

MUDRA:A REVIEW AND REVOLUTION OF MICROFINANCE IN INDIA

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Abstract

India has recently launched a range of macroeconomic policy initiatives which are innovative as well as transforming. Launching of Micro Units Development and Refinance Agency (MUDRA) bank is one of them. The main objective of this initiative is to empower Non - Corporate Small Business Sector (NCSBS), fulfil the financial needs of small businesses spreading throughout the country and create as many Micro Finance Institutions (MFIs) as possible. Intertwining the main objective of micro finance the MUDRA BANK is targeting funding the unfunded as well as erstwhile financiers. In most developing countries, financing to the poor through formal financial services failed to meet the requirements because of high risk and high transaction costs associated with them. It is estimated that in developing countries, the formal financial system reaches on an average to only top 25 per cent of the economically active population. India is not an exception. GOI through this initiative has indicated to lend a loan in three categories through MUDRA Bank. NABARD will closely monitor the progress of this policy. If implemented in right spirit, this policy initiatives have the power to bring revolutionary changes in the Indian economy.

Keywords:

MUDRA;
Microfinance;
NABARD;
MFI's;
PMJDY

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1. Introduction

Throughout the world, micro finance is reckon with a means of credit-based poverty alleviation (Pallavi and Bhaskar, 2009). India with population of more than 1.2 billion is also facing the greatest challenges of any kind of policy initiative where one-third of its population is poor. Though India is one of the BRICs* nations and coined to be an emerging economy, has failed to make a significant improvement in its poverty alleviation as desirable limit with 400 million still is in poverty in spite of starting various poverty alleviation programs. The reasons behind this failure includes to reach the proper target group, developing a robust mechanism to control it, drawbacks in the system itself etc. To eradicate poverty like many countries of the world, India also experimented subsidized credit facilities but which has only led to increase in the non - performing assets (NPAs). The microfinance is one of the tool to fill up this gap but its outreach is too small as compared to its requirement as well as potential. With some active role played by NABARD there is small progress in this. But certain development in recent years initiated by GOI has brought a fresh focus on the problem of regulation in field of microfinance through MUDRA. This paper is trying to discuss concept of micro finance as it is understood worldwide, historical aspect of microfinance, the growth of microfinance in India and the role played by NABARD and other Nationalized banks, the role of government in framing legislation for protection of right of micro borrowers through MUDRA. This paper also discusses the need for MUDRA in the paradigm of the factors and theoretical position associated with evolution of microfinance and its role in global scenario.

1.1 Background

1.1.1 Microfinance: Concept

Microfinance is a broad and novel approach to provide saving and investment opportunity to the poor around the world. There is no doubt that an improved access and efficient provision of savings and credit can enable the poor to smoothen their consumption, enhance their income and earning capacity, gradually build up their asset base and enjoy an improved quality of life. In other words it provides poor people the power and means squarely in their hands to come out of poverty. It was observed that this section of society if given guidance, capital and productive

*It was 2001, the chief economist of Goldman Sachs, Jim O'Neill used the term BRICs, to denote the special category of large emerging economies in twenty first century. According to him, the BRICs, namely, Brazil, Russia, India and China, which at the turn of the century accounted for 25 percent of global Gross Domestic Product (GDP), could double their share to 50 percent

assets can emerge as the successful entrepreneur. This can easily be achieved by empowering them with power of microcredit (Akula, 2008). It has been estimated that microfinance has reached about approximately 80 million households through about 20000 micro-finance institutions(MFI's) operating in developing countries of Asia, Africa, Europe and Latin America (Pillai, 2011).

The distinguishing principles of micro finance is based on small amounts of loan in terms of credit delivery, give emphasis on social collateral, monitoring and focus on women borrowers in particular etc. With these three factors, micro finance is expected to effectively tackle the poor by targeting as well as screening of borrowers and enforcement of the credit contract (Hulme and Paul, 1996).

