

Mudra: A Tool for Financial Assistance to MSME Sector

Pawan Pushpad^{1*} | Anil Jinwal²

¹Assistant Professor, College of commerce, IPS Academy, Indore, M.P., India.

²District Industry Center, Ujjain, M.P., India.

*Corresponding Author: pawanpushpad@ipsacademy.org

ABSTRACT

This research aims to analyze the significance and function of MUDRA as a means of providing financial support to the micro, small, and medium-sized enterprise (MSME) sector. The study relies on secondary data sources, including the official website of MUDRA.org, the PMMY report, newspapers, periodicals, and other public materials. The micro, small, and medium-sized enterprise (MSME) sector significantly contributes to the growth and advancement of the Indian economy. The advancement of this sector is of utmost importance in order to fulfill the national objectives of promoting participation in the financial system and the creation of substantial numbers of jobs in both urban and rural areas. The actualization of the Pradhan Mantri MUDRA Yojana (PMMY) Scheme and the establishment of a specialized for the micro, small, and medium-sized enterprise (MSME) sector, known as MUDRA, have provided a substantial impetus to the expansion of the Indian MSME sector. These initiatives aim to enhance the economic impact of the industry on India's Gross Domestic Product (GDP). Which now stands at 38%. This financial institution significantly enhances the self-assurance of young, educated, and talented individuals, enabling them to strive to become entrepreneurs as first-generation participants. Additionally, it facilitates the expansion of existing small firms by providing them with opportunities to broaden their operations. The primary goals of Mudra encompass the promotion of entrepreneurial endeavors and the expansion of capacities and operations for small business units. Additionally, it aims to mitigate the issue of excessive indebtedness while establishing a structured credit system.

Keywords: MSME's, MFI's, PMJDY, MUDRA & TReDS.

Introduction

The acronym MUDRA represents the Government Agency for Microfinance Development and Refinancing. The introduction of this program was officially declared in the Union Budget for the fiscal year 2015-16. The Pradhan Mantri Mudra Yojana (PMMY) is a scheme initiated by the Honorable Prime Minister of India to provide finance to those who are currently underserved. The scheme was meticulously planned and introduced by the Prime Minister himself. The aforementioned system was implemented on April 8th, 2015. The establishment of this entity is being facilitated by means of a legislative law. However, the implementation of this legislation is expected to be a gradual process. Initially, MUDRA would commence its operations as a subsidiary under SIDBI, which is registered as a Non-Banking Financial Corporation (NBFC).

The main goal of MUDRA is to provide financial support to micro and small enterprises through collaboration with local coordinators, who are referred to as "Last Mile Financiers." The primary objective of implementing this initiative is to offer financial support to the Non-Corporate Small Business Sector (NCSBS). The MUDRA plan is anticipated to address financial requirements of around 5.77 crore small companies, which are dispersed across the nation. The present predicament faced by these businesses is around encountering several challenges in accessing financing from the official banking sector.

The Mudra was inaugurated with a capital of INR 20,000 crores and a credit guarantee of INR 3,000 crores. The bank will assume responsibility for providing refinancing and credit support to microfinance institutions (MFIs) and related organizations. The entity in question will function as a

regulatory body for micro-finance institutions, assuming the responsibility of refinancing these institutions by providing them with low-cost loans. These loans are specifically intended for the purpose of lending to small enterprises. The organization will collaborate with coordinators at the state and regional levels in order to offer financial support to small and micro business firms through last mile lenders.

Advocating for and promoting the development of local, independent enterprises is an effective strategy for bolstering the economic development of a nation, hence facilitating accelerated progress and prosperity. The Prime Minister of the nation stated in his speech that huge business entities offer job opportunities to 1.25 crore individuals, who are able to conveniently use the organized banking system. In contrast, small and micro enterprises, who frequently encounter difficulties in accessing financial support from traditional banking institutions, contribute to the employment of over 120 million individuals. Accepting this fact may be rather challenging.

The inclusion of these firms into the conventional banking system has the ability to not only improve people's quality of life, but also significantly contribute to the overall economic development of the nation.

Objectives

- To gain a general familiarity with the national MUDRA plan.
- To learn about the functions and obligations of the MUDRA plan for micro and small enterprises.
- A study of the MUDRA scheme's effect on India's economy.

