

MUDRA Bank- A Policy Initiative towards Strengthening Micro, Small and Medium Enterprises (MSMEs)

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Abstract

Micro Small and Medium Enterprises (MSMEs) play a significant role in the industrial development of the Indian economy. The contribution of manufacturing MSMEs to GDP is almost 7.04%, of services sector MSMEs is 30.50%, thus overall of MSMEs sector is 37.54% and that of 40% to the share of exports, and 45% share in manufacturing output. This sector generates around 100 million job opportunities over 46 million units spread across the country. But the major bottleneck that this sector is facing is lack of financial support. More than 90% of the Non Corporate Small Business Sector (NCSB) does not have access to the formal sources of finance. Hence there was an urgent need to catering to the financial needs of this sector, otherwise this sector would remain unfunded and a part of production labour force would remain unemployed. Bringing MSMEs in the mainstream will not only help in improving quality of life of these entrepreneurs but will also contribute substantially to employment generation in the economy thereby achieving higher GDP growth rate.

Setting up of MUDRA –Micro Unit Development and Regulatory Agency Ltd. is a policy initiative of Govt. of India for catering to the needs of the informal sector or the Non Corporate Small Business Sector (NCSB) segment and an effort towards bringing them in the mainstream. As on 11th march 2016 the total number of PMMY loans sanctioned are- 2,98,06972, Banks have so far sanctioned over Rs. 1,17,17.77 crore and the total amount disbursed is around 1,11,388.81 crore under the scheme of Pradhan Mantri MUDRA Yojana. Thus MUDRA Bank is expected to give MSMEs the much needed impetus to effectively manage and grow their business The broad objective of the paper is to highlight the role and responsibility of MUDRA Bank in financing MSMEs and to have an overview of the implementation of Pradhan Mantri MUDRA Yojana across the country till March 2016.

Key words: MSMEs, MUDRA Bank, Non Corporate Small Business sector (NCSB).

Introduction

Micro Small and Medium Enterprises (MSMEs) play a significant role in the industrial development of the Indian economy. Various industries like manufacturing, engineering, food processing, pharmaceutical, readymade garments, retail, IT and ITes, agro and service sector are growing robustly in the Indian economy. The importance of MSMEs can be highlighted through its role in employment generation, manufacturing through less capital requirements, using local resources, being labour intensive and producing export oriented products etc.

The contribution of manufacturing MSMEs to GDP is almost 7.04%, whereas the contribution of service sector MSMEs estimated at 30.50%, and the overall share of MSMEs sector in GDP of the country during 2012-13 was 37.54%, 40% to the share of exports, and 45% share in manufacturing output (CSO data-2012-13). This sector generates around 100 million job opportunities over 46 million units spread across the country. Besides this, the sector also contributes significantly towards overcoming regional disparities by setting up manufacturing units in rural and backward areas.

But in spite of its significant contribution to the overall growth of industrialisation in the economy it is facing many challenges. The major challenges encountered by this sector are inadequate access to finance, infrastructure gaps, lack of growth orientation, lack of market development, knowledge gaps, information asymmetry, entry level technologies etc.

But the major bottleneck that this sector is facing is lack of financial support. More than 90% of the Non Corporate Small Business Sector (NCSB) does not have access to the formal sources of finance. They are largely self-financed or rely on personal finance or money lenders. Hence there was an urgent need to catering to the financial needs of this sector which in turn will provide an impetus to the economy. Otherwise this sector would remain unfunded and a part of production labour force would remain unemployed. Bringing MSMEs in the mainstream will not only help in improving quality of life of these entrepreneurs but will also contribute substantially to employment generation in the economy thereby achieving higher GDP growth rate.

Thus setting of MUDRA–Micro Unit Development and Regulatory Agency Ltd. is a policy initiative of Govt. of India for catering to the needs of the informal sector or the Non Corporate Small Business Sector (NCSB) segment and an effort towards bringing them in the mainstream. MUDRA has been established through a statutory enactment. Initially it was set up as a Non-Banking Finance Company as MUDRA LTD. as a subsidiary of SIDBI. In January 2016, cabinet has approved conversion of MUDRALTD. an NBFC into MUDRA Bank.

Objective of the paper

The broad objective of the paper is to highlight the role and responsibility of MUDRA Bank in financing MSMEs and to have an overview of the implementation of Prime Mantri MUDRA Yojana across the country till March 2016.

Methodology

The required secondary information is collected from published and online articles and relevant data is collected from official website of MUDRA Bank.

