

MUDRA BANK TO "FUND SMALL BUSINESSES"

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Micro, Small and Medium Enterprises (MSMEs) sector is recognized as one of the fastest growing sectors of the India economy. It plays a pivotal role in the growth and development of the country, generates employment for more than 100 million people and produces more than 6000 products. According to the annual report of the Ministry of MSMEs (2013-14), the sector contributes around 8% in India's GDP, 45% of the manufacturing output and 40% in exports.

MSMEs have emerged as a dynamic sector of the Indian economy over the last five decades. The role of MSMEs has been crucial in terms of skill development and employment generation. The sector facilitates socio-economic development of the country as a whole and thus considered as a strategic asset for the Indian economy. This segment has enhanced production possibilities and helped to achieve higher growth trajectories for the industry sector. To fulfill 'Make in India' vision of Prime Minister Narendra Modi and to give required push to the manufacturing sector, MSMEs' growth is must. Going ahead, MSMEs could be the best vehicle to push economic growth could be the best vehicle to push economic growth on the high road.

Although various initiatives have been taken to encourage MSMEs since independence, the sector is witnessing several challenges in terms of access to finance, access to modern technology and infrastructural bottlenecks. The biggest bottleneck to the growth of entrepreneurship and MSMEs in the country is the weak

financial support. it may be mentioned that although the percentage of credit by the scheduled commercial banks to MSMEs increased marginally from 15% in FY2014 to 16% in FY2015; it is still in the lower trajectory which asserts the need of creation of a financial Institution which could address the much needed financial access to MSMEs. The majority of these small businesses are informal and unregistered enterprises which have not been covered by the formal banking sector. Thus, the sector demands a supportive financial policy framework in order to address the financial concerns and upscale the sector's productivity, going forward.

Supporting the small entrepreneurs of India is the biggest way to help the Indian economy grow and prosper, it is expected that the next level of growth will have to come from the MSMEs and it is the MSMEs sector which can propel India's growth rate from the current level of around 7.4% (Advance estimates of GDP for FY2015) to a sustainable double digit growth rate in the medium term. With the need to provide finance to micro and small businesses, promote entrepreneurship and self employment in the country, the Prime Minister launched MUDRA (Micro Units Development and Refinance Agency Ltd) Bank, with a corpus of Rs. 20,000 crore. Another Rs. 3,000 crore would be provided to the MUDRA Bank from the budgeted to create a Credit Guarantee corpus for guaranteeing loans being provided to the micro enterprises. Since the enactment for MUDRA is likely to take some time, it is

proposed to set up MUDRA as a subsidiary of Small Industries Development Bank of India, SIDBI, but later would be converted into a full-fledged institution to be set up through a statutory enactment.

Given the India's largest disaggregated business ecosystem in the world, the launch MUDRA is the biggest policy initiative for this non-corporate small business sector of the country. The fact that this will be a separate entity focused exclusively on increasing the flow of finances to micro and small sector, it will advance the financial & social inclusion of this sector in the country, Further, financial institution like MUDRA is the first path breaking initiative to create a robust India-centric financial ecosystem to support the small business sector. The non availability of requisite finance by core banking sector has necessitated the formation of MUDRA which should act like a Regulator, Developer and Re-financier to facilitate easy finance to this unincorporated sector. MUDRA will enable the channelization of vast resources to the MSMEs sector and this will surely transform the economic well-being of millions of small people.

Prime Minister. Narendra Modi at the launch of Pradhan Mantri MUDRA Yojana highlighted the importance of MSMEs in the employment generation. Giving the example of the perception that large industries create more employment, he said that a look at the details reveals the reality that only 1 crore 25 lakh people find employment in large industries, whereas small enterprises employ 12 crore people in the country. Further, he said that the biggest asset of the poor is his integrity (imaan) and by combining their integrity (imaan) with capital (MUDRA), it would become the key to their success. He also gave examples of

their small businesses which faced exploitation at the hands of money lenders so far, but creation of MUDRA would instill a new confidence in them and thus would contribute to the task of nation building. MUDRA, will be set up through a statutory enactment and would be responsible for developing and refinancing all Micro-finance Institutions (MFIs) which are in the business of lending to micro and small business entities engaged in manufacturing, trading and service activities, through a Pradhan Mantri MUDRA Yojana. Further, MUDRA would also partner with State and Regional level coordinators to provide finance to Last Mile Financiers of micro and small business enterprises.