Research Methodology

Upon examining the criteria pertaining to the objectives of the study, it is evident that the research design implemented for this investigation is of a descriptive nature. The study made considerable use of readily accessible secondary data. The secondary data was obtained from various scholarly sources such as journals, periodicals, papers, and publications accessible through the Reserve Bank of India (RBI), the official website of the Micro Units Development and Refinance Agency (MUDRA), and the micro, small, and medium-sized enterprise (MSME) platform.

MSME Sector

India is among a select group of nations that has implemented a legislative structure for the micro, small, and medium-sized enterprise (MSME) sector. This framework, known as the MSMED Act of 2006, has set procedures to address concerns related to public procurement and delayed payments within this sector. The Ministry of micro, small, and medium-sized enterprise (MSME) has been implementing many programs and schemes aimed at improving the capacities of MSMEs. These initiatives focus on Resources, Facilities, Technologies, Promotions and Training with the goal of addressing the challenges faced by the sector. The micro, small, and medium-sized enterprise (MSME) sector in India exhibits significant diversity in terms of its size, technological sophistication, and product/service offerings. This sector encompasses a wide range of industries, ranging from grassroots village enterprises to the production of advanced products such as automobile parts, computer chips, electrical circuitry, and medical electronics. micro, small, and medium-sized enterprise (MSME) have exhibited a consistent growth rate of 10 percent in recent years, surpassing the growth rate of the large-scale corporate sector. The aforementioned industry accounts for 8% of the nation's gross domestic product (GDP), 45% of its manufacturing production, and 40% of its total exports. micro, small, and medium- sized enterprise (MSME) play a crucial role in generating job opportunities, providing livelihoods to a significant portion of the population. These firms encompass a vast network of over 36 million establishments, together employing more than 80 million individuals. Furthermore, the MSME sector contributes to the production of an extensive range of around 6000 distinct goods. micro, small, and medium-sized enterprise (MSME) play a crucial role in the foundation of an economy. They are very productive in generating employment opportunities and serve as trailblazers in the realm of innovation. The MSME aims to provide comprehensive assistance to small enterprises to foster the expansion and improvement of the industry. The dynamic nature of the global economy has presented a multitude of possibilities and difficulties for micro, small, and medium-sized enterprise (MSME) in India. On one hand, the sector has experienced numerous opportunities to improve productivity and explore new markets both domestically and internationally. On the other hand, this has necessitated the sector to enhance the skills they bring to the table in fields including Advertising, Banking, Business Growth, Operations, and Technology.

MUDRA an Overview

The purpose of Mudra is to provide financial support to individuals and businesses who have traditionally been unable to access finance. The proposed initiative aims to offer a maximum loan limit of Rs. 10 lakh to individuals engaged in small-scale entrepreneurial activities, while also assuming a regulatory role for Micro-Finance Institutions (MFIs). Mudra will also provide refinancing services to Micro-Finance Institutions under the Pradhan Mantri Mudra Yojana. The term "Mudra" in Hindi refers to cash. The primary goals of Mudra encompass the promotion of entrepreneurial activities and the expansion of capacities and operations for small business units. Additionally, it aims to mitigate excessive debt burdens and establish a formal credit system. The primary areas of concentration for Mudra would be agriculture and self-employment. The Micro Unit Development and Refinance Agency Ltd (MUDRA) bank was established as part of the Pradhan Mantri Jan Dhan Yojana (PMJDY) with the aim of providing financial support to small-scale enterprises. The bank would extend loans of up to 10 lakhs to small enterprises and assume the role of a regulatory authority for Micro Finance Institutions (MFI). The establishment of this entity was facilitated by a legislative legislation, with the purpose of overseeing the growth and improvement of all microfinance institutions (MFIs) active in providing loans to companies of all sizes in the manufacturing industry, trade, and service activities. The Mudra idea extends beyond a mere credit strategy and provides a comprehensive credit plus solution for firms located throughout the nation.

The establishment of Mudra represents a significant advancement in facilitating essential financial access and assistance to small and medium companies. This will significantly contribute to the promotion of micro, small, and medium-sized enterprise (MSME), which plays a vital role in generating substantial employment opportunities and fostering the acceleration of Gross Domestic Product (GDP) Growth.