1.1.2Microfinance:Its requirement

In developing countries, formal financial services for the poor has failed to meet the credit requirements. The main reason behind this failure is absence of any recognised employment and hence absence of assurance, high risk and the high transaction costs of banks etc. Lack of loans facilities from formal institutions leaves the poor with no other option but to borrow money from money-lenders with huge rate of interest. There have been continuous efforts made by governments of different countries to deliver formal credit to rural areas by setting up special agricultural banks, rural banks or directing commercial banks to provide loans to rural borrowers. However, these programmes have also not worked well due to various reasons like political difficulty for governments to enforce loan repayment, selection of people for bank loans etc. (Adams, 1984; Adams and Vogel, 1986; World Bank, 1989). It was estimated that in most developing countries, the formal financial system reaches to only top 25 per cent of the economically active population (Women's World banking,1995) leaving the bottom 75 per cent without access to financial services. So, the emergence of microfinance was based on inability of formal credit institutions to deal with the credit requirements of poor effectively. This scheme is not only provides a wide range of financial services, build up assets, survive crises, establish small business to come out of poverty but also extending small loans to provide various other financial and non-financial services like savings, insurance, guidance, skill development training, capacity building and motivation to start income generating activities as well as enhance the

productivity of credit. This programme is becoming popular and emerging as a powerful instrument for poverty alleviation in many countries of Asia, Africa, Europe and America.

1.1.3 Microfinance: It's origin

The concept of Micro finance was first originated in Bangladesh with an organization called Grameen Bank in 1983[†] by Prof. Mohammed Yunus. He experimented to lend money[‡] of his own to the villagers most of whom were unable to obtain credit at reasonable rates to buy materials for various projects (New York Times, 1997). The success of this idea encouraged social innovators and organisations all over the world to begin experiments with different microfinance services to the poor. It is now adopted worldwide in the countries of different continents. In fact many international NGOs[§] are promoting microfinance programme for creating new businesses and combating poverty in a sustainable way. But the concept of providing financial services to low income people is very old^{**}. Over the past few decades, microfinance has been experimented in many developing countries (Seibel, 2005) some of which is very encouraging also as far as removal of poverty is concerned. For example, Bank Rakyat Indonesia (BRI) in Indonesia, Bancosol in Bolivia, Bank for Agriculture and Agricultural Co-operatives (BAAC) in Thailand, Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) of Bangladesh, NABARD in India, Amannah Ikhtiar Malaysia (AIM) of Malaysia, Agriculture Development Bank of Nepal (ADB), K-Rep in Kenya and Mibanco in Peru are the few have yielded encouraging results in alleviating poverty and empowering the poor through microfinance (Schwiecker, 2004).

1.1.4 Microfinance: It's function

[†]Grameen Bank was originally sponsored by the central bank of Bangladesh and some state owned commercial banks and foreign donor institutions. It was subsequently made into an independent banking organisation through government legislation. For a major part from its inception, Grameen Bank relied on funds from foreign donors. However, since 1995, Grameen Bank claims to have become self-reliant and does not rely on foreign funds

[‡] He gave a small loan of 856 Taka (\$27) from his pocket to 42 poor bamboo weavers and found that small loans radically changed the lives of these people and they were able to pay back the loans with interest

[§]Such as Foundation for International Community Assistance (FINCA), Americans for Community Cooperation in Other Nations (ACCION), Freedom from Hunger, Opportunity International, Co-operative for Assistance and Relief Everywhere (CARE), Consultative Group for Assisting the Poor (CGAP), etc.

^{**} For example susus in Nigeria and Ghana (15th century), Chit funds, Rotating Savings and Credit Associations (ROSCAs) and Self-Employed Women's Association of India (SEWA) in India, Tontines in West Africa, Pasanaku in Bolivia, Hui in China, Arisan in Indonesia [Bank Rakyat Indonesia, BRI, now one of the largest Microfinance Institutions (MFIs) of the world] (Schwiecker, 2004), Paluwagan in Philippines etc. In Europe it has started in Ireland (1720) and Germany (1847) (Seibel, 2005)

