



Mudra Bank: An Innovative Financial Architecture to Lift the Micro and Small Businesses in India

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Abstract

The growth of the Indian economy depends critically on the rise of the non-corporate business sector. The Non-Corporate Small Business Sector (NCSBS), which is the kamadhenu (job-intensive) but credit-starved sector of our economy, is the main source of the issue. 128 million employment and millions of rural and semi-urban entrepreneurs are produced by these 58 million non-formal micro businesses. The performance of this industry directly impacts the national economy. Two-thirds of these facilities are administered by Scheduled Castes, Scheduled Tribes, and Other Backward Classes. Banks, however, only supply 4% of the credit required by this sector. The majority of this sector lacks access to formal funding sources.

The Government of India established Micro Units Development & Refinance Agency Ltd. (MUDRA) in order to satisfy the needs of the NCSBS segment, sometimes referred to as the informal sector, and integrate them into the financial system. It will be established as a branch of SIDBI, an organisation that has spent the past 25 years supporting India's small-scale industries. It was established as an apex refiner and serves as a regulator for "Micro Finance Institutions (MFIs)" for the benefit and development of the micro- and small-business sector. 5.75 crore small business units in India would receive services from the MUDRA bank, many of whom are now unable to obtain loans through the traditional banking system.

The purpose of the paper is to draw attention to the MUDRA Yojana, a cutting-edge financial system that has the potential to drastically alter the Indian economy. MUDRA Bank seeks to support micro and small businesses in India through refinancing, aid with development, and financial inclusion of the missing middle.

Key Words: MUDRA, NCSBS, PMMY, MFIs, NBFC.

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1. INTRODUCTION

The number of small business units is expected to be 5.77 crore. MUDRA Bank provides "responsible financing practices" in addition to producing a standardized set of covenants governing last-mile lending to micro businesses in order to prevent excessive debt and provide effective client protection principles and ways of recovery. Giving these micro/small business units/enterprises access to institutional funding, according to the funding Ministry, would not only help to improve the quality of living for these entrepreneurs but would also transform them into powerful engines of GDP growth and job creation. An economy's ability to expand its industry depends on its financial stability.

Commercial banks play a significant role in the process of industrial development by generating capital and offering long-term loans to the industrial sector. Commercial banks help manufacturers buy machinery and equipment from overseas using the installment system by securing postponed payments. As a result, banks constantly monitor and support industrial development. Every country's banking system is one of its most important components. In a competitive and expanding environment, finance is essential. A sound financial system is necessary for sustainable growth and development in order to support not just the economy but also society. Banks utilise a variety of strategies to finance the industrial sector.

Commercial banks in India provide hire-purchase finance as well as short- and medium-term funding for small businesses. The Prime Minister established the Micro Units Development Refinance Agency (MUDRA) Bank, which will oversee "Micro-Finance Institutions" (MFIs). MUDRA is anticipated to provide standards for the microenterprise lending sector in addition to registering, accrediting, and evaluating MFI organisations. After being founded through a statutory enactment, Mudra Bank would be in charge of developing and refinancing through a Pradhan Mantri MUDRA Yojana. Since banks typically turn away small business owners and entrepreneurs, MUDRA will collaborate with regional coordinators to provide funding to "Last Mile Financiers" of small and micro firms.

Significant Role of MUDRA

- There are about 58 million informal micro businesses operating in India. Create 128 million employment and millions of rural and semi-urban business owners. Scheduled Castes, Scheduled Tribes, and Other Backward Classes run two-thirds of these facilities. However, banks only provide 4% of the funding this Kamadhenu of job creation needs; as a result, this industry now borrows at usurious rates of interest of 120% and more from local money lenders. Due to a lack of paperwork and collateral security, they are excluded from formal finance.
- While the formal sector, which has received almost Rs. 54 lakh crore in loans and investments from local and foreign sources since 1991, has only been able to create a few million employment in that time.
- Giving such micro/small business units/enterprises access to institutional finance will not only assist to improve the quality of life of these entrepreneurs but will also transform them into potent engines of GDP development and job creation.