An overview of MUDRA Bank

MUDRA is a policy initiative to refinance and regulate Micro Finance Institutions (MFIs) and fund small units that are typically excluded from the mainstream banking system. The idea of MUDRA Bank was envisaged in the budget of 2015-16. The main objective of MUDRA Bank is to encourage entrepreneurs and small business units to expand their capabilities and operations, to reduce over indebtedness and to provide them with formal source of credit. Businesses or entrepreneurs would include proprietorship or partnership firms such as small manufacturing units, shopkeepers, fruits or vegetable sellers, hair cutting saloon, beauty parlours, transporters, truck operators, hawkers, cooperatives 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 area with financial requirements up to Rs.10 lakhs. MUDRA Bank started with an initial fund corpus of Rs.20, 000 crore and the backing of another Rs. 3,000 crore credit guarantee fund. This initiative is aimed at catering to the financial needs of about 5.77 crore small business units (NSSO survey-2013), which do not get funding from banking system. Further it will partner with state and regional level coordinators to provide finance to last mile financiers of small and micro business enterprises.

Role and responsibility of MUDRA bank

MUDRA Bank is operating with the following principal responsibilities:

1. Stabilizing Indian's microfinance sector via inclusive participation and regulation. This will involve regulation of borrowers and lenders of microfinance.
2. Aiding agencies and Microfinance Institutions (commonly abbreviated as MFIs) by extending credit support. This will allow these MFIs and agencies to lend money to individuals, SHGs (self-help groups), retailers and other small business.

3. Maintaining a registered record of MFIs and agencies for the first time ever in history and introducing an accreditation and performance rating system. With the new rating system, last-mile borrowers will be able to evaluate the agencies or MFIs they approach for loans. Agencies and MFIs with best track records will get edge over others. This method will thus ensure that the lenders stay competitive and operate with best industry practices to stay in business. End result is simple – borrowers emerge triumphant!
4. Offering structured guidelines to borrowers to prevent business failure. These guidelines will allow business owners to take necessary corrective steps in time in order to avoid catastrophic losses that can eventually lead to defaults. On the other hand, MUDRA will also provide a set of guidelines that lenders need to follow for debt recovery in case of defaults.
5. Introduction and implementation of technological support that will help to streamline and simplify lending and borrowing of capital. These technologies will also help to monitor the proper usage of the capital that is distributed through MUDRA.
6. Developments of standard protocols that will, over time, become the last-mile business' backbone.
7. Developing a robust framework so that an efficient delivery system for last-mile credit to micro and small businesses can be developed.

Product and offerings of MUDRA Bank

MUDRA Bank is offering two categories of products

1. Refinance products for the micro units having loan requirement in the range of Rs. 50,000 to Rs. 10 lakh and support to MFIs for on lending etc.
2. The other products are for development support to the sector.

MUDRA Bank is providing refinance to Micro business under the scheme of Pradhan Mantri MUDRA Yojana. The funding to the units will be done on the basis of the stage of the growth. The initial products or schemes of MUDRA have been named, 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth or development and funding needs of the beneficiary micro units or entrepreneur.

More stress would be laid on ensuring that at least 60% of the credit flows to Shishu category units and the balance to Kishor and Tarun categories.

Other products

The other products have been designed to meet requirements of different sectors or business activities as well as business or entrepreneur segments. They are as follows:

1. Sector or activity specific schemes
2. Micro credit schemes (MCS)
3. Refinance scheme for Regional Rural Banks (RRBs) and scheduled cooperative banks
4. Mahila Udyami Scheme
5. Business loans for traders and shopkeepers
6. Missing middle credit scheme
7. Equipment finance for Micro Units.

MUDRA Bank also has an innovative offering in the form of a preloaded MUDRA Card. 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 products on an online platform.

Performance of MUDRA Bank

As on 11th march 2016 the total number of PMMY loans sanctioned are-2,98,06972,Banks have so far sanctioned over Rs.1,17,17.77 crore and the total amount disbursed is around 1,11,388.81 crore under the scheme of Pradhan Mantri MUDRA Yojana. Table 1 highlights the total number of sanctions, total amount sanctioned and total amount disbursed under the categories of Shishu,Kishor and Tarun schemes of Pradhan Mantri MUDRA Yojana.

Findings

From the above table it is clear that as far as the loans sanctioned and disbursed under of Pradhan Mantri MUDRA Yojana is concerned bigger states like Rajasthan, Madhya Pradesh, Karnataka, Gujarat, Kerala, Andhra Pradesh, Maharashtra, Tamil Nadu, West Bengal and Uttar Pradesh have received a larger share whereas smaller states especially states from North East have received a smaller share. But overall the scheme has a long way to go to disburse an amount of Rs. 20,000 lakh crore.

As far as the effectiveness and performance of the MUDRA Bank Yojana is concerned, it can be judged only after a certain period of time. It is really difficult to say whether or not this scheme will yield positive results.Considering the financial needs of the micro and small enterprises that have long been cut off from mainstream financial services, the Yojana can make a good impact if properly executed.

Conclusion

MUDRA Bank is expected to give MSMEs the much needed impetus to effectively manage and grow their business and not to fall prey to the vicious circle of collateral security, exorbitant interest and loan repayment. But the biggest challenge of the bank will be reaching out to entrepreneurs in rural and backward areas. The government will have to work modalities to involve people at the grass root level and educating them about the benefit of the scheme. Assuming that the of Pradhan Mantri MUDRA Yojana is implemented effectively as envisaged, it will bring about a number of positive impacts like boosting GDP through employment and income generation thus stimulating demand and manufacturing activities in the economy.

