



Mudra Bank And MSME : Challenges & Prospects

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Abstract

MSME's play very critical role in achieving higher industrial growth as well as in employment generation. Jobs generated by MSME outnumber the large companies. Organised sector and larger companies employ only 1.25 crore individuals. Clearly, the potential to harness and nurture these micro businesses is vast and the government recognizes this.

Mudra Bank has a great potential for achieving inclusive growth and 'Make In India' objectives. It is going to spur rural economy and encourage entrepreneurs. MUDRA Bank is bound to spur growth of the MSME Sector and help them increase their contribution to the country's gross domestic product from its current level of 38 percent. Union minister for micro, small and medium enterprises (MSMEs) Kalraj Mishra said that MUDRA Bank would prevent small entrepreneurs from the exploitation of money lenders.

In the present paper, the author tried to find out various challenges to be faced by MUDRA Bank relating to provide finance to MSME. The author also made serious efforts to find out the prospects bank to provide more funds to MSME sector.

Keywords: MUDRA Bank, MSME Sector.

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1. INTRODUCTION

MUDRA BANK is a product of realization of Indian developmental needs. It's an Indian innovation with Indian centric approach. Cabinet's resolution on NITI Aayog had vividly mentioned that we need to find the solutions which are specific to Indian situations. In general, major discourses regarding economy, have been revolving around corporate sectors. But The Credit Suisse Asia Equity division pointed out in its study (July 2013) that the corporate sector, accounts for just 15% of India's GDP and only 10% of the jobs. According to RBI data, while value addition of corporates was just 36% on the gross fixed assets, small and micro businesses have produced the value addition of 55% on gross fixed assets. Hinting towards the fact that Small and micro businesses have been more efficient in this context. Therefore to make a telling change in the economy we will have to give a real boost to MSME. It will be interesting to note the status of Micro Small Medium Enterprises (MSME) in India is very multi factors and lot of scope of development is their.

According to economic survey of India, There are 3.61 crore MSME's contributing 37.5% of GDP. And as per NSSO Survey of 2013, there are close to 5.77 crore small-scale business units, mostly sole proprietorships, which undertake trading, manufacturing, retail and other small-scale activities. MSME's play very critical role in achieving higher industrial growth as well as in employment generation. Jobs generated by MSME outnumber the large companies. Organised sector and larger companies, on the hand, employ only 1.25 crore individuals. Clearly, the potential to harness and nurture these micro businesses is vast and the government recognizes this fact too. Today, this segment is unregulated and without financial banking system the progress of this sector will be very slow. Around 62% of these units of these units are owned by SC-ST and Other Backward classes. And half of them are geographically located in rural areas. Unfortunately, most of then small and micro businesses are outside the formal system. The credit Suisse report found that while the informal sector in the west is normally illegal sector, but in India the huge informal sector exists because the state has not been able to reach them. This hinders the growth of entrepreneurship in non-corporate small business sector. As such there are number of schemes that are dedicated for this sector, like Prime Minister's Employment- Cluster Development Programme, Credit Guarantee Fund Scheme for Micro and Small Enterprises etc. Still this sector has not achieved its full potential.

The Economist magazine (Sept 2013) suggested that the only way of organising the unorganised millions of small and micro units is to provide organised finance to them.

Economic Census 2014 underlines the fact that only 4% of the credit needs of 58 million small and micro business is addressed by the formal banking system. The biggest bottleneck for these industries is the lack of access to formal credit and to remove this lacuna, MUDRA BANK is being envisaged. No wonder, Finance Minister proclaimed while talking about MUDRA Bank, first we wanted to bank the unbanked in Jan Dhan Yojna and now through MUDRA Bank we want fund the unfunded MSME.

"While there are a number of facilities provided for the large industries in India, there is a need to focus on these 75 lakh self-employed people who use funds of Rs 11 lakh crore, with an average per unit debt of merely Rs 17,000 to employ 12 crore Indians," the Prime Minister said, explaining the reason behind the MUDRA Bank.

Speaking at the inauguration of the Intec 2015, the five day International Machine Tools & Industrial Trade Fair organised by the Coimbatore District Small Industries Association (Codissia), the minister said the government was focused on the development of the MSME sector in view of the pivotal role it played in employment generation.

2. MUDRA BANK: ESTABLISHMENT AND FEATURES

MUDRA stands for Micro Units Development Refinance Agency(MUDRA). Mudra, in Hindi, means currency. Mudra Bank is being set up through a statutory enactment and is responsible for developing and refinancing activities to micro units. Announced as part of the Union Budget 2015-16, the bank will have a corpus of Rs 20,000 crore (about US\$3,213.86 million) and a credit guarantee corpus of Rs 3,000 crore. MUDRA Bank is public sector financial institution in India. It provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to MSME'S. It was launched by Prime Minister Narendra Modi on 8th April 2015. It will provide it's services to small entrepreneurs outside the service area of regular banks, by using last mile agents. The bank will initially function as a non-banking financial company and a subsidiary of the Small Industries Development Bank of India (SIDBI). Later, it will be made into a separate company. It will also serve as a regulator for other Micro-Finance Institutions (MFIs) and provide them refinancing services. It will provide guidelines for MFIs and give them ratings.