The Mudra is designed to function as both the primary funding agency and the regulatory body for Micro Finance Institutions (MFIs), with the aim of mitigating the financial challenges faced by micro, small, and medium-sized enterprise (MSME). The concept of Mudra was initially conceptualized in the fiscal year 2015-16 budget. The employment potential of the micro, small, and medium-sized enterprise (MSME) sector is substantial. Approximately 120 million individuals are now engaged within the micro, small, and medium-sized enterprise (MSME) sector, which encompasses 57.5 million entrepreneurs and organizations.

Role of Mudra

- Establishing norms for the micro and small business financial sector.
- The enlistment and oversight of Micro finance Institutions (MFIs).
- Evaluation and approval of MFIs.
- To help people with lower incomes establish and expand their own enterprises. To assist in decreasing the cost of financial services and expanding access to them for the unbanked.
- So that SBUs can get entry to institutional financing.
- Assuring customer protection principles and recovery strategies, as well as establishing appropriate financing processes to minimize over-borrowing.
- The creation of uniform covenants regulating "last mile" financing for micro and small businesses.
- Designing and administering a credit guarantee program that backs loans made to micro-businesses.
- In addition to lending to small and medium-sized businesses, Mudra will oversee and refinance all MFIs. MFIs are financial organizations that provide loans to entrepreneurs.
- Financing preferences for minority and women-owned businesses.

MUDRA Products & Offerings

Businesses or entrepreneurs encompass proprietorship or partnership firms operating as small manufacturing units, shopkeepers, fruit or vegetable vendors, hair salons, beauty parlors, transporters, truck operators, street vendors, cooperatives or associations of individuals, food service establishments, repair shops, machine operators, small industries, artisans, food processors, self-help groups, professionals, and service providers, among others, in both rural and urban areas. These entities have financing needs of up to Rs.10 lakh. The main objective of MUDRA is to provide refinancing services for

the purpose of lending to micro enterprises or units operating under the framework of the Pradhan Mantri MUDRA Yojana. A proposition has been put out to allocate funds to entrepreneurs or micro units depending on their stage of growth and finance requirements. The initial products and schemes have been developed and designated as 'Shishu', 'Kishor', and 'Tarun' to symbolize the various stages of growth and funding requirements for the micro units or entrepreneurs. These interventions also offer a pathway for the entrepreneurs to strive for further growth and development.

- **Shishu:** Providing financial assistance for loans of up to Rs.50,000. This initial phase denotes the commencement of the company venture.
- **Kishor:** covering loans above Rs.50,000/- and upto Rs.5 lakh.
- **Tarun:** covering loans above Rs.5 lakh and upto Rs.10 lakh.

However, additional goods, such as those catering Land Transport, Community, Social, and Personal Services, Food Product, and Textile Product markets, are also launching from the outset as sector/activity specific programs. In a similar vein, the following industries/activities might also benefit from the addition of schemes:

- Micro Credit Scheme(MCS).
- Refinance Scheme for Regional Rural Banks (RRBs)/Scheduled Co-operative Banks Mahila Uddyami Scheme.
- Business Loan for Traders & Shopkeepers.
- Missing Middle Credit Scheme.
- Equipment Finance for Micro Units.

The Mudra also has the more difficult and expansive duty of registering and regulating MFIs.

- Initially, the government will need to undertake the arduous process of registering more than a thousand Microfinance Institutions (MFIs) that are geographically dispersed around the nation. The government's administrative capacities will undoubtedly face significant challenges during this undertaking.
- Furthermore, the regulation of microfinance institutions (MFIs) has been a topic of ongoing discussion and analysis throughout the years. At present, microfinance institutions (MFIs) are designated as non-banking finance businesses (NBFCs) and possess the status of self-regulation.

