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MUDRA SCHEME IN EMPOWERING SMALL ENTERPRISES

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ABSTRACT

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an within the means at a fair and transparent manner by mainstream institutional players. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development. The main objective is to deliver banking services at an reasonable cost to vast sections of the low-income groups. Indian Finance Minister has set the ball rolling by articulating the Government's decision to provide adequate credit facility to the needy entrepreneurs on one hand. Therefore, the present study attempts to find out the impact of Mudra Scheme on loan penetrations to the needy entrepreneurs.

Key Words: Financial Inclusion, Micro, Small and Medium Enterprises (MSMEs)

India has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), self-help group-bank linkage programme, etc., multiple steps have been taken by the Reserve Bank of India (RBI) over the years to increase access to the poorer segments of society. It encouraged expansion of bank branches, especially in rural areas, resulting in multifold increase in branch network from around 8,000 in 1969 to more than 89,000 today, spread across the length and breadth of the country. The major barriers to serve the poor, apart from socioeconomic factors such as lack of regular income, poverty, illiteracy, etc., are the lack of reach, higher cost of transactions and time taken in providing those services. Products designed by the banks are not tailored to suit the needs of small and medium entrepreneurs. The existing business models do not pass the test of scalability, convenience, reliability, flexibility and continuity.

The term financial inclusion first featured in 2005, when RBI, in its annual policy statement of 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of the population, urged banks to review their existing practices to align them with the objective of financial inclusion. Financial inclusion and exclusion are mutually exclusive terms; those who are not financially included automatically become excluded. In India, focus of financial inclusion at present is more or less confined to ensuring a bare minimum access to a savings bank account. However, having a current account/savings account on its own, cannot be regarded as an accurate indicator of financial inclusion. Indian perspective of supply side financing has been discussed widely in light of priority agenda of financial inclusion strategy of the RBI. Even after concerted efforts by Government and the Reserve Bank in pursuing the goals of financial inclusion just about 58% of the population across the country has bank accounts, and this ratio is much lower in the north east of the country.

Need for the study:

MSMEs have been globally accepted as an engine of economic growth for promoting equitable development and have emerged as the single most important sector generating employment next only to the agricultural sector. They encompass a heterogeneous group of activities in the manufacturing, services, trade and agro-based businesses sectors. The major advantage of the sector is its employment potential at low capital cost. In India the MSMEs play a pivotal role in recent years, this sector has consistently registered higher growth rates when compared with the overall industrial sector MSME contribute nearly 8 percent of the country's GDP.

A tremendous growth of small scale sector has resulted in decentralized industrial development, better distribution of wealth, investment and entrepreneurial talent. They account for almost 40 per cent of industrial production, 95 per cent of the industrial units, 34 per cent of exports and manufacture over 6000 products. This sector produces a mixture of industrial products such as food products, beverages, tobacco and goods produced from it, cotton textiles and wool, silk, synthetic products, jute and jute products, wood and wood products, furniture and fixtures, paper and goods produced from it. This sector also has a large number of growing service industries. They also include various types of units ranging from traditional crafts to modern high tech industries and ancillaries that supply components to most modern large-scale industries. Thus, it can be said that Micro, Small and Medium Enterprises are the engines for driving the vehicle of economic growth of a country.

Review of Literature:

Subramanyam and Reddy (2012) presented an overview of Micro, Small and Medium Enterprises (MSMEs) in India. The study analysed the performance of MSMEs in India. It made a comparison of the growth of MSME sector with overall industrial sector and also investigated into the sickness of MSMEs. **Kumar and Gugloth (2012)** evaluated the performance of MSMEs before and after liberalization.

The study also analysed the impact of globalization on the performance of MSMEs and made a comparative analysis of the growth pattern of key parameters between pre and post globalization period. It took a period from 1999 to 2010 for the analysis. It also focused on the on-going changes in the business environment. The study found that the small scale sector has grown rapidly over the years. It also found that the period of liberalization and the development of MSMEs sector constituted an important segment of our economy. **Benard and Victor (2013)** examined the growth of women entrepreneurs in Dar es Salaam city of Tanzania on strengths, weaknesses, opportunities and threats. It used a sample of 130 women entrepreneurs and simple random sampling technique for the selection of sample. The study found that a major strength was the need for financial independence for women entrepreneur. It also observed that the major opportunity was the desire to own boss which leads to women entrepreneurship. It further found that the weakness was that most women lack entrepreneurs fail because of lack of education and the major threat to be the pressure of child care in the family. **Sujoy Kumar Dhar(2014)** a part of the efforts, Government established incubation centers in IITs and IIMs to finance the venture of first generation entrepreneurs. It is always better to be an employer rather than becoming a dignified salaried employee provided the individual has the entrepreneurial zeal and adequate risk appetite.

