

## IMPACT OF MUDRA YOJANA ON FINANCIAL INCLUSION

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### ABSTRACT

*The small scale industry faces the biggest challenge of lack of financing sources. There is no adequate financial support from the commercial banks and other apex financial institutions. Financing Support, The main hurdle to the growth of entrepreneurs in the 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 an 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. This paper is an attempt to know about the MUDRA Yojana and its key objectives.*

**KEYWORDS:** SSIs, Last Mile Financers, MUDRA Yojana, Micro- Finance Institutions (MFIs).

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### Introduction

MUDRA, which stands for Micro Units Development & Refinance Agency Ltd, is a financial institution being set up by Government of India for development and refinancing micro unit's enterprises. It was announced by the Hon'ble Finance Minister while presenting the Union Budget for FY 2016. The purpose of MUDRA is to provide funding to the non-corporate small business sector through various Last Mile Financial Institutions like Banks, NBFCs and MFIs. Actually setting up of MUDRA banking system has been announced as part of the Union Budget proposals for financial year 2015-16, while its conceptual vision was announced earlier by the Indian Prime Minister as part of PM MUDRA Yojana a scheme for funding the unfunded. MUDRA stands for Micro Units Development & Refinance Agency Ltd. To remove the financial difficulties faced by micro and small business units the government of India launched a scheme on 8th April 2015 called Micro Unit Development and Refinance Agency, or MUDRA to „funding the unfunded“. MUDRA is still not a fully-fledged bank and is in its initial stages. MUDRA Bank will associate with local coordinators and provide finance to “Last Mile Financiers” of small/micro businesses. It is envisaged that the measures to be taken up by MUDRA shall be targeted towards mainstreaming skilled workers educated youth and entrepreneurs, apart from NCSBS, who lie between the very poor small borrowers like farmers, low income households, and migrant work force at one end and very poor small borrowers like low income households, farmer, migrant work large industrial credit seekers force at the other end of financing spectrum. It is not a direct lending institution but provides loans at low rates to banks, microfinance institutions and non-banking financial institutions, which then provide credit to MSMEs or informal enterprise sector.. The small businesses, with a little help, have the

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prospective to grow assorted. The MUDRA scheme is planned at "funding the unfunded". The money lenders exploit the small entrepreneurs of India so far, but MUDRA will instill a new self-confidence in them that the country is ready to support them in their efforts that are contributing so strongly to the task of nation building. It is established as a subsidiary of SIDBI, which has been supporting India's small scale industry since last 26 years.

The biggest bottleneck to the growth of entrepreneurship in the Non-Corporate Small Business Sector (NCSB) is lack of financial support to this sector. More than 90% of this sector does not have access to formal sources of finance. Govt is setting up MUDRA Bank through a statutory enactment for catering to the needs of the NCSB segment or the informal sector for bringing them in the mainstream. Pending enactment of an act for MUDRA Bank, a Non Banking Finance Company as MUDRA Ltd has been set up as a subsidiary of SIDBI.

### **Key Objectives of MUDRA Loans**

The main aim of the Mudra Bank programme is regulate the lending and borrowing activities in the microfinance setup of India and thus make it stable to a certain extent. It also looks to make this sector see greater levels of inclusive participation. The initiative aims to provide crediting services and financial support to those microfinance entities that are functioning across the country. These organizations primarily cater to small business units, self help groups, retailers and individual entrepreneurs. The Mudra Bank initiative will also be employed to register all the microfinance institutions and then start a system of rating their performances and accrediting them. The inception of MUDRA Yojana was done keeping in mind several objectives to be fulfilled during the implementation of this yojana. The most prominent of these are:

- For laying down policy guidelines for financing small/ micro enterprises
- Getting all the Microfinance Institutions and related entities registered and then regulating the same
- For helping the small businesses develop and grow further
- Assisting lower income groups in building and expanding their business
- To assist in creating easy access to finance for unbanked and help in lowering their cost of finance
- To provide SC/ST lending preference
- For regulating all Microfinance Institutions that are dealing with trading, manufacturing, and service

### **Products and Offerings**

The Mudra Bank will provide three kinds of loans – Shishu, Tarun and Kishore. The maximum amount that will be lent under Shishu loan is Rs. 50,000. For Kishore loan, the upper limit is Rs. 5 lakhs and in case of Tarun loan, the maximum amount has been fixed at Rs. 10 lakhs. Now, the bank will determine which loan applicant falls under particular category and the loans will be provided in accordance to that. Shishu loans are basically for the ones who are just starting out their businesses, Kishore loans are for those who are in the middle stage of their business endeavours and Tarun loans are for those who are looking to move on to higher levels, such as doing business expansion.