The initiatives included in PMMY would significantly boost the confidence of young, educated, or skilled individuals, enabling them to start their own businesses. Additionally, it would allow current small enterprises to increase their operations.

2. OBJECTIVES

- [i] To throw light on the Pradhan Mantri MUDRA yojana and Bank for micro as well as small businesses
- [ii] To depict the scenario how can mudra bank make a difference to the Indian economy.
- [iii] To showcase the importance and progress of the mudra yojana

3. METHODOLOGY

The financial additions have achieved notable and outstanding results. Through the Pradhan Mantri Mudra Yojana, this study intends to discover and analyse the factor responsible for complete financial inclusion in formal small businesses and micro businesses in the non-formal sector. The entire descriptive aspect of this study will be dependent on secondary material that was gathered through books, articles, journals, websites, etc.

4. PRADHAN MANTRI MUDRA YOJANA

MUDRA is short for Micro Units Development & Refinance Agency Ltd. However, the Indian Prime Minister had already presented its basic vision as part of the PM MUDRA Yojana, a scheme for supporting the unfunded. The foundation of the MUDRA Bank was suggested as part of the Union Budget for FY 2015-16. All banks are required to offer micro enterprises engaged in manufacturing, processing, trading, and service sector operations loans of up to '10 lakh, per the PMMY rules established by the Department of Financial Services (DFS), Government of India.

The Micro Units Development & Refinance Agency (MUDRA) Bank must be established by formal law, but it was decided to launch MUDRA as a SIDBI unit for the time being in order to benefit from SIDBI's activities and expertise. The Hindi word for money or capital is mudra. Money and capital are envisioned as the success factors for small firms. The mission of MUDRA is to finance the NCSBS, or non-corporate small business sector. 5.75 crore small business units in India would receive services from the MUDRA bank, many of whom are now unable to obtain loans through the traditional banking system. Mudra Bank will provide funding to "Last Mile Financiers" of small and micro businesses in coordination with regional coordinators. In addition to NCSBS, it is intended that MUDRA's initiatives will concentrate on mainstreaming educated young people, skilled workers, and entrepreneurs who occupy the middle ground between extremely low-income small borrowers like low-income households, farmers, and migrant workers at one end of the financing spectrum and large industrial credit seekers. MUDRA Bank restructures existing debt and offers development assistance to assist micro, small, and medium-sized enterprises (MSME) or the NCSBS. This tries to assist the economically excluded middle.

Micro Units Development & Refinance Agency Limited (MUDRA) predicted that Shishu would require more thought. For F.Y. 2015-16, a goal of 1,22,188 crore was set. It was determined that MUDRA would keep an eye on PMMY's development. Additionally, it was recommended that the National Bank for Agriculture & Rural Development (NABARD), which oversees RRBs, keep a watchful eye on their development. To gather data on new businesses, female entrepreneurs,

SC/ST, minorities, MUDRA cards, and other topics, as well as to compile statistics on PMMY performance on a weekly basis, a dedicated website called www.mudra.org.in was established. The information was acquired in this manner, reviewed, and given to GOI.

The main strategy for expanding the Indian economy is to assist small business entrepreneurs. In our country, 12 crore people work for small businesses, compared to just 1 crore 25 lakh who are employed by huge industries. However, the unpleasant reality is that while large enterprises in India enjoy a wide range of amenities, owners of small firms and informal business associations usually find themselves cut off from the banking system due to a lack of branch locations and other issues. Special consideration should be given to the 5 crore 75 million self-employed individuals who employ 12 crore Indians while only using a total of Rs. 11 lakh crore and carrying an average unit debt of just Rs. 17,000 per.

For the non-formal sector, a new financial institution called the Micro Units Development Refinance Agency (MUDRA) was established with a corpus of Rs. 20,000 crore and government backing of Rs. 3,000 crore for credit guarantee. MUDRA will be created in accordance with a special statute. A creative financial framework that includes current private small company financiers as last-mile lenders will be used to fund millions of entrepreneurs. It is an entirely indigenous, innovative, and India-focused solution for the Indian economy's biggest job-creating but credit-starved sector.

