

“HOW THE MUDRA BANK HELPS SME’S TO GROW”

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ABSTRACT

Mudra Bank is an innovative way of funding small business. It is launched by our Prime Minister Modi. It is established through a statutory enactment. It will be a part of Pradhan Mantri Mudra Yojana. This will function in the areas that fall outside the purview of conventional banks. It had a corpus of fund Rs 20000 crore and a credit guarantee fund ranging from Rs2000 crore and Rs 3000 crore. This paper aims at understanding how the Mudra Bank helps the SME sector.

KEYWORDS: Mudra Bank, SMEs, Roles and Responsibilities

INTRODUCTION

Micro Units Development and Refinance Agency or also known as **MUDRA bank** is a development finance agency that will promote and finance those micro industrial units in the country which could not be reached out to by SIDBI and all other formal financial institutions. This is a new scheme launched on 8th April according to which the latest scheme is to look forward to the development of small entrepreneurs. This scheme is launched keeping in mind the areas where the normal banks are unable to reach. There are remote places in the country where people are unable to use the regular bank services like loans and credit cards. The main objective of the present government is to empower the small micro business. So the purpose of MUDRA is to create as many MFIs as possible which can actually give same kind of eco-system and services which are available now to these poor people. It will provide much needed fund at poor people doorsteps at a reasonable rate of interest. People rely too much only on commercial banks and unfortunately commercial banks are comfortable in lending to people who want more than Rs.10 lakhs. Their main forte has never been micro finance and that is what MUDRA BANK is targeting.

OBJECTIVES OF THE STUDY

- To analyse the role of Mudra bank in uplifting the small medium enterprises.
- To understand the roles and responsibilities played by the MUDRA bank.
- To study the products and offerings of MUDRA BANK.
- To analyse the performance of MUDRA BANK in state kerala.

METHODOLOGY OF THE STUDY

The study makes use of secondary data which has been collected from journals, newspapers, employment news weeklies, data from internet.

Let's See How Mudra Bank Helps the SME's

MUDRA Bank will not directly lend to SMEs but will offer refinance and assistance to Micro-Finance institutions (MFIs) who would provide funds to SMEs and motivate entrepreneurs in India. MUDRA will act as a regulator to Micro-Finance institutions (MFIs) that will finance SMEs and help them to grow and expand their operations. The bank will play a significant role in mapping out policy guidelines for SMEs in terms of financing. At times when SMEs and entrepreneurs are not able to repay loans or need further assistance to expand their businesses, MUDRA Bank will get involved and help these MFIs to get further credit through refinancing, and in turn help SMEs with more funds. Currently, MUDRA Bank is entitled to help those MFIs and investors who are investing in segments related to manufacturing, trading and specific services.

The bank would also track official registration of Micro-Finance Institutions in India, so that SMEs are aware with a variety of options before choosing their creditors that provide them the best interest rate. Mudra Bank will launch an association with local coordinators and provide finance to 'Last Mile Financiers' of SMEs in order to ensure smooth flow of funds for their overall development. The bank will also layout appropriate client-protection principles and methods to eradicate the problem of indebtedness. The bank will ensure SMEs are not cheated or made to pay more than what is due.

To conclude, MUDRA Bank will give SMEs the much needed impetus to effectively manage and grow their businesses and not let them fall prey to the vicious circle of hefty interests and loan repayments.

Roles and Responsibilities Played by Mudra Bank

Micro Finance is an economic development tool whose objective is to provide income generating opportunities to the people at the bottom of the pyramid. It covers a range of services which include, in addition to the provision of credit, many other credit plus services such as savings, pensions, insurance, money transfers, counselling, financial literacy and other social support services. MUDRA would primarily be responsible for:

- Laying down policy guidelines for micro enterprise financing business
- Registration of MFI entities
- Supervision of MFI entities
- Accreditation /rating of MFI entities
- Laying down responsible financing practices to ward off over indebtedness and ensure proper client protection principles and methods of recovery
- Development of standardised set of covenants governing last mile lending to micro enterprises
- Promoting right technology solutions for the last mile

MUDRA Bank has rightly classified the borrowers into three segments: the starters, the mid-stage finance seekers and the next level growth seekers.

To Address the Three Segments, MUDRA Bank has Launched three Loan Instruments

- Shishu: covers loans up to Rs.50, 000/-

- Kishor: covers loans above Rs.50, 000/- and up to Rs.5 lakhs
- Tarun: covers loans above Rs.5 lakh and up to Rs.10 lakhs

Products and Offerings of Mudra Bank

Businesses/entrepreneurs/units covered would include proprietorship/partnership firms running as small manufacturing units, shopkeepers, fruits/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 lakhs.

