

# Mudra Loan: Funding the Unfunded small Entrepreneurs

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**Abstract**—*The biggest hindrance to the growth and enhancement of Non-corporate Small Business Sector is the absence of strong financial support to this sector. This sector has always been denied from source of funding which are financial institutions. Government of India has come up with the scheme of Mudra loan to fulfill the needs of the small and micro manufacturing and unorganized sector. This step will bring the small entrepreneurs to the mainstream of business and will generate income for the firm and the nation.*

## 1. INTRODUCTION

The NSSO surveyed in 2013 and found out that there are 5.77 crore units of small business which are mainly individual proprietorship involved in trading, small manufacturing units or activities of services[1]. Out of the list most of the enterprises are owned and governed by people belonging to Scheduled Caste/Tribes or other economically backward classes. According to survey only 4% of these units get financed by banks or other commercial bodies. Making smooth path for these units to get financed by the commercial institutions would make them a strong factor for employment and GDP growth of the country. Micro Finance act as a tool whose objective is to help the poor to make their way out of this financial crisis. One of the micro finance tool nowadays to eradicate this crisis is MUDRA loan scheme. According to finance ministry, product offered by Mudra includes loan sub-schemes named 'Shishu' covering loans up to Rs. 50,000, 'Kishor' for loans above Rs 50,000 and upto Rs 5 lakh and 'Tarun' covers loans above 5 lakh and till Rs 10 lakh..

## 2. MUDRA LOAN

Pradhan Mantri Mudra Yojana (PMMY) was launched by Govt. of India on April 08, 2015, with an objective to give a boost to flow of credit to micro industry in the country. All loans disbursed to non-farm/non-corporate enterprises in manufacturing, services and trading sector whose credit need is up to Rs.10 lakh are eligible under Prime Minister Mudra Yojana (PMMY). Further, the Govt. created a nodal agency MUDRA Ltd. for implementation of the scheme and co-ordination with Banks as well as other related agencies. One of the primary objectives of MUDRA bank is to provide

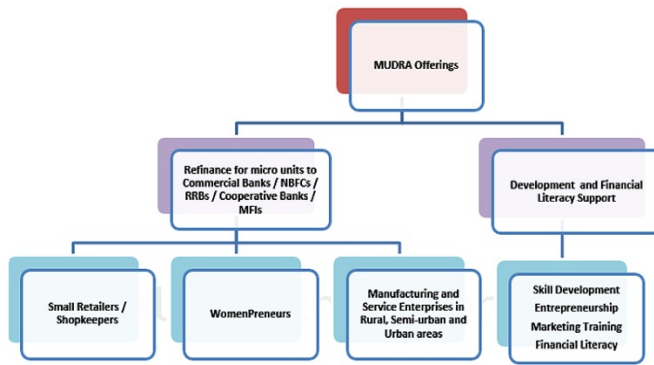
refinance to lending institutions against loans given by the banks under PMMY, at Bank's Base Rate (BBR). The product aims to cover cases specifically under PMMY and to achieve the targets allocated to the Bank[2].

### 2.1 Nature of Loan

It includes Cash Credit to meet Working Capital requirements. It also has the provision of Term Loan to meet Capital expenditure which includes purchase of equipment/furniture or any such business requirements. The targeted segments includes all non-farm income generating activities.

### 2.2 Eligibility criteria for Mudra refinance

Micro Units Development and Refinance Agency (MUDRA) has stated the eligibility norms for the partner lending institutions for the purpose of availing refinance/ finance for sanctioning loans to micro units in manufacturing, trading and service sector who are in rural and urban areas. All scheduled commercial Banks who are in public and private sector having 3 years of continuous profit track record and net NPAs not exceeding 3%, the minimum net worth of Rs.100 cr. and not less than 9% CRAR. All Regional Rural bank who have net NPA under 3% with profitable operations and no record of accumulated losses and CRAR greater than 9%. [3] In case of applicant, preferably He/She should not be defaulter to any bank or financial institution and track record should be satisfactory in CIBIL records, as per CIBIL guidelines of the Bank. Institutions are encouraging women entrepreneurs, who are engaged in income generating activities, to avail credit facility under the scheme. Non-corporate Small Business Segments consisting of various proprietorship and partnership firms running small and micro manufacturing units, service sector units, fruit and vegetable vendors, shopkeepers food service units, repair shops, operators of machine, small and micro industries, artisans, food processors in all rural and urban areas.