### **Benefits and Demerits**

The biggest potential advantage of the Mudra Bank programme is that it can help a large number of countless entrepreneurs across the country by providing financial support, which is such an important component in their existence and eventual success. With its focus on the underprivileged section of the Indian economic hierarchy, Mudra Bank may one day replicate what Grameen Bank has done in Bangladesh. On the other hand, some experts feel that with a bank working as a microfinance institution, there may be a question of conflict of interest coming up soon. They have also questioned about the need of having a new microfinance entity when there are already several institutions like such in place. They feel that it may also give rise to shadow banking programmes.

### **Loan Limits and Interest Rates under this Scheme**

As per the choices for financing available under this scheme, the loan limits and interest rates vary for accommodating for the growth phase of the respective business availing such loan. The applicable limits and rates are as follows:

- **Shishu:** Loans up to a limit of INR 50,000 with interest being 1 per cent/month or 12 per cent/annum. The repayment period for such loan is up to 5 years
- **Kishore:** Loans from INR 50,000 up to INR 5,00,000. The interest rate would depend on the bank, as per the guidelines of the schemes and keeping in view the applicant's credit history. Loan repayment period is dependent on the option of the bank
- **Tarun:** Loans from INR 5,00,000 up to INR 10,00,000. The interest rate would depend on the bank, as per the guidelines of the schemes and keeping in view the applicant's credit history. Loan repayment period is dependent on the option of the bank

Overall 27 Public Sector Banks, 31 Regional Rural Banks, 17 Private Sector Banks, 36 Microfinance Institutions, 25 Non-Banking Financial Institutions and 4 Co-operative banks have been selected for disbursing this loan as of now. 60 percent of the loans under the scheme to be offered via 'Shishu' option and the remaining 40 percent would be via 'Kishore' and 'Tarun' schemes.

#### **Which Loans can be taken under MUDRA Scheme?**

The loans under this scheme could be availed for the purposes listed below:

- Car loan
- Commercial vehicle loan
- Two-wheeler loan
- Working capital loan
- Loan for plant and machinery
- Revamping the business space

#### **Eligibility of the Borrower**

Loans would be provided to all the non-farm income-generating businesses in trading, manufacturing and services whose credit requirements are less than INR 10 lakhs by all Public Sector Banks, State Cooperative Banks, Regional Rural Banks and Urban Co-operative Banks would be known as MUDRA loans under the PMMY (Pradhan Mantri MUDRA Yojana). Basically, all those who want to avail loans below INR 10 lakhs for micro units are qualified for such loan. An application form under the scheme would be available with each of the above-mentioned institutions. This application form needs to be submitted together with the documents listed below:

- Identity (months)
- Quote for the Machinery or other items to be purchased
- Supplier details/Details of the machinery/Price of Machinery
- Identity Proof/Address Proof of the Business (relevant certificates & licenses)
- Category Proof if any

Apart from the documents mentioned above, applicants' banks might ask for other documents as required. The Banks should not charge any processing fee and aren't supposed to request any collateral. The loan repayment period is extended to 5 years. However, it is made clear that any applicant shouldn't be a defaulter to any financial institution.

#### **Objectives of the Study**

- To Understand and Develop the concept of Pradhan Mantri MUDRA Yojana
- To Understand the MUDRA Product under PMMY
- To evaluate the loan sanction under different MUDRA products to small business units.

#### **Research Methodology**

As far as the study is concerned, mainly it is based on secondary data. The source of secondary data has been magazines, books, internet and other relevant websites. Data is collected from its inception till 30 dec, 2017. For presentation table is used and for analysis percentage method used.

#### **Mudra – An Overview**

The very basis of MUDRA Yojana has been bridging the gap between the banks and persons who are seeking financial assistance in order to set up their own entrepreneurial ventures at micro or small scale. "Funding the unfunded" is the main motive for which Micro Unit Development and Refinance Agency (MUDRA) has been setup. It has an initial corpus of Rs. 20,000 crore and a credit guarantee

corpus of Rs. 3,000 crore. A provision of initial investment has been made from the banks on behalf of government. The initial corpus would be provided by banks from their priority sector lending shortfall. It was established through a statutory enactment which would be accountable for developing and refining MFIs which are in the business of lending to micro and small business units engaged in manufacturing, trading and service activities. The functioning of MUDRA Bank is not confined only up to the financing to the micro or small sector but also refinance to the Micro-Finance Institutions.