Various roles envisaged for MUDRA would include laying down policy guidelines for micro enterprises financing business and responsible financing practices to ward off over indebtedness, registration of MFI entities, accreditation of MFI entities, ensuring proper client protection principles and methods of recovery. it will support promotional activities it will support promotional activities in the MSMEs and would be responsible for creation of a good architecture and development of standardized set of financial rules governing last set of financial rules governing last mile lending to micro enterprises for formulation and operation of a credit guarantee scheme for the provision of guarantee to the loans which are being extended to the micro and small businesses. Businesses and entrepreneur covered under MUDRA would include proprietorship firms or partnership firms running as small manufacturing units, small industries, self help groups, grocers, washer men, weavers, transporters, truck operators, vegetable sellers, shopkeepers, hackers, beauty

parlours, hair cutting salon, artisans, food service units, machine operators, repair shops, food processors, professionals and service providers etc. both in rural and urban areas with financing requirements upto Rs. 10 lakh. Majority of these entrepreneurs belong to SCs, STs, OBCs and minority community, MUDRA Bank will provide loans to these neglected segments at affordable rates which in turn will help in their overall development

The initial products and schemes under MUDRA have been divided into three categories - 'Shishu', 'Kishor' and 'Tarun', to signify development and funding needs of the micro unit, 'Shishu' would cover loans upto Rs. 50,000, 'Kishor' would cover loans above Rs. 50,000/- and upto Rs. 5 lakh and 'Tarun' would cover loans above Rs. 5 lakh and upto Rs. 10 lakh.

The products initially being launched under MUDRA are sector specific or activity specific schemes, such as schemes for business activities in land transport, Social & Personal Service, Food Product and Textile Product sectors, Further, Micro Credit Scheme (MCS), Refinance Scheme for Regional Rural Banks (RRBs) and Scheduled Co-operative Banks, Mahila Uddyami Scheme, Business Loan for traders & shopkeepers, Missing Middle Credit Scheme and Equipment Finance for Micro Units are the other schemes which have been launched under MUDRA Yojana.

The idea of MUDRA Bank is not just based on meeting the credit and financial needs of small enterprises. Rather than just providing credit, it is based on the "Crediting Plus" approach under which access to credit will be combined with access to credit will be combined with various enterprises development and welfare

related services and will take up interventions for providing development support across various beneficiary segments. Some of the proposed initiatives under MUDRA would include supporting financial literacy, Promotion and Support of Grass Root Institutions, Creation of framework for "Small Business Finance Entities where" where it will work with credit bureaus and rating agencies and synergies with National Rural Livelihoods Mission and National Skill Development Corporation. Going forward, other proposed offerings under MUDRA are MUDRA Card, Portfolio Credit Guarantee and Credit Enhancement.

Ideally, MUDRA should be the Regulator in order to bring all financial institutions of micro and small sector under one roof. It should cover sector under one roof. It should cover self Help Groups (SHGs), Non-Banking Finance Companies (NBFCs), Micro Financial Institution (MFIs), Trust, Societies etc. which are lending money to small business but are governed by multiple authorities and laws. MUDRA should be true to its role as a Development Agency, much like the National Housing Bank which is a Regulator as well as a Development Agency.

Going ahead, the design of MUDRA Bank will not only cater to the financial problems of MSMEs but also provide moral support to vast pool of young population to materialize their dreams of becoming an entrepreneur. Further, the increased access to institutional finance to micro units by MUDRA Bank will provide much needed financial access to MSMEs. promote growth of small businesses, help boost the country's GDP and create jobs in the coming times.

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