**Fig. 1: Banks/NBFC/RRB/Cooperative Banks/Micro finance institution offer to small retailers, Entrepreneurs, small manufacturing units. Development and financial literacy support will provide marketing training [www.mudra.org.in]**

### 3. OTHER OFFERINGS UNDER MUDRA LOAN

MUDRA is offerings pre-loaded MUDRA Card, with an assessed value. It will provide pre-approved credit line to the customers by issuing a card that can be used to purchase raw materials and other components, from pre-registered producers and dealers on an online platform. The card could be directly linked with Pradhan Mantri Jan Dhan Yojana Savings Account of the customer and the withdrawals could also be processed through the Bank's ATM for meeting the immediate liquidity problems of the enterprise. MUDRA Card is an innovative credit product wherein the borrower can procure the credit in a hassle free and conducive manner. It provides a facility of working capital arrangement in the form of Cash credit or Overdraft to the borrower. Since MUDRA Card is a RuPay Debit Card, it can be used for drawing cash from ATM or Business Correspondent or make purchase using Point of Sale machine.[3]



**Fig. 2: Debit-cum-ATM card for the Mudra loan borrower which can used for withdrawal. Latest design approved by DFS, Govt. of India. [www.mudra.org.in]**

It also facilitates to repay the amount as and when surplus is available, thereby mitigating the interest burden.

### 3.1 Portfolio Credit Guarantee

Conventional financing in India follows an Asset Based lending approach with focus on collaterals[3]. Micro units, many a times, are unable to provide the cushion of collaterals. So to reduce the issue of collaterals, MUDRA will be offering a Credit Guarantee Product. Since the individual loan sizes would generally be small and loans will be large in number, the option of a Portfolio Guarantee Product will be utilized. Under this option, Credit Guarantee or Risk Sharing would be provided for a portfolio of homogenous loans instead of a Scheme for individual loan - by - loan guarantee. This is supposed to create administrative efficiencies and enhanced reception for the Credit Guarantee product. The Guarantee product would bring down the cost of funds for the beneficiary and improve their creditworthiness.[3].

### 4. MONITORING BODY OF MUDRA LOAN

It is monitored at the State level through SLBC forum and at national level by MUDRA i.e. Department of Financial Services under Govt. of India. MUDRA has prepared a portal, wherein the banks and other lending institutions will directly give their input and their achievement details which is consolidated automatically by the system and final reports are generated for review. There is no provision of subsidy for the loan sanctioned under Mudra loan. But in case, if the loan proposal is linked to some Government scheme, wherein the Government is flagging any capital subsidy, it will be eligible under Mudra loan also.[3]

### 5. ADVANTAGES OF SANCTIONING MUDRA LOAN

In this case the borrower doesn't have (or necessarily want) to mention about the way he/she is going to invest the money. Small businesses use cash the way they have planned, be it purchasing inventory, recruiting staff, expediting deliveries or exploring any other channel or methods to growth.

#### 5.1 Disbursement tenure

Mudra loan is generally disbursed within a week since it does not require much deep enquiry about the borrower profile. Many customers with CIBIL scores -1(negative 1) is disbursed within this loan. It does not have a processing charge which reduces further documentation. Banks under this scheme generally avoid preparation of stock statement analysis and readily gives small amount loan on self declaration of stock or property.

#### 5.2 Recovery of loan

A small business advance is sanctioned with a set of terms, including a recovery schedule. Since it is a small loan, the risk to default is generally less. For many customers, if their business goes up well, even balloon repayment can be expected. Customers are not expected to hamper their CIBIL score by being non regular in repayment of this small loan.

### 5.3 Market penetration

With this scheme of loan, Banks can now have more penetration in market and increase the customer base. All people of different strata and economic background can participate under the Mudra scheme. Those people can start their borrowing portfolio from bank who never even thought of entering into banks as a customer in life. Banks also get benefitted by way of getting interest on loan and cross selling.

### 5.4 Provides guarantee of return

As already mentioned above, Mudra loan too brings in a concept of Credit guarantee which insures the lender about the repayment of the money and thus making the loan more of a kind of secured loan without taking any collaterals.

