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An Analysis of Performance and Impact of 'Mudra Yojana' On Small Enterprises

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Abstract

Being a developing country and the fastest growing economy, the people of India are motivated towards owning small scale enterprises where, majority of the source of their livelihood comes from the profits obtained from these enterprises. The availability of timely and easily accessibility of capital for these small scale firms has always been a matter of primary concern for the government. Since, a major part of the non-corporate sector functions as unregistered enterprises, which makes it difficult for banks to lend money to them. Therefore, for the growth and development of self-employed sector of India, a critical step of providing easy financial assistance is introduced by the government, through Pradhan Mantri Mudra Yojana. The motive behind this scheme is to overcome the problem of insufficiency and unavailability of funds by allowing financial aid of up to 10 lakhs to small entrepreneurs so that they can run their businesses, achieve growth and contribute in GDP of the country. In this paper, performance evaluation of PMMY is done on the basis of its impact on small scale industries. Also, various schemes and facilities available under this yojana are studied.

Keywords: *Financial Inclusion, Mudra Yojana, PMMY, Financial Assistance*

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Introduction

A vision concentrated on guaranteeing even-handed monetary development and improvement is based on financial equity, socio-economic inclusiveness and growth of the society as a whole. The idea of comprehensive advancement includes equivalent opportunities to every sector of the economy. The easy accessibility of funds to small businesses ensures empowerment of the manufacturing, trading and service sector and hence it becomes a crucial step in facilitating the overall goal of financial inclusion. The Pradhan Mantri Mudra Yojana is one such step taken towards promotion of trade and business by the Government.

The Pradhan Mantri Mudra Yojana aims to fund the unfunded and plays a crucial role of serving as a lender of last resort. The main objective of this yojana is to provide loan assistance to small entrepreneurs who are generally classified as Micro Units by the Government of India. These industries face inconvenience in getting funds from banks and financial institutions because of lack of credibility on the basis of incomplete or non-maintenance of books of accounts on regular basis and non-fulfilment of taxation responsibility. Therefore, to bridge the finance gap between entrepreneurs and financing problem, the Government of India launched this scheme on 8th April 2015, which is popularly known as Micro Units Development and Refinancing Agency (MUDRA).

There has been phenomenal growth witnessed by the Indian Microfinance Sector in the past 18 years. Banks and NBFCs have emerged as a powerful means of transportation in providing financial assistance to the micro and small enterprises. It is a commendable action taken by the government to improve growth potential of small entrepreneurs.

MUDRA Yojana is a positive step taken by the Indian Government towards promoting economic growth and development as it engages extending loans to small enterprises on easy terms. These small enterprises contribute to the GDP of our country and also assist in employment generation. MUDRA Yojana aims to encourage the small enterprise's owners to grow their business operations and to minimize their indebtedness by providing a basic system of credit. The Micro Units Development and Refinancing Agency Limited was initially owned subsidiary of Small Industries Development Bank of India (SIDBI) which helps in providing finance, extension, credit guarantee and other support schemes. SIDBI is also responsible for easy implementation and smooth functioning of the government announced schemes.

Objectives of the Study

- To find about the schemes offered under this yojana.
- To study the impact of PMMY on small enterprises.
- To evaluate the PMMY yojana on the parameters of SWOT analysis.

Research Methodology

As per the objectives of the study, the research done is qualitative in nature, where the study has been done with the help of secondary data available in annual reports by the government of India on the official website.

