

MUDRA: Its Pros and Cons

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Abstract—*The Micro Units Development and Refinance Agency Ltd (MUDRA) was launched in the country in April, 2015 to fund the unfunded segment of business, comprised of small entities. The launch met with mixed reception with some stakeholders implying that it is old wine in a new bottle and yet some hoping that it will do better than the programmes that preceded it. The protagonists and the antagonists may have their own reasons to justify their stand but their justification will not pass muster unless the implications of MUDRA are objectively examined. To ensure that the analysis is as objective as possible, three categories of stakeholders associated with MUDRA, namely, financial consultants, bank officers and small entrepreneurs have been interviewed by the scholar using the fact-finding survey method. The primary data collected from the respondents has sometimes been deduced through constant topic-oriented discussions with them. It is possible that a certain degree of subjectivity has influenced their views and the present study suffers from this limitation. The researcher's findings reveal that the existing bunch of financial intermediaries may as well have been restructured to address the weaknesses that obtain in financing the needs of small entities. The implications of the new MUDRA legislation are noteworthy leading one to conclude that the legislation has many grey areas which need to be addressed by the government swiftly and effectively in the initial stages at least.*

Keywords: *Financial intermediaries; grey areas; MUDRA; small entrepreneurs; subjectivity*

1. MUDRA: ITS PROS AND CONS

1.1 Theoretical background of the topic

Banks were nationalised in two phases in the country – in 1969 and 1980 because it was felt that they were catering to the needs of the well-off sections of society. The latter used cheaper bank funds to invest in more lucrative trading and industrial activities. Banks used the funds collected from the less affluent sections of society in the form of deposits and liberally lent them to the well-heeled community for investment as well as consumption purposes at a competitive rate of interest. All that the banks bothered about was the security the borrower could offer against the loan sought. Capital being scarce, the government believed that capital should go to fund the productive activities of the economy instead of helping the well-heeled to live it up at the cost of the less affluent sections of the society. By extension, it will accelerate the country's economic growth. But things did not work out that way, post nationalisation. The privileged

sections still managed to corner a big chunk of bank finance at a competitive cost even as the less affluent sections still found it difficult to access capital for their productive economic activities. The government, in apparent admission of the failure, inserted another layer in the country's banking system in 1976 by constituting regional rural banks (RRBs). It hoped that RRBs would combine in themselves the best of commercial banks and the best of co-operative banks and turn out to be the panacea for the marginalised sections of the country's trade and industry like small entrepreneurs. The plan looked grand on paper but on the ground, turned out to be a damp squib. Institutional finance still eluded the vulnerable sections of society, in particular, the small entrepreneurs. With the introduction of MUDRA, the government hopes that the grievances of the small entrepreneurs can be addressed.

1.2 Statement of the problem

Since MUDRA has been introduced to address the grievances of the hitherto marginalised small entrepreneurs, it is necessary to examine the pros and cons of the legislation behind MUDRA. Prima facie, it convinces one and all that it has merits. However, one does not know whether demerits too obtain in the enabling legislation. If they do, the ways and means of addressing them should be found out. It is this problem the present study concerns itself with.

1.3 Review of literature

1. Dinesh Unnikrishnan states that medium and small enterprises would have been served better by the new set of small finance banks, given that they have been mandated to fund small-sized companies alone (Unnikrishnan, 2015). Thus a new agency like MUDRA was not needed in the first place. Further, most of the large microfinance institutions (MFIs) are well set to become small banks. Hence, these entities, which have the domain knowledge, would have been a better alternative to fund small units than Mudra Bank.
2. Debashis Basu wonders whether there is a need for another bank at this juncture (Debashis, 2015). He reminds that it is to ensure equity through determined government action that Indira Gandhi nationalised banks and forced them to lend to "priority sectors" that include small businesses and micro units. Not only did such

"directed credit" not work, but government control over banks led to large-scale corruption and repeated re-capitalisation through taxpayers' money. This further reduced the money available for small businesses.

3. Tamal Bandyopadhyay argues that we do not need another refinance agency in the country's financial system (Tamal, 2015). Quite a few are already in operation and none of them can lay claim to success. The MFIs that MUDRA is slated to refinance cannot meet the requirements of even the smallest entrepreneur, implies the researcher. Additionally, the refinancing activity of MUDRA may end up encouraging shadow banking covertly at least.

