

# **Pradhan Mantri Mudra Yojana 360 Degree Analysis: Review and Relevance**

## **ABSTRACT**

The **Pradhan Mantri Mudra Yojana** is an initiative by the government to fund micro-enterprises. It was launched in 2015 to give capital without collateral to micro-level businesses and promote their inclusion in mainstream industries. The scheme also tackles problems of informal credit, unemployment and financial exclusion.

This paper analyses the Mudra Scheme and its progress over the last seven years. It will also decode the overall as well as specific performance analysis and highlight the areas lacking the scheme. Lastly, the paper will throw light on how the Mudra scheme can be improved.

## **INTRODUCTION**

The world has suffered a lot in the past few years. We have survived a pandemic, nationwide lockdowns, drastic changes in the trade sector, wars and whatnot. We are stuck in a cycle of inflation and recession, which are predicted economic consequences of the Pandemic.

Due to hampered economic growth and its devastating aftermath, the world has realised the importance of small businesses and entrepreneurs' role in reviving the economy. Entrepreneurs shape the financial destiny of a nation by creating wealth and employment, producing innovative goods and services and generating tax revenue for the government. While most developed nations have such entrepreneurs to help recover their economies, developing countries often suffer from fulfilling basic needs due to their dearth.

Magnifying our lens to India, we see a country with a population of 1.39 crore and an unemployment rate of 8 per cent that has taken steps to revolutionise financial inclusion. India recognised the problem of unemployment and financial constraints that hinders people from starting their businesses and launched the MUDRA Yojana in 2015. While the scheme sounds like the magical solution to eradicate poverty and unemployment, the analysis will show you an accurate picture of its implementation. Is this scheme as good as it sounds? And has it proven to help in economic growth? These are some of the questions that the paper will answer.

## **OVERVIEW**

Mudra, which essentially stands for Micro Units Development & Refinance Agency Ltd, was started with the vision of funding the underfunded. It plans to create an inclusive, sustainable, value-based entrepreneurial culture by collaborating with partner institutions to achieve economic success and financial security.

The Agency is responsible for developing micro-enterprises through financial support by providing loans to them. Besides credit services, it also provides developmental support, financial literacy and promotional support. It has also partnered with Banks, MFIs and other lending institutions at the state and regional levels to expand its reach for meeting the needs of this sector.

Under the aegis of PM Mudra Yojana, The mudra scheme offers various products and services. The interventions created under the Mudra involve three segments according to the growth and development stages of the business based on which funding is provided:

1. **Shishu loans:** The loans given under the Shishu category have a maximum limit of 50,000 rupees. Approximately 60 percent of credit flows to this category.
2. **Kishore loans:** The category covers loans from 50,000 to 5 lakh rupees. The loans under this category are for enterprises that need capital to buy machinery and raw materials.
3. **Tarun loans:** Under the Tarun category, loans are offered to micro-businesses that plan to expand and diversify in the sector. This category covers loans above 5 lakh but less than 10 lakh rupees.

To promote entrepreneurship among the new generation, the loans under the SHISHU category are offered more priority than the other two for encouraging the youth to take up business activities. The loans under Mudra Yojana are all collateral free.

### **Funding support types under Mudra Scheme:**

The Mudra Scheme's objective is to lower the cost of finance and provide affordable credit to the non-corporate, small business sector. The two funding types are

1. **Micro Credit Schemes:** Micro-credit schemes are offered primarily by Micro Financing Institutions (MFIs). It provides credit up to **1 lakh rupees** for various small business activities.
2. **Refinancing Scheme:** Various banks, such as commercial banks, regional rural banks, and scheduled cooperative banks, can avail of refinancing support from MUDRA for financing micro-enterprise activities. The refinance available for the term and working capital loans are up to 10 lakh per unit. The eligible banks can enroll with MUDRA by complying with the requirements and refinance from it for loans issued under Shishu, Kishor and Tarun categories.

To encourage women entrepreneurs, the financing banks and MFIs also extend additional facilities, including interest reduction on their loans. MUDRA currently allows a decrease of 25 bps in interest rates to MFIs and Non-Banking Financial Corporations (NBFCs), which provide loans to women entrepreneurs.

## **THE NEED FOR MUDRA**

MSMEs form the foundation of the Indian economy. They significantly contribute to entrepreneurship endeavours through innovation and invention. The MSME sector adds value to the Indian economy by providing large-scale employment with lower capital costs than other industries and promoting regional balance by equitable distribution of wealth and income.

