

MUDRA Bank: A step in the right direction for “Funding the Unfunded”

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Abstract

Mudra bank is a new initiative to tackle the credit restriction problem faced by the MSME and to some extent agricultural sectors. Various initiatives in this regard, have already been taken previously but that failed to give desired result and the outcome of this improper growth and problem of unemployment. In case of India, government is focusing on skill development of youths but developing one side will ultimately increase the problem to a great extent. What is required development of demand side as well as supply side of the economy, so that skilled manpower can get adequate job opportunities. But lack of expansion due to shortages of fund is one of important constraints in this regard. The present study would like to highlights on these issues and also tries to understand the perception of stakeholders regarding Mudra Banking.

Key Words: Mudra Bank, Skill Development, Microfinance, Poverty, Reliability & Validity Test

Introduction

Any government's priority in a developing economy is to provide employment, encouraging self-employment and develop the small and medium enterprises. Growth in small businesses is key for the Indian economy because the sector is estimated to account for 20 per cent of economic output and 40 per cent of India's exports. In a developing country like India, it is largely the small and medium entrepreneurs who provide employment to a large portion of the working population. While big

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industrial houses provide jobs to only 1.25 crore people, small entrepreneurs have given employment to nearly 12 crore people. Despite employing such a large number of people, small businesses have difficulty in getting credit from established banks which has resulted into stifled growth and limited employment. In order to strengthen & support the small entrepreneurs financially, the government has introduced the Pradhan Mantri Micro Units Development Refinance Agency (MUDRA) Yojana targeted towards mainstreaming young, educated or skilled workers and entrepreneurs, including women entrepreneurs. The government under the umbrella of this scheme launched the MUDRA bank with a corpus of Rs. 20,000 crore and credit guarantee of Rs. 3,000 crore. The bank will be responsible for refinancing micro-finance institutions in the business of lending to small entities.

The roles envisaged for MUDRA would include:

- Laying down policy guidelines for micro enterprise financing business
- Registration of MFI entities
- Accreditation /rating of MFI entities
- Laying down responsible financing practices to ward off over indebtedness and ensure proper client protection principles and methods of recovery
- Development of standardised set of covenants governing last mile lending to micro enterprises
- 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
- Support development & promotional activities in the sector
- Creating a good architecture of Last Mile Credit Delivery to micro businesses under the scheme of Pradhan Mantri MUDRA Yojana

MUDRA Bank will instill a new confidence in the small entrepreneurs that have been to exploitation at the hands of money lenders. 20% of the country's population is dependent on 5.7 crore micro and small entrepreneurs and they do not have access to institutional credit. Through MUDRA Bank the target and focus is on these 5.75 crore micro and small entrepreneurs who use funds of Rs 11 lakh crore, with an average per unit debt of merely Rs 17,000. It is estimated that a loan benefit of Rs 1 lakh to these entrepreneurs will provide a big push to the country's gross domestic production (GDP). Mudra Bank will cater to small businesses such as tailors, mechanics and agro-entrepreneurs. It will act as a regulator for micro-finance institutions and will be responsible for refinancing (provide low-cost loans) MFIs in the business of lending to small entities. It will partner with state and regional level coordinators to provide

finance to last mile financiers of small and micro business enterprises. The Mudra Bank will also formulate lending norms for micro-finance institutions so that the small businesses do not face hardship over indebtedness, while getting a fair environment for repayment.

The Mudra Bank will launch three products initially - 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 up to Rs 10 lakh. Loans from Mudra Bank will help bridge the shortfall in loans for small businesses, currently estimated at more than \$80 billion (nearly Rs 5 lakh crore). MUDRA would also adopt a credit plus approach and take up interventions for development support across the entire spectrum of beneficiary segments. The highlights of such proposed interventions / initiatives are as under:

- Supporting financial literacy
- Promotion and Support of Grass Root Institutions
- Creation of Framework for “Small Business Finance Entities”
- Synergies with National Rural Livelihoods Mission
- Synergies with National Skill Development Corporation
- Working with Credit Bureaus
- Working with Rating Agencies

Objectives of the study

To understand the perception of the respondents

To provide suggestions wherever necessary

Scope

The scope of the study is spread over Banaras district of UP, Khordha district of Odisha and Malda district of West Bengal.

