

ROLE OF PRADHAN MANTRI MUDRA YOJANA FOR THE DEVELOPMENT OF MSME

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ABSTRACT

To run smoothly, all businesses should be financially strong. However, the startups or entrepreneurs need help. Taking ahead the area of Micro, Small and Medium Enterprises Development, government has launched the Pradhan Mantri Mudra Yojana (PMMY) under the Micro Units Development and Refinance Agency (MUDRA). This is a new institution being set up by Government of India for development and refinancing activities relating to micro units. The government has identified the lack of financial support as the biggest bottleneck to the growth of small business in the country. This scheme is launched keeping in mind the areas where the normal banks are unable to reach. The main objective of the present government is to empower the small micro business. This paper aims to understand how the PMMY helps the MSME sector with its various offering.

KEYWORDS Mudra Yojana, MSME, PMMY, Small business units.

I. INTRODUCTION

Finance is one of important things required for running a business successfully in a timely manner so that the enterprise accomplishes its goals and targets. Due to the complexity involved in raising funds from various sources available in the market, small and tiny business concerns are unable to get the needed financial support. In order to assist these kinds of entrepreneurs and small business concerns, Government of India started “MUDRA” bank in 8th April 2015. Mudra, in Hindi, means currency. Micro Units Development and Refinance Agency Ltd (MUDRA) Yojana here, shortly known as MUDRA bank. It was announced by the Finance Minister while presenting the Union Budget for 2015-16. MUDRA

model supports the small entrepreneurs of India in a biggest way to help the Indian economy grow and prosper and majority banks have also adopt the MUDRA model.

Giving the example of the perception that large industries create more employment, that looks at the details reveals the reality that only 1 crore 251 lakh people find employment in large industries, whereas small enterprises employ 12 crore people in the country. While there are a number of facilities provided for the large industries in India, there is a need to focus on these 5 crore 75 lakh self-employed people who use funds of Rs 11 lakh crore, with an average per unit debt of merely Rs 17,000 to employ 12 crore Indians, because of these facts, which brought to light, led to the vision for MUDRA Bank.

Mudra Bank is being set up through a statutory enactment and will be responsible for developing and refinancing through a Pradhan Mantri MUDRA Yojana. Since small entrepreneurs are businesses are often cut off from banking system because of limited branch presence, Mudra Bank will partner with local coordinators and provide finance to “Last Mile Financiers” of small/micro businesses.

Pradhan Mantri Mudra Yojana (PMMY)- also known in the Indian banking circles as the Mudra loan scheme-not only intends to bridge the funding gap to the micro enterprises but also aims to boost the confidence of the first generation entrepreneurs and assist existing small businesses expand their activities. Non-corporate small business sector (NCSBS) and OAEs including proprietorship and partnership firms engaged in small manufacturing units, service sector enterprises, shop keeping, fruits and vegetable vending, trucking, operating food services, repairing and maintenance, operating machines, running small industries, food processing, handicraft making (artisans) among others in both rural and urban areas are potential Mudra borrowers under PMMY. From FY 2016-17 onwards, activities allied to agriculture have also been made eligible under PMMY.

PMMY envisages providing Mudra loans to income generating micro enterprises engaged in manufacturing, trading and services up to 10 lakh. The MUDRA loans are divided into three categories based on the business life-cycle that the loan enterprise currently is in. These three categories signify the growth,

development and funding needs of the beneficiaries. The setting up of MUDRA and the Pradhan Mantri Mudra Yojana (PMMY) sought to fill the credit gaps in small, micro and tiny enterprises to spur economic activity. The PMMY was setup with the objective of fulfilling loan requirements up to 10 lakh for such enterprises to start or expand their business activities. Up to March 31, 2016, an aggregate credit of 1,32,954 crore was extended to 34.88 million loan applicants. MUDRA on the other hand, has made a steady beginning by extending nearly 3300 crore of refinance to different financial institutions, for extending funding support to this vulnerable sector.