1.4 Research gap

The literature reviewed has come out with valuable conclusions. The implication of the researchers is that the new entity is redundant; the targeted entrepreneurs would have been better served with the existing entities being fine-tuned in line with the state of affairs obtaining today in the relevant space. A study of the merits and demerits of the MUDRA legislation would have helped in conducting an objective analysis of the problem which the reviewed studies have unfortunately not done. The present study proposes to bridge this gap.

1.5 Scope of the present study

The study confines itself to financial consultants, bank officers and small entrepreneurs operating in and around Bangalore city.

1.6 Objectives of the study

The objectives of the study are to:

- Identify the merits of MUDRA
- Ascertain the reasons behind the non-availability of institutional finance to small entrepreneurs
- Examine the demerits of MUDRA

1.7 Hypothesis proposed to be tested

The study proposes to test the following hypotheses:

- MUDRA will help ward off over-indebtedness

1.8 Research design

1.8.1 Research methodology

The study is descriptive in nature and has used the 'fact-finding' survey method

1.8.2 Sources of data

Primary data has been collected from the respondents, viz., financial consultants, bank officers and small entrepreneurs.

Secondary data has been collected from reputed journals, magazines, newspapers, annual reports and house journals of manufacturers, trade / industry bodies.

1.8.3 Sampling plan

Financial consultants: Given the rather limited number of financial consultants operating in the area, purposive or judgement sampling under the non-probability method has been deployed. Applying their experience as consultants as the criterion, the Researcher selected 30 such consultants who have been into the activity for at least three years. This criterion, according to the Researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

Bank officers: Given the rather limited number of bank officers with exposure to microfinance, purposive or judgement sampling under the non-probability method has been deployed. Applying the exposure to microfinance operations as the criterion, the Researcher selected 30 such bank officers that have an exposure of at least three years to microfinance. This criterion, according to the Researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

Small entrepreneurs: Given the rather limited number of small entrepreneurs who have borrowed from banks, purposive or judgement sampling under the non-probability method has been deployed. Applying the exposure to entrepreneurial activity as the criterion, the Researcher selected 30 such small entrepreneurs that have an exposure of at least three years to bank financing. This criterion, according to the Researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

1.8.4 Data collection instruments

Interview schedules were administered to the respondents for collection of primary data.

1.8.5 Data processing and analysis plan

Non-parametric statistical units were used to test the association between some qualitative characters and conclusions were drawn on the basis of formation of H_0 and H_1 .

1.8.6 Limitations of the study

Primary data has sometimes been deduced through constant topic-oriented discussions with the respondents. It is possible that a certain degree of subjectivity has influenced their views.

1.9 Financial consultants

In the following paragraphs, the primary data collected from the consultants is analysed.

1.9.1 Merits of MUDRA

MUDRA has been launched with certain objectives. Hence the researcher requested the respondents to identify the merits of MUDRA. Their replies to the query appear in the following Table.

Table-I

Merits of MUDRA

Merits	Number of respondents
It will ensure proper client protection principles and methods of recovery	28
It will help ward off over-indebtedness	27
It will fund the unfunded	25
It will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs	21

28 respondents maintain that MUDRA will ensure proper client protection principles and methods of recovery. 27 respondents maintain that MUDRA will help ward off over-indebtedness. 25 respondents maintain that MUDRA will fund the unfunded. 21 respondents maintain that MUDRA will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs

1.9.2 Reasons behind the non-availability of institutional finance to small entrepreneurs

The very constitution of MUDRA implies that institutional finance has somehow eluded the small entrepreneurs. It is necessary to ascertain the reasons behind this unfortunate development since it can help in ensuring that MUDRA too does not end up like the earlier schemes launched by the government. Hence the researcher requested the respondents to identify the reasons behind the non-availability of institutional finance to small entrepreneurs. Their replies to the query appear in the following Table.

Table II: Reasons behind the non-availability of institutional finance to small entrepreneurs

Reasons	Number of respondents
Small entrepreneurs do not document their performance	28
Many small entrepreneurs are start-ups	27
Banks avoid small entrepreneurs since they regard them as risky	23

Banks avoid small entrepreneurs since they do not document their performance, according to 28 respondents. Banks avoid small entrepreneurs since many of them are start-ups, according to 27 respondents. Banks avoid small entrepreneurs since they regard them as risky, according to 23 respondents.