The respondents are basically farmers and small scale entrepreneurs.

Methodology of the study

Based on the research objective, it has been decided to go for quantitative survey in the study areas with the help of structured questionnaire. Since, the main purpose of the article is to identify the perceptions regarding Mudra Banking concept, it is important to identify the target respondents who will be the actual beneficiary of the programme.

Research methodology is an important ingredient in any kind of research based on the primary data as it gives the researcher a proper guidance towards research objectives. In the present paper following things have been incorporated to develop a comprehensive research design.

Sample Technique and Sample Plan:

Looking at the nature of the problem and kind of study that we are conducting, it has been decided to go for primary data collection method with the help of structured questionnaire and for proper representation of the target respondents it researchers decides to opt for random sampling technique. This technique helps us to get the respondents from the larger population like farmers and small scale entrepreneurs.

Questionnaire Design:

As the study is entirely based on primary data, a need for a structured questionnaire becomes essential. So, the questionnaire has been developed for this purpose and the entire questionnaire is divided into two parts. Part A of the questionnaire is developed to incorporate the basic socio economic variables and demographic variables. This section may not have direct relevance with the research objective, but it surely throws some lights on the respondent's lifestyle and socio economic conditions. The Part B of the questionnaire has the direct relevance with the research objective and initially 14 variables have been identified after conducting a in depth literature review. These variables are designed in such a manner which shows specific perception of the target respondents regarding Mudra Bank and the data has been captured with the help of five point Likert scale. The identified variables are listed below:

Variables of MUDRA BANK

- X1: Help the distressed farmers to rejuvenate and make their work progress.
- X2: Big achievement for microfinance sector and MFIs will be strengthen
- X3: Help to set up self-motivated business.
- X4: It access formal system of credit.
- X5: Will boost growth
- X6: It will help small scale entrepreneur
- X7: It will help hard working Indian entrepreneur who are denied opportunity to start own business.

- X8: It will increase the confidence of young educated or skilled workers who are aspiring for first generation entrepreneur
- X9: Help micro and small entrepreneurs more effectively.
- X10: Free the small farmers and traders from the clutches of blood sucking money lenders.
- X11: This will help farmers' community lot.
- X12: Help in improving quality of life of entrepreneurs and farmers
- X13: It will help in growth and employment generation
- X14: A step towards make in India movement

Pilot Study

In any kind of primary survey it is important conduct a reliability and validity test to judge whether the questionnaire is reliable for the present study or not. Considering this aspect, in the present study we have decided to go for both reliability and validity of the questionnaire with the help of sample respondents. For this purpose, initially a pilot study was conducted with the help of 149 respondents. The result of the study discussed below:

Reliability Test

Reliability study is being conducted to judge the internal consistency of the variables that has been incorporated in the study. For reliability test if Cronbach Alpha's value is more than 0.70, then we can conclude that the questionnaire is reliable and can proceed for final analysis. For the present study, the result of Cronbach's Alpha is shown below:

Reliability Statistics

Cronbach's Alpha	N of Items
.872	14

It can conclude from the above table that since the alpha value is more than 0.70, the questionnaire is reliable and can be use for final study. But only reliability analysis may not give us a true picture and for this reason we have to depend on validity test.

Validity Test

To conduct the validity test of the questionnaire, we have decided to go for Principal Component Analysis. For conducting validity test, two conditions need to be fulfilled. These are:

- KMO measure of sample adequacy should be > 0.70 , and
- Bartlett's Test of Sphericity should be significant.

