

Positive Impact of Mudra Scheme on Microfinancing Scenario



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Abstract

The announcement of Micro Units Development and Refinancing Agency (MUDRA) was a shot in the arm for not only Micro Finance Institutions (MFIs) and Self Help Groups (SHGs) but also for small business owners and entrepreneurs with not that lucrative-appearing and big bang commercial ideas. Needless to say, from Indian exports to absorption of vast unskilled workforce, micro and small enterprises have played the role of a protagonist. Regional Rural Banks, MFIs and SHGs have been catering to these enterprises, however, capital inadequacy and high rates of interests have neither allowed these financiers to tap 100 % market potential nor have they invigorated the borrowers.

MUDRA is the new and convincing backbone of this structure with focus on refinancing players in the financing sector, including public sector banks, private banks, MFIs and RRBs. MUDRA offerings also include development and financial literacy support in terms of skill development, marketing assistance and other trade related trainings. Directions are in place to ensure that minimum 60 % of sum disbursed under MUDRA flows to the Shishu category. For progress of any country, indeed, empowering people with easy finance is a pre-requisite, MUDRA scheme by making a positive impact on interest rates and by letting the till-date deprived loan-seekers start or expand existing trades is this tool of empowerment.

Keywords: Microfinance, Mudra, Investment, Unorganized Sector and Financial Literacy.

Introduction

In recent times, financial inclusion has been on the policy agenda of many developing countries. An inclusive financial system implies availability of a continuum of financial services for all income groups, namely a seamless range of financial services with no gaps in provision. The idea is that an inclusive financial system provides credit to all bankable individuals and firms, insurance to all insurable individuals and firms, and savings and payment services for everyone (United Nations 2006). Financial inclusion does not imply that everyone will use all available financial services, but rather that everyone has the option to use them.

The major traffic jam to the growth of entrepreneurs in the Non-Corporate Small scale industries is the lack of financial support to this sector. Majority of this sector does not have access to formal source of funding. In a Developing country having large population like India, small business units play a significant role not only in contributing to nation income but also by providing employment to a large no of people. After identifying the significance of self-employment people and small business units, government of India launched MUDRA Yojana to deal with the financial and other constraints. It is envisaged that it will benefit small entrepreneurs and will also act as a governing body for 'Micro- Finance Institutions (MFIs). The MUDRA bank will facilitate credit to 5.77 crore small business units that are spread all across India who currently face difficulty to access credit from the regular banking system. Mudra Bank will associate with local coordinators and provide finance to "Last Mile Financiers" of small/micro businesses.

MUDRA is the new and convincing backbone of this structure with focus on refinancing players in the financing sector, including public sector banks, private banks, MFIs and RRBs, along with last mile financiers, including trusts, associations and other small scale finance banks. MUDRA offerings also include development and financial literacy support in terms of skill development, marketing assistance and other trade related trainings. 'Shishu', 'Kishor' and 'Tarun' categories under the scheme denote 'loans upto Rs 50,000', 'loans above Rs 50,000', 'up to Rs 5 lakh' and 'loans above Rs 5 lakh' and 'up to Rs 10 lakh' respectively. Directions are in place

to ensure that minimum 60 % of sum disbursed under MUDRA flows to the Shishu category.

Categories	Business Type	Funding
Shishu	Units that are just started .	0-50,000
Kishore	Units that are set and in medium stage.	50,000-5,00,000
Tarun	Units that need more funds to raise business.	Upto 10,00,000

Objective of the Study

This research paper has attempted to study the impact of Mudra banking on the financing of micro , small and medium sized enterprises. This scheme launched in April 2015 has benefitted a lot of population who were unable to get finances for their business. This paper has tried to enhance the knowledge and understanding of need of small finances to the business, which when injected can help the business to grow and achieve the normal profit.