The Mudra scheme primarily focuses on Micro enterprises. India's government rightly realised the micro sector's value and identified its constraints. The MSME sector has approximately 633.88 lakh enterprises, out of which the micro sector has 630.52 lakh. The number of micro-businesses accounts for more than 99.47 per cent of the total number of MSMEs. It has also employed 1076.19 lakh persons, which accounts for around 97 percent of the entire employment in the sector.

If India wants to thrive in the global economy, this number must keep expanding. Unfortunately, we have yet to overcome the various challenges that come with the expansion and promotion of these enterprises. A large population can be a reason for it, but for how long can this stop us from reaching our fullest potential? The micro sector faces a few bottlenecks, which are discussed below.

**Financial Challenges:** For India to achieve heights in terms of socio-economic parameters, financial inclusion is essential. However, all micro, small or medium enterprises often face financial constraints. For a large country like India, with varied workforce quality and multiple challenges related to technology and connectivity, financial inclusion and security hold out a promise for better.

The problem of informal credit is alarming and needs immediate intervention by the government. Micro and small businesses include small traders, vendors, and entrepreneurs (sometimes called non-corporate, small businesses); many come from rural areas or lower-tier cities. Since banks ask for collateral against loans, micro-entrepreneurs are excluded from the formal credit network due to a lack of it.

Moreover, most are unregistered enterprises, do not maintain proper Books of Accounts, and are not formally covered under taxation. Therefore, the banks find it difficult to lend to them. Due to this, they have to resort to informal sources of credit to start or expand their businesses. Vulnerable business owners, who have high aspirations for creating and growing their micro-enterprises, often fall into the trap of informal credit. Private moneylenders manipulate small businesses and drain their resources with unreasonably high-interest rates. There is no formal procedure or regulation to protect them. The support from the Banks is meagre, with less than 15% of bank credit going to Micro, Small and Medium Enterprises (MSMEs).

**Knowledge Gaps:** Knowledge gaps are a significant problem the Micro sector faces. Many business owners in the Micro sector need to possess adequate ( and relevant) knowledge and information about markets, finance, promotion and others, due to which they are prone to making poor judgements. Financial literacy means providing familiarity with and understanding financial market products, especially rewards and risks, to make informed choices. Moreover, a lack of skill set is also an obstacle for micro-enterprises to start, grow and diversify. Labour working for micro-enterprises also needs to be appropriately trained. They do not have any incentives to work, which creates a barrier to higher productivity.

**Infrastructural gaps:** The number of micro-enterprises are both prevalent in rural areas and urban areas. Due to limited capital, they face constraints in location, resources, accessibility and technology. Such problems cause hindrances in not only day-to-day operations but also in future growth prospects.

**Promotional hindrances:** Micro businesses often need help with promoting their businesses. Lack of market research, poor outreach and constraints in modernisation are some of the obstacles they face in marketing their product or service. Moreover, the merciless rivalry brought by giant corporations takes away the chances for small businesses to survive, let alone thrive.

We have understood how imperative the micro sector is for the economy. The challenges faced by this sector are multidimensional and require government intervention to overcome them. PM Mudra Yojana aims to solve these issues. The scheme solved the problem of accessibility by opening an online portal called "**udyamimitra. in**" for applying for loans. It adopts a pluralistic approach where, along with credit facilities, it offers developmental and support services to the target audience. It also acts as a market maker and builds an ecosystem that delivers value efficiently and sustainably.

### **India and financial inclusion: Mudra's role**

For decades, RBI and the government have been incessantly promoting financial inclusion in the country. The banking sector, which forms the heart and soul of financial inclusion, has expanded and diversified multifold. However, there are concerns that sometimes banks exclude, in particular, pensioners, self-employed and those employed in the unorganised sector. This further worsens the already existing inequities and disparities in the nation by depriving the poor of opportunities to grow.

When the government launched MGNREGA in 2005, they mandated that government payments such as wages disbursed for services rendered under the scheme, pensions, and other subsidies be routed through bank accounts, thus incentivising the poor to open bank accounts to receive money. In

addition, banking correspondents, post office banks and cooperative societies played a critical role in revolutionising financial inclusion. The banking outlets in villages, which were 67,694 in March 2010, increased by about eight times by 2015, while the 7.35 crore basic banking accounts increased approximately five-fold during this period. These rates are remarkable for reflecting the social responsibility of banks, especially the social sector banks.

The government launched a flagship programme called Pradhan Mantri Jan Dhan Yojana in 2014 to bring the poor, urban and rural within the ambit of the banking system. The objective of the PMJDY was to ensure access to financial services like savings bank accounts, credit, remittance facilities, insurance, and pension, to the unbanked weaker sections and low-income groups through the effective use of technology. Beneficiaries also get a RuPay Debit card with built-in accident insurance of Rs 1 lakh.

