

MUDRA-An analytical study of loan disbursement

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ABSTRACT

To rejuvenate the small scale industry the Hon'ble Prime Minister Narendra Modi had launched the Micro Units Development and Refinance Agency or MUDRA Bank on 8th April 2015 under Jan Dhan Yojana, with an aim to root out financial untouchability by gifting bank accounts to the poor. The government of India has set up MUDRA Bank, as a new institution for development of micro units and refinancing of Micro Finance Institution (MFI) and Self Help Group (SHG) to accelerate entrepreneurship in India by financing the non-corporate small business sector (NCSBS). This paper attempts to know the current performance of Prime Minister Mudra Yojana (PMMY) and what else can be done further to bring transparency in this yojana so that small, skilled and industrious entrepreneurs of India can be benefitted.

KEY WORDS: MUDRA BANK, MFI, PMMY, NCSBS.

INTRODUCTION

MUDRA (Micro Units Development & Refinance Agency Ltd) is new institution being setup by government of India for development and refinancing activities related to micro units. Finance minister proposed MUDRA while presenting the union budget for financial year 2015-16. The millions of MSMEs in the country are India's mainstay in providing employment outside Agriculture. These MSME units engaged in manufacturing, processing, trading and services industry. Rural areas account for half of all MSMEs in the country among them near about 80% of MSMEs are micro enterprises. The basic objective of MUDRA is to finance the Non-Corporate small business sector.

Non-corporate small business sector (NCSBS): Micro enterprises comprise of numerous low scale activities such as clay pot making, basket weaving, *jhadoo* making, fruits and vegetable vendors, transport (three wheeler tempos and autos), food-service units, repair shops, machine operators, welders, cottage industries, small industries, handlooms, handicraft workers, food processors, retailers, beauticians and street vendors, etc. These are collectively referred to as the non-corporate small business sector (NCSBS). They borrow some needed fund mostly from local moneylenders, friends, and relatives. Other financially weak sections

engaged in micro enterprises too face an enormous challenge with accessing credit. Access to institutional finance could potentially turn these micro entrepreneurs into strong instruments of GDP growth and employment. To build on this opportunity Government of India initiated the Micro Units Development & Refinance Agency Ltd (MUDRA). In 2015–16 with the mandate of ‘funding the unfunded’ micro entrepreneurs. In this scheme they provide loan, up to ten lakh, to the income generating micro enterprises who are engaged in manufacturing, trading and services sectors with the overdraft facilities amount of 5000 rupees sanctioned under PMJDY has been also classified as a Mudra loan. To facilitate hassle free and flexible working capital assistance to the borrowers, MUDRA scheme introduced the MUDRA card—a debit card on RuPay platform which can be operated across the ATMs and ‘Point of Sale’ (POS) Machines. A borrower would be able to manage his credit needs by drawing funds from ATMs or make payments through POS machines, based on the requirement and repay as and when funds are available with him. Many partner banks / MFIs disbursed working capital loans by adopting the MUDRA card scheme.

MUDRA, aims at creating income and employment opportunities for a large number of micro entrepreneurs. As per the National Sample Survey Office (NSSO) 2013 Survey, there are around 5.77 cr. micro units, engaging around 10 cr. people. These micro units depend on high-cost funds accessed outside the formal credit system. Hence, MUDRA was formed to bridge this gap and facilitate ‘funding the unfunded’. With this mission, MUDRA commenced operations in April 2016. As announced by the Finance Minister in the Budget, RBI set up a MUDRA refinance corpus of 20,000 cr. earmarked from the priority sector lending shortfall of the banks.

The major constraints faced by the MSMEs are

- Access to Finance
- Lack of awareness
- Skill Development Gaps
- Lack of Updated technology
- Knowledge Gaps
- Policy Advocacy Needs
- Infrastructure Gaps

Objectives of the study

1. To have an insight about the MUDRA Yojana
2. To know the role of MUDRA Bank in developing MSME sector.
3. To analyze the performance of MUDRA Bank in state of Haryana.

Methodology

The secondary data contributed a lot to this research paper. Most of the contents are borrowed from the existing or secondary sources, Annual report of MUDRA, 2015-16 and various report.

ROLE OF MUDRA TO DEVELOP MSMEs IN INDIA:

Non-Corporate Small Business Sector (NCSBS) is the economic edifice of India. It is probably the largest business ecosystems in the country sustaining around 50 crore lives. The sector consists of small manufacturing units, shopkeepers, repair shops, machine operators, artisans and food processors. Formal or institutional architectures are unable to meet the financial requirement of this sector. They are mostly self-financed or rely on moneylenders.

Addressing this will give a big boost to the economy otherwise this segment would remain unfunded and a portion of the productive labour force would remain unemployed. The desired transformation in the society can be achieved through this.[1]

The relevance and suitability of MFIs in serving the tiny requirements of small borrowers for their micro enterprises was further underscored by MUDRA's recognition of their role in extension of credit. MUDRA is expected to serve millions of small borrowers through better governed MFIs offering suitable products at affordable costs and thereby ensure growth and strengthening of the microfinance sector in India.