II. SCOPE OF THE STUDY

Mudra is one of the most recent initiatives of the Government of India to prepare the MSME Sector for the Technological up gradation and make it resilient for any downturn. Success for India lies in success of Small business units as well as employment generation, with more than 12 Crores people associated. Therefore the government prioritized it through the current Pradhan Mantri Mudra Yojana (PMMY). The scheme focuses on alleviating the most pressing need of these small units, which is the credit provisioning. The scheme therefore runs on the motto “Funding the Unfunded”. Through PMMY the government seeks to create an enabling regime where formal channels of finance becomes easily accessible to these small units who will not be crippled on account of their scale and size. This paper is an attempt to understand and analysis PMMY for the benefit of small enterprises. It is a conceptual paper with a aim to study the detail objectives and schemes for the development of MSME. It signifies the importance of this scheme along with the performance and discussion.

III. OBJECTIVES OF THE STUDY

- To understand the concept of PMMY towards the funding of small medium enterprises.
- To study the products and offerings under PMMY
- To analysis the performance of PMMY for small entrepreneurs.
- To Know the benefits available to small business units.

IV. RESEARCH METHODOLOGY

The study makes use of secondary data which has been collected from journals, newspapers, employment news, weeklies and data from internet.

Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Available secondary data was extensively used for the study.

V. DATA ANALYSIS AND INTERPRETATION

Micro enterprises constitute a major economic segment in our country and provide large employment after agriculture. This segment includes micro units engaged in manufacturing, processing, trading and services sector. Small business is big business. According to NSSO Survey (2013), there are 5.77 crore small business units, mostly individual proprietorship. Most of these 'own account enterprises (OAE) are owned by people belonging to Scheduled Caste, Scheduled Tribe or Other Backward Classes. They get very little credit, and that micro/small business units would turn them into strong instruments of GDP growth and also employment.

A vast part of the non-corporate sector operates as unregistered enterprises. They do not maintain proper Books of Accounts and are not formally covered under taxation areas. Therefore, the banks find it difficult to lend to them. Majority of this sector does not access outside sources of finance.

a) The MUDRA

MUDRA has been initially formed as a wholly owned subsidiary of Small Industries Development bank of India (SIDBI) with 100% capital being contributed by it. Presently, the authorized capital of MUDRA is 1000 crores and paid up capital is 750 crore, fully subscribed by SIDBI. More capital is expected to enhance the functioning of MUDRA. This Agency would be responsible for developing and refinancing all Micro-enterprises sector. MUDRA would partner with Banks, MFIs and other lending institutions at state level/inception, the PMMY has captured the imagination of both banks and small, micro, and tiny enterprises. The comparative data of the disbursement done by a sample of 26 PSBs indicate a growth of nearly 68 per cent under this segment during FY 2015-16. A significant proportion of PMMY loans are incremental while new loans to these enterprises are also being extended.

From the perspective of credit access these loans are furthering financial inclusion. From fiscal 2016-17 micro enterprises involved in activities allied to agriculture too have also been brought within the ambit of PMMY loans. During 2015-16, PMMY made a significant contribution by extending credit of 133lakh crore to nearly 3.48 crore borrowers. The programme also helped in extending financial support to the weaker sections of the society, viz., SC/ST/OBC/women entrepreneurs, in large numbers. The programme has also facilitated the inclusion of nearly 1.25 crore new entrepreneurs in the formal credit system.

b) Monitoring of PMMY

Pradhan Mantri Mudra Yojana (PMMY) was launched along with the launching of MUDRA along with detailed guidelines were issued by Government of India to all banks and MFIs. Accordingly, MUDRA has put in place a monitoring portal which captures the data on lending under PMMY, in a granular fashion.

Department of Financial Services (DFS), Government of India has set up 'Mission Mudra' to closely monitor the programme. Periodic video conferencing by DFS officials with banks has helped in timely implementation and monitoring of the programme. While the progress of PMMY is being monitored by MUDRA, NABARD is supporting it by following up with RPBs. Monitoring of MFI progress is being supported by MFIN.

c) Objectives Pradhan Mantri Mudra Yojana

Pradhan Mantri Mudra Yojana was launched to enable refinancing and develop micro enterprises especially in unorganized sector. Its objectives are-

1. To enable the micro enterprise to have the access over formal credit at cheaper rates with the view to develop them as this sector employs nearly 10 crore individuals and promote financial inclusion.
2. To monitor and regulate the micro finance institutions and formulating the lending principles by creating MUDRA (Micro units development and refinance agency) Bank.
3. To enable the unorganized sector to gradually transform into formal sector so as to mainstream them in the process of economic growth.
4. To boost innovation, entrepreneurship and job creation.