5. FUNCTION & RESPONSIBILITY OF MUDRA

MUDRA's primary function is refinancing. MUDRA would function as an apex refinancing institution through intermediaries at the state and regional levels. All Last Mile Financiers, such as scheduled commercial banks, regional rural banks, small banks, MFIs, trust, cooperative societies, non-banking finance companies, and section 8 companies (formerly section 25), which lend to micro & small non-farm business entities engaged in manufacturing, trading, and services activities, will be channeled through it and given refinancing. For the successful implementation of the plans across the country, MUDRA must pay attention. In this regard, MUDRA's duty includes establishing policy guidelines for microenterprise financing businesses, as well as registering MFI entities and grading, accrediting, and rating them.

6. LOAN OFFERINGS UNDER PMMY

Three sets of products/schemes that are provided under the aegis of PMMY are listed in the mudra. The names of the scheme, "Shishu" (meaning infant), "Kishor" (meaning child), and "Tarun" (meaning adolescent), respectively, were inspired by Hindi literature because the mudra yojana is an indigenous financial architecture for the advancement of micro and small businesses. These names indicate the state of financial requirement for the growth and development of the beneficiary micro & small units/entrepreneurs.

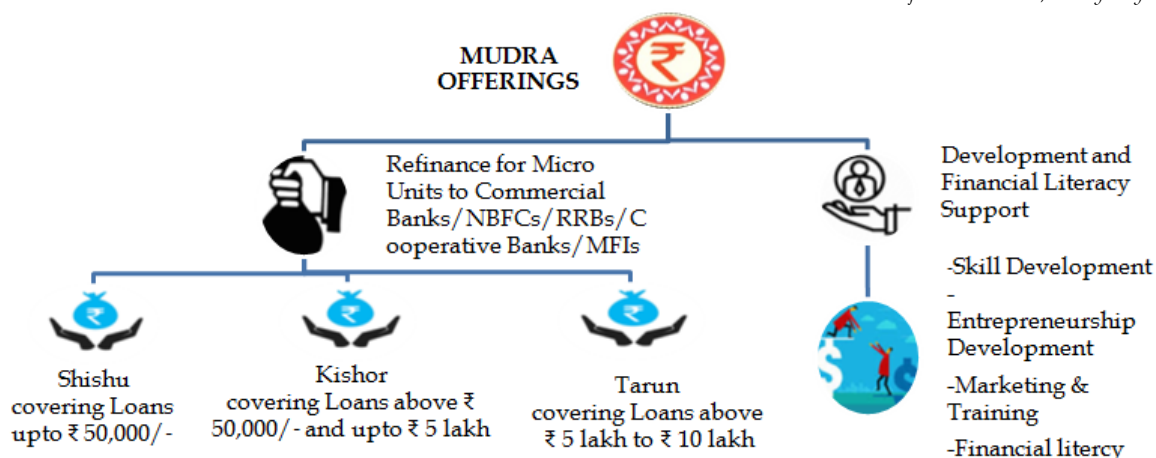


Fig: Financial & Technical Support by the MUDRA

The MUDRA Bank will nurture micro and small businesses through different stages of growth and development of businesses termed as Shishu, Kishor and Tarun.

Shishu-(meaning infant) this is the first step when the business is starting up. The loan cover in this stage will be upto Rs 50,000.

Kishor-(meaning child) in this stage, the entrepreneur will be eligible for a loan ranging from Rs 50,000 to Rs 5 lakh.

Tarun-(meaning adolescent) this stage covers a loan ranging from 5 lakhs to 10 lakhs.