Schemes under MUDRA Yojana

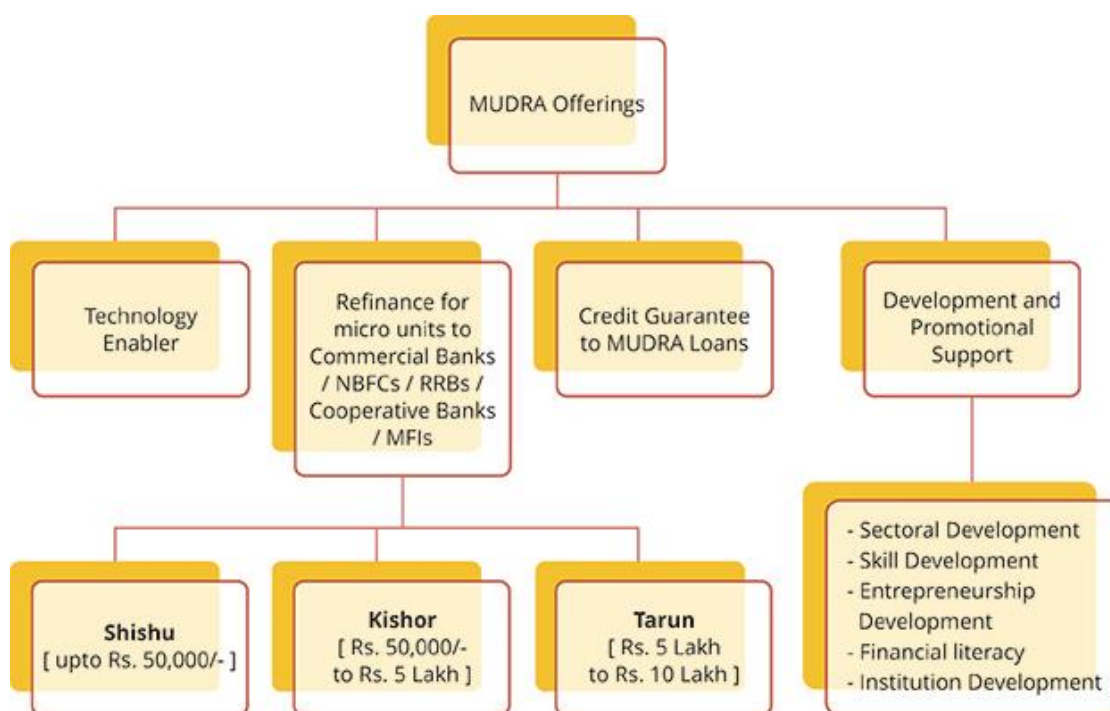


Fig.1 (Mudra Offerings)

Under the scheme of Pradhan Mantri Mudra Yojana, MUDRA Bank provides three types of loan assistance to the Micro Units to start or expand their businesses. These loans are addressed as –

- ShishuYojana - loans provided up to ₹ 50,000.
- KishoreYojana - loans provided from ₹ 50,001 to ₹ 5,00,000.
- TarunYojana - loans provided from ₹ 5,00,000 to ₹ 10,00,000.

The rates of interests under these schemes are as follows:

- ShishuYojana – Interest charged is around 10% to 12%, where public sector banks generally charge at very reasonable rate.
- KishoreYojana – Interest charged is around 14% to 17% and differs from bank to bank.
- TarunYojana – the rate of Interest charged under this scheme starts from 16%.

MUDRA Yojana is like a NBFC which provides funds to small enterprises of the country. It also provides refinance facility to Banks/MFIs so that they can further lend money to micro units up to the limit of ₹ 10,00,000. Following are the functions of PMMY:

Operations under MUDRA Yojana

The MUDRA yojana aims to provide financial assistance and support services benchmarked with best practices for the comprehensive economic and social development. In the process of creating inclusive and sustainable entrepreneurial culture, following are the functions performed under the PMMY to fund the unfunded.

Expanding the Outreach to Micro Finance Institutions (MFIs)

The microfinance sector of India has witnessed a rapid growth over the past eighteen years. The conducive policy and regulatory framework for MFIs are created by the Government of India and Reserve Bank of India, which helped in providing them required legitimacy to the sector. MFIs have exhibited great potential to carry on with their financing activities and to further achieve the goal of financial inclusion.

Refinancing to Commercial Banks, MFIs and NBFCs

MUDRA also provides refinance to eligible Regional /rural Banks, Commercial Banks, Cooperative Banks, Non-Banking Finance Companies and other Micro Finance Companies which are engaged in raising loans for entrepreneurs up to ₹ 10 lakh.

S.No.	Particulars	Amount (in crore)
1	Sanctions	2,078.50
2	Disbursements	1,772.50
3	No. of MFIs	35

(Annual Report of Mudra, 2017-18)

Refinance assistance aggregating to ₹ 2,078.50 crore has been sanctioned to total 35 MFIs of which ₹ 1,772.50 crore have been disbursed till now.

Women Enterprise Programme

For the encouragement of women entrepreneurs, PMMY extends additional support through Banks and MFIs, which also included reduction of interest rates on their loans. MUDRA is currently extending an interest rate reduction of 25bps to MFIs / NBFCs, which provide loans to women entrepreneurs.

