



Microfinance with Reference to Micro Units Development and Refinance Agency Banks (MUDRA Banks)

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ABSTRACT

India is considered as one of the largest microfinance centre in the world nowadays. In India poverty is considered as a menace. For the poverty alleviation the Government of India started various programmes from time and again. The microfinance institutions came forward to fulfil these gaps but the outreach is small as compared to the requirement and potential but some progress had been seen in this regard. Government must power the microfinance institutions for mobilizing savings, with increase demand for the rural finance. However, keeping in mind the recent experiences, and for the better growth these microfinance institutions need to be managed in a better way and they must be provided with adequate finance which fulfil the needs of poor and also provide them a social responsibility which is most important for the growth of these microfinance institutions and for alleviating poverty from the country. In India, small businesses play an important role not only in contributing to nation GDP (Gross Domestic Product) but also by providing employment to a large no of people. After identifying the importance of self-employment people and small business units, government of India launched MUDRA Banks (Micro Units Development and Refinance Agency Banks) to address 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). In this paper an attempt is made to find out how MUDRA Banks are empowering the different microfinance schemes which are empowering rural finance development in India.

Keywords-- MUDRA, PMYY, Micro finance

I. INTRODUCTION

Microfinance stands as one of the most promising and cost effective tools which fight against poverty. Micro finance schemes extend small loans to very poor people for self-employment projects. Microfinance has enabled the poorest of the poor, especially women, to generate income for themselves and their families. Many people believe that within two to three years of their first loan, people come above the poverty line. Microfinance is thus regarded as the dignified way of crossing the poverty line. The pioneering efforts at this has been made by National Bank for

Agriculture and Rural Development (NABARD) which is vested with the task of framing appropriate policy for rural credit, provision of technical assistance banked liquidity support to banks, supervision of rural credit institutions and other economic development initiatives. Microfinance has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries and is regarded as an important tool for poverty alleviation. Microfinance sector has emerged as major strategy to combat the twin issues of poverty and unemployment that continue to pose a major threat to the polity and economy of both the developed and developing countries. The emerging microfinance revolution with appropriate designed financial products and services enable the poor to expand and diversify their economic activities, increase their incomes and improve their social wellbeing. Small businesses are not in a position to play their role effectively due to various constraints. Raising finance is one of the biggest problems for this sector. The scarcity of financial assistance and inadequate availability of credit facilities due to the weak credit worthiness of small businesses are the major causes of this problem. 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, (MUDRA) to fund the unfunded. MUDRA Bank will provide its services to small entrepreneurs outside the service area of regular banks, by using last mile agents. "Funding the unfunded" is the main motive for which Micro Unit Development and Refinance Agency (MUDRA) has been setup. It was established through a statutory enactment which would be accountable for developing and refining Micro Finance Institutions (MFIs) which are in the business of lending to micro and small business units engaged in manufacturing, trading and service activities. Through Pradhan Mantri Mudra Yojana (PMMY), MUDRA Bank will also refinance MFIs. The main aim to set up Mudra Bank is, to encourage small business units and entrepreneurs to expand their competences and operations, to provide formal and easy system of credit and to diminish over indebtedness. 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 (Gross Domestic Product) of the country. MUDRA would benefit small manufacturing units, fruits and vegetable sellers, shopkeepers, beauty parlours, hair salon, truck operators, hawkers, artisans in rural and urban areas.

II. SERVICES PROVIDED BY MICROFINANCE INSTITUTIONS

As Micro Finance Institutions (MFIs) are set up with the aim of poverty alleviation in mind, they often provide more than just financial services. The three main types of services provided are:

1. Financial Intermediation: This is the main service offering of MFIs. It can include providing working capital, fixed asset loans, savings and insurance products.

2. Enterprise Development Services: As a complementary service, some MFIs offer a basic level of training to encourage successful microenterprises. This can ensure a better success rate in the impact of the credit provided. This may involve training on marketing and business management etc.