References

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Table 1. State wise data pertaining to loans sanctioned and disbursed under Pradhan Mantri MUDRA Yojana (as on 11 March 2016).

(Amount in crores)

SI No.	STATES	SHISHU (Loans Upto Rs. 50,000)			KISHORE (Loans From Rs. 50,001 to Rs. 5.00 Lakh)			TARUN (Loans from Rs. 5.00 to Rs. 10.00 Lakh)			TOTAL		
		No of Sanctions	Sanctioned Amount	Disbursement Amount	No of Sanctions	Sanctioned Amount	Disbursement Amount	No of Sanctions	Sanctioned Amount	Disbursement Amount	No of Sanctions	Sanctioned Amount	Disbursement Amount
1	Jammu and Kashmir	17277	58.81	57.25	31635	696.37	677.37	4346	328.35	320.52	53258	1083.53	1055.14
2	Himachal Pradesh	53589	103.11	97.68	19259	461.94	442.88	4122	335.98	323.90	76970	901.03	864.46
3	Uttarakhand	264548	545.84	538.49	23168	548.63	528.55	4566	355.83	339.24	292282	1450.30	1406.28
4	Haryana	575428	1192.35	1166.52	32917	721.94	675.24	10762	841.28	789.39	619107	2755.57	2631.15
5	Punjab	532861	1099.11	1080.53	39364	925.60	893.77	14418	1129.02	1089.22	586643	3153.73	3063.52
6	Uttar Pradesh	2794207	5160.55	5030.87	143345	3061.64	2901.22	30454	2426.96	2279.28	2968006	10649.15	10211.37
7	Rajasthan	927407	1772.1	1727	58754	1365.4	1270.5	20109	1582.1	1485.8	1006270	4719.53	4483.27
8	Gujarat	836987	1856.7	1823.3	76839	1693.1	1640.9	21330	1594.1	1540	935156	5143.89	5004.15
9	Madhya Pradesh	1934472	3676.2	3602.5	76612	1643.1	1487.2	17154	1365.1	1257.4	2028238	6684.31	6347.13
10	Bihar	2017690	3685.6	3620.1	120871	2200.3	2047	10507	842.37	782.59	2149068	6728.25	6449.64
11	West Bengal	2224944	3468	3426.9	106135	2120.4	1957.2	18857	1335.4	1260	2349936	6923.88	6644.06
12	Sikkim	8077	13.29	12.65	1011	24.08	22.07	219	17.02	15.12	9307	54.39	49.84
13	Arunachal Pradesh	3385	8.46	8.37	866	26.07	25.38	409	33.51	32.87	4660	68.04	66.62
14	Assam	353652	709.17	697.2	26989	567.69	531.8	4020	306.08	294.71	384661	1582.94	1523.71
15	Nagaland	3272	11.07	9.97	1312	36.52	34.5	389	29.91	25.28	4973	77.5	69.75
16	Manipur	20131	39.03	38.36	2748	57.38	53.93	323	23.54	21.92	23202	119.95	114.21
17	Mizoram	5266	19.77	18.8	1612	33.65	28.29	273	21.55	20.83	7151	74.97	67.92
18	Tripura	50313	118.13	115.95	6068	123.41	109.12	719	57.31	52.07	57100	298.85	277.14
19	Meghalaya	14416	37.54	36.88	2773	68.47	67.06	514	40.11	38.26	17703	146.12	142.2
20	Jharkhand	719869	1272.7	1243.3	33399	738.04	693.88	6254	490.74	459.71	759522	2501.45	2396.92
21	Odisha	1910025	3158.5	3116.9	47601	903.57	844.71	9654	715.09	635.77	1967280	4777.16	4597.4
22	Chhattisgarh	454761	943.6	913.1	24253	483.56	432.79	4778	394.34	369.08	483792	1821.5	1714.97
23	Maharashtra	2771386	5452.2	5374.4	135596	3159.2	2980.3	35596	2855.1	2697.8	2942578	11466.5	11052.5
24	Andhra Pradesh	519857	1265.6	1177	145890	2954.2	2785	11860	976.81	892.34	677607	5196.55	4854.38
25	Goa	22018	58.75	54.09	6935	150.85	140.91	1557	122.46	112.97	30510	332.06	307.97
26	Karnataka	3421935	7038.3	6940.7	242329	4506.8	4295.7	35868	2440.3	2269.2	3700132	13985.4	13505.5
27	Telangana	242709	580.84	553.7	88874	1873.6	1783.7	10611	817.94	776.75	342194	3272.34	3114.15
28	Tamil Nadu	3881692	7179	6688.4	204719	4630.4	3559.6	24843	2185.8	1849.1	4111254	13995.2	12097
29	Kerala	623096	1246.8	1215.7	95880	2003.5	1951.9	12351	975.15	928.3	731327	4225.44	4095.85

Source: www.mudra.org.in