While rural banking has done considerably well under PMJDY, the government still needs to address some significant loopholes. The problems include

1. **Rising dormant accounts:** The government claims that bank accounts have increased. However, many of them are inactive accounts. Banks persuade people to open accounts as they have to show the numbers. So, often they ended up opening multiple accounts for the same person, leading to a rise in dormant accounts.
2. **Digitisation obstacles:** People in rural areas often get wages in cash. The employers do not transfer money to their respective bank accounts. They complain that the travel time and costs to the bank to deposit their money are high, and many of them cannot afford to leave work and go.
3. **Poor Banker-User relationship:** Since the scheme mainly caters to the poor, they may be financially illiterate. Financial unawareness and lack of cooperation from Bank managers in imparting knowledge to unaware beneficiaries in most rural areas have forced people from the rural economy to maintain distance from formal banking.

To fill in these small gaps, the **MUDRA Scheme** was launched to restore the faith of the rural poor in the banking system. The government identified that formalising credit is not the only solution for financial inclusion. A holistic strategy is necessary to achieve true financial security.

#### **ANALYSIS:**

Since 2015, MUDRA has proved to cater to many individuals and micro enterprises with their financial needs. The scheme has not only extended refinance support to various lending institutions

but also monitored the progress of implementation of PMMY closely through a dedicated portal which captures various aggregated data of the scheme as per the requirements of the government. We will be deciphering the scheme's progress based on several factors.

## OVERALL TARGET VS ACHIEVEMENT

The growth rate trend from 2015 to 2021 shows that the rate first increases positively ( from 2015 to 2017), then it increases at a decreasing rate after the financial year 2017. Moreover, we can see that the growth rate decelerated in 2020-21. This is mainly due to the low level of disbursements.

### TARGET VS ACHIEVEMENT

Financial Years	2015-16	2016-17	2017-2018	2018-19	2019-20	2020-21
Target (crore)	1,22,188	1,80,000	2,44,000	3,00,000	3,25,000	3,50,000
loan sanctioned	1,37,449.27	1,80,528.54	2,53,677.10	3,21,722.79	3,37,495	3,21,759
Achievement comparison (%)	-	31	41	27	5	-5

## AGENCY-WISE

While comparing the different kinds of institutions that lend under PMMY, we observe that public-sector banks still need to meet their targets. From 2015 to 2020, the difference between the target set and the amount sanctioned persisted. However, the gap between the two narrowed overtime. Only in 2020-21 did public sector banks exceed their target. It was the only type of funding agency (apart from private banks) that could do that, considering the COVID-19 Pandemic and lockdowns that strained the businesses, especially micro-enterprises. There is considerable growth observed in the case of private-sector banks. Private sector banks have exhibited a positive trend, with sanctioned amounts surpassing the target amounts.

Years	2015-16		2016-17		2017-18		2018-19		2019-20		2020-21	
AGENCY	TARGET	AMOUNT SANCTIONED	TARGET	AMOUNT SANCTIONED	TARGET	AMOUNT SANCTIONED	TARGET	AMOUNT SANCTIONED	TARGET	AMOUNT SANCTIONED	TARGET	AMOUNT SANCTIONED
Public sector bank(including RRBs)	92,700	70,998.75	92700	83963.19	112750	107947.19	129250	117281.85	1,28,000	1,17,729	1,28,500	1,29,915
Private bank	21,000	20,445.74	21,000	39,042.60	47,150	49,545.11	57,850	64,037.25	70,025	91,780	91,700	93,613.20
small finance bank/MFI	64300	46,004.78	66300	55,657.01	75050	69146.64	80850	93265.34	86775	87468	89000	66248.08
NBFC		-	-	1,865.74	9,050	27,018.16	32050	47,136.75	40,200	40,518	40,800	31,983.17

### AGENCY WISE DISTRIBUTION (in crore)

In the case of MFIs and Small Finance banks, the growth trend has been decelerating ( except from 2018-19 and 2019-20). However, the target-achievement gap can be seen to decrease over the years. This is also an attribute of the COVID Pandemic and consequent conditions of it on the MSMEs. NBFCs have also become a significant contributor to lending under PMMY, with a positive growth rate ( except for the year 2020-21).

## LOAN CATEGORY WISE

The Mudra Scheme gives out loans under three categories: SHISHU, KISHOR, and TARUN. Over the last seven years, The largest share of the number of loan accounts is held by Shishu accounts. The number of these accounts has increased from 2015-2020. However, there has been a fall in the number of accounts in 2021 due to the COVID Impact. In the case of Kishor Accounts, a positive growth trend can be observed in all years. The number of Tarun accounts increased until 2018 and has been falling.