Securitization of Loan Portfolio

By securitising of loan assets of entrepreneurs against micro enterprise portfolio and providing the second loss by default guarantee to Banks or NBFCs or MFIs. This supports the credit enhancement of the entrepreneurs.

Development and Promotional Support

Other than the credit facilities, developmental role of MUDRA are to promote financial and business literacy, to bridge the knowledge gaps and skill development gaps. Also, to build an ecosystem which can efficiently deliver sustainability in the financial environment of the country.

Other than the above mentioned key functions, (Shahid, 2016) found out that launching of bank like MUDRA will contribute to the growth of MSMEs and further contribute in the initiative of Make in India by providing monetary assistance to self-employed manufacturing units in rural and urban areas. With the help of popularity of new innovations like e banking, mobile banking etc. the scope of financial inclusion have widen (Mehar, 2014) and this yojana in such developing era strengthens the position of MSMEs. (Venkatesh & Lavanya, 2017) Stated that the MUDRA scheme is being launched for the sole development of entrepreneurial sector, so that the small scale industries progress positively in the economy. The scheme has been very successful in Tamil Nadu and MFIs have significantly contributed in increasing number of accounts under PMMY (Rupa, 2017).

The Impact of MUDRA Yojana

MUDRA Yojana came with the motive of funding the unfunded, millions of individual irrespective men or women run small scale business or wanted to start their own businesses but they were unable to do that just because of lack of funds and lack of knowledge of sources of funds. After agricultural sector small scale industries contributes most of the amount in the economy. A programme meant for providing loan upto Rs 10 lakh, which can easily be availed by an individual who belongs to India and not be a defaulter in any of the bank. Individual can avail this loan only if he is competent and have income generating capacity. This loan is a collateral free loan and which can be covered under Credit Guarantee Funds for Micro Units.

Performance of PMMY (Pradhan Mantri Mudra Yojana):

- *Region wise Performance*

MUDRA Yojana is meant for small scale entrepreneurs irrespective of cast, religion and gender. The sanctioned loans were from PMMY's different lending institutions, where Tamil Nadu topped with maximum sanctions, followed by Karnataka and Maharashtra. The figure 2 depicts the number of accounts opened under PMMY on the basis of region in FY 2017-18.

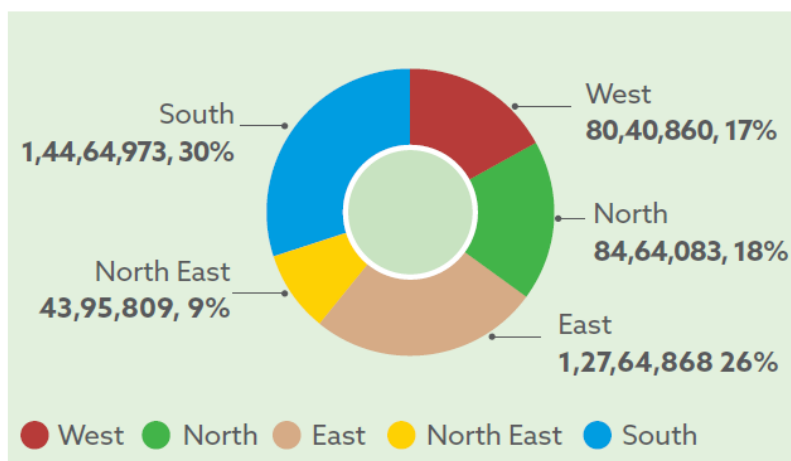


Fig. 2 (Annual Report of Mudra, 2017-18)

- *Lending Institution wise Performance*

Among all lending institutions, the Public Sector Banks sanctioned maximum amount under PMMY, whereas MFI and Private Sector Banks have an equal share in sanctioned loan amounts. In the below figure 3, it has been noted that Regional Rural Banks sanctioned less loan amount as compared to others for which awareness among entrepreneurs regarding finance options and fewer number of entrepreneurs can be the reason.