To serve the credit side financial needs of these micro entrepreneurs, Micro Finance Institutions (MFI) model has proved scalable and viable—employing over one lakh youth. Despite the intensive banking coverage, MFIs have become the preferred source for more than 32 million customers primarily due to the ease of access and doorstep delivery of credit. MFIs have been able to show that it is possible to achieve scale in sustainable business even when dealing with vulnerable populations.

Refinancing Role: MUDRA scheme boost the efforts of the existing institutions by providing financial support through refinance and of secure loan assets to extend financial assistance to borrowers from micro enterprises. RBI allocated 20,000 crore out of priority sector shortfall of banks as Mudra Refinance Fund (MRF). During the year, MUDRA sanctioned 3,783.21 crore and disbursed 3,337.21 cr. The sanctions include undisbursed sanction of 250 cr. in respect of non banking financial companies (NBFCs). Different banks like, commercial banks, RRBs and cooperative banks are eligible to avail of refinance support from MUDRA for financing micro-enterprise activities. The refinance is available for term loan and working capital loans upto an amount of ten lakh per unit. The eligible banks, which have enrolled MUDRA by complying to the requirements as notified, can avail of refinance from MUDRA for the loan issued under SISHU, KISHOR and TARUN categories.

Role of financial inclusion: “Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.”

The MUDRA emerges as a financial inclusion for MSMEs. The objective under PMJDY was to ensure a basic bank account for 100 per cent households in each block. Banks were mandated with the responsibility of ensuring 100 per cent coverage across the country. The PMMY was setup with the objective of fulfilling loan requirements up to 10 lakh for such enterprises to start or expand their business activities. These could be met through financial assistance provide by MUDRA under financial inclusion. Within a year of inception, the PMMY has captured the imagination of both banks and small, micro, and tiny enterprises. The comparative data of the disbursement done by a sample of 26 PSBs indicate a growth of nearly 68 per cent under this segment during FY 2015–16. A significant proportion of PMMY loans are incremental while new loans to these enterprises are also being extended. From the perspective of credit access these loans are furthering financial inclusion.

In the context of financial inclusion, the endeavour of MUDRA is to provide credit access to those small, micro, and tiny enterprises that are unable to offer collateral assets to secure loans, record of accounts of their business, or convincing proposals to banks.

PRODUCTS OF MUDRA and OFFERINGS: [1]

MUDRA has launched three products namely: Shishu, Kishore, Tarun to signify the stage of growth and financing needs of the micro units or entrepreneur.

- Shishu: For new business starters loan cover upto Rs. 50,000/-
- Kishore: In case business has set then you will get Rs. 50,000/- to Rs. 5 lakh.
- Tarun: In case of well established business, loan cover to Rs. 10 lakhs.

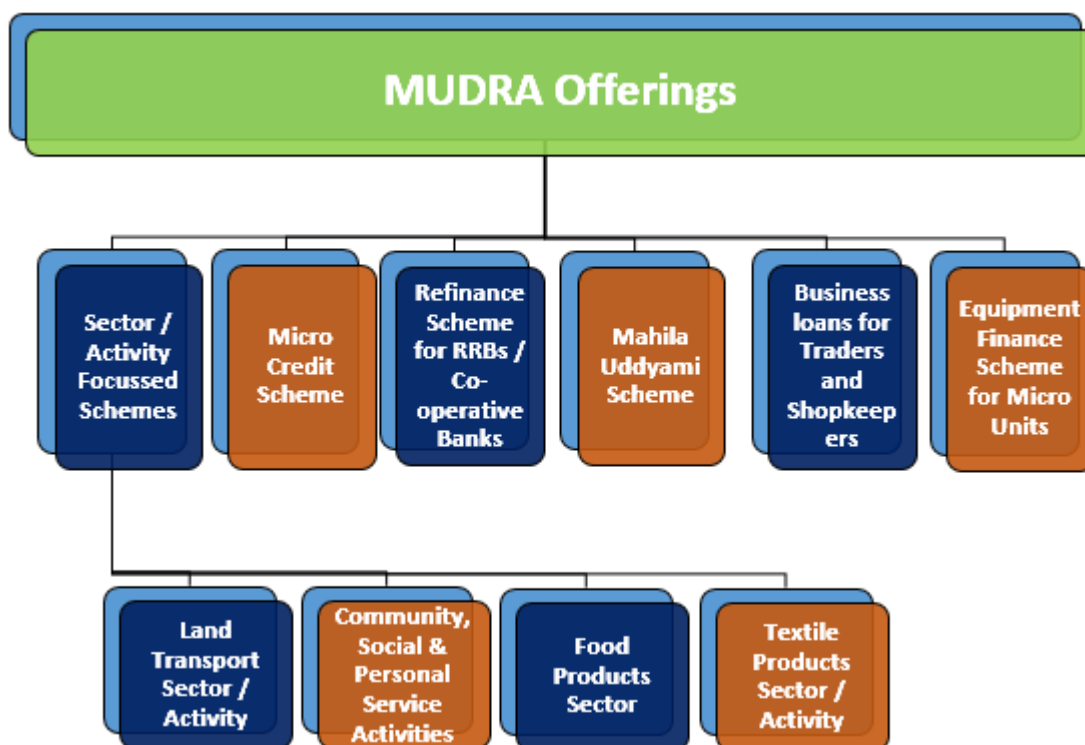
According to the guidelines available in the scheme, the interest rates and loan limits vary according to the growth stage of the enterprise to which the loan refers. As in November 2015, the applicable rates and limits are as follows