In the present study the result thus obtained is shown below:

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.743
Bartlett's Test of Sphericity	Approx. Chi-Square	2154.966
	df	78
	Sig.	.000

The table shows both the conditions for running PCA is fulfilled and this tells that we can use PCA method to test the validity of the questionnaire. The validity of the questionnaire is being tested considering all the 14 variables identified through literature review. It is observed that if we delete variable 14, then both the discriminant validity condition as well as convergent validity conditions is being satisfied and the 13 variables are able to explain 58% of the total variables explained which is quite a strong result for a primary study like this. The result of the analysis is shown in the table below:

Final Variables after Conducting Validity Test of the Questionnaire:

Name of the Variables	Variables	Factor I	Factor II	Factor III	Communalities
X2	Big achievement for microfinance sector and MFIs will be strengthen	.800			.646
X4	It access formal system of credit	.779			.620

X6	It will help small scale entrepreneur	.766			.594
X7	It will help hard working Indian entrepreneur who are denied opportunity to start own business	.725			.547
X10	Free the small farmers and traders from the clutches of blood sucking money lenders.	.700			.492
X3	Help to set up self-motivated business.	.650			.444
X9	Help micro entrepreneurs more effectively.	.638			.424
X1	Help the distressed farmers to rejuvenate and make their work progress.		.811		.672
X8	It will increase the confidence of young educated or skilled workers who are aspiring for first generation entrepreneur		.794		.659
X11	This will help farmers' community lot.		.687		.509
X12	Help in improving quality of life of entrepreneurs and farmers		.632		.419
X5	Will boost growth			.876	.781
X13	It will help in growth and employment generation			.870	.770
KMO Measure of Sample Adequacy		.743			
Bartlett's Test of Sphericity		Significant			
Total Variance Explained		58%			

Thus, both the reliability and validity analysis of the data shows that the questionnaire prepared for this study is acceptable for further study after suitable modification. With the help of this questionnaire the final study has been conducted considering 367 respondents.

Analysis of Result

Based on the survey data the below mentioned table has been developed (Figures in the table are in percentage):

Variable No.	Variables	n	SA (%)	A (%)	N (%)	DA (%)	SDA (%)
X2	Big achievement for microfinance sector and MFIs will be strengthen	367	59.40	33.79	3.54	2.45	0.82
X4	It access formal system of credit	367	29.70	26.70	5.45	15.80	22.34
X6	It will help small scale entrepreneur	367	59.13	29.16	4.09	5.45	2.18
X7	It will help hard working Indian entrepreneur who are denied opportunity to start own business	367	59.95	32.97	4.09	2.45	0.54
X10	Free the small farmers and traders from the clutches of blood sucking money lenders	367	13.35	6.81	0.54	38.42	40.87
X3	Help to set up self-motivated business	367	37.60	40.33	2.18	17.71	2.18
X9	Help micro entrepreneurs more effectively	367	14.71	20.98	3.27	28.61	32.43
X1	Help the distressed farmers to rejuvenate and make their work progress	367	21.25	58.31	1.09	17.44	1.91
X8	It will increase the confidence of young educated or skilled workers who are aspiring for first generation entrepreneur	367	28.90	58.60	0.50	10.10	1.90
X11	This will help farmers' community lot	367	43.60	45.78	0.27	5.99	4.36
X12	Help in improving quality of life of	367	46.59	44.96	1.09	5.18	2.18

	entrepreneurs and farmers						
X5	Will boost growth	367	2.18	10.90	0.54	52.04	34.33
X13	It will help in growth and employment generation	367	32.43	51.23	3.81	9.26	3.27

Source: Computed from Survey Data

The above table highlights the perception of target respondents with respect to 13 variables that have been identified after conducting the pilot study. In the table above, the following notations are used for:

n = Sample Size

SA = Strongly Agree

A = Agree

N = Neutral

DA = Strongly Disagree

SDA = Strongly Disagree

Based on the response of the respondents the following conclusions can be drawn:

- With respect to Variable X2, most of the respondents are either strongly agree or agree with the statement. This is an indication which reflects the positive and effective movement of microfinance initiatives for the upliftment of the rural poor.
- With respect to Variable X4, respondents have given mixed response. Although, most of the respondents believe that it will surely increase the formal credit system. But, approximately 22% of the respondents responded negatively. The lack of awareness about formal system of credit may be the reason for this kind of dilemma.
- With respect to Variable X6, most of the respondents are either strongly agree or agree with the statement. Lack of finance is one of the important constraints for small entrepreneurs. Even the formal banking system is failed fill the gaps. Thus, if Mudra Bank is able to create distinct advantage for small players then that surely prove as an effective mechanism.

