

MUDRA: A Game Changing Institutional Innovation for the NCSBSs

Sonu¹ and Mandeep Singh²

^{1,2}Dept. of Commerce Kurukshetra University (Kurukshetra)
E-mail: ¹sonutanwar369@gmail.com, ²msbgurthali@gmail.com

Abstract—Non-Corporate Small Business Sector has been important sector of Indian economy. This sector provides jobs to almost 12 crore peoples in different segments. The gross value addition of this sector is measured 6.28 crore annually. In spite of these contributions, the growth of entrepreneurs in Non Corporate Small Business Sector is less because there are various problems which slow down the growth of this sector. So there is need to focus on this sector. For this purpose, the Indian government moves forward with MUDRA. MUDRA is a refinance agency which exclusively focuses upon entrepreneurs in NCSBS. MUDRA is set-up under PMMY to cater to the financial as well as non-financial needs of the NCSBS. This paper is an endeavour to clear the qualitative aspects of MUDRA and how MUDRA is a game changing institutional innovation for the NCSBS.

Keywords: NCSBS, PMMY, PMJDY

1. INTRODUCTION

NCSBS (Non-Corporate Small Business Sector) or the informal sector is the economic foundation of India. The sector comprises of small manufacturing units, shopkeepers, repair shops, machine operators, artisans, hair and beauty salons, food processors, etc. These Non Corporate Small Business Sector units are the most prolific job creators and pioneers in developing new notions. The Survey conducted by National Sample Survey Organization (NSSO) in 2013, there are approximately 5.77 crore small business units. As compared to large companies and other organized sector, small scale units employ 11.25 crore individuals. In recent years, this sector has consistent registered higher growth rate as compared to the overall industrial units. According to the annual report of the ministry of MSME (2013-14), the sector contributes around 38% in India's GDP, 45% of the manufacturing output and 45% in exports.

In spite of these contributions, the growth of entrepreneurs in Non Corporate Small Business Sector is less because there are various problems which slow down the growth of this sector. The various problems faced by the entrepreneurs in this sector are:-

- Access to Finance
- Skill Development Gaps

- Knowledge Gaps
- Infrastructure Gaps
- Policy advocacy needs, etc.

These are the problems which slow down the growth of entrepreneurs in the Non Corporate Small Business Sector. But if we analyze these problems we find that finance is the major problem faced by NCSBS. The support from the banks to this sector is meagre, with less than 15% of bank credit going to small business units and only 4% of 5.77 crore have access to institutional finance. These small business units depend largely on assorted group of entities which include unincorporated bodies or money lenders, who charge high rate of interest and often with unbearable conditions. To solve the problem relating to finance and bring NCSBSs into main financial stream, the Government of India comes with the idea of MUDRA Bank.

2. MUDRA BANK

MUDRA stands for Micro Units Development and Refinance Agency. The idea of MUDRA Bank was first envisaged in Budget of 2015-16, while its conceptual vision was announced by the Indian Prime Minister as a part of PMMY (Pradhan Mantri Mudra Yojna) – a scheme for funding the unfunded. Government of India launched the scheme of MUDRA on 8th April 2015. It was set up through a statutory enactment which would be responsible for developing and refinancing MFI's (Micro Finance Institutions) which are in the business of lending to micro and small business units engaged in manufacturing and service activities. But since the enactment is likely to take some time it was decided to initiate MUDRA as a unit of SIDBI. MUDRA has an initial corpus of Rs. 20,000 crore and a credit guarantee corpus of Rs. 3,000 crore.

Vision: “to be an integrated financial and support service provider par excellence benchmarked with global best practices and standards for the bottom of the pyramid universe for their comprehensive and social development.”

Mission: “to create an inclusive, sustainable and value based entrepreneurial culture in collaboration with our partner

institutions in achieving economic success and financial security.”