Review of Literature

Mudra Bank will associate with local coordinators and provide finance to "Last Mile Financiers" of small/micro businesses. To address the need for funding for micro, small, and medium-sized enterprises, in April 2015 the Micro Units Development and Refinance Agency (MUDRA) Bank, a public sector financial institution, was launched with funding of Rs200 billion for on lending and Rs30 billion for provision of credit guarantees. MUDRA Bank is a subsidiary of Small Industries Development Bank of India, the apex bank for the development of small industries in the country. The apex bank has assisted many MFIs, though going forward it plans to mainly act as a market maker for small industries and focus on providing venture capital for start-ups (Economic Times 2015).

MUDRA Bank is to provide refinance to last mile 8 providers of finance for microenterprise loans. Commercial banks, regional rural banks, cooperative banks, NBFCs, and microfinance institutions are eligible to obtain refinance for loans under three categories: up to Rs50,000, Rs50,000 to Rs0.5 million, and Rs0.5 million to Rs1 million. The three categories are expected to cater to microenterprises at different stages of development, though 60% of MUDRA Bank's funding is earmarked to cater to the first category. The loans are meant to be for nonfarm income-generating activities.

By September 2015, in the first 6 months of operation, MUDRA Bank had reported disbursement of Rs240 billion. MUDRA Bank has also been envisaged as the unified regulator of the microfinance sector, though the legislation in this regard is yet to be passed. The self-regulatory organization of NBFC-MFIs, Microfinance Institutions Network, estimated that MUDRA Bank finance could lower the cost of funds of MFIs by 3% to 4% from the current level of 12% to 14%. This in turn will lower the interest rate charged by MFIs from the current level of 24% to 22% as there is a cap on the interest rate margin that MFIs can charge.

In September 2015, the RBI gave licenses to 10 private entities to start small finance banks to cater to the financial needs of underserved segments such as small business units, small and marginal farmers, micro entrepreneurs, and unorganized sector entities. Small finance banks are expected to have high-technology, low-cost operations. Eight of the entities that received licenses are NBFC-MFIs. The minimum paid-up capital of these banks is Rs1 billion. Small banks must direct 75% of their adjusted net bank credit to sectors eligible for classification as "priority sector lending" by the RBI, while at least 50% of the loan portfolio is required to comprise loans and advances of value of up to Rs2.5 million. As a result of these requirements, small finance banks are expected to cater to the missing middle for whom these loan sizes would be appropriate. The sources of funds for these banks include deposits and refinance from MUDRA Bank.

In order to give a boost to the lending under PMMY, especially for Shishu category loans, a credit campaign was carried out from 1st September 2015 to 2nd October 2015. The campaign culminated in mega credit camps in different locations in the country from 25th September 2015 to 02nd October 2015. In order to enhance the awareness of the programme, MUDRA carried out a month long publicity campaign, on behalf of DFS, through print media and Radio. The credit campaign resulted in lending to 22.50 lakh borrowers as against a target of 25 lakh borrowers and lent 4120 crore.

Main Objective of Mudra

To fulfill the main objective of "fund the unfunded" MUDRA has following important objectives.

1. Regulation of lender and borrower of micro-finance and to provide stability by inclusive participation in micro-finance system and ensuring regulation.
2. To cooperate in financing and lending activities of microfinance institutions (MFIs), and other lending agencies who make available finance to small traders, retailers, self-help groups and individuals.
3. For listing of all MFIs and to set up a performance level (performance rating) and system of preferential treatment for first time. This will help in assessment before taking loan and to reach that MFI which will meet the borrower's needs and whose oldest record is the most satisfactory. It will boost up the competitiveness of the MFIs. Borrowers will assistance from it.
4. To provide infrastructure guideline to borrowers by implementing them. Business crash can be avoided and appropriate measures can be taken timely. MUDRA will assist in making satisfactory procedure or guidelines to follow for recover the money owed in case of default.
5. Development of standard set of covenants regulating last mile lending to micro units, which in the future will be the strength of character of the micro-business.
6. Formulating and implementing a credit guarantee yojana for providing guarantees to the loan given to micro business units.