Importance of Mudra Scheme in Economic Empowerment of Micro and Small Enterprises:

"Financial exclusion" describes as a situation in which people do not have access to mainstream financial product and services such as banks accounts, credit cards and insurance policies, particularly credit facility to small and medium scale business operation. The effects of financial exclusion can include exclusion from other mainstream services, such as pension or saving schemes, and can also lead to debt and/or cut off from essential utilities.

According to committee on Financial inclusion headed by Dr. C. Rangarajan defined financial inclusion as "The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."2 Financial inclusion does not stand for delivery of financial services for all at all cost. But it means that the delivery of financial services and products at affordable costs of excluded sections of population and low income groups. It plays a crucial role to remove away the poverty from the country. Financial inclusion is to provide equal opportunities to vast sections of population to access mainstream financial services for better life, living and better income. It provides path for inclusive growth.

Therefore, providing access to financial services is becoming an area of concern for the policymakers as it has far reaching economic and social implications.

In India, The single most frequently used source of loan for medium Indian household is still moneylender. Large parts of our financial system are still hampered by political intervention and bureaucratic constraints, limiting their potential contribution. India's poor, many of who work as agricultural and unskilled semi skilled wage labours and low salaried workers are largely excluded from the formal financial system. Even micro and small enterprises, find it difficult to have an access to formal sources of finance and thus are largely excluded from financial system. Over 40% of India working population earn but have no saving. Financial inclusion provides protection to poor from the control of the spurious money lenders.

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Vision

"To be an integrated financial and support services provider par excellence benchmarked with global best practices and standards for the bottom of the pyramid universe for their comprehensive economic and social development."

Mission

"To create an inclusive, sustainable and value based entrepreneurial culture, in collaboration with our partner institutions in achieving economic success and financial security."

Most individuals, especially those living in rural and interior parts of India, have been excluded from the benefits of formal banking system. Therefore, they never had access to insurance, credit, loans and other financial instruments to help them establish and grow their micro businesses. So, most individuals depend on local money lenders for credit. The loan comes at high interest and often with unbearable conditions, which make these poor unsuspecting people fall in a debt-trap for generations. When businesses fail, the borrowers become vulnerable to the lender's strong-arm tactics and other forms of humiliation.

As per NSSO Survey of 2013, there are close to 5.77 crores small-scale business units, mostly sole proprietorships, which undertake trading, manufacturing, retail and other small-scale activities that provides employment to the 12.5 crores individuals . Compare this with the organised sector and larger companies that employ 1.25 crores individuals. Clearly, the potential to harness and nurture these micro businesses is vast and the government recognises this. Today, this segment is unregulated and without financial support or cover from the organised financial banking system.

The principal objectives of the MUDRA Bank are:

- Regulate the lender and the borrower of microfinance and bring stability to the microfinance system through regulation and inclusive participation.
- Extend finance and credit support to Microfinance Institutions (MFI) and agencies that lend money to small businesses, retailers, self-help groups and individuals.
- Register all MFIs and introduce a system of performance rating and accreditation for the first time. This will help last-mile borrowers of finance to evaluate and approach the MFI that meets their requirement best and whose past

record is most satisfactory. This will also introduce an element of competitiveness among the MFIs. The ultimate beneficiary will be the borrower.

- Provide structured guidelines for the borrowers to follow to avoid failure of business or take corrective steps in time. MUDRA will help in laying down guidelines or acceptable procedures to be followed by the lenders to recover money in cases of default.
- Develop the standardised covenants that will form the backbone of the last-mile business in future.
- Offer a Credit Guarantee scheme for providing guarantees to loans being offered to micro businesses.
- Introduce appropriate technologies to assist in the process of efficient lending, borrowing and monitoring of distributed capital.
- Build a suitable framework under the Pradhan Mantri MUDRA Yojana for developing an efficient last-mile credit delivery system to small and micro businesses.

Major Product Offerings

MUDRA Bank has rightly classified the borrowers into three segments: the starters, the mid-stage finance seekers and the next level growth seekers.

To address the three segments, MUDRA Bank has launched three loan instruments:

Shishu: covers loans upto Rs 50,000/-

Kishor: covers loans above Rs 50,000/- and upto Rs 5 lakh

Tarun: covers loans above Rs 5 lakh and upto Rs 10 lakh

MUDRA a Game Changer for India:

Majority of Indians are poor and live in rural and interior parts of India. Most are excluded from getting facilities that would be termed very basic, even by Indian standards. Most people do not have access to farmland and in the absence of jobs, are left to their own creativity to feed themselves and survive. They figure out ways to do odd jobs in exchange of money or barter their services. Most of these people belong to scheduled castes, scheduled tribes and other backward classes. It is to be noted that most of the micro enterprises, retail or trading activity, are initiated and controlled by women, with no exposure to education, formal training or access to any form of banking support.