3. OBJECTIVES OF MUDRA

The primary objectives of MUDRA are described below with the help of following points: -

- Regulate the lender and borrower of micro finance and bring stability in micro finance system through regulation and inclusive participation.
- Extend finance and credit support to micro finance institutions and agencies that lend money to small businesses, retailers, self help groups and individuals.
- Registration of all MFI's and to introduce a performance rating and system of preferential treatment for first time.
- Provide structured guidelines for the borrowers to follow to avoid failure of business or take corrective action in time. MUDRA will help in laying down guidelines to be followed by lenders to recover money in case of default.
- Offer a credit guarantee scheme for providing guarantees to loans being offered to micro businesses.
- Introduce appropriate technology to assist in the process of efficient lending.
- Develop the standardized covenants that will form the backbone of the last mile business in future.
- Build a suitable framework under the PMMY for developing an efficient last mile credit delivery system to small and micro businesses.

4. MUDRA PRODUCTS AND OFFERINGS

Under the PMMY, MUDRA has already created its initial products. Depending upon the category of business, MUDRA scheme provides loans in three categories:-

1. Shishu:- If you have just started your small business then you will get loan cover up to 50,000
2. Kishore :- If you have set your business then you will get from Rs. 50,000 to Rs. 5 lakh of loan cover from MUDRA
3. Tarun: - If you have well established business, it needs more funds to raise business then you will get loan cover up to 10 lakh.

It would be ensured that at least 60% of the credit flows to Shishu category units and the balance to Kishore and Tarun categories.

Apart from these products, the other products are initially being launched to meet the requirement of various sectors.

- Sector/Activity Focused Schemes

- Micro Credit Scheme
- Missing Middle Credit Scheme
- Refinance Scheme for RRBs/Co-operative Banks
- Mahila Uddyami Scheme
- Business loan for Traders and Shopkeepers
- Equipment Finance Scheme for Micro Units
- MUDRA Card, Portfolio Credit Guarantee Products, etc.

5. HOW TO APPLY

Borrowers, who wish to avail assistance under Pradhan Mantri MUDRA Yojna (PMMY), can approach the local branch of any of the financial institutions in their region- PSU banks, RRBs, Cooperative banks, Private Sector banks, foreign banks, MFIs and NBFCs. Sanction of assistance shall be as per the eligibility norms of the respective leading institutions.

6. ELIGIBILITY

An Indian Citizen who has a business plan for a non –farm income generating activity such as manufacturing, processing, trading or service sector and whose credit need is less than Rs. 10 lakh can avail the benefits of MUDRA.

7. REQUIREMENTS

Documents to be submitted along with application are given below: -

1. Proof of Identity
2. Proof of Residence
3. Applicant's recent photographs (2 copies) not older than 6 months.
4. Quotation of machinery/other items to be purchased.
5. Name of Supplier/details of Machinery/Price of Machinery/other items to be purchased.
6. Address of the business enterprise/Copies of relevant Licenses/Registration Certificates/other documents pertaining to the ownership.
7. Proof of category like SC/ST/OBC/Minority etc.

For all PMMY loans, the following points are to be noted:-

- No processing fee
- No collateral
- Repayment period of loan is extended up to 5 years.
- Applicant should not be defaulter of any banks/financial institutions.

8. RECOVERY METHOD

MUDRA bank will ensure that clients are properly protected and will lay down principles and methods of loan recovery in case of a default. The bank will also rigidly follow “responsible financial practices” so deter borrower from indebtedness.

9. MUDRA AND NON-CORPORATE SMALL BUSINESS SECTOR

The main objective of MUDRA is to bring NCSBSs into main financial stream and provide timely and adequate credit. MUDRA is another face of financial inclusion of missing middle after PMJDY. As we know the major problem faced by entrepreneurs in NCSBSs is unavailability of credit at required time. NCSBSs units generally face a lot of challenges to get loan from the banks. When they are not able to fulfil the requirements of the bank, they generally depend upon financiers or money lenders who charge high interest and often with unbearable conditions. To solve the problem of NCSBSs relating to finance government of India launched MUDRA with a corpus of Rs. 20,000 crore and credit guarantee corpus of Rs. 3,000 crore. According to a Survey the average debt of small business enterprises in India is near about Rs. 17,000. If lending is increased to Rs. 5 or 10 lakh, the sector would benefit immensely and may generate lots of self employment opportunities.