7. For monitoring of funds distributed and promoting right technology solutions for last mile.
8. To develop an effective system for last mile credit delivery to micro business units creating a good architecture under the scheme of Pradhan Mantri MUDRA Yojana (PMMY).

Hypothesis

H1 – Mudra scheme has positive impact on microfinancing.

HA1 – Mudra scheme doesn't have positive impact on microfinancing.

Research Methodology

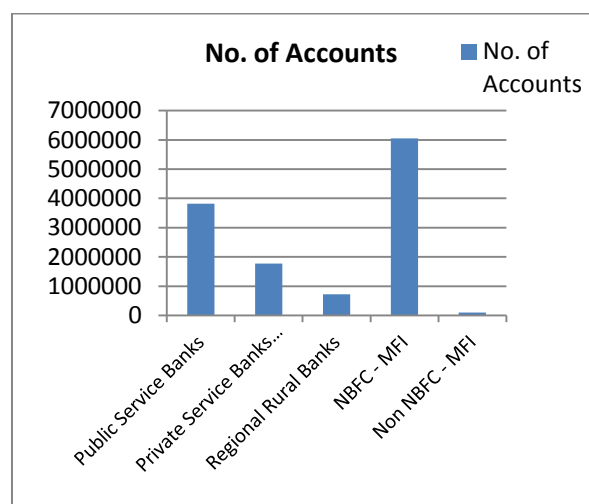
The study is based on secondary data. The data is collected from various sources newspapers, magazines and internet websites. Data is collected from its inception till February 2017. For presentation table is used and for analysis percentage method used and graphs are used to show and interpret the data.

Data Analysis

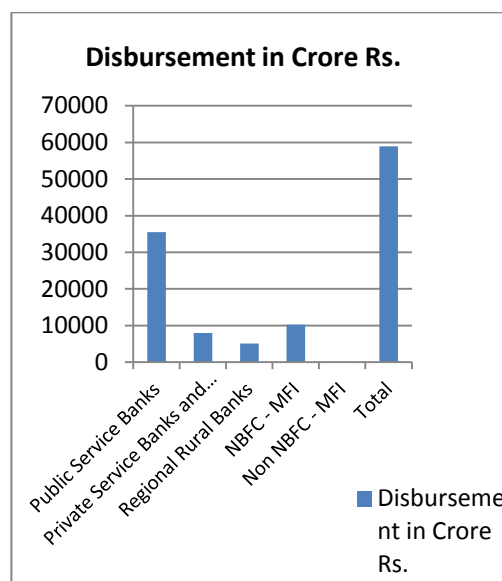
Mudra and Its Positive Effects

MUDRA loan is meant for 'funding the unfunded'. It is available for both new units and expansion of existing units. The data of new entrepreneurs supported under PMMY, indicate that out of 3.49 crore accounts financed during the year, 1.25 crore accounts were for new entrepreneurs, which work out to 36%.

New Entrepreneurs		
Bank Type	No. of Accounts	Disbursement in Crore Rs.
Public Service Banks	3822226	35463.13
Private Service Banks and Foreign banks	1777400	8000.88
Regional Rural Banks	720430	5088.39
NBFC – MFI	6049094	10213.16
Non NBFC – MFI	105518	142.52
Total	12474668	58908.08