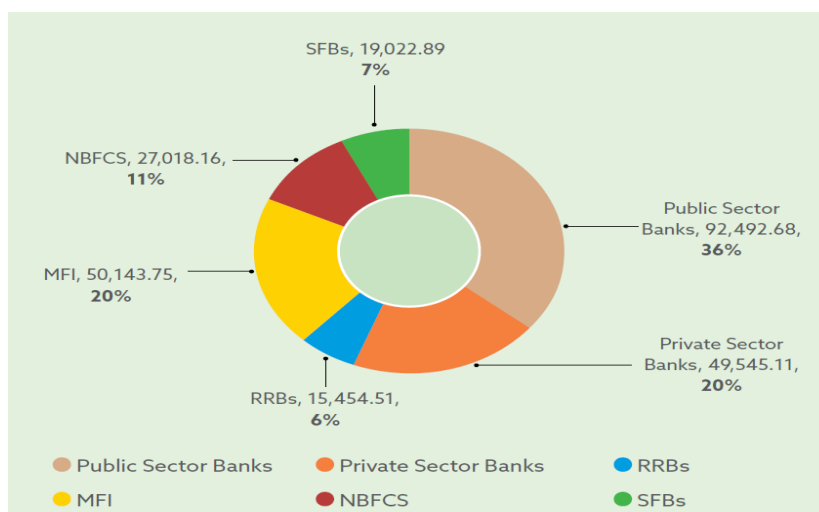


Fig.3 (Annual Report of Mudra, 2017-18)

- *Loan Category wise Performance*

MUDRA scheme extends into three categories on the basis of their loan amounts, which comprises of Shishu, Kishore and Tarun. The following figures4 and 5 depicts the number of accounts and the percentage of total loan sanctioned under these three schemes. The priority scheme which is Shishu

has the highest share which states that the number of accounts and loan sanctioned up to ₹ 50,000 are the highest among all.

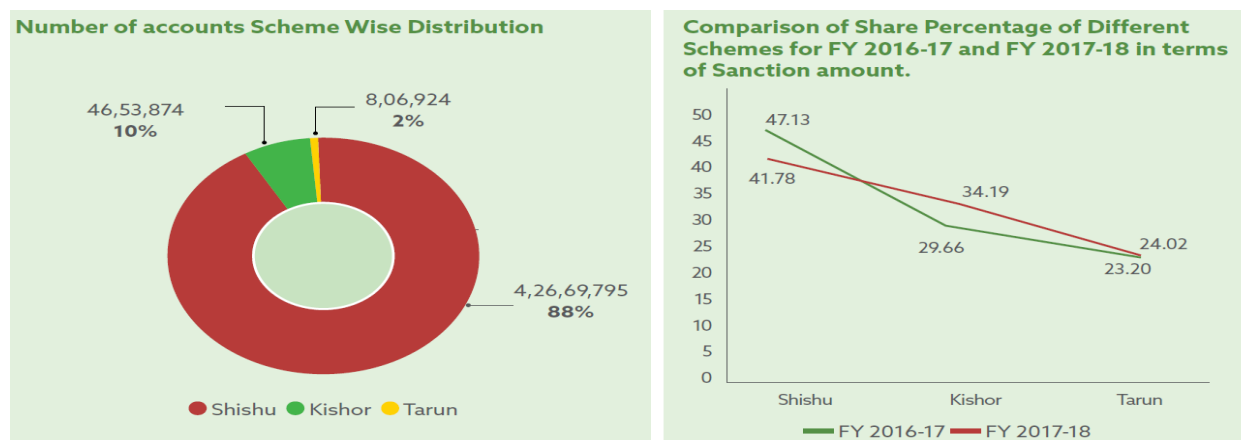


Fig.4(Annual Report of Mudra, 2017-18)Fig.5

- *Caste Category wise Performance*

Irrespective of gender, caste or any other discrimination, the MUDRA scheme provides monetary assistance to all. Also to promote women entrepreneurship, loans are sanctioned on relatively lower interest rates to women. The general women borrowers have 70% of the accounts under this scheme and the SC/ST/OBC women have 55% accounts under this scheme. Following is the figure 6 showing the percentage share of loan accounts.