The Asian Development Bank (2000) defines the function of microfinance as the provision of broad range of services^{††} to poor and low income households and micro enterprises. This definition of microfinance is not only restricted to the below poverty line people but also includes only low income households. The Task Force (Hulme and Mosley, 1996) terms microfinance as the means of prudence, credit and other financial services of small amounts to the poor in rural, semi-urban or urban areas which helps them to raise their income levels and improve standard of living. It also emphasises loans for other credit needs such as housing and shelter (Jayaraman, 2001) etc. The Micro finance development and regulation bill (2007) defines microfinance as the provision of financial assistance services to an individual or an eligible client either directly or through a group mechanism(not exceeding rupees fifty thousand in aggregate per individual) for small enterprise, agriculture, allied activities (includes consumption purposes); or for housing or other prescribed purposes per individual (amount not exceeding rupees one lakh fifty thousand) for clients which may be landless labourers, migrant labourers, artisans and micro-entrepreneurs and farmers owning not more than two hectares of agricultural land.

1.2 Growth of microfinance in India

In India, the first initiative to introduce microfinance was the establishment of Self-Employed Women's Association (SEWA) by self-employed women workers of the unorganised sector in 1972 in Gujarat^{‡‡}. But the formal financial system to cater to the financial needs of the rural poor, the first major effort was made by NABARD in 1986-87, when it supported and funded of Rupees one million in an action research project on saving and credit management of self-help groups of Mysore Resettlement and Development Authority (MYRADA). In order to meet credit requirements, RBI has issued a circular to the commercial banks to extend credit to the SHGs formed under the pilot project of NABARD in July 1991. In February 1992, the launching of pilot phase of the SHG- Bank Linkage Programme (SHG-BLP) could be considered as a landmark development in banking with the poor. In 1996, RBI has instructed to banks to promote this programme further to cover SHG financing as a mainstream activity in their priority sector-lending portfolio. To supplement the efforts of micro credit government of India had started another very good scheme called Integrated Rural Development Programme (IRDP) in

^{††} Such as savings, deposits, loans, payment services, money transfers, insurance etc.

^{‡‡} This trade union established their bank known as SEWA Bank in 1974

1980. Realising the potential in the field of microfinance, the GOI allowed various private players to provide microfinance in the country (MFI's) which are various NGOs, non-banking financial companies (NBFCs) and other registered companies. Many state governments also amended their state co-operative acts to use co-operative societies for providing microfinance. As a result accompanied by commercial banks(both public and private), regional-rural banks, co-operative banks, registered and unregistered NBFCs, societies, trusts etc. are also providing microfinance by using their branch network through different microfinance delivery models.

The model of micro finance in India is different in mainly two respects. First, India provide micro finance by involving its public banks which after bank nationalisation in terms of geographical spread and functional reach is often deemed unparalleled in the world. That is why the micro finance experiment in India has been described as relationship banking rather than parallel banking elsewhere in the world (NABARD, 2008). Secondly, credit to SHGs had an extremely small share in total credit and total loan accounts.

In a nutshell, microfinance in India include institutions like), Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK) and above all National Bank for Agriculture and Rural Development (NABARD). At the lower level it works through Commercial Banks (CB's), Regional Rural Banks (RRB's) and cooperatives. The private institutions that undertake microfinance services are Micro Finance Institutions (MFIs), NGO's and Self- help group (SHGs)^{§§} (NABARD, 2011).

1.3 Objective of the study

Launching the programme like MUDRA will seems to be hugely benefit to small manufacturing units and self-employed individuals in rural and urban areas. The prime objective of Mudra bank is uplifting the small as well as medium enterprises. Its role and prime concern as an apex financier is to provide low-cost finance and thereby hoping to fill the gap in India's microfinance space. There is no cause of confusion that initiation of MUDRA will greatly increase the confidence of young educated and skilled workers of our country, who may be able to become

^{§§}The NGOs that support the SHGs include MYRADA in Bangalore, Self Help Women's Association (SEWA) in Ahmadabad, PRADAN in Tamilnadu and Bihar, ADITHI in Patna, SPARC in Mumbai. The NGOs that are directly providing credit to the borrowers include SHARE in Hyderabad, ASA in Trichy, RDO LOYALAM Bank in Manipur etc.

the first generation enterprises. Not only that, the existing small businesses can also be able to expand their activities through this programme as the MUDRA bank's basic objective is to fund the unfunded. The objective of the paper is to know the background of Pradhan Mantri Mudra Yojana (PMMY), to understand the roles and responsibilities played by the MUDRA bank, offerings of MUDRA bank and to evaluate the loan sanctioned and disbursed under different mudra schemes. Region - wise performance by banks in terms of numbers of accounts and amount disbursed is also being discussed. Lastly, this paper is also trying to discuss the state - wise performance (Top five states) in terms of numbers of accounts, sanction amount loan and the amount of loan disbursement in the financial year 2015- 2016 and 2016-2017.