Number of Accounts opened for New Entrepreneurs by different Financial Bodies

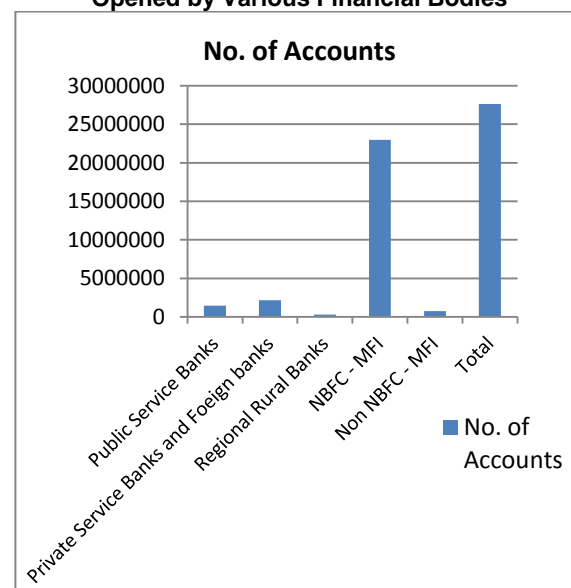


Amount Disbursed By Various Financial Bodies to New Entrepreneurs

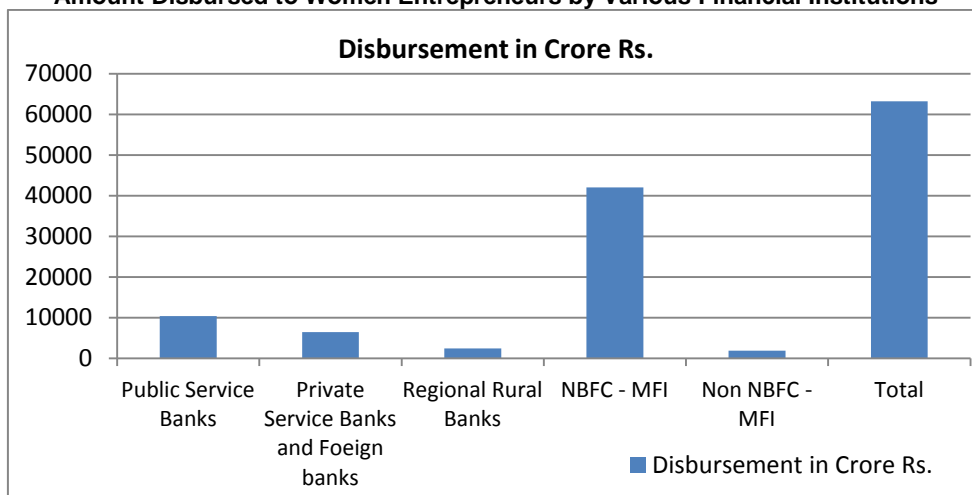
Providing financial support to women entrepreneurs was one of the main objectives of PMMY. The data indicate that 2.76 crore women were funded out of the total number of 3.48 crore accounts, which is a whopping 79%. MFIs contributed significantly for the financing women under PMMY.

Women Entrepreneur		
Bank Type	No. of Accounts	Disbursement in Crore Rs.
Public Service Banks	1475907	10352.09
Private Service Banks and Foreign banks	2153790	6450.74
Regional Rural Banks	292127	2462.19
NBFC – MFI	22962461	42047.05
Non NBFC – MFI	743980	1878.36
Total	27628265	63190.43

Number of Accounts of Women Entrepreneur Opened by Various Financial Bodies



Amount Disbursed to Women Entrepreneurs by Various Financial Institutions



The NSSO survey of 2013 indicated that more than 60% of the micro enterprise units belonged to weaker sections data obtained under PMMY shows that 1.84 crore accounts financed by all the agencies under PMMY was for SC/ST/OBC categories, which is nearly 53% of the accounts financed.