On one side, it is worth noting that the lack of stringent regulations has led to instances of borrowers being coerced into repaying loans, as well as the prevalence of short payback cycles and high interest rates. On the other hand, it is important to acknowledge that excessive regulation of Microfinance Institutions (MFIs) had a role in the occurrence of the Andhra Pradesh crisis in 2010. The implementation of stringent restrictions on door-to-door debt collection practices by Microfinance Institutions (MFIs) resulted in a significant decline in loan recovery rates within the state, leading to the closure and downsizing of several MFIs. The initial consequence included a 60% rise in borrowing costs, leading to a renewed dependence on unregulated financial institutions. It is imperative for the Micro Units Development and Refinance Agency (MUDRA) to establish a clear balance between minimal and excessive regulation, in order to provide Small and Medium Enterprises (SMEs) with appropriate and accessible credit avenues.

MUDRA will also implement a credit plus strategy and undertake interventions to provide development assistance across all beneficiary groups. The key features of the planned interventions/initiatives are as follows:

- Promoting sound financial education
- Assistance to local organizations and their advancement
- Making a plan for "Small Business Financial Organizations"
- Drawing parallels to the National Rural Livelihoods Mission
- Aligning with the National Skill Development Corporation's shared values
- Using credit reporting agencies
- Cooperation with accreditation bodies

Impact on the Indian Economy

- Approximately 9.56 small enterprises, providing jobs for close to 15 crores of people, stand to gain from the MUDRA initiative. There is little question that more people will find work as a result of the growth in capital.
- The Gross Domestic Product (GDP) expands as a result of MUDRA's facilitation of an organized financial system.
- As the MUDRA plan places an emphasis on skill development, women will also become economically independent, reversing a common misconception about women's traditional position as caretakers of the house.
- People's living standards will improve as a consequence of the rise in income, which will lead to an equivalent increase in expenditure and a more even distribution of wealth across the economy.
- Increase economic growth through encouraging the production of capital as a result of MUDRA's transformation of job-seekers into entrepreneurs.
- Inspire more people to take the plunge and start their own enterprises, thanks to the impetus MUDRA will provide.

Conclusion:

India is on the cusp of becoming an economic super power, and it has a massive demographic dividend from which to benefit. It is essential to fortify and prop up the small-scale enterprises that serve as the economic base. The many new programs launched in recent years are encouraging developments. Plans for the expansion of the micro, small, and medium-sized enterprise (MSME) sector as a whole sit alongside programs aimed squarely at the sector's entrepreneurs. Individuals working in small-scale industries will benefit from the program.

References:

1. PM launches MUDRA to fund small businesses. (2015, April 9). *Business Standard*. Retrieved December 15, 2015, from http://www.businessstandard.com/article/economy-policy/pm-launches-mudra-bank-to-fund-micro-finance-institutions-115040800189_1.html.
2. Benefits of Mudra- How to Take Loan from Mudra. (n.d.). Retrieved December 14, 2015, from <http://www.15august.in/http://www.15august.in/2015/04/benefits-of-mudra-bank-how-to-take-loan.html>
3. Dubbudu, R. (2015, October 26). Here is all that you need to know about the MUDRA Loans. Retrieved December 15, 2015, from <https://factly.in/https://factly.in/here-is-allthat-you-need-to-know-about-the-pradhan-mantri-mudra-yojana-loan/>.
4. Mudra Offerings, State Wise PMMY Report. (n.d.). Retrieved December 20, 2015, from MUDRA Website: <https://www.mudra.org.in/>
5. Venkatesh, J., & Kumari, R. L. (2015, July). Performance of Mudra: a study on financial assistance to MSME sector. *International Journal of Research in Economics and Social Sciences*, 5(7), 185-191. ISSN:2249-7382.
6. Roy.A.K. (2016, January). MUDRA Yojana- A strategic tool for small business financing. *International Journal for Advance Research in Computer Science and Management Studies*, ISSN: 2321- 7782.
7. https://www.business-standard.com/article/economy-policy/pm-launches-mudra-bankto-fund-micro-finance-institutions-115040800189_1.html
8. https://www.researchgate.net/publication/368395915_MUDRA_BANK_A_TOOL_FOR_FINANCIAL_ASSISTANCE_TO_MSME_SECTOR
9. <https://www.resurgentindia.com/pdf/1482755348Nurturing-the-Startup-For-Building-Economy.pdf>
10. <http://ijarcsms.com/docs/paper/volume4/issue1/V4I1-0005.pdf>.