YEARS	SHISHU			KISHOR			TARUN		
	NO. OF LOAN ACCOUNT	AMOUNT SANCTIONED	AVERAGE LOAN SIZE	NO. OF LOAN ACCOUNT	AMOUNT SANCTIONED	AVERAGE LOAN SIZE	NO. OF LOAN ACCOUNT	AMOUNT SANCTIONED	AVERAGE LOAN SIZE
2015-16	3,24,01,046	62,894.96	19,411.40	20,69,461	43,052.55	2,08,037.50	4,10,417	31,501.76	7,67,554.95
2016-17	3,64,97,813	85,100.74	23,316.67	26,63,502	53,545.14	2,01,032.85	5,39,732	41,882.66	7,75,989.94
2017-18	4,26,69,795	1,06,001.60	24,883	46,53,874	86,732.16	1,88,548.20	8,06,924	60,943.34	7,61,792
2018-19	5,15,07,438	1,42,345.25	27,640	66,06,009	1,04,386.68	158017.8	17,56,871	74,990.86	4,26,843.3
2019-20	5,44,90,617	1,63,559	30016	64,71,873	95,578	147682.1	12,85,116	78,358	6,09,734.8
2020-21	4,01,80,115	1,09,953	27365	94,86,160	1,32,516	1,39,694	10,68,771	79,290	7,41,880.2

LOAN CATEGORY WISE DISTRIBUTION ( in crore)

While looking into the number of sanctions in cases of these categories, it can be seen that Shishu accounts exhibit a positive progress rate except in the year 2020-21. In the case of Kishor accounts, the growth is increasing except in the year 2019-20, where it dips and then rises again, and lastly, Tarun accounts show a steady increase through the years.

While the number of accounts and amount sanctioned are an imperative part of our analysis, a fair picture of utilisation of funds and direction of flow of credit cannot be seen without average loan size. The average loan size shows - An increase in Shishu accounts, except in the year 2020-21, a steady fall in the case of the Kishor accounts and an overall fall in the year 2020-21 for Tarun accounts.



The data regarding the average loan size is crucial, as it shows the actuality of the Mudra Loans. We observe that the average loan size for all three categories is far from its maximum limit, which is 50,000, 5 lakh, and 10 lakh for Shishu, Kishor and Tarun loans, respectively. The opposition complains about how anyone can set up a business with mere 30,000 rupees. To answer this, it is essential to keep in mind the type of work micro-enterprises can establish. Most of them do not require a lot of capital or machinery in the early stages.

Moreover, business owners may only rely partially on Mudra loans to fund their business (However, in most cases, they rely entirely upon MUDRA). The skewness between the number of accounts, loan sanctioned and average loan size also shows that many accounts remain dormant, which is an attribute of a lack of digital literacy and empowerment.

### **SOCIAL CATEGORY WISE**

The table below shows the aggregate data of 6 years since the PMMY was launched. Women hold 68 per cent of total accounts under the Mudra Scheme. The high percentage is mainly due to the high share of Micro Finance Institutions in Shishu loans, where women borrowers mostly make up the clientele. The number of new entrepreneurs under PMMY through six years holds 23% of accounts. This data is the aggregate of new entrepreneurs added in every financial year. Lastly, the participation of underprivileged sections also shows an aggregate of 51 per cent over six years.

<b>Cumulative for 6 years since inception of PMMY</b>			
<b>CATEGORY</b>	<b>NO OF ACCOUNTS</b>	<b>AMOUNT SANCTIONED</b>	<b>AMOUNT DISBURSED</b>
<b>WOMEN</b>	<b>19,98,02,912 (68%)</b>	<b>6,75,246 (43%)</b>	<b>6,41,980 (43%)</b>
<b>NEW ENTREPRENEUR ACCOUNT</b>	<b>6,80,71,751 (23%)</b>	<b>5,20,692 (34%)</b>	<b>4,97,865 (33%)</b>
<b>SC/ST/OBC</b>	<b>14,98,81,349 (51%)</b>	<b>5,25,528 (34%)</b>	<b>5,12,665 (34%)</b>

#### **SOCIAL DISTRIBUTION (in crore)**

The scheme has continued to fulfil the dreams and aspirations of many micro-entrepreneurs who were otherwise excluded from the ambit of the formal credit system. The assistance provided by Mudra loans has proved that minorities who face discrimination and hurdles and are doubted by society can become successful entrepreneurs.