5. It can be used to further boost NRLM and revive rural economy by providing credit to SHGs
 6. All the above points are instrumental in making “MAKE IN INDIA’ a success.
- d) **Product and Offerings under Pradhan Mantri MUDRA Yojana (PMMY)**

The initial products and schemes under this umbrella have already been created and the interventions have been named ‘Shishu’, ‘Kishor’ and ‘Tarun’ to signify the stage of growth/development and funding needs of the beneficiary micro unit/entrepreneur as also provide a reference point for the next phase of graduation/growth for the entrepreneur to aspire for:

- Shishu: covering loans up to Rs 50,000
- Kishor: covering loans above Rs 50,000 and up to Rs. 5 lakh
- Tarun: covering loans above Rs 5 lakh and up to Rs. 10 lakh

PMMY- Goa State Performance Financial Year: 2015-2016 (Amount in Crore)

Sr No	State	Shishu No. of A/c	Disbursal Amount	Kishore No. of A/c	Disbursal Amount	Tarun	Disbursal Amount
1	Goa	36,247	89.83	7,441	155.73	1,783	130.48

Source: Annual report MUDRA 2015-16.

The project cost to sanction loans is accepted on the basis of a business plan and proposed investment. Banks, NBFCs, MFIs, and other financial intermediaries enrolled by MUDRA periodically, are eligible to extend Mudra loans.

- The products initially being launched are as under:

Sector/activity specific schemes, such as schemes for business activities in Land Transport, Community, Social & Personal Services, Food Product and Textile Product sectors. Schemes would similarly be added for other sectors/activities.

- Micro Credit Scheme (MCS)
- Refinance Scheme for Regional Rural Banks (RRBs)/Scheduled Co-operative Banks

- Mahila Uddyami Scheme
- Business Loan for Traders & Shopkeepers
- Missing Middle Credit Scheme- Equipment Finance for Micro Units

e) Eligibility of the borrower

Loans given to all non-farm income generating enterprises in manufacturing, trading and services whose credit needs are below Rs. 10 lakh by all the Public Sector Banks, Regional Rural Banks, State Cooperative Banks and Urban Co-Operative Banks will be known as MUDRA loans under the Pradhan Mantri MUDRA Yojana (PMMY). Essentially, all those who avail loans below Rs 10 lakh for their micro units are eligible for the loan. The list of institutions partnering in the MUDRA initiative are:-

- 27 Public Sector Banks
- 17 Private Sector Banks
- 31 Regional Rural Banks (RRBs)
- 4 Co-operative Banks
- 36 Micro Finance Institutions (MFIs)
- 25 Non-Banking Financial Companies (NBFCs)

f) Process under Pradhan Mantri MUDRA Yojana (PMMY)

An application form under this scheme will be available with each of the above listed institutions. Here is the step by step information regarding applying to the Mudra Bank Loan Yojana for all categories.

Note-prepare a business idea before applying and present business idea along with application form.

- First of all the borrower under **PMMY** needs to visit the Private or Commercial bank nearest to his location
- Present Business Idea along with the Loan Application

This application form has to be submitted along with the following documents for the approval of the loan.

- **Proof of Identity** (Self attested Voter ID/Driving License/PAN Card/Aadhaar Card/Passport/any other Photo ID issued by Government)

- **Proof of Residence** (Recent Telephone Bill/Electricity Bill/Property Tax Receipt (not older than 2 months)/Voter ID Card/Aadhaar Card/Passport/Domicile Certificate/Certificate Issued by a local authority)
- **Applicant's recent photograph** (not older than 6 months)
- **Quotation of Machinery**/other items to be purchases
- **Name of the Supplier**/Details of Machinery/Price of Machinery
- **Proof of Identity/Address of the Business Enterprise** (relevant licenses & certificates)
- **Proof of Category** (SC/ST/OBC/Minority etc)
- All formalities as per the bank instructions are to be filled by the Borrower
- After completion of above Steps, the Loan will be sanctioned and will be made available to the Loan Seeker.