2. Research Method

This descriptive research paper is completely based on secondary data from various reputed sources of government publications like PMYY report, annual publication of National Bank for Agriculture and Rural Development (NABARD), RBI Report etc. Further, it also uses secondary data from survey conducted by National Sample Survey Organisation (NSSO) in several rounds. This study also uses secondary data which has been collected from magazines, newspapers and publications of research articles available in different reputed journals. Various websites including website of MUDRA Yojana has also been consulted during this study. Since the programme was initiated in the year 2015, the time period has taken as 2015-2017 as per availability of the data. The analysis of data is completely based on table and comparative study.

3. Result and analysis

3.1 Mudra Yojana: It's Progress

Table -1 shows that total amount of loan sanctioned as well as disbursed by PMYY in the financial year 2015-2016 and 2016-2017. The numbers of loans sanctioned is 34880924 and 39701047 respectively in the year 2015-2016 and 2016- 2017 respectively. As far as amount of loan sanctioned and disbursement is concerned it was seen that it was Rs.137449.27 Crores and Rs.132954.73 Crores compare to Rs.180528.54 Crores and Rs.175312.13 Crores in the year 2015-2016 and 2016- 2017 respectively. So it clearly shows that there is an improvement in terms of numbers of loans sanctioned, sanctioned amount and the amount disbursed. In fact there

is 8.65, 31.34 and 31.86 percent increment in terms of numbers of loans sanctioned, sanctioned amount and the amount disbursed.

In continuation of the progress of MUDRA, Table - 2 shows that amount of loans sanctioned account, sanctioned amount as well as amount disbursed under three different schemes of this programme that is Shishu, Kishore and Tarun in the financial year 2015-2016 and 2016-2017. The maximum amount of loans can be sanctioned under these three schemes is Rs. 50000 , Rs.50,000 to Rs. 5,00,000 and Rs.5,00,000 to Rs. 10,00,000 respectively. The numbers of sanctioned account under Shishu, Kishore and Tarun in the financial year 2015-2016 and 2016-2017 is 32401046, 34697814; 2069461, 2663502; 410417,539732.The percentage increase of number of sanctioned account is 7.08, 28.71 and 31.51.As far as sanctioned amount is concerned in Shishu it is Rs.68573.44 Crore and Rs. 85100.74 Crore in the financial year 2015-2016 and 2016-2017 which shows an increase of 24.10 percent; under Kishore it is Rs.41152.31 Crore and Rs. 53545.14Crore in the financial year 2015-2016 and 2016-2017 which shows an increase of 30.11percent ; under Tarun it is Rs. 27723.52Crore and Rs. 41882.66 Crore in the financial year 2015-2016 and 2016-2017 which shows an increase of 51.07 percent. If we compare amount disbursed in these three schemes then in Shishu it is Rs. 62027.69 Crore and Rs. 83891.88 Crore in the financial year 2015-2016 and 2016-2017 which shows an increase of 35.24 percent; under Kishore it is Rs. 41073.28 Crore and Rs. 51063.12 Crore in the financial year 2015-2016 and 2016-2017 which shows an increase of 24.32 percent ; under Tarun it is Rs. 29853.76 Crore and Rs. 40357.13 Crore in the financial year 2015-2016 and 2016-2017 which shows an increase of 35.12 percent.