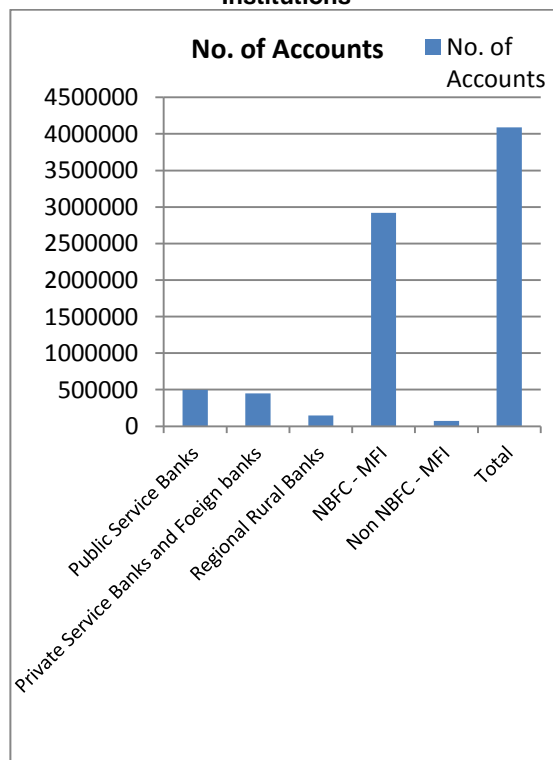
Bank type	SC		ST		OBC	
	No. of A/c	Disbursement Amt in Cr	No. of A/c	Disbursement Amt in Cr	No. of A/c	Disbursement Amt in Cr
Public Sector Bank	360306	3028.38	159962	1364.22	901691	7238.35
Private Sector Bank and Foreign Bank	584695	1672.37	165103	438.99	1106900	3759.34
Regional Rural Bank	171655	1227.81	87300	664.73	462525	3285.69
NBFC -MFI	4892200	8606.31	1241112	2239.07	8006075	15271.67
Non NBFC-MFI	105881	156.92	24869	35.02	131225	207.46
Total	6114737	14691.79	1678346	4742.03	10608416	29762.51

Account financed in SC/ST/OBC Categories

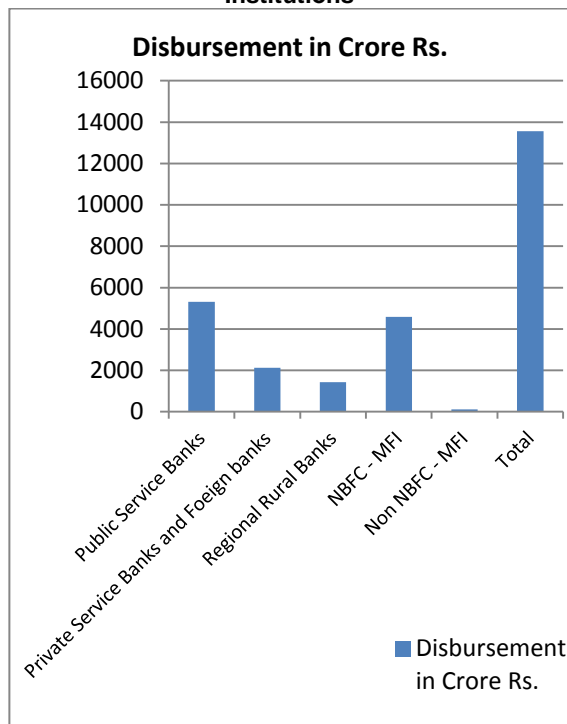
The loans provided by Banks and MFIs under PMMY for minorities indicate that 40.88 lakh accounts were of minorities, which is nearly 12%.

Accounts of Minorities Issued by Financial Institutions

Minority Accounts		
Bank Type	No. of Accounts	Disbursement in Crore Rs.
Public Service Banks	498634	5313.69
Private Service Banks and Foreign banks	448106	2122.73
Regional Rural Banks	147011	1424.18
NBFC – MFI	2920382	4580.73
Non NBFC – MFI	74077	118.97
Total	4088210	13560.3