### 5.5 Joint liability group formation

Mudra loan involves the feature of Joint liability group formation (JLG) where many people of small entrepreneurs comes up to form a group and apply for loan. This feature provide an extra safety bag to the lender in the market. Since it is a loan given to a group of people for homogenous cause, it becomes a liability for every individual to repay the whole loan even one or more person defaults. So due to the peer pressure and social status, individuals in JLG avoid to become willful defaulters.

## 6. CONTRIBUTION BY BANKS

**Table 1: Disbursement report of Pradhan Mantri Mudra Yojana for the financial year 2015-16 as on September 22, 2015[www.mudra.org.in/pmmmy-report]**

Bank type Name	Number of loans	Loan amount (in crore)
SBI and Associates bank	142151	2388.33
Public sector commercial banks	1433057	9877.18
Foreign banks	244	10.37
Private Sector Commercial Banks	1454077	7204.32
Regional Rural Banks	449634	4064.61
Grand Total	3479163	23544.81

Referring to the Table 1, it can be inferred that Public sector banks and Private sector banks have played major role in infusing money in the market to the entrepreneurs who need money to start or enhance their business. Canara Bank, UCO bank, Syndicate bank are the major players with Rs.1368.46 crore, Rs.1115.58 crore, Rs.954.68 crore loan sanctioned respectively. Private players are nowhere behind as HDFC Bank with Rs. 3280.98 crore, ICICI bank with Rs.1298.96

crore and IndusInd bank with Rs.1298.09 crore were the major contributors. This not only boosted the GDP of the Indian economy but also created a sense of healthy competition among bank. Banks has a new product to increase their asset portfolio. They have new a tool with which they can touch the needy ones.

## 7. CORPORATE SOCIAL RESPONSIBILITY

The basic need of today's India is to increase the employment opportunities in the country. By funding the loan under Mudra scheme , financial institutions are not only giving them chance to grow at a steady pace but also generate opportunities for employment around the setup. Entrepreneurs who hailed from a humble background but had skills and hard working attitude are no longer in backdrops but can come up to the bank with their proposals and make their dreams come true. Mudra loan envisages the Make in India call by the Prime Minister. As the chain goes on increasing, the employment rate rises and then people start thinking beyond basic needs and social need of education, civic sense, hygiene and luxury start becoming the priority which leads to the growth of market and purchasing power of the individual. Money will float in the market and the liquidity of the market increases.

## 8. TAPPING OF UNORGANIZED SECTOR

Informal sector or the unorganized sector is the part of the economic activity that is neither taxed nor monitored by the agencies of government. They are not included in the Gross National Product as compared to a formal economy. In India 40 percent of the manufacturing units are unorganized which play as ghost and does not pay taxes and do not abide by the market rules. This loan scheme will bring the existence of these sectors in lime light and reduce chance of any further formation of unorganized sector since all the units strted or enhanced by the sanctioning of the Mudra loan will be under purview of government records.

## 9. FUTURE SCOPE OF MUDRA LOAN

Supporting the small entrepreneurs of India is the biggest way to help the Indian economy grow and prosper. Emphasizing the contribution of small entrepreneurs in the economy, the Prime Minister expressed confidence that within a year's time, the major banks would also adopt the MUDRA model. The survey details reveals the fact that only 1 crore 25 lakh people find employment in large industries, whereas small enterprises employ 12 crore people across the country. There is a need to focus on 5 crore 75 lakh self-employed people who use funds of Rs 11 lakh crore, with an average per unit debt of around Rs 17,000 to employ 12 crore Indians. best example quoted was the kite making industry which grew from Rs. 35 crore to Rs.500 crore industry in Gujrat. Women's self help groups have showed honesty and integrity as loan takers which is seldom seen in any other sector. MUDRA scheme is aimed at "funding the unfunded". Small entrepreneurs of India are

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majorly exploited at the hands of money lenders so far, but MUDRA will install a new confidence in entrepreneurs that the country and government is ready to support them in their efforts that are contributing so heavily to the task of nation building. [5].The Mudra scheme should be followed and pursued in a paper less manner and all the data should be updated online so that it can be easily accessed by the beneficiary and the government agencies. It should work and deal with cash flow based lending rather than asset based lending in the market. Since most of the target borrowers and beneficiaries are in the service sectors and it should focus more on income generated business and transaction rather than fixed assets[1].

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