Table 1: Loan sanctioned and disbursed

			Percentage increase* (Approx.)
Financial Year	2015 -2016(A)	2016 – 2017(B)	$[(B-A) / A] \times 100$
Numbers of PMMY loans sanctions	34880924	39701047	13.82
Amount sanctioned(In Rs. Crore)	137449.27	180528.54	31.34

Amount disbursed (In Rs. Crore)	132954.73	175312.13	31.86
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Source: Pradhan Mantri Mudra Yojana report, 2015-2016, PMYY website * Authors own calculation

Table 2: Loan sanctioned and disbursed in different schemes

Shishu (Loans up to Rs. 50,000)			
Year	Number of sanctions A/C	Sanctioned amount (Rs. Crore)	Disbursed amount (Rs. Crore)
2015 - 2016	32401046	68573.44**	62027.69
2016 -2017	34697813	85100.74	83891.88
Increase (percent) #	7.08	24.10	35.24
Kishore (Loans from Rs.50,000 to Rs. 5,00,000)			
2015 - 2016	2069461	41152.31**	41073.28
2016 -2017	2663502	53545.14	51063.12
Increase (percent) #	28.71	30.11	24.32
Tarun (Loans from Rs.5,00,000 to Rs. 10,00,000)			
2015 - 2016	410417	27723.52**	29853.76
2016 -2017	539732	41882.66	40357.13
Increase (percent) #	31.51	51.07	35.12

Source: Pradhan Mantri Mudra Yojana report, 2015-2016, 2016-2017

** Authors own calculation based on the data available up to December 10, 2015

3.2 Mudra Yojana: Region - wise performance by banks

The Region – wise performance by banks is discussed in two tables on the basis of number of accounts and amount disbursed in four regions of our country like north, west, east and south in the financial year 2015-2016. The division of these regions with respect to states is given in the table itself. Based on the data collected, it is seen that as per sanctioning of account is concerned the percentage share of south is highest with 32 percent and lowest in west and east having 21 percent each. The numbers of account is highest in case of Shishu in all the four regions followed by Kishore and Tarun (Table – 3A).The total sanctioning account is also highest in Shishu than the other two schemes.

Table 3A: Region – wise[^] performance by banks (No. of accounts) (2015-2016)

Category	North	West	East	South	Total
Shishu	2382453	1864905	1893789	2563432	8704579
Kishore	414020	331002	375376	852109	1972507
Tarun	120636	95641	60320	132814	409411
Total	2917109	229148	2329485	3548355	11086497
Share(percentage)	26	21	21	32	100
[^] 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					

Source: Review of performance in Pradhan Mantri Mudra Yojana report, 2015-2016

As far as region wise performance in terms of amount disbursed by the banks in these four regions is concerned Table - 3B shows that again the performance of south is highest with 36 percent follows by north, west and east with 26, 21 and 17 percent respectively in the financial year 2016-2016. One interesting finding is that unlike sanctioning of account (Table –

3A) the amount disbursed as well as total amount disbursed in Kishore is more than the other two schemes in all these four regions.

Table 3B: Region – wise[^] performance by banks (Amount disbursed) (2015-2016)

Category	North	West	East	South	Total
Shishu	4090.28	3478	3746.97	5668.02	16983.82
Kishore	9436.71	7312.71	7116.48	16426.35	40291.59
Tarun	9022.46	7143.29	4219.29	9389.86	29774.90
Total	22549.45	17933.89	15082.74	31484.23	87050.3
Share(percentage)	26	21	17	36	100

[^] [^] 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

Source: Review of performance in Pradhan Mantri Mudra Yojana report, 2015-2016

3.3 Mudra Yojana: Performance of states

Based on the data collected from PMMY report, in terms of numbers of account is concerned this paper is trying to rank the states which are top performing in the financial year 2015-2016 and 2016-2017 (Table – 4). It is seen that the ranking is almost same in these two financial years. The topmost state is Tamil Nadu followed by Karnataka, Maharashtra, Uttar Pradesh and West Bengal. In the financial year 2015-2016 though the sanctioned account is more in Tamil Nadu but if we look into the sanction amount and disbursement amount then Karnataka has performed well. It is seen that the number of accounts is 4781567 in Tamil Nadu and 4459609 in Karnataka but the sanction amount and the amount of disbursement in Karnataka is highest than Tamil Nadu [Rs. 17147.47 Crore and Rs.16469.43 Crore as against Rs. 15755.47 Crore and Rs. 15496.86 Crore]. Maharashtra is third in both the year followed by Uttar Pradesh and West Bengal.