- The products initially being launched are as under: 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

Activities of MUDRA: The salient features and the innovative products offered by MUDRA are given below

- Sector / Activity Focused Schemes: This is to maximize coverage of beneficiaries and to meet requirements of specific business activities, sector / activity focused schemes. Schemes are being proposed for selected activities like food processing sector, textiles product sector including handlooms/embroidery, small transport sector etc. Going forward, schemes would similarly be added for other sectors / activities as well.
- Micro Credit Scheme: Financial support to MFIs for on lending to individuals/ groups of individuals, joint liability groups (JLGs) or self help groups (SHGs)It is for the creation of qualifying assets as per RBI guidelines towards setting our running micro enterprises as per MSMED Act and nonfarm income generating activities.
- Missing Middle Credit Scheme: It is to give financial support to financial intermediaries for on lending to individuals for setting up or running micro enterprises as per MSMED Act and non-farm income generating activities with beneficiary loan size of 50,000 to 10 lakh per enterprise / borrower.
- Refinance Scheme for RRBs / Co-operative Banks: This is for enhancing liquidity of RRBs or Scheduled Co-operative Banks by refinancing loan extended to micro enterprises as per MSMED Act with beneficiary loan size up to Rs 10 lakh per enterprise / borrower for manufacturing and service sector enterprises.
- Mahila Uddyami Scheme: This scheme is to provide timely and adequate financial support to the MFIs, for on

lending to women, group of women, JLGs or SHGs for creation of qualifying assets

- Business loans for Traders and Shopkeepers: Timely and adequate financial support for lending to individuals for running shops, trading & business activities, service enterprises and non-farm income generating activities with beneficiary loan size of up to Rs. 10 lakh per enterprise or borrower.
- Equipment Finance Scheme for Micro Units: Timely and adequate financial support for lending to individuals for setting up micro enterprises for purchasing necessary machinery or equipment with per beneficiary loan size of up to Rs. 10 lakh. Innovative Offerings

In addition to its core activity of refinancing the micro credit to MSME and informal sector entrepreneurs, MUDRA will come out with innovative financial services like:

- MUDRA Card with innovative ideas like a pre-approved credit line
- Portfolio Credit Guarantee product to mitigate the issue of collaterals
- Underwriting for Intermediaries
- Creation of Resources for Credit Enhancement / Guarantee Facility
- Business/Banking Correspondent
- Addressing the Non-Credit Gaps: Along with the credit constraints, the NCSBs face many Non credit challenges, like,
 - Skill Development Gaps
 - Knowledge Gaps
 - Information Asymmetry
 - Financial Literacy

In the opinion of CEO of Mudra Bank Mr, JIJI MAMMAN a keralite, this bank has been set up to provide credit to micro units, has so far refinanced Rs 1,500 crore under the Pradhan Mantri Mudra Yojana. From the first nine months of its launch, Mudra Bank has refinanced Rs 1,500 crore to micro units through public sector banks so far. Under the Mudra loan scheme, total disbursements made to banks and others were about to Rs 75,000 crore.

Out of the Rs 1,500 crore refinanced, Rs 800 crore were being taken by banks and the balance by micro-finance institutions (MFIs) and NBFCs. The government had provided Rs 20,000 crore to Mudra Bank as equity capital. If banks wished to avail of refinance from Mudra, they would have to extend credit at the base rate. Mudra would charge 6.72 per cent interest from the banks and it would also provide credit guarantee support for the loans taken. Let us look at the performance of Mudra Bank in kerala state.

Table 1

PRADHAN MANTRI MUDRA YOJANA(Amt in Crores)			
Year	SHISHU (Loans Up to 50000)		
	No. of Sanctions	Sanctioned Amount	Disbursement amt
2015-2016	707492	1430.63	1414.08
2016-2017	222577	476.73	466.49

Source: PMMY Report

Table 2

PRADHAN MANTRI MUDRA YOJANA(Amt in Crores)			
Year	Kishore (Loans From 50000-to-5 Lakh)		
	No. of Sanctions	Sanctioned amount	Disbursement amt
2015-2016	107975	2251.71	2194.29
2016-2017	23995	527.94	512.94

Source: PMMY Report

Table 3

PRADHAN MANTRI MUDRA YOJANA(Amt in Crores)			
Year	Tarun (Loans From 5 Lakh to 10 Lakh)		
	No. of Sanctions	Sanctioned amount	Disbursement amt
2015-2016	14944	1175.34	1119.01
2016-2017	3718	295.79	279.87

Source: PMMY Report

CONCLUSIONS

Small business units generally face lot of challenges to get loans from Banks. So, they end up taking high-cost loans from financiers or money lenders. It is believed that creating a bank like Mudra Bank will hugely benefit small manufacturing units and self-employed individuals in rural and urban areas with financing requirements up to Rs.10 lakhs. Bringing in the informal sector into the formal system has many advantages for both business and economy. There are 5.77 crores of small business units that are mostly individual proprietorships, running small manufacturing and training business, out of that 66per cent of these are owned by Scheduled Caste, Scheduled Tribes and Other Backward Castes. These measures will greatly increase the confidence of our young educated and skilled workers who are able to become the first generation enterprises, and existing small businesses will be able to expand their activities. Just as banking the unbanked, MUDRA banks main aim is funding the unfunded.

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