1.9.3 Demerits of MUDRA

MUDRA has received a mixed reception. Hence the researcher requested the respondents to identify the demerits of MUDRA. Their replies to the query appear in the following Table.

Table III: Demerits of MUDRA

Demerits	Number of respondents
If MUDRA is re-financier and regulator at the same time, conflict of interest will arise	29
If MUDRA regulates micro-lending, there will be a proliferation of regulators	26
Since MUDRA is not subject to RBI control, it could grow into a shadow bank in future	24

If MUDRA is re-financier and regulator at the same time, conflict of interest will arise and this is a demerit according to 29 respondents. If MUDRA regulates micro-lending, there will be a proliferation of regulators and this is a demerit according to 26 respondents. If MUDRA is not subject to RBI control, it could grow into a shadow bank in future and this is a demerit according to 24 respondents.

1.10 Bank officers

In the following paragraphs, the primary data collected from the bank officers is analysed.

1.10.1 Merits of MUDRA

MUDRA has been launched with certain objectives. Hence the researcher requested the respondents to identify the merits of MUDRA. Their replies to the query appear in the following Table.

Table IV: Merits of MUDRA

Merits	Number of respondents
It will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs	25
It will help ward off over-indebtedness	24
It will ensure proper client protection principles and methods of recovery	22
It will fund the unfunded	21

25 respondents maintain that MUDRA will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs. 24 respondents maintain that MUDRA will help ward off over-indebtedness. 22

respondents maintain that MUDRA will ensure proper client protection principles and methods of recovery. 21 respondents maintain that MUDRA will fund the unfunded.

1.10.2 Reasons behind the non-availability of institutional finance to small entrepreneurs

The very constitution of MUDRA implies that institutional finance has somehow eluded the small entrepreneurs. It is necessary to ascertain the reasons behind this unfortunate development since it can help in ensuring that MUDRA too does not end up like the earlier schemes launched by the government. Hence the researcher requested the respondents to identify the reasons behind the non-availability of institutional finance to small entrepreneurs. Their replies to the query appear in the following Table.

Table V: Reasons behind the non-availability of institutional finance to small entrepreneurs

Reasons	Number of respondents
Banks cannot knowingly entertain a risky borrower	29
Many small entrepreneurs are start-ups	28
Small entrepreneurs do not document their performance	26

Banks cannot knowingly entertain a risky borrower, according to 29 respondents. Banks avoid small entrepreneurs since many of them are start-ups, according to 28 respondents. Banks avoid small entrepreneurs since they do not document their performance, according to 26 respondents.

1.10.3 Demerits of MUDRA

MUDRA has received a mixed reception. Hence the researcher requested the respondents to identify the demerits of MUDRA. Their replies to the query appear in the following Table.

Table VI: Demerits of MUDRA

Demerits	Number of respondents
If MUDRA is re-financier and regulator at the same time, conflict of interest will arise	29
Since MUDRA is not subject to RBI control, it could grow into a shadow bank in future	28
MUDRA-controlled MFIs cannot meet the funding requirements of small entrepreneurs who generally want more than INR.50,000	27
If MUDRA regulates micro-lending, there will be a proliferation of regulators	26

If MUDRA is re-financier and regulator at the same time, conflict of interest will arise and this is a demerit according to 29 respondents. If MUDRA is not subject to RBI control, it

could grow into a shadow bank in future and this is a demerit according to 28 respondents. MUDRA-controlled MFIs cannot meet the funding requirements of small entrepreneurs who generally want more than INR.50, 000. If MUDRA regulates micro-lending, there will be a proliferation of regulators and this is a demerit according to 26 respondents.

1.11 Small entrepreneurs

In the following paragraphs, the primary data collected from the small entrepreneurs is analysed.

1.11.1 Merits of MUDRA

MUDRA has been launched with certain objectives. Hence the researcher requested the respondents to identify the merits of MUDRA. Their replies to the query appear in the following Table.

Table VII: Merits of MUDRA

Merits	Number of respondents
It will help ward off over-indebtedness	29
It will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs	28
It will fund the unfunded	28
It will ensure proper client protection principles and methods of recovery	27

29 respondents maintain that MUDRA will help ward off over-indebtedness. 28 respondents maintain that MUDRA will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs. 28 respondents maintain that MUDRA will fund the unfunded. 27 respondents maintain that MUDRA will ensure proper client protection principles and methods of recovery.