3. PRIMARY PRODUCTS OF MUDRA

The bank will classify its clients into three categories and the maximum loan sums will be based on the category:

- a. Shishu : Allowed loans up to Rs 50,000/-
- b. Kishore : Allowed loans up to Rs 5,00,000/-
- c. Tarun : Allowed loans up to Rs 10,00,000/-

Recently Govt. has decided to provide an additional fund of Rs 1,00,000 crore to the market and will be allocated as

- a. 40% to Shishu
- b. 35% to Kishore
- c. 25% to Tarun

4. ELIGIBLE TO BORROW FROM MUDRA BANK

- a. Small manufacturing unit
- b. Shopkeepers
- c. Fruits/ Vegetable vendors
- d. Artisans

5. MUDRA'S ROLE WILL INCLUDE

- a. Laying down policy guidelines for micro enterprise financing business
- b. Registration of MFI entities
- c. Supervision of MFI entities
- d. Accreditation, rating of MFI entities
- e. Laying down responsible financing practices to ward off over indebtedness and ensure proper client protection principles and methods of recovery

- f. Development of standardized set of covenants governing last mile lending to micro enterprises
- g. Promoting right technology solutions for the last mile
- h. Formulating and running a Credit Guarantee Scheme for providing guarantees to the loans and portfolios which are being extended to micro enterprises
- i. Supporting development and promotional activities in the sector
- j. Creating a good architecture of Last Mile Credit Delivery to micro businesses under the scheme of Pradhan Mantri MUDRA Yojana.

6. MUDRA'S MODERN FINANCING TECHNIQUES

MUDRA will be operating as a refinancing institution through state/regional level intermediaries. Mudra will be responsible for refinancing all last mile financiers such as Non-Banking Finance Companies of various types engaged in financing small businesses, societies, trusts, section 8 companies, even co-operative societies, small banks, scheduled commercial banks, which are in the business of lending money to micro / small business entities engaged in manufacturing, trading and service activities.

Bank would partner with state or regional level financial intermediaries to provide finance.

This is suppose to be master stroke. Local knowledge is the primary requisite for successful and recoverable lending to micro units. Inclusion of last mile financiers will give on expertise to the lenders and MUDRA is suppose to refinance them. This can ensure operational efficiency and need based disbursement of finances. Also effective recovery can be expected.

MUDRA will lay down normative guidelines for engaging the Last Mile Financers, which now borrow money at high cost and lends at high cost to micro businesses would be lower. With assured recovery and refinance, cost of borrowing will be bit less.

MUDRA structure seeks to integrate the hundreds of thousands of informal financiers into the formal modern financing system. It must be noted that lowering of lending rates will happen over a period of time, not immediately.

Mudra Bank will ensure clients are properly protected and will lay down principles and methods of loan recovery in case of default. The Bank will also rigidly follow "responsible financing practices" so as to deter borrowers from indebtedness.

Registering with MUDRA Bank for NBFC, MFI etc. is voluntary and their lending rates may vary and will be still their own discretion. But refinancing will be depending upon the lending rates. MUDRA Bank is also going to be a credit rating agency for them. It may give a boost for the overall efficient operations and higher registration of NBFC's MFI's with MUDRA.

Credit guarantee is also being worked out at MUDRA.

7. CHALLENGES FOR MUDRA

MUDRA is to be funded by non budgetary support. The money will be coming from the shortfall in the achievements of the priority sector lending (PSL) targets by scheduled commercial banks. But these funds by domestic banks are deposited in Rural Infrastructure Development Fund (RIDF) managed by NABARD and for foreign banks are deposited with SIDBI. In addition to this internal working group of RBI has suggested exchange of PSL obligations through PSL through PSL certificates. This, if accepted, can take substantial chunk out of the expected funding by

scheduled commercial banks. So critics are worried about the funding of MUDRA Bank. GOI will have to come out clearly on this.

Till now NBFC's and MFI's were being regulated by RBI under a separate category. If MUDRA Bank is going to regulate in now onwards, this may give rise to potential conflict which will need to be sorted out through Microfinance bill. Typically MFI's average loan amount disbursed per account is just below 17,000/- how can they cater to the requirements of small businesses whose demand may run 50000/- to the least and few lakhs on upper side? Also currently MFI's primary resource is commercial banks which lend them money at 13-14%. In turn MFI's lend money at 23-24% to the borrower (end user). And these 10% are utilised for maintaining their operationability including profits, cost of running etc. If MUDRA is going to refinance it at a cheaper rates, cost of lending for MFI needs to come down. Even that is going to be challenge for MUDRA Bank.

Other refinancing agencies performance is not exactly as per the expectations and these include NABARD, SIDBI. National Housing Banks etc. To make MUDRA a successful venture is, therefore, a big challenge for Govt. of India.

8. FUTURE OF MUDRA

Jan Dhan Yojana under the leadership of Prime Minister has proven the ability of govt. in scaling up the execution. Full fruits of the scheme are yet to be seen. But opening up of 12 crore plus accounts in less than six months was phenomenal success. This energy needs to be replicated in other areas too. Implementation is not impossible but has to be exercised with caution and vigour. Mudra Bank has a great potential for achieving inclusive growth and 'Make In India' objectives. It is going to spur rural economy and encourage entrepreneurs. The Confederation of Indian Industry's new president Sumit Mazumdar said MUDRA Bank would spur growth of the MSME Sector and help them increase their contribution to the country's gross domestic product from its current level of 38 percent. Union minister for micro, small and medium enterprises (MSMEs) Kalraj Mishra said that MUDRA Bank would prevent small entrepreneurs from the exploitation of money lenders. To sum up, MUDRA Bank is an indigenously designed modern financial engine to align the non-formal financiers and informal micro businesses and formalise both. It holds lot of promises to the great future that lies ahead !!!

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