3. Social Services: Where social services are very poor in an area, it can be difficult to provide financial services that people will be able to use. The people may be living hand-to-mouth, without any basic social services being provided. It can be very difficult for people under such circumstances to engage in sustainable entrepreneurial activities. Basic social services that could be provided by MFIs, before provision of financial services can include assistance with health and education. Such services obviously require substantial donor funds to operate. They are however far more important than financial services to people that face such poverty.

III. SERVICES PROVIDED BY MUDRA BANKS

MUDRA Banks (Micro Unit Development and Refinance Agency Banks) will be responsible for developing, enhancing and refinancing all Micro-enterprises zone by supporting the Micro Finance Institutions which are engaged in the business of lending to micro / small business sector. The services provided by MUDRA Banks are refinance product for the micro units having loan requirement in the range of Rs.50000 to Rs.10 lakhs and support to MFIs for on lending etc. MUDRA Banks will be providing refinance to micro business under the Scheme of Pradhan Mantri MUDRA Yojana (PMMY). The other products are for development support to the sector. The bouquet of offerings of MUDRA is depicted below. The offerings would be targeted across the spectrum of beneficiary segments. Borrowers are divided into three categories under MUDRA Banks based on the stage of growth and funding needs of an entrepreneur or a micro unit. The initial products of MUDRA Banks are as follows:

1. Shishu: the business units that are just started are covered under this category. Business units under this category can get a loan up to Rs.50000.

2. Kishore: Business units that are set and in medium stage can get Rs.50000 to Rs.5 lakhs of loan cover from MUDRA.

3. Tarun: Good established business units that need more funds to raise business cover under this category and get loan cover up to Rs.10 lakhs.

IV. MICROFINANCE AND MUDRA BANKS (MICRO UNIT DEVELOPMENT AND REFINANCE AGENCY BANKS)

Micro Finance is an economic development tool whose objective is to provide income generating opportunities to the people who are financially excluded. It covers a variety of financial services which include, in addition to the provision of credit, many other credit plus services, financial literacy and other social support services. Inability of Micro - Finance Institutions (MFIs) to raise sufficient fund remains one of the important concern in the microfinance sector. Though (Non-Banking Financial Corporations) NBFCs are able to raise funds through private equity investments because of the for-profit motive, such Micro Finance Institutions (MFIs) are restricted from taking public deposits. Not-for-profit companies which constitute a major chunk of the MFI sector have to primarily rely on donations and grants from Government and apex institutions like NABARD (National Bank for Agriculture and Rural Development) and SIDBI (Small Industries Development Bank of India). In absence of adequate funding from the equity market, the major source of funds for MFIs are the bank loans, which is the reason for high Debt to Equity ratio of most MFIs. MFIs receive debt from banks against their equity and in order to increase their portfolio size they need to increase their debts for which they further need to increase their equity. Though the concern about the transparent pricing in the microfinance sector has been an older one, it is gaining significance with the growing size and the increasing competition in the sector. Non-transparent pricing by MFIs confines the bargaining power of the borrowers and their ability to compare different loan products, because they don't know the actual price. In absence of the proper understanding of the pricing, clients end up borrowing more than their ability to payback which results in over-indebtedness of the borrower. Ambiguity in the pricing by MFIs is inviting regulatory bodies to implement strict measures like interest rate caps. But simply putting an interest rate cap may encourage MFIs to look for clients with larger loan requirements. This may deprive the clients with smaller loan requirements who are supposed to be the actual beneficiary of microfinance.