If India could harness this free spirit of enterprise and offer some guidance, support, training and financial assistance, the potential to get an immediate jump in GDP is assured. There is an old saying that goes like this: "Give a man a fish you feed him for a day, teach him how to fish and he will never go hungry". MUDRA Bank is a step by the government that can be a game changer in giving birth to a new set of entrepreneurs, some of whom may scale heights not imagined today.

Mudra Bank will be first set up as a subsidiary of the Small Industries Development Bank of India and later to be converted to a full-fledged bank through an Act of Parliament. It join hands with 19 state and regional level coordinators so as to reach the small entrepreneurs who have limited branch presence and are cut off from the general banking system. The initiative taken by the government is expected to be helpful for the small and micro businesses. It is also expected that these businesses will generate 10 times more number of jobs which are normally generated by the big business firms/companies at present.

Rate of interest Charged:

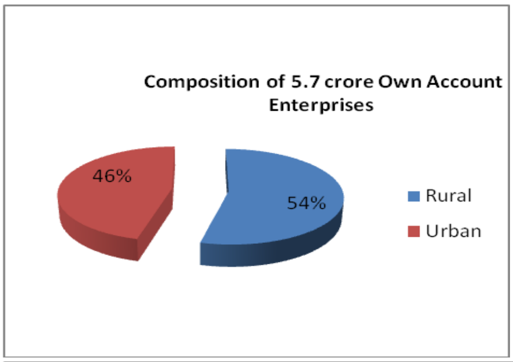
Shishu: The rate of interest charged under this scheme by the banks is around 10% to 12%. and public sectors banks are charging at lower rate.

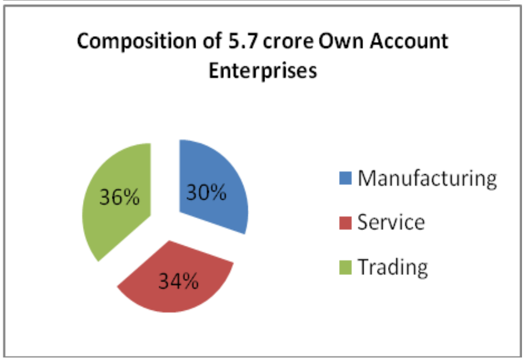
Kishor: The rate of interest is from14% to 17% depends on bank to bank.

Tarun : The rate of interest starts at 16%

Government targets to disburse Rs 1.22 lakh crore loan to micro and marginal businesses under the MUDRA scheme by March 2016. The total amount of loans sanctioned as on January 2016 - No. of PMMY Loans Sanctioned – 17319706, Amount Sanctioned 75199.66 Crore and Amount Disbursed 71312.02 Crore

Pradhan Mantri MUDRA Yojana (Progress as on 01/01/2016) - Andhra Pradesh Amount in Crores





Bottlenecks in the Scheme

The scheme fails to concentrate on the subsidies that are provided by the earlier Schemes such as Swarna Jayanti Shahari Rozgar Yojana (SJSRY), Credit Linked Capital Subsidy Scheme (CLCSS), and National Bank for Agriculture and RuralDevelopment(NABARD), National Small Industries Corporation Limited (NSIC).

Shishu (Loans up to Rs. 50,000)			Kishore (Loans from Rs. 50,001 to Rs. 5.00 Lakh)			Tarun (Loans from Rs. 5.00 to Rs. 10.00 Lakh)			Total		
No of Sanctions	**Sanctio-ned Amt**	**Disburse-ment Amt**	**No of Sanctions**	**Sanctio-ned Amt**	**Disburse-ment Amt**	**No of Sanctions**	**Sanctio-ned Amt**	**Disburse-ment Amt**	**No of Sanctions**	**Sanctio-ned Amt**	**Disburse-ment Amt**
417392	924.83	852.48	114436	2357.36	2247.47	9089	728.99	657.73	540917	4011.18	3757.68

Subsidy is a form of financial support extended to individual business unit generally with the aim of promoting economies of scale. Subsidies are provided to ensure equitable utilization of the resources for the people, the benefits can be maximized only when the subsidies are transparent, well targeted, and subsidies designed for effective implementation without any leakages.

- Limited focus on mobilizing urban poor into groups for poverty alleviation and empowerment. SHG movement limited to primarily South India.
- Lack of strong capacity building across all levels – limited capacity of existing training institutions, lack of trainers, need for alternative training methodologies and resources
- Lack of an integrated approach to skill development –need for counselling beneficiaries with job opportunities and linkages with industry, need for independent certification recognized by industry
- Lack of flow of credit to the rural and urban poor for self-employment – hesitation by banks to sanction loans to the urban poor in view of informal nature of ventures and absence of collateral

Conclusion

If MUDRA can continue to retain focus on the underprivileged and extend its reach to the interiors, it can well emerge as a bigger success story than what Grameen Bank of Bangladesh ever was or will be.

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