1.11.2 Reasons behind the non-availability of institutional finance to small entrepreneurs

The very constitution of MUDRA implies that institutional finance has somehow eluded the small entrepreneurs. It is necessary to ascertain the reasons behind this unfortunate development since it can help in ensuring that MUDRA too does not end up like the earlier schemes launched by the government. Hence the researcher requested the respondents to identify the reasons behind the non-availability of institutional finance to small entrepreneurs. Their replies to the query appear in the following Table.

Table VIII: Reasons behind the non-availability of institutional finance to small entrepreneurs

Reasons	Number of respondents
Many small entrepreneurs are start-ups	29
Small entrepreneurs do not document their performance	28
Banks cannot knowingly entertain a risky borrower	24

Banks avoid small entrepreneurs since many of them are start-ups, according to 29 respondents. Banks avoid small entrepreneurs since they do not document their performance, according to 28 respondents. Banks cannot knowingly entertain a risky borrower, according to 24 respondents.

1.11.3 Demerits of MUDRA

MUDRA has received a mixed reception. Hence the researcher requested the respondents to identify the demerits of MUDRA. Their replies to the query appear in the following Table.

Table IX: Demerits of MUDRA

Demerits	Number of respondents
Since MUDRA is not subject to RBI control, it could grow into a shadow bank in future	28
MUDRA-controlled MFIs cannot meet the funding requirements of small entrepreneurs who generally want more than INR.50,000	27
At least three ministries are now involved in helping small entrepreneurs leading to avoidable confusion and overlapping.	25

If MUDRA is not subject to RBI control, it could grow into a shadow bank in future and this is a demerit according to 28 respondents. MUDRA-controlled MFIs cannot meet the funding requirements of small entrepreneurs who generally want more than INR.50,000 according to 27 respondents. At least three ministries are now involved in helping small entrepreneurs leading to avoidable confusion and overlapping, according to 25 respondents.

1.12 Summary of findings

In the following paragraphs, a summarised version of the findings arrived at, by analysing the primary data furnished by respondents, is furnished:

1.12.1 Financial consultants

- 28 respondents maintain that MUDRA will ensure proper client protection principles and methods of recovery. 27 respondents maintain that MUDRA will help ward off over-indebtedness. 25 respondents maintain that MUDRA will fund the unfunded. 21 respondents maintain that MUDRA will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs
- Banks avoid small entrepreneurs since they do not document their performance, according to 28 respondents. Banks avoid small entrepreneurs since many of them are start-ups, according to 27 respondents. Banks avoid small entrepreneurs since they regard them as risky, according to 23 respondents.

- If MUDRA is re-financier and regulator at the same time, conflict of interest will arise and this is a demerit according to 29 respondents. If MUDRA regulates micro-lending, there will be a proliferation of regulators and this is a demerit according to 26 respondents. If MUDRA is not subject to RBI control, it could grow into a shadow bank in future and this is a demerit according to 24 respondents.

1.12.2 Bank officers

- 25 respondents maintain that MUDRA will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs. 24 respondents maintain that MUDRA will help ward off over-indebtedness. 22 respondents maintain that MUDRA will ensure proper client protection principles and methods of recovery. 21 respondents maintain that MUDRA will fund the unfunded.
- Banks cannot knowingly entertain a risky borrower, according to 29 respondents. Banks avoid small entrepreneurs since many of them are start-ups, according to 28 respondents. Banks avoid small entrepreneurs since they do not document their performance, according to 26 respondents.
- If MUDRA is re-financier and regulator at the same time, conflict of interest will arise and this is a demerit according to 29 respondents. If MUDRA is not subject to RBI control, it could grow into a shadow bank in future and this is a demerit according to 28 respondents. MUDRA-controlled MFIs cannot meet the funding requirements of small entrepreneurs who generally want more than INR.50, 000. If MUDRA regulates micro-lending, there will be a proliferation of regulators and this is a demerit according to 26 respondents.