More Specifically, New Financial Architecture MUDRA would be Responsible for Following:

- Laying down policy guidelines for micro enterprise financing business
- Registration & Supervision of MFI entities
- Accreditation /rating of MFI entities
- Laying down responsible financing practices to ward off over indebtedness
- Ensuring proper client protection principles and methods of recovery
- Development of standardized set of covenants governing last mile lending to MFIs
- Promoting right technology solutions for the last mile
- Formulating and running a Credit Guarantee scheme for providing guarantees (to the loans/portfolios which are being extended to micro enterprises).
- Supporting development & promotional activities in the sector

7. HOW CAN MUDRA BANK MAKE A DIFFERENCE TO THE INDIAN ECONOMY?

The majority of people, particularly those from rural and inner-city areas who operate micro and small businesses, are not eligible to get official financial services from India's major banks. As a result, they were never able to develop and expand their micro companies with the aid of

insurance, credit, loans, and other financial instruments. As a result, they had little choice but to rely on local payday lenders to meet their financial needs.

Banks are willing to offer loan and advance facilities to their customers in our mainstream banking system only in exchange for collateral security; otherwise, no credit service is offered. Undoubtedly, reducing NPA is essential to the existence of banks, but at the same time, many people from lower social classes are being excluded from the official banking system because they are unable to offer adequate security as collateral for the necessary funds.

The borrower is forced to slip into a debt trap for generations by the exorbitant interest rate and frequently intolerable terms of the loan from a local moneylender. The unique plan to 'finance the unfunded' 58 million micro and small companies in the non-formal sector is the first manifestation of the India-centric strategy (MUDRA). According to the Credit Suisse Asia Pacific/India Equity Research study from July 2013, the informal sector is unique to India and is mainly prohibited in other nations. It is informal, according to the research, because government measures have not affected it. These 58 million non-formal micro businesses create 128 million jobs and millions of rural and semi-urban entrepreneurs.

Scheduled Castes, Scheduled Tribes, and Other Backward Classes run two-thirds of these facilities. However, just 4% of the financing required by this Kamadhenu for employment development is provided by banks. The sector currently borrows money at usurious interest rates of 120% and higher. The formal sector, which has received almost Rs.54 lakh crore in loans and investments from local and foreign sources since 1991, has added only a few million employments in the past twenty years while being denied funding. Since the liberalisation, all governments had anticipated that these millions of units would fail under market economics. But out of all the Indian economy's sectors, they have had the quickest growth. However, India's economic policymaking has mostly ignored them.

8. IMPORTANCE AND PROGRESS OF THE MUDRA YOJANA

I. Innovative Financial Architecture for Financial Inclusion and Entrepreneurship Development in India:

MUDRA has proven to be a grant success in terms of beneficiaries and funds awarded. The Banks and MFIs together disbursed 132954.73 crore as opposed to the predetermined target of 122188 crore, achieving 109%. The Yojana's overall performance suggests that the goal was reached during the 2015–16 fiscal year. The accomplishments of public sector banks point to a significant expansion of lending in this market. Based on information gathered from PSBs, it was determined that these banks disbursed over 33,000 crore in this market during the 2014–15 fiscal year, an increase of 70% during the following year.

Table 1: Region wise Performance by Banks (No. of Accounts)

Category	North	West	East	South	Total
Shishu	2382453	1864905	1893789	2563432	8704579
Kishor	414020	331002	375376	852109	1972507
Tarun	120636	95641	60320	132814	409411
Total	2917109	2291548	2329485	3548355	11086497