- The Variable X7 is in line with the VariableX6 and here also it shows that most of the respondents are strongly agree or agree with the statement. People engage in their own business, knows that only labour and skill will not be sufficient, unless and until the system does not provide an effective financing mechanism, hence the response is like this.
- With respect to Variable X10, most of the respondents are either disagree or strongly disagree with the statement. This is a age old problem for rural people as from the day one they have seen only money lenders in case of any kind of financial requirement. More importantly easy availability of the loan from them and no documentation is one of the primary reason for this kind of dependency. Thus, even if some innovative mechanism like Mudra Bank is being implemented, still success of it will largely depend on simple procedure and documentation.
- With respect to Variable X3, most of the respondents are either strongly agree or agree with the statement. Lack of finance till date for any kind of start – up ventures may be the probable reason for this kind of response.
- With respect to Variable X9, most of the respondents are either disagree or strongly disagree with the statement. Although, the perception for small enterprises are positive and the same is not reflecting in case of micro enterprises. Microenterprises are mainly household owned business with very limited or sometimes no capital at all. For them accessing credit is much more difficult than small entrepreneurs.
- In case of Variable X1, most of the respondents are strongly agreed or agree with the statement. Since, 70% of the population still living in rural areas and most of them engage in agricultural activities, they are facing lots of infrastructural constraints. By establishing this kind of institutions may help them to increase the overall productivity by applying new technology, high yielding varieties of seeds etc.
- With respect to Variable X8, most of the respondents are either strongly agree or agree with the statement. The problems that people are facing are that even if they have sufficient skills, still they are not able to get proper employment opportunities. This is a chain effect, which initially starts if there is a lack of investment is happening in any particular region or sector. Thus, if proper finance and financial support is not available then will create vicious circle of poverty.
- With respect to Variable X11, most of the respondents are either strongly agree or agree with the statement. Finance actuate shortage of skills is one of the primary reasons for this.

- With respect to Variable X12, most of the respondents are either strongly agree or agree with the statement. If initiatives can be taken to improve their level of earnings by this approach, then this will surely increase their standard of living.
- With respect to variable X13, it can be seen that most of the respondents are either strongly agree or agree with the statement. It is obvious that, to improve the employment situation, one need to participate in various types of income generating opportunities other than agriculture. Allied sectors and non - farm sectors both are equally important in this aspect. But to improvement of these areas can only be possible only with the help of planned investment programme. Thus, this kind initiative may prove effective in this regard.

Conclusion

For growth of any country it is very much important that the mechanism through we are looking for growth opportunities that should be fool proof and can deliver result. Uneven growth is futile and may hamper the overall prosperity of the country. A country like India, where population has the demographic dividend advantage, policy formulation is very crucial. As most of the people still living in rural areas and they are depending on agricultural sector alone, time has come to shift this direction towards more meaningful areas, where people have income certainty as well as skill upliftment. It is observed that most of the people in backward areas simply engaging themselves in informal sectors just because they are not being exposed to proper sectors according to their skills. Thus, only skill development will not sufficient, along with that absorption of that skill manpower is equally important. In India, through NSDC and various other skill development initiatives, we are trying to develop basic skills for unemployed youths. But what we are actually creating is a supply side pool. We are not looking at the demand side aspect. If this continues, then very soon, we will have excess manpower than what the sector can accommodate and the most negative part of it is falling wage rate. This phenomenon, thus, ultimately reduce their standard of living to a great extent.

Given these circumstances, an approach need to be develop, where, along with the manpower development, opportunity creation should be developed simultaneously. In case of India, both micro and small enterprises have the prospect to absorb these huge labour forces that are skilled but unemployed. Same case is applicable in case of agriculture sector also. But, the sectors are lacking in terms of finance. The study variables are also indicating in this aspect. Most of the research variables are ultimately linked to proper flow of finance from organized sectors. If this initiative of Mudra Bank becomes successful, then this will surely open the flat gates of growth and opportunities.

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