## **THE DEBATE ABOUT NPAs AND MUDRA LOANS**

The advent of Mudra Loans sparked a controversial debate over the scheme. The banking sector and many others are concerned about NPAs at the time of repayment. Non-Performing Assets are loans or advances wherein interest, or principal's instalments remain overdue for 90 days. They have been proven to be a bane for the economy, especially the banking system, for years.

MUDRA loan, which has completed 7 years of its operations, has extended a cumulative amount of Rs 18.83 lakh crore to Rs 34.93 crore loan accounts. The Reserve Bank of India has shown concern over the increase in non-performing assets (NPAs) under agriculture, MSME and Mudra loan. What is worrisome is that NPAs of banks under agriculture and Mudra loans have further increased in the past year. According to the bankers, unsustainable credit growth in the sector can risk the system.

If we look into the institution-based distribution of Mudra loans, we can see that public sector banks (PSBs) have been the main channel for the distribution of MUDRA loans. There has been a spike in their bad loans in 2020, even though the disbursements saw an appreciable increase. NPAs, as a percentage of MUDRA loans disbursed by Public sector banks, increased to 4.80 per cent in 2020 from 3.75 per cent in 2019, as per government data. On the other hand, the share of bad loans in credit disbursed under the Mudra Yojana by the public sector banks was highest at 4.74 percent as compared to 1.92 per cent share for small finance banks, 1.14 per cent for private banks, 0.67 per cent for MFIs, and 0.07 per cent for NBFCs, as of March 31, 2022.

When we observe closely to find answers as to why the Mudra loans have a poor recovery rate, we see a multitude of factors causing it. Let us decode the reasons behind this.

The aggressiveness of the public sector banks is a driving force for bad debts. Why? The PSBs are given set targets for giving out mudra loans. To meet targets, customers known to the branch were preferred, and predetermined loans of Rs 10,000 to Rs 50,000 were offered irrespective of their needs. Those who approached the banks themselves, who were unknown, and lived far away, were least preferred. They often did not check proper documentation or business proposals. The bank managers are also not cooperative with the beneficiaries, especially in rural areas. Many question whether PSBs are the right vehicle to drive the Mudra scheme. Other institutions like Bandhan Bank and Small Finance Banks have made a profitable business model in serving the underbanked and underserved.

The objective of the Mudra scheme is just and fair. Micro enterprises and small businesses do need a helping hand when it comes to formal credit. However, the execution, in many cases, is a cause of concern, which the opposition never fails to highlight. NPA and bad loan recovery is indeed something

to worry about, but it does not mean that the scheme should be withdrawn. The justification for the scheme's existence can be given by seeing the stats on NPA. The bad loans under the MUDRA YOJANA in the last seven years added up to **Rs 46,053.39** crore (3.3%) on June 30, 2022, according to an RTI filed. The average NPAs of Mudra Loans are less than that of the whole banking sector!

The source of criticism may come from the mistrust the people have in banks and, more importantly, in the poor and marginalised. If India wants to escape the economic shock that the Pandemic has created, The scheme cannot be scraped off. However, the execution of the scheme does need to be improvised, which can be done with appropriate reforms.

## **RECOMMENDATIONS**

1. Financial and Digital literacy campaigns are vital for imparting knowledge and training to micro-entrepreneurs who otherwise do not know about the scheme. Even if they do, they default to meeting the eligibility criteria simply because they are unaware of specific details. Tier two and tier three social media platforms can be deployed to market the scheme and impart financial education to people. Moreover, promotional camps can be set up in areas with limited social media access. Another point to keep in mind is that such campaigns should be multilingual.
2. PMMY should be seen as a cohesive scheme. Banks can use Jan Dhan accounts to access the bank transaction history to assess the creditworthiness of loan applicants who do not have a credit history.
3. A centralised digital portal is needed to organise data on Mudra Loan borrowers to minimise the risk of overlending. Data can be linked to Aadhaar, to simplify the process.
4. Banking associates must also be trained on sensitisation to create better banker-user relationships. It has been seen that a positive connection with loanees can improve default rates, as it eliminates apprehension and intimidation among people about the government.
5. Assistance officers should be present at every financial agency lending Mudra Loans to help Loan applicants with documentation and procedure.

## **CONCLUSION**

We cannot deny the importance of Mudra Loans in microfinancing. It allows every micro-entrepreneur to fulfill their dream of starting their own business. Intersecting finance, entrepreneurship, and technology is the need of the hour for India to revive from economic tribulations. There may be different perspectives on the PMMY, but there is no doubt that it has transformed the lives of countless

small business owners. Mudra Yojana is indeed the path to achieving a thriving economy that empowers Micro and small enterprises and fosters the spirit of entrepreneurship.