Table 4: State - wise performance (Top five states)

Year		2015-2016			Year		2016-2017	
Rank	State	No. of A/c	Sanction * amount	Disbursement Amount	State	No. of A/c	Sanction amount	Disbursement Amount
1	Tamil Nadu	4781567	15755.47	15496.86	Tamil Nadu	5309847	18052.68	17756.39
2	Karnataka	4459609	17147.47	16469.43	Karnataka	3933578	18002.55	17290.7
3	Maharashtra	3535065	13616.53	13372.42	Maharashtra	3344154	17286.66	16976.76
4	Uttar Pradesh	3345382	12306.94	11880.93	Uttar Pradesh	3337547	15282.61	14753.59
5	West Bengal	2628548	7847.91	7740.41	West Bengal	4566505	15695.01	15480.03

Source: State wise performance, PMYY report, 2015-2016, 2016-2017; compiled from State - wise data, Rajya Sabha Session – 239, unstarred Question No. 221

4. Conclusion

The idea of MUDRA Bank is not only based on providing credit and financial needs of small enterprises but also it is based on the Credit Plus approach under which access to credit will be combined with various enterprises development and welfare related services. The basic objective of MUDRA Bank is to provide much needed financial access to promote growth of small businesses, create job in the coming times and in turn help boost the country's GDP.

Since 1990s when poverty reduction has taken priority at both national and international development levels it was found that economic development of any country is severely influenced by the availability of financial services as a well-developed financial system which promotes investment opportunities in an economy. Therefore it was necessary that government of India have to focus on extending financial services to both rural and urban people to ensure sustainable growth.

The initiatives of GOI for poverty alleviation in various plan period^{***} could not succeed to the desired level. Government tries to help the poor by way of subsidies but these initiatives hardly reduce their poverty levels due to the fact that they do not make them realize their own potential to deal with their own problems and hence unable to provide a long term solution.

The mid- term appraisal of the ninth plan had took a serious note about functioning of multiple programmes without desired linkages and also suffering from lack of bank credit, lack of market linkages and over-crowding as well . Moreover, these programmes were basically subsidy driven and ignored about follow up action and lack of a continuing relationship between borrowers and lenders for success of self-employment programmes (Thirumaran and Selladurai,2013). So, the planning commission recommended the merger of all these self - employment programmes. In this regard the importance of Microfinance has caught the attention as an effective tool for poverty reduction and socio- economic development programme in India. Small business units generally face lot of challenges to get loans from banks and they end up taking high-cost loans from private financiers. It is believed that creating a bank like MUDRA will hugely benefit self-employed individuals and small business units^{†††} in rural as well as urban areas with financing requirements and thus will greatly increase the confidence of young skilled workers as well as existing small businesses.

From our above discussion we can conclude that there is no doubt that small businesses needs to be strengthened and supported for economic development of the country like India. In this relation to boost up the small and micro business units in India Government has launched MUDRA Yojana as a new initiative. Though it is too early to comment on either the success or failure of this programme but there is no doubt that there is an impact of the programme which seems to be positive. 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. This will definitely make a dramatic change and will help in making a developed India and would be the first step towards reaching the goal of bank credit as a human right as advocated by

^{***} For example IRDP(Integrated Rural Development Programme), TRYSEM(Training of Rural Youth for Self Employment), DWCRA(Development of Women and Children in Rural Areas),SITRA(Supply of Improved Toolkits to Rural Artisans), GKY(Ganga Kalyan Yojana) and MWS(Million Wells Schemes) etc.

^{†††} There are 5.77 Crores of small business units that are mostly individual proprietorships, running small manufacturing and training business, out of that 66per cent of these are owned by Scheduled Caste, Scheduled Tribes and Other Backward Castes

Nobel laureate Professor Mohammed Yunus (Reddy,2007). Moreover, this is one of the mode of financial inclusion as ensuring bank account to all families that want it (RBI, 2007).

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