1. Shishu - Loans up to a maximum of INR 50000 with an interest rate of 1% per month or 12% per year. Refund period up to 5 years
2. Kishore - Loans INR 50001 to INR 5 lakhs. The interest rate depends on the bank, in accordance with the schedules guidelines, whereby the credit history of the applicant is taken into account. Refund period based on the bank's judgment
3. Tarun - Loans exceeding INR 5 lakhs to INR 10 lakhs. The interest rate depends on the bank, in accordance with the schedules guidelines, whereby the credit history of the applicant is taken into account. Refund period based on the bank's judgment

From the above it is clear that the first option for the prospective enterprise has the most favourable rates and a fixed repayment period, irrespective of the performance and history of

the applicant or the enterprise. However, the above subject may be changed according to the scheme guidelines.

A total of 27 public banks, 17 private banks, 31 regional national banks, 4 cooperative banks, 36 microfinance institutions and 25 non-banking financial institutions were selected to make the payment of this loan possible. 60% of the loans under this scheme are offered through the "Shishu" option and the remainder by 40% through the "Kishore" and the "Tarus" scheme.



The products initially being launched are as under:[2]

- Sector/activity specific schemes, such as schemes for business activities in Land Transport, Community, Social & Personal Services, Food Product and Textile Product sectors. Schemes would similarly be added for other sectors/activities.
- 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

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

- 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.

DISBURSEMENT UNDER MUDRA:[1]

Bank Type Name	Shishu		Kishore		Tarun		Total	
	No Of A/Cs	Disbursement Amt (Rs. crore)	No Of A/Cs	Disbursement Amt (Rs. crore)	No Of A/Cs	Disbursement Amt (Rs. crore)	No Of A/Cs	Disbursement Amt (Rs. crore)
SBI and Associates	479314	318.81	55939	1226.85	20797	1524.25	556050	3069.91
Public Sector Commercial Banks	2083872	2669.67	452865	8053.52	70580	4875.64	2607317	15598.83
Private Sector Commercial Banks	1301379	2132.57	129361	3110.02	36055	2480.74	1466795	7723.33
Foreign Banks	0	0	185	5.27	68	5.31	253	10.58
Regional Rural Banks	519961	1208.28	167065	3204.63	6375	414.67	693401	4827.58
Grand Total	4384526	6329.33	805415	15600.29	133875	9300.61	5323816	31230.23

Allocation of 25,000 crore towards recapitalisation of Public Sector Banks. Target of amount sanctioned under Pradhan Mantri Mudra Yojana increased to 1,80,000 crore.

Government of India started MUDRA scheme to formally support small scale enterprises so that they can participate in mainstream financial activities and directly contribute to Indian economy. MUDRA bank with a corpus of Rs 20,000 crore and a credit guarantee fund of Rs 3,000 crore is setup by GOI to support financial institutions. Scheme is very well accepted by financial institutions. So far Corporation bank has already launched MUDRA card under the Pradhan Mantri Mudra Yojana (PMMY) and IDBI bank has signed an agreement with

MUDRA for refinancing of loans. MUDRA bank has also joined hands with 19 state and regional level coordinators so as to reach the small entrepreneurs who have limited branch presence and are cut off from the general banking system.[1]

Recent Developments:

The Cabinet approved conversion of MUDRA Ltd, an NBFC, into MUDRA Bank and also setting up of a Credit Guarantee Fund for loans disbursed under the Pradhan Mantri Micro Units Development Refinance Agency (MUDRA) Yojana.

The finance ministry said that MUDRA loans amounting to Rs 71,312 crore have been disbursed to 1.73 crore borrowers as on January 2016.

The government refinanced online Rs.2000 crore under the MUDRA scheme, the rest Rs. 69,312 crore are loans disbursed by MFI and banks which have now been renamed as MUDRA loans.

Shishu accounts for 40%, Kishor for 37% and Tarun for 23% of total loans disbursed.

States getting biggest chunk of loans include- Karnataka (Rs. 8114 crore), Maharashtra (Rs.6988 crore) and Uttar Pradesh (Rs. 6547 crore).

The top three institutions that received refinance under the MUDRA scheme are: SKS Microfinance (Rs.100 crore), Ujjivan Financial Services Pvt Ltd (Rs.100 crore) and Equit as Microfinance Pvt Ltd (Rs. 75 crore).[4]

RECOMMENDATIONS:

It is quite clear to state that Government of India (GOI) had made number of efforts to spur growth in MSMEs still number of steps are required to uplift this segment of Indian economy. Some of below stated recommendations can be followed in this regard;

- Fast applying process under MUDRA.
- Transparency in execution.
- Reduction in procedural implementation.
- Conducting proper awareness programme.

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