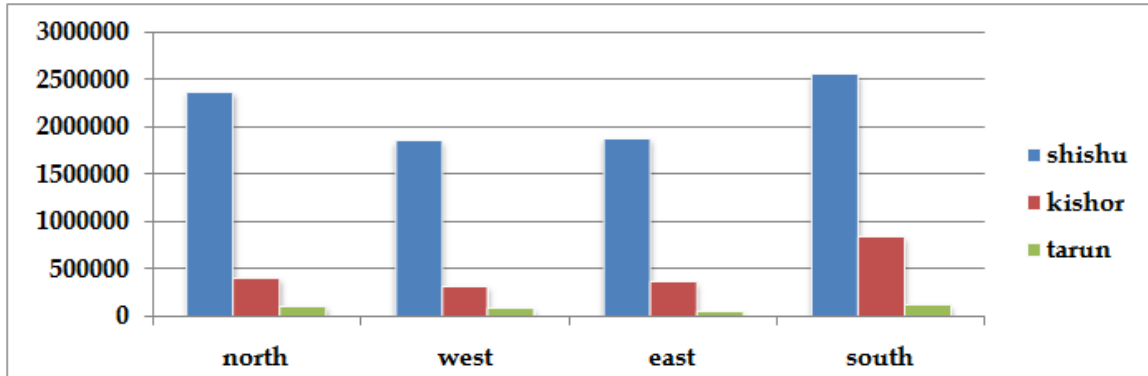


North: Chandigarh, Haryana, HP, J&K, Delhi, UP, Uttarakhand, Punjab and Rajasthan

West: Dadra & Nagar Haveli, D&Diu, Gujarat, Lakshadweep, MP, Maharashtra

East: NE States, Odisha, WB, Sikkim, Bihar and Jharkhand

South: Karnataka, Kerala, Pudicherry, TN, Telangana, AP, and Andaman & Nicobar



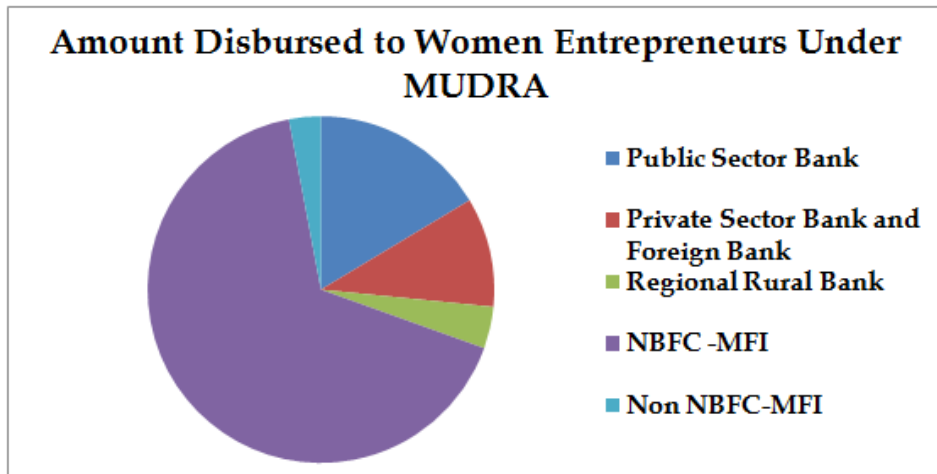
We can quickly determine that all four regions enjoyed extensive coverage under PMMY by fitting the data from Table 1 in the prior paragraph into the bar graph. The blue bar, which shows that the number of accounts established under Shishu is highest across all four areas, clearly shows how strongly India has supported the growth of first-generation entrepreneurs, despite some regional differences that gave the Southern region an advantage. The other three areas were essentially on par with one another.

II. A Strategic Tool for Development of Women Entrepreneurs in India

The elimination of poverty, employment, the improvement of socioeconomic status, and economic progress all depend on the poor and vulnerable groups, especially impoverished women, having access to finance.

Table 2: Financing Women Entrepreneurs

Bank Type	Women Entrepreneurs	
	No of Account Opened	Amount Disbursed in Crore
Public Sector Bank	1475907	10352.09
Private Sector Bank and Foreign Bank	2153790	6450.74
Regional Rural Bank	292127	2462.19
NBFC -MFI	22962461	42047.05
Non NBFC-MFI	743980	1878.36
Total	27628265	63190.43



Providing affordable financial services and support to women entrepreneurs was one of the main objectives of PMMY to empower the women in India. The data in the above table shows that 2.76 crore women were funded via various formal and informal institutions. From the pie chart, we can easily conclude that NBFC-MFI is playing their role very well by funding approx. 66.55% of women entrepreneurs under PMMY.