1.12.3 Small entrepreneurs

- 29 respondents maintain that MUDRA will help ward off over-indebtedness. 28 respondents maintain that MUDRA will mainstream young, educated or skilled workers and entrepreneurs, including women entrepreneurs. 28 respondents maintain that MUDRA will fund the unfunded. 27 respondents maintain that MUDRA will ensure proper client protection principles and methods of recovery.
- Banks avoid small entrepreneurs since many of them are start-ups, according to 29 respondents. Banks avoid small entrepreneurs since they do not document their performance, according to 28 respondents. Banks cannot knowingly entertain a risky borrower, according to 24 respondents.
- If MUDRA is not subject to RBI control, it could grow into a shadow bank in future and this is a demerit according to 28 respondents. MUDRA-controlled MFIs

cannot meet the funding requirements of small entrepreneurs who generally want more than INR.50,000 according to 27 respondents. At least three ministries are now involved in helping small entrepreneurs leading to avoidable confusion and overlapping, according to 25 respondents.

1.13 Conclusions

Conclusions are inferences / generalisations drawn from the findings and relate to hypotheses. They are answers to the research questions or the statements of acceptance or rejection of hypotheses.

As explained already, this study proposes to test the following hypothesis:

Hypothesis

The hypothesis states as follows:

“MUDRA will help ward off over-indebtedness”

Hence H_0 and H_1 are as follows:

H_0 : MUDRA will not help ward off over-indebtedness.

H_1 : MUDRA will help ward off over-indebtedness.

On the basis of the primary data collected from the respondents, vide Tables: I, IV and VI, a chi-square test was applied to ascertain the association, if any, between the two variables. The following Table reveals the computation made using MS-Excel.

Category	Observed Values		
	Yes	No	Total
Financial consultants	27	3	30
Bank officers	24	6	30
Small entrepreneurs	29	1	30
Total	80	10	90
Expected Values			
Category	Yes	No	Total
Financial consultants	26.66666667	3.333333333	30
Bank officers	26.66666667	3.333333333	30
Small entrepreneurs	26.66666667	3.333333333	30
Total	80	10	90
	Yes	No	
o-e	0.3333	-0.3333	
	-2.6667	2.6667	
	2.3333	-2.3333	
(o-e) ²	1.0000	1.0000	
	1.0000	1.0000	
	1.0000	1.0000	
((o-e) ²)/e	0.0375	0.3000	
	0.0375	0.3000	
	0.0375	0.3000	
CV	0.1125	0.9000	1.0125
TV			5.991464547
p			0.37

The calculated value of χ^2 is 1.0125, lower than the table value of 5.991464547 for an alpha of 0.05 at two degrees of freedom. Hence the null hypothesis is accepted.

Hence, MUDRA will not help ward off over-indebtedness.

1.14 Recommendations

The following are the researcher's recommendations:

1. The claim that MUDRA will ensure proper client protection principles and methods of recovery should be taken with a pinch of salt at least at this juncture. The reasons behind this scepticism are obvious: client protection principles and recovery procedures are embedded already in the various existing legislations that have given birth to financing agencies catering to the vulnerable sections of society. Still coercive methods of recovery were pursued by the lenders leading to suicide of borrowers in states like Andhra Pradesh (A.P). In fact, it is this development that prompted the government of A.P to come out with a dedicated legislation for MFIs. The researcher therefore recommends that the powers that be ensure that the MUDRA legislation does not end up the way the other legislations have ended up vis-a-vis issues like client protection and recovery procedures.
2. Similarly, claims that MUDRA will ward off over-indebtedness and fund the unfunded should be dismissed as tall, given that many legislations that arrived earlier made similar claims but ended up achieving little on the ground. After all, the proof of the pudding is in the eating and hence such claims can be accepted only after they prove themselves to be true on the ground.
3. It is stale news that small entrepreneurs do not document their performance. This in itself should not prevent them from availing of institutional finance. After all, there are instances of businesses that perfectly document their performance defaulting on their payments to the financial institutions. The way out is for the government to give the requisite leeway to the officers on the spot to personally verify the claims of the prospective beneficiary before taking the decision to finance the beneficiary.
4. MUDRA by no stretch of imagination can be the regulator and the financier or the regulator and the regulated, at the same time. The dichotomy between the two functions and the unhealthy conflict of interests it will lead to is too obvious to be ignored. It is unbelievable that the powers that be ended up creating too many regulators in the small banks space. The researcher strongly recommends that the incongruity be dealt with immediately by divesting MUDRA of regulatory powers.
5. With the RBI already regulating para banking institutions like non-banking finance companies, the government had better transfer MUDRA's regulatory powers to RBI. In fact, there is every possibility of the players refinanced by

MUDRA taking up shadow banking intentionally or otherwise in future when they grow up. That is the last thing the country can afford owing to the potential of shadow banks to upset the financial market applecart!

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