### Objectives of MUDRA Bank

- To fulfill the main objective of "fund the unfunded" MUDRA has following important objectives.
- Regulation of lender and borrower of micro-finance and to provide stability by inclusive participation in micro-finance system and ensuring regulation
- 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.
- 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.
- 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.
- 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.
- Formulating and implementing a credit guarantee yojana for providing guarantees to the loan given to micro business units.
- For monitoring of funds distributed and promoting right technology solutions for last mile.
- 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).

### Mudra-Product

To start-with, MUDRA will need two categories of products; viz; refinance product for the micro units having loan requirement in the range of Rs. 50,000 - 10, 00,000 and support to MFIs for on lending etc. The other products are for development support to the sector. The initial products of MUDRA are as follows:

Table 1

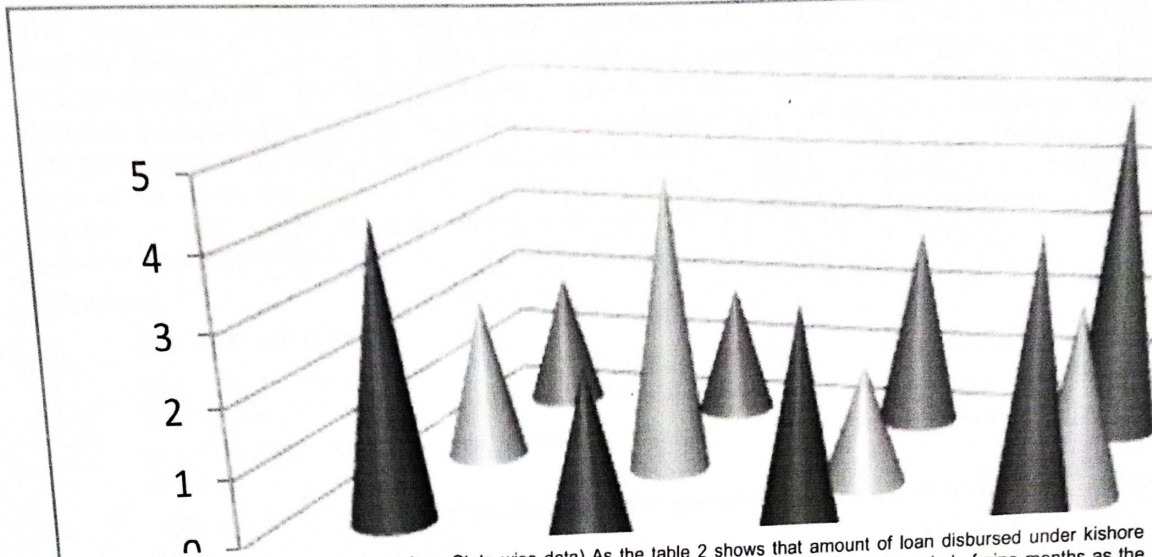
Categories	Business typed Covered	Loan Limit
Shishu	The business units that are just started	0-50000
Kishore	Business units that are set and in medium stage	50,000 – 5,00,000
Tarun	Good established business units that need more funds to raise business	Upto 10Lakh

### Mudra and Small Business Finance

MUDRA is launched with a purpose to make better the small business in the country so that a large number of people can get employed and self-employed and to add in the GDP of the country. MUDRA would benefit small manufacturing units, fruits and vegetable sellers, shopkeepers, beauty parlors, hair salon, truck operators, hawkers, artisans in rural and urban areas with financing requirements maximum of Rs. 10 lakh depends upon the business categories (i.e Kishore, Shishu and Tarun ) of the entrepreneur. For getting loan under MUDRA Yojana entrepreneurs or business units have to contact their nearest private banks, public or RRBs or other authorized MFIs/ NBFCs with their business plan. After sanctioned the loan from MUDRA Yojana, Entrepreneurs/Business units will get a MUDRA Card like credit card which can be used for purchasing industry raw materials etc. the Card's limit will be 10% of the loan amount subject to maximum Rs. 10,000. Many small business units entrepreneurs has availed finance under this scheme since its launching. The details are given below in Table-2.

