tool is found very effective in its initial stages across the country. This will surly make a dramatic change and will help in making a developed India.

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AUTHOR(S) PROFILE

Anup Kumar Roy, completed M.Com. with specialization in Finance from Banaras Hindu University in 2010. He is presently a research Scholar in area of Finance, in Faculty of Commerce at Banaras Hindu University, Varanasi. He has attended various national and International Seminar, Conferences and workshops. He is a life member of Indian Accounting Association.