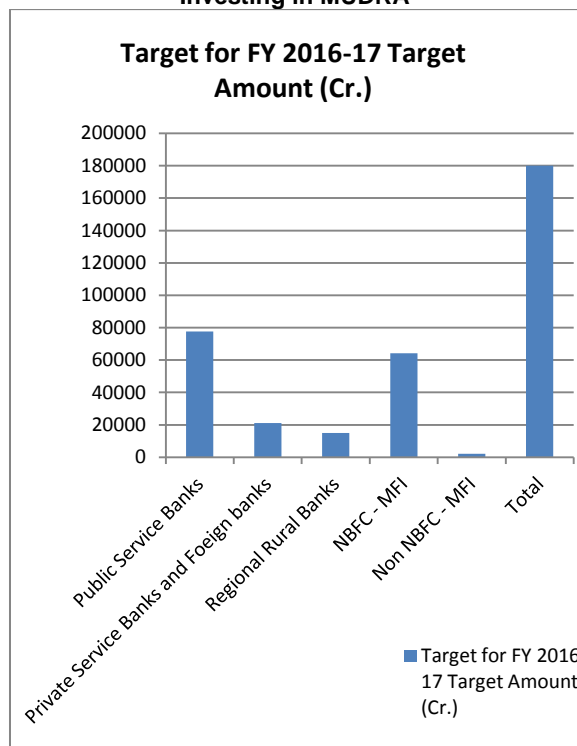
Amount Disbursed to Minorities by Financial Institutions



Government of India has set a target of 1,80,000 crore for FY 2016-17 to SBI & Associates, Public Sector Banks, Private Sector Banks, Foreign Banks, Regional Rural Banks, NBFC-MFIs and Non-NBFC MFIs.

Target for FY 2016-17	
Bank Type	Target Amount (Cr.)
Public Service Banks	77700
Private Service Banks and Foreign banks	21000
Regional Rural Banks	15000
NBFC – MFI	64240
Non NBFC – MFI	2060
Total	180000

Total Target Amount for Financial Institutions for Investing in MUDRA



Among the loanees availing of financial assistance under PMMY included 24.17 lakh O/D facilities against their PMJDY accounts. The amount disbursed under this arrangement was to the tune of 274.02 crore, the average per account works out to be 1134.

MUDRA loan is meant for 'funding the unfunded'. It is available for both new units and expansion of existing units. The data of new entrepreneurs supported under PMMY, indicate that out of 3.49 crore accounts financed during the year, 1.25 crore accounts were for new entrepreneurs, which work out to 36%.

MUDRA Card is an innovative product introduced during the year to take care of the frequent and flexible credit needs of small borrowers. The card is issued as a Debit card on RuPay platform and can be used for drawl of funds and also repayment as and when there is surplus, so that the loan amount can be managed judiciously. The card was introduced during the year which was adopted by most of the PSBs, RRBs and a few Private Sector Banks too. The total number of card issued during the year was at 5.17 lakh for an amount of ` 1476.96 cr. An amount of 1391.25 crore was withdrawn by the borrowers. The average amount of MUDRA card works out to ` 28567 per card.

Conclusion

The government's push on PMMY should be more than just asking FIs to achieve their disbursement targets. In current context, when FIs are struggling with bad loans, the additional demands of managing a PMMY portfolio may not fit into FIs' long-term business strategies. Banks perceive MUDRA

loans as high in risk, and low in value, requiring extremely high involvement from staff. Banks fear that MUDRA may be perceived in the same way as other government-supported credit programmes, such as Kisan Credit Card17 or education loans, where people anticipate that in the future loans will be waived. The absence of a suitable incentive structure and the inherently more risky business proposition of MUDRA loans, deter banks from opening their doors to all potential MUDRA customers. However, our study suggests that this perception may be ill-founded. Ninety two per cent of the so called "high risk" MUDRA customers pay their instalments on time and rest repay with a lag of 5–10 days. It is true that this segment lacks collateral and cannot present a guarantor, but they are already financially disciplined and used to borrowing and repaying on timely basis, albeit to informal moneylenders. Many of these genuine customers try their luck at multiple bank branches in their vicinity to get a MUDRA loan – usually unsuccessfully.

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