**Table 2: Loan Sanctioned & Disbursed up to December 2016**

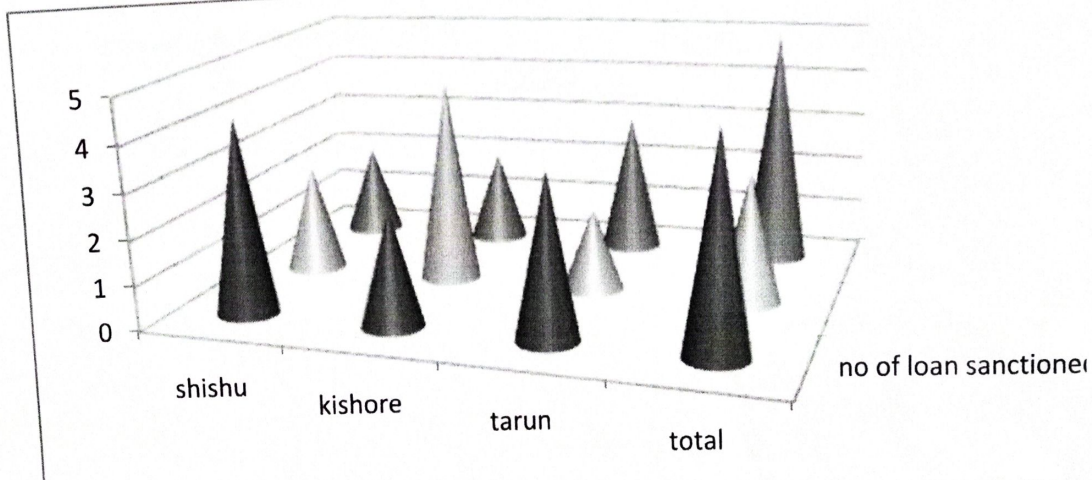
	Shishu	Kishore	Tarun	Total
No. of Loan sanctioned	10296461	1261600	224416	11782477
Amount of Loan Sanctioned	20,799	26,714	17,445	64,958
Amount of Loan Disbursed	19,917	25,266	16,131	61,314



Source: www.MUDRA.org.in (compiled from State wise data) As the table 2 shows that amount of loan disbursed under kishore product is more than the Shishu and Tarun product in absolute figure up to dec.2016 within period of nine months as the yojana started in april,2016

**Table 3: Loan Sanctioned & Disbursed up to December 2017**

	Shishu	Kishore	Tarun	Total
No. of Loan sanctioned	1,98,52,783	13,03,722	4,23,44,793	6,35,01,298
Amount of Loan Sanctioned	40,614	24,365	16,417	81,396
Amount of Loan Disbursed	40,109	22,907	15,592	78,608



Source: www.MUDRA.org.in (compiled from State wise data) As the table 3 shows that amount of loan disbursed under Shishu product is more than the Kishore and Tarun product in absolute figure up to dec.2016. While comparing to previous calendar year it is found that total loan disbursed is 78608 in 2016 but 61314 in Dec.2015. There is total increase more than 28%. MUDRA will spotlight to formalize and institutionalize the last mile financier or grass root institutions so that a new category of financial institution viz. Small Business Finance Companies can formed. Under PMMY, these steps taken by MUDRA will surely help to boost up the small business units.

### Conclusion

It is very essential and desirable to have such a strong financial institution that can strengthen the small scale sector which cannot approach the commercial banks to satisfy their financing needs.. The larger portion of our GDP is contributed by small scale sector that is why providing financial support and bridging the gap of unfunded areas of financing is very necessary. The small businesses form the foundation of the economic development needs to be strengthened and supported. Prior to MUDRA Bank, many more initiatives were taken in that direction but those initiative were not sufficient and not giving the adequate support to the SSIs/ A large number of schemes have been taken in the past few years are a step in the right direction. MUDRA Yojana is the most recent scheme to boost up the small and micro business units in India. This scheme has been taken to focus exclusively on entrepreneurs. This type of scheme will add to the well-being of the individuals engaged in small scale industries which will positively shape the progress of the economy as a whole. MUDRA as a financial tool is found very effective in its early stages across the country. This will definitely make a dramatic change and will help in making a developed India.

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