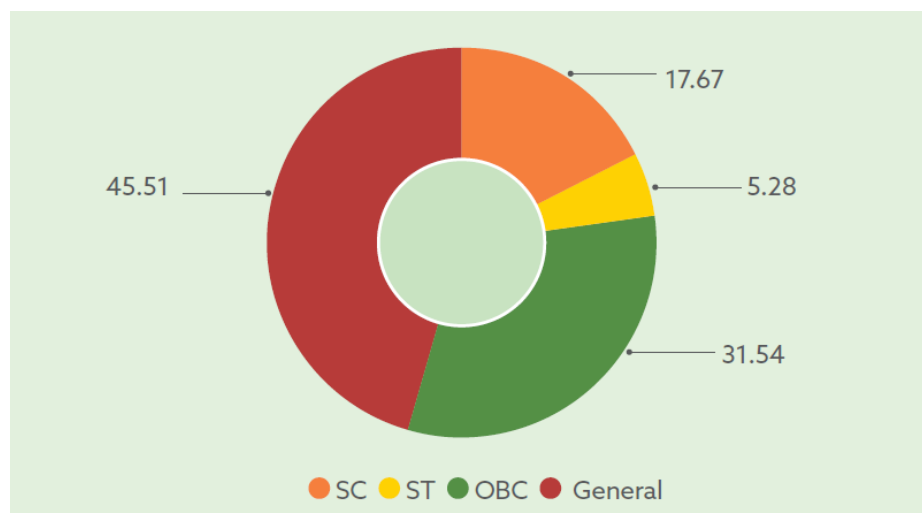


Fig. 6 (Annual Report of Mudra, 2017-18)

SWOT Analysis of PMMY

The SWOT Analysis assesses the internal qualities and shortcomings and the external circumstances and danger in any organisation, project or situation (Sammut-Bonnici, Tanya & Galea, & David,

2015).The target of a SWOT investigation is to utilize the learning, an association has about its surroundings and to plan its technique as needs be.

STRENGTH:

- The MUDRA scheme is like a lender of last resort for the unorganized, informal and non-corporate small scale businesses.
- This scheme would help in generating more and more employment opportunity for the individual irrespective of their cast, religion and gender.
- It also provides easy loan with less interest rates and it also provides unsecured loans.
- This scheme not only provides monetary help but also boost morale of the individual as it encourages women entrepreneurs because loan is provided at very less interest rate.
- It is responsible for Growth in MSME is a also step towards “Make in India Project” as more domestic industries would leads to more production of indigenous product which compete in foreign market and create more foreign income which would improve the value of Rupees which determines the economic growth.

WEAKNESSES:

- Still there is unawareness of this scheme amongst the Indian citizen.
- Interest rates differ from bank to bank.
- Tenure of returning back is also fixed by the government that is 36 months.
- There are various regulating bodies working on thisyojana so lack of coordination exists.
- More emphasis on Shishu scheme under this yojana.

OPPORTUNITIES:

- These loans can also cater the personal needs of the individual for example - education loan.
- More awareness can be created through various sources.
- There can be equal distribution of funds in respect region.
- There can be more coordination between the financial institution and the governing bodies.
- This scheme can also help individual in smooth functioning of their businesses by teaching them or guiding them with proper techniques of businesses.

THREATS:

- Conflicts between various governing organizations.
- Various interest rates in different financial institution create a chaos in the mind of individual.
- This loan is not secured against any collateral so there is a chance of bad debts.

- There were various schemes as well as organizations which were working on the growth and development of rural and weaker sectors of society.

Conclusion

Pradhan Mantari Mudra Yojana is an initiative taken by the Indian Government by providing funds to Micro/Small scale businesses and to improve the situation of unorganized, non-cooperated industries and informal sector in Indian market. It would create employment opportunities in the rural as well as urban area. Mudra yojana's USP is to provide funds to those who find difficulty in raising funds from formal financial institutions and to provide them funds at the lowest cost irrespective of their education, skills and gender. MUDRA scheme will not only fulfil the monetary needs but also the helps in boosting the moral of the new generation entrepreneurs. Mudra yojana will definitely a positive step taken by the GOI that would take the country forward in future because it encourages women entrepreneurs as well by refinancing in their business plans at very low rate of interest so that they can generate income and contribute a good amount in National Income. Growth in MSME is a also step towards "Make in India Project" as more domestic industries would leads to more production of indigenious product which compete in foreign market and create more foreign income which would improve the value of Rupees which determines the economic growth. So therefore financial inclusion in MSMEs through this scheme will act as a game changer in financial market and will boost the Indian Economy in near future.

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