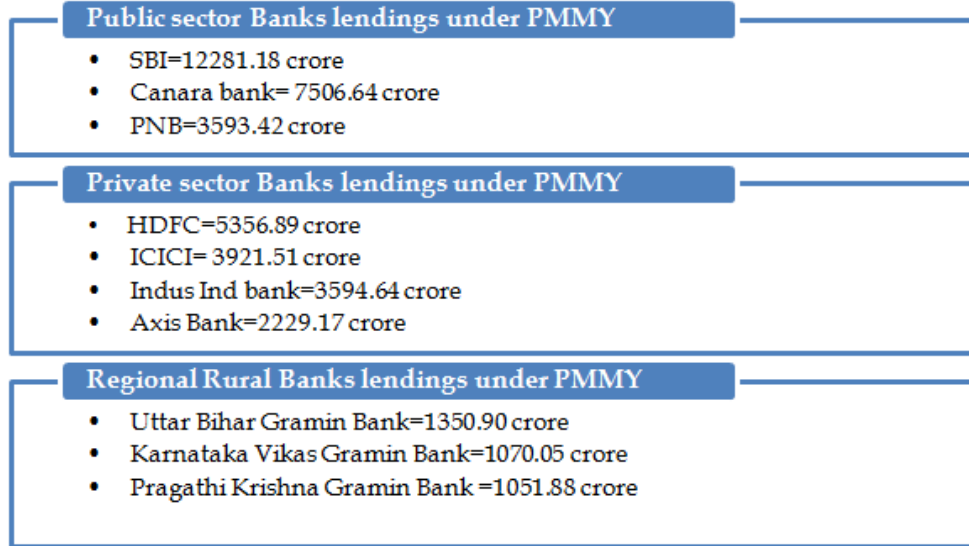
III. Integrate Non-Formal Institution with The Formal Institution for Providing Fund to Unfunded:

MUDRA loan is meant for 'funding the unfunded'. This provides funds to the millions of entrepreneurs by an innovative financial architecture by integrating the existing informal financiers of small businesses as last-mile lenders. It is a completely innovative solution for the credit-starved but job-intensive small business segment of the Indian economy. It is available for both new units as well as expansion of existing units.

**Table 3: Region wise Performance – Banks (Amount Disbursed)
In Crore**

Category	North	West	East	South	Total
Shishu	4090.28	3478.55	3746.97	5668.02	16983.82
Kishor	9436.71	7312.05	7116.48	16426.35	40291.59
Tarun	9022.46	7143.29	4219.29	9389.86	29774.9
Total	22549.45	17933.89	15082.74	31484.23	87050.31
Average Disbursed/ Account (in Thousand)	77	78	65	89	79

IV. Individual Bank wise Performance in Terms of Disbursement of Loan under Mudra



**Table 4: Region wise Performance - Banks & MFIs (Amount Disbursed)
In Crore**

Category	North	West	East	South	Total
Shishu	12037.22	14581.37	14491.25	20917.85	62027.69
Kishor	9612.64	7494.02	7200.78	16765.84	41073.28
Tarun	9041.88	7171.12	4224.92	9415.84	29853.76
Total	30691.74	29246.51	25916.95	47099.53	132954.7

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9. CONCLUSION

The Indian government introduced MUDRA, a unique and creative financial architecture. Through the notion of last mile financiers, MUDRA develops a strong vision for formalising the current informal lenders and funding the unfunded, which would be crucial in closing the gap in India's informal small business sector. By promoting the growth of entrepreneurship and women's entrepreneurship, elevating the underprivileged, pursuing equal distribution of wealth and opportunity, and working hand in hand with modern technology, this could completely transform the Indian economy and give rise to a new generation of technically and financially

sound entrepreneurs. It is evident from the aforementioned table and chart that MUDRA performs the worst in the east while performing the best in the south. The confidence of our talented and educated kids will be considerably boosted by this straightforward but creative way to funding the unfunded. Therefore, it is hoped that the Indian economy's situation will improve with a lot more employment opportunities, significant entrepreneurship development, and ultimately stronger GDP growth.

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