The Banks should not charge any processing fee well as ask for any collateral. The repayment period is also extended to 5 years. But it is also made clear that the applicant should not be a defaulter to any Bank or financial institution.

g) MUDRA Card

After the loan has been sanctioned under MUDRA Yojana, the candidate will get a MUDRA Card, a card like the credit card which the candidate can use to buy business raw material, etc. Mudra Card will have a limit of 10% of the business loan (subject to Rs. 10000 maximum). It facilitate hassle free and flexible working capital assistance to the borrowers, this card-a debit card on RuPay platform which can be operated across the ATMs and 'Point of Sale' (POS) Machines. A borrower would be able to manage his credit needs by drawing funds from ATMs or make payments through POS machines, based on the requirement and repay as and when funds are available with him. Many partner banks/MFIs disbursed working capital loans by adopting the MUDRA card scheme.

h) Performance of PMMY during 2015-16

With efforts from all stake holders, the PMMY financial target for the year 2015-16 was surpassed by the end of the fiscal. As against a target of 1,22,188 crore set for the year, notified banks and MFIs disbursed an aggregate sum of 1,32,954.73 crore, achieving 109 per cent by year end. The achievements-especially, by the

PSBs-indicate a significant credit growth in this segment. Data collected from PSB's indicates a 70 per cent growth in credit to MSEs during 2015-16. Other lending institutions too have achieved high growth in credit to MSEs, largely owing to the PMMY.

Performance of banks

Under PMMY the State Bank of India (SBI) with 12,281.18 crore was the biggest lending bank, followed by Canara Bank with 7,506.64 crore and Punjab National Bank (PNB) with 3593.42 crore. Among the private sector SCBs, HDFC Bank with 5,356.89 crore topped the list, followed by 3921.51 crore by ICICI Bank and 3,594.64 crore by Indus Ind Bank. Amongst RPBs, Uttar Bihar Gramin Bank with 1,350.90 crore had the highest lending under PMMY, followed by Karnataka Vikas Gramin Bank at 1,070.05 crore and Pragathi Krishna Gramin Bank extending 1,051.88 crore to MSEs.

Performance of MFIs

The data submitted by a total of 39 NBFC- MFIs and 33 non-NBFC-MFIs for FY 2015-16 suggests a disbursement of 45,904 crore worth of Mudra loans. Disbursements by MFIs was topped by SKS Microfinance Ltd (now, Bharat Financial Inclusion Ltd) with 11,856 crore followed by Janalakshmi Financial Services Limited extending 10,596 crore, and Ujjivan Financial Services giving out 3,969 crore in Mudra loans.

i) Serving specific borrower segments

Financing first-time entrepreneur

The Mudra loan objective of 'funding the unfunded' has twin purposes of seeding new enterprises and expanding existing units. Out of a total of 3.49 crore enterprises supported under PMMY during 2015-16, nearly 36 per cent (1.25 crore accounts) were for first time borrowers (new entrepreneurs).

Financing women entrepreneurs

Providing financial support to women entrepreneurs-for both financial inclusion and empowerment-was another prime objective of PMMY. Out of a total of 3.49 crore accounts a whopping 79 per cent (2.76 crore women) were funded under PMMY. Almost 99 per cent of the PMMY loans extended by MFIs were for

women borrowers, which contributed significantly for the share of women borrowers under this programme.

Funding SC/ST/OBC enterprises

The NSSO survey of 2013 indicated that more than 60 per cent of the micro and small enterprises belonged to weaker socio-economic strata like SCs, STs and OBCs. A total of 1.84 crore accounts-nearly 53 per cent of the total-financed under PMMY belonged to SC/ST/OBC category, thus fulfilling another aspect that would eventually facilitate financial inclusion.

Loan targets by type of institution

Type of the institution	Target (Crore)
Public sector banks	77,700
Private sector banks & foreign banks	21,000
Regional rural banks	15,000
NBFC-MFIs	64,240
Non-NBFC-MFIs	2,060
Total	1,80,000

Source: Annual report MUDRA 2015-16.

