

MUDRA'S TIME TO LIFT MICRO AND SMALL BUSINESSES

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ABSTRACT

Banks play a crucial role in the economic development of any country in the world. On a larger scale, national banks offer similar access to credit and financial services to larger businesses, local governments, and in some cases international customers. 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 role of private sector is very much important in accelerating the pace of economic growth. The banks increase the participation of the private sector in economic development by making available loans easily on reasonable rate of interest. The expansion of financial sector encourages entrepreneurs to make investments by promoting entrepreneurship. Our honourable Prime Minister Narendra Modi has been launched the Micro Units Development and Refinance Agency Ltd (MUDRA) Bank with a corpus of Rs 20,000 crore and a credit guarantee corpus of Rs 3,000 crore. This paper explores the necessity of MUDRA Bank for Micro as well as Small level entrepreneurs.

Key Words: Bank, MFIs, Micro, Mudra, Self-Employment

I INTRODUCTION

Banks play a crucial role in the economic development of any country in the world. On a larger scale, national banks offer similar access to credit and financial services to larger businesses,

local governments, and in some cases international customers. 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. The role of private sector is crucial in accelerating the pace of economic growth. The banks increase the participation of the private sector in economic development by making available loans easily on reasonable rate of interest. The expansion of financial sector encourages entrepreneurs to make investments by promoting entrepreneurship. Our honourable Prime Minister Narendra Modi has been launched the Micro Units Development and Refinance Agency Ltd (MUDRA) Bank with a corpus of Rs 20,000 crore and a credit guarantee corpus of Rs 3,000 crore. Mudra Bank is for 'funding' the 'unfunded'. This will provide credit of up to Rs 10 lakh to small entrepreneurs and act as a regulator for 'Micro-Finance Institutions' (MFIs). It will also refinance Micro-Finance Institutions through Pradhan Mantri Mudra Yojana. The main objectives of Mudra Bank are to encourage entrepreneurs and small business units to expand their capabilities and operations to reduce over indebtedness and to provide formal system of credit (finance). This paper analyses the significance of MUDRA Bank in view of Micro as well as Small level entrepreneurs.

II ROLE OF MUDRA BANK

- Big industrial houses provide jobs to only 1.25 crore people, while small entrepreneurs employ 12 crore people. MUDRA Bank aims to fund the unfunded small entrepreneurs thereby strengthens savings habit in the country.
- The roles envisaged for MUDRA include laying down policy guidelines for micro enterprise financing business and registration of MFI entities as well as their accreditation and rating.

- Providing access to institutional finance to such micro/small business units/enterprises will not only help in improving the quality of life of these entrepreneurs but also turn them into strong instruments of GDP growth and employment generation.
- The initial products and schemes under this umbrella have already been created and the interventions have been named 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth/development and funding needs of the beneficiary micro unit/entrepreneur.
- Shishu would cover loans up to Rs 50,000 while Kishor above Rs 50,000 and up to Rs 5 lakh. Tarun category will cover loans of above Rs 5 lakh and upto Rs 10 lakh.

III OBJECTIVES OF THE STUDY

To understand the role of MUDRA Bank for micro as well as small businesses

To identify the importance of MUDRA Bank for micro as well as small businesses

To know the functions of MUDRA Bank for micro as well as small businesses

IV METHODOLOGY

This researcher has been used the sources like newspapers, magazines, reports, bulletins for the detail of this paper.

V PRODUCTS AND OFFERINGS OF MUDRA BANK

MUDRA Bank will be useful to the following target groups such as proprietorship/partnership firms running as small manufacturing units, shopkeepers, fruits/vegetable sellers, hair cutting saloon, beauty parlors, transporters, truck operators, hawkers, co-operatives or body of individuals, food service units, repair shops, machine operators, small industries, artisans, food processors, self help groups, professionals and service providers etc. In rural and urban areas with financial requirements upto Rs.10 lakh.

VI IMPORTANCE OF THE STUDY

Industrial development needs finance. In some countries, commercial banks encouraged industrial development by granting long-term loans also. Commercial banks are also helping manufacturers to secure machinery and equipment from foreign countries under installment system by guaranteeing deferred payments. Thus, banks promote or encourage industrial development. Banks are one of the most important parts of any country. In this modern time money and its necessity is very important. To attain development there should be a good developed financial system to support not only the economic but also the society. The banks finance the industrial sector in a number of ways. In India, the commercial banks undertake short-term and medium-term financing of small scale industries, and also provide hire- purchase finance. Prime Minister Narendra Modi launched the Micro Units Development Refinance Agency (MUDRA) Bank which will provide credit of up to Rs 10 lakh to small entrepreneurs and act as a regulator for 'Micro-Finance Institutions' (MFIs). The roles envisaged for MUDRA include laying down policy guidelines for micro-enterprise financing business and registration of MFI entities, as well as their accreditation and rating. Mudra Bank is being set up through a statutory enactment and will be responsible for developing and refinancing through a Pradhan Mantri MUDRA Yojana. The basic idea behind this bank is this, since small entrepreneurs are businesses are often cut off from banks, MUDRA will partner with local coordinators and provide finance to "Last Mile Financiers" of small/micro businesses. However the corpus would need to be expanded over time to increase outreach.

VII FUNCTIONS OF MUDRA BANK

MUDRA TARGETS YOUNG, EDUCATED OR SKILLED WORKERS AND ENTREPRENEURS INCLUDING /WOMEN ENTREPRENEURS

There are about 5.77 crore small business units. MUDRA Bank lays down "responsible financing practices" to ward off over indebtedness and ensure proper client protection principles and methods of recovery, besides development of standardized set of covenants governing last mile lending to micro enterprises. "Providing access to institutional finance to such micro/small business units/enterprises will not only help in improving the quality of life of these

entrepreneurs but also turn them into strong instruments of GDP growth and employment generation," the Finance Ministry said in a statement.

SHISHU/KISHOR/TARUN INTERVENTIONS

MUDRA Bank will have a corpus of Rs 20,000 crore, and credit guarantee corpus of Rs 3,000 crore. The Bank will nurture small businesses through different stages of growth and development of businesses termed as Shishu, Kishor and Tarun.

SHISHU

This is the first step when the business is starting up. The loan cover in this stage will be upto Rs 50,000.

KISHOR

In this stage, the entrepreneur will be eligible for a loan ranging from Rs 50,000 to Rs 5 lakh.

TARUN

This last and final category will provide loans for upto Rs 10 lakh.

CREDIT PLUS APPROACH

MUDRA will also take up other initiatives such as supporting financial literacy, creating a framework for "Small Business Finance Entities" where it will work with credit bureaus and rating agencies among others. The establishment of MUDRA would not only help in increasing access of finance to the unbanked but also bring down the cost of finance from the Last Mile Financiers to the informal micro / small enterprises sector.

PRINCIPAL OBJECTIVES OF THE MUDRA BANK

- 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 standardized 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.

CONCLUSION

MUDRA Bank is 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. This initiation will greatly increase the confidence of our young educated and skilled workers who are able to become the first generation entrepreneurs and existing small businesses will be able to expand their activities just banking the unbanked/funding the unfunded. MUDRA is the way to go. Small business unit generally face lot of challenges to get loan from banks. So they end up taking high-

cost loans from financiers or money lenders. Launching bank like MUDRA will hugely benefit to small manufacturing units and self-employed individuals in rural and urban areas.

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