Beside the finance problem there are various problem faced by NCSBSs like lack of skill development, knowledge gaps, lack of financial literacy, etc. To solve these problems, MUDRA will have to adopt a credit plus approach and offer development and support services to the entrepreneurs. The initiative of government and measures taken by MUDRA under PMMY will surely encourage the entrepreneurship in NCSBSs. Many entrepreneurs or small business units avail the benefits of MUDRA and run their business effectively.

MUDRA is a game changing institutional innovation for the entrepreneurs in the Non-Corporate Small Business Sector. Following points illustrate that how MUDRA increases the growth of entrepreneurs in NCSBSs: -

- Easy Access to Finance: MUDRA provides solution of the problem relating to finance. When funds are easily available than new entrepreneurs are encouraged and this will indubitably generate self-employment.
- Low Interest Rates: MUDRA provides loan at a low interest rate as compare to other loan. Because of this the entrepreneurs are able to increase the profitability of the business. This will also help to reduce the cost of capital.
- Women Empowerment: The scheme like Mahila Uddyami Scheme will encourage the women entrepreneurs to set up their businesses. This will also contribute for the women empowerment.
- Standard of living: Since the increase in the income is achieved, spending will also increase in direct proportion, and as a result of this, the flow of money will be smoothening in the economy.
- Address the Non Credit Gaps: NCSBSs face many non credit challenges before the establishment of MUDRA. At present MUDRA adopt a credit plus approach and offer developmental and support services to the NCSBSs.
- Increase entrepreneurial spirit: Funds are easily available at an affordable rate because of MUDRA. This will act as a PUSH factor for bringing individuals' in the businesses and creating many first Generation entrepreneurs.

The impact of the above points is positive on the growth of entrepreneurs in NCSBSs.

10. CONCLUSION

As we know that government of India launched various schemes to promote entrepreneurship development like Make in India, Start-up India, MUDRA, etc. But the MUDRA has been set up under PMMY to focus on the entrepreneurs in the Non-Corporate Small Business Sector. The NCSBS plays an important role in the Indian economy. MUDRA bank is specially designed for Indian context which tries to bring the NCSBS under the purview of formal banking system. MUDRA should be a game changing idea because it promotes entrepreneurial spirit among Indian youth. MUDRA is still in its early stage but surely this scheme will contribute to the well being of individuals engaged in small scale businesses. This scheme will positively affect the Indian economy in the approaching time. It will also act as a PUSH factor for bringing individuals' in the businesses and creating many first Generation entrepreneurs.

REFERENCES:

- [1] www.mudra.org (official website of MUDRA)
- [2] Seema. (2015). MUDRA: Micro Units Development and Refinance Agency. International Journal in Commerce, IT and Social Sciences, Vol. 2(10), ISSN: 2394-5702.
- [3] Gupta, S. (2015). MUDRA: Financial Inclusion of the Missing Middle. Indian Journal of Applied Research, Vol.5 (11), pp: 277-279, ISSN: 2249-555X.
- [4] Roy, A. (2016). Mudra Yojna- A Strategic Tool for Small Business Financing. International Journal of Advance Research in Computer Science and Management Studies, Vol. 4 (1), Pages: 68-72, ISSN (e): 2321-7782.
- [5] Bakshi, K. and Chawla, S. (2016). MUDRA Yojna- New Wings for growth of Small Entrepreneurs. International Journal of Business Management and Scientific Research, Vol. 19, pp: 10-14, ISSN: 2394-6636.