Loans to entrepreneurs belonging to minority communities

Banks and MFIs provided loans to 40.88 lakh accounts belonging to minorities under PMMY, with an aggregate disbursement of 13,560.30 crore. This represents 11.7 per cent of all PMMY loans and 10.2 per cent of the aggregate amount disbursed during 2015-16.

VI. INFERENCES AND DISCUSSION

PMMY is a significant initiative by the government to secure bank finance to the vast segment of the population occupied in the informal sector which does not have access to formal bank credit and is forced to rely on informal sources of finance at high cost. There are about 5.77 crore small business units in the country in the informal sector which is targeted for availing the benefit under the PMMY, apart

from new aspiring micro entrepreneurs. All public sector banks, regional rural banks and private sector banks have set a target of Rs 1.22 lakh crore during the current financial year for disbursement to small and micro enterprises up to Rs 10 lakhs. MUDRA Ltd has been established as a subsidiary of SIDBI with an initial corpus of Rs 5,000 crore to provide capital to all banks seeking refinancing of small business loans under PMMY. During the current financial year 2015-16, a total of 35.60 lakh borrowers have availed of credit under MUDRA to the tune of Rs 24,123 crore. Of these, 52 per cent beneficiaries are women and about 50 per cent new enterprises. As per guidelines, such loans do not need to be supported by collateral security. Banks are expected to disburse Rs 1.80 lakh crore loans under the Pradhan Mantri Mudra Yojana (PMMY) in the current fiscal. Last year, 3.5 crore beneficiaries availed Rs 1.22 lakh crore loans under PMMY. As a precursor to the success of PMMY, the government through its 2015-16 budget established MUDRA bank as a subsidiary under SIDBI. With a refinance fund of 200000 crore and credit guarantee fund of 3000 crore, MUDRA Bank will support the PMMY initiative by refinancing and supporting Micro Finance Institution (MFI's) that are the best available last mile fund source for the non-corporate small businesses. The present Pradhan Mantri MUDRA Yojana (PMMY) with focus on financing 5.75 crore self-employed provides loans between Rs 50,000- Rs 10 lakh to small entrepreneurs. It has been introduced for development and refinancing activities relating to micro units. The scheme provides refinance to banks and other institutions at 7 per cent. The banking sector has been allocated an scheme provides refinance to banks and other institutions at 7 per cent. The banking sector has been allocated an overall disbursement Rs 15,566 crore as on August 17 to more than 20 lakh borrowers under PMMY. IDBI Bank has signed an agreement with Mudra Bank for refinancing of loans given to small enterprises. "As per the agreement, the Bank will offer credit facilities up to Rs 10 lakh to micro enterprises, at a competitive interest rate under Pradhan Mantri Mudra Yojana (PMMY) and Mudra will be providing refinance assistance to the bank for eligible sanctioned loan cases," The refinance scheme will be implemented through all the branches of the lender.

VII. CONCLUSION

Micro Finance is a potent tool for development of economy, enhancing opportunity for income generation in India. This also promotes a rewarding entrepreneurial ecosystem for those with ideas but restricted due to their credit standing and accessibility. Such Micro enterprises are indispensable for Indian economy, as they possess multiplier effect in terms of job, wealth and capital generation. This is correct step towards a sustainable economy. PMMY aims “to create an inclusive, sustainable and value based entrepreneurial culture, in collaboration with partner institution in achieving economic success and financial security.” Small business units generally face lot of challenges to get loans from Banks. It is believed that creating a bank like Mudra Bank will hugely benefit small manufacturing units and self-employed individuals in rural and urban areas with financing requirements up to Rs. 10 lakhs. These measures will greatly increase the confidence of our young educated and skilled workers who are able to become the first generation enterprises, and existing small businesses will be able to expand their activities. Just as banking the unbanked, MUDRA banks main aim is funding the unfunded. Mainstreaming these enterprises will not only help in improving the quality of life of these entrepreneurs but will also contribute substantially to job creation in the economy thereby achieving higher GDP growth. In 2016-17, the government has set a disbursement target of 1,80,000 crore-an increase of 4.73 per cent over the target set for FY 2015-16 and 35.4 per cent above the achievement. With similar support from partner institutions, as received in 2015-16, MUDRA hopes to achieve this target too.

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