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## Mudra bank to 'fund the unfunded' small entrepreneurs - A conceptual framework

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### Abstract

Micro-Finance has become the famous word all over the World to improve the access of credit to Rural and poor people. Micro Units Development Refinance Agency (MUDRA) is a development finance agency that will promote and finance those micro industrial units in the country which could not be reached out to by SIDBI and all other formal financial institutions. Mudra Bank is being set up through a statutory enactment and will be responsible for developing and refinancing through a Pradhan Mantri MUDRA Yojana. Since small entrepreneurs are businesses are often cut off from banking system because of limited branch presence, Mudra Bank will partner with local coordinators and provide finance to "Last Mile Financiers" of small/micro businesses.

**Keywords:** MUDRA, IDBI, Refinance, MFIs, Micro Finance.

### 1. Introduction

Indian Government launched the MUDRA Bank on 8 April, 2015, bank which will provide loans up-to Rs 10 lakh to small entrepreneurs including shopkeepers and beauty parlour owners, hoping that it will promote growth and create jobs. The Micro Units Development and Refinance Agency Bank will act as a regulator for micro-finance institutions (MFIs). Mudra Bank will have a corpus of Rs 20,000 crore, in this banks mantra is "After banking the un-banked with the Jan Dhan Yojana, it's time to fund the unfunded". MUDRA has been registered as an NBFC with the Reserve Bank; MUDRA would act as a subsidiary of SIDBI. Micro Finance in India is the largest in the World in terms of geographical coverage, beneficiaries more particularly women covered, savings mobilized, loans extended, recovery performance, participation of NGOs, MFIs, banks, innovations experimented, and the policy support at the national level, the programme has yet not received adequate and significantly visible recognition and acceptance at the international level. This paper is an attempt to find out the challenges and issues relating to MUDRA bank How MUDRA bank can play a significant role in financing the deprived segment of the Indian economy mainly poorer and small entrepreneurs.

### 1.2 Mudra another Face of Financial Inclusion

The scale of the problem of financial exclusion can be daunting. Nearly half of the population and a majority in rural Indians do not have bank accounts. Even though microfinance institutions have expanded very fast in the last five years, they still only cover about one fifth of low-income households and they to meet only one tenth of the credit needs of the poor. The move is aimed at benefiting some 58 million small businesses in the country, who account for a mere 4% of institutional funding, despite employing over 120 million people, many from unprivileged strata of society.

### 1.3 Principle Objective of Mudra

1. Develop the standardized covenants that will form the backbone of the last-mile business in future.
2. Offer a Credit Guarantee scheme for providing guarantees to loans being offered to micro businesses.
3. Introduce appropriate technologies to assist in the process of efficient lending, borrowing, and monitoring of distributed capital.
4. Build a suitable framework under the Pradhan Mantri MUDRA Yojana for developing an efficient last-mile credit delivery system to small and micro businesses.

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#### 1.4 Differences between Sidbi and Mudra

1. SIDBI is an apex small unit's development bank where MUDRA will initially be started as a department of SIDBI.
2. The role of SIDBI remains to promote and finance the small scale sector, implement government plans and coordinate with other organizations while the role of MUDRA has been conceived more in the context of present state of Microfinance sector.
3. Over a period of time, MUDRA, replacing RBI, may emerge as a regulatory body for Microfinance sector housed by emerging NBFC-MFIs. (This is vehemently protested by MFIs who wish to function under regulatory powers of RBI.)
4. MUDRA may refinance other MFIs to finance SHGs (Self Help Groups) to promote micro entrepreneurship.

#### 1.5 Benefits

MUDRA has been set up for development and refinancing activities relating to micro units. It will provide refinance to banks and other institutions at 7 per cent. The Micro finance institutions (MFIs) and non-banking finance companies (NBFCs) can avail of loans from MUDRA for on lending to the borrowers.

MUDRA will be helping to develop MFI sector the purpose of MUDRA is to create as many MFIs as possible which can actually give same kind of eco-system and services which are avail now to these poor people. It will provide much needed fund at poor people doorsteps at a reasonable rate of interest. MUDRA Bank mainly targeting micro finance, the roles predict for MUDRA include laying down policy guidelines for micro enterprise financing business and registration of MFI entities as well as their accreditation and rating.

#### 1.6 Mudra-Emerging Issues and Challenges

The Policy formulation for financing micro enterprises, small business firms and registration of microfinance institutions (MFIs), it's very difficult to formulate new policy to function MUDRA. Rating and accreditation of MFIs are also very tough to frame rules and regulations for Rating and accreditation.

Another very hard job is to Setting benchmarks for best practices of lending, client protection, and customer services. As a government entity providing technology support to cover the last entity is difficult. Formulating and running a credit guarantee scheme for micro enterprises, setting up a good architecture for micro finance, and acting as a development and refinance institution. It's a high challenges for MUDRA Bank at the early stage.

The importance of MUDRA is to be given easy and timely access to finance by poor and the rate of interest charged by MUDRA is also very important. The rates of interest charged by most of the MFIs and the NGOs engaged in financial intermediation, though lower than charged by informal system, are still considered and perceived very high in several quarters and have become source of criticism and irritation. The MUDRA also charged low interest rate compare to other MFIs and NBFCs.

MUDRA also need for better clearness, in consider to raising resources, cost management, charging of interest rates, penalty of interest, other penalties, Services Charges etc. MUDRA should not be perceived as being built up at the cost of poor who have no bargaining capacity and have very limited options for access to finance. Broad Parameters for cost of management and lending rates need to be evolved.

The role and functions of MUDRA bank have a lot of ambiguity and confusions. In the current structure of financial intermediaries, there are a few refinancing agencies already engaged in funding small units, There is an obvious case of conflict of interest arising in the operations of the bank acting as a refinancing agency and the regulator for small companies. The growth of shadow banks in a financial system. Shadow banks are entities with very little or no regulatory oversight, but still takes significant credit exposure to high-risk segments. When these entities grow to a certain size, any crisis that arises in their operations can have systemic impacts and spillover effect to the rest of the financial system. The lack of clarity in the set-up, the safest and simplest way probably was to build a financing model for small companies by permitting maximum number of small finance banks.

#### 2. Conclusion

The MUDRA Bank has to take the initiative to reach out to new innovators, counsel them, and, wherever possible, connect them with their other clients, to help develop their market. Although Poor do need serviceable savings facilities on regular basis, but if their savings are fixed with the MUDRA and they have to borrow, the economics is upside down. MUDRA main role is to creating relationship between creative people and successful clients could be a game-changing institutional innovation. Improvement in different segments, at different levels and for different sections will aid this process in no small measure" the role of the banking system was paramount in the entire innovation value chain. In this bank security and safety aspects are also equally critical. Convenient and appropriate savings products need to be developed for the MUDRA clients. Also, financial inclusion has to be much wider and extensive than merely having saving accounts and or borrowings from the banks. The Poor must have an opportunity to access and mediate his savings to the pool of investment that fetches him the rate of interest on his savings comparable on other saving and investment instruments available in the market. MUDRA is to contributing to reduce economic inequality and would need proper solution for the small business.

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