Many entrepreneurs of micro enterprises belong to the economically weaker section of society so that is why they are unable to access financial services. Funding this unfunded section of the society is the main aim behind the formation of Pradhan Mantri MUDRA Yojana (PMMY). It provides refinance and credit guarantee for the lenders who

finance further in such type of activities. MUDRA Bank (Micro Unit Development and Refinance Agency Bank) grants loan such micro enterprises which engaged in trading, manufacturing and service sector for loan amount up to Rs.10 lakhs. Micro enterprises establish a major economic portion in our nation. It gives large employment after agriculture in India. This economic portion includes micro units, small business in manufacturing, trading and other sector. Micro Credit Scheme is offered mainly through Micro Finance Institutions (MFIs), which deliver the credit up to Rs.1 lakh, for various micro enterprise activities. The MFIs for availing financial support need to enrol with MUDRA by complying to some of the requirements as notified by MUDRA, from time to time. Different banks like Commercial Banks, Regional Rural Banks and Scheduled Cooperative Banks are eligible to avail of refinance support from MUDRA for financing micro enterprise activities. The refinance is available for term loan and working capital loans, up to an amount of 10 lakhs per unit. Eligible banks, which have enrolled with MUDRA by complying with the requirements as notified, can avail of refinance from MUDRA for the loan issued under Shishu, Kishor and Tarun categories. MUDRA also supports Banks / NBFCs / MFIs for raising funds for financing micro enterprises by participating in securitization of their loan assets against micro enterprise portfolio, by providing second loss default guarantee, for credit enhancement and also participating in investment of Pass Through Certificate (PTCs) either as Senior or Junior investor. In order to encourage women entrepreneurs, the financing banks / MFIs may consider extending additional facilities, including interest reduction on their loan. At present, MUDRA extends a reduction in its interest rates to MFIs / NBFCs, who are providing loans to women entrepreneurs.

Many entrepreneurs or small business units has availed finance under this scheme since its launching. Besides this to address other constraints, MUDRA will have to adopt a credit plus approach and offer development and support services to target audience. It will have to act as a market maker and build- up an ecosystem with capacities to deliver value in an efficient and sustainable manner. MUDRA will focus to formalize and institutionalize the last mile financier or grass root institutions so that a new category of financial institution namely Small Business Finance Companies are created. These steps taken by MUDRA under PMMY will surely help to boost the small business units We have concluded from the study that due to PMMY there is a bigger change in the area of micro finance. This scheme will promote competition to give credit support to this weaker section, low income group and this unfunded population. Efforts are needed to invite more credit or loan sanctioned. Financial inclusion through PMMY increases the opportunities for credit requirement and refinance. The small businesses form the foundation of the economic development needs to be strengthened and supported. A large number of scheme have been taken in the past few years are a step in the right direction. MUDRA Bank 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.

V. CONCLUSION

Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. Microfinance has the unique ability to provide sustainable development services if they are designed and implemented properly. Only by fulfilling the commercial mission of microfinance, lenders provide this valuable service over time-and generate its important development benefits. In the last two decades, two new aspects were incorporated into microfinance that made it a more effective and enduring development strategy. If micro lending was done well, it could be part of a sustainable development strategy. Growth of small business units will contribute to the development of 'Make in India' initiative. Launching bank like MUDRA (Micro Unit Development and Refinance Agency) will hugely benefit to small manufacturing units and self-employed individuals in rural and urban areas. PMMY (Pradhan Mantri MUDRA Yojana) scheme will contribute to the well-being of the individuals engaged in small scale industries which will positively affect the progress of the economy as a whole. MUDRA creates a vision of formalizing the informal and thereby funding the unfunded. Its role as an apex refiner, providing low-cost finance is likely to be its prime factor, thereby hoping to fill a yawning gap in India's microfinance space. These measures will greatly increase the confidence of our young educated and skilled workers who are able to become the first generation enterprises, and existing small businesses will be able to expand their activities. Just as banking the unbanked, MUDRA banks main aim is funding the unfunded. PMMY has yielded expected results. The introduction of the national plan PMMY with other type of financial inclusion initiative, yield a valuable result. The PMMY scheme is sure to take our nation forward to the future and make India a more sustainable developed country. It recognizes that due to launch of this scheme financial inclusion has increased towards positive direction. The desired results achieved from this scheme. If it is implemented properly at the poor people, it may work as a game changing financial inclusion initiative of Government of India and may boost the Indian economy.

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