

# A DESCRIPTIVE STUDY ON PRADHAN MANTHRI MUDRA YOJANA (PMMY)

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**Abstract-** In India most of the people are depending upon small scale businesses as their source of livelihood. Most of the individuals depend on unorganised sectors for loans and other credit facilities which have high rate of interest along with unbearable terms and conditions. Ultimately it will lead these poor people to fall in debts. 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. After identifying the importance of self-employment people and small business units, government of India launched the Mudra Bank Scheme under Pradhan Manthri Mudra Yojana to provide financial assistance to MSMEs who provide employment to a large number of people targeted towards mainstreaming young, educated or skilled workers and entrepreneurs including women entrepreneurs. This paper is an attempt to know about the MUDRA Yojana and its key objectives. For analyzing such facts secondary sources of data has been collected. It is not very much correct time to evaluate the PMMY scheme which is only in its infant stage. But an attempt has been made in this paper to analyze the product offerings and performance so far of the scheme.

**Keywords** –MFIs, PMMY, MSMEs, Mudra Bank, Self-Employment

## I. INTRODUCTION

Micro Small and Medium Enterprises (MSME) contributes around 8% to GDP. Small businesses are not in a position to play their role effectively due to various constraints. Raising finance is one of the biggest problems for this sector.

The major constraints faced by the myriad of the MSMEs along the length and breadth of the country include [1]:

- Access to Finance
- Skill Development Gaps
- Knowledge Gaps
- Infrastructure Gaps
- Policy Advocacy Needs
- Information Asymmetry
- Lack of growth orientation
- Lack of Market Development / Market Making
- Entry Level Technologies

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. PMMY aims to bank the unbanked. The objective of PMMY is to support the entrepreneurs of the above mentioned class via Micro Units Development and Refinance Agency (MUDRA) Bank.

## II. OBJECTIVES OF THE STUDY

- To know the Objectives of MUDRA BANK
- To understand the Product offerings of MUDRA BANK.
- To analyse the performance of MUDRA BANK in state of Karnataka

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### III. METHODOLOGY

The data and information for the study is gathered from secondary sources like newspapers, magazines, various websites including website of MUDRA Yojana.

### IV. LIMITATIONS OF THE STUDY

- Time constraints while collecting the secondary data.
- All the datas cannot be generalized.

### V. PRADHAN MANTHRI MUDRA YOJANA

PMMY aims to bank the unbanked. The objective of PMMY is to support the entrepreneurs of the above mentioned class via Micro Units Development and Refinance Agency (MUDRA) Bank. To remove the financial difficulties faced by micro and small business units the GOI launched a scheme on 8<sup>th</sup> April 2015 called Micro Unit Development and Refinance Agency, or MUDRA to 'fund the unfunded' under the scheme of Pradhan Mantri MUDRA Yojana (PMMY).

Micro Units Development & Refinance Agency Ltd (MUDRA) was set up by the Government of India (GoI). 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 by supporting the finance Institutions which are in the business of lending to micro / small business entities engaged in manufacturing, trading and service activities. MUDRA would partner with Banks, MFIs and other lending institutions at state level / regional level to provide micro finance support to the micro enterprise sector in the country [2].

### VI. KEY OBJECTIVES OF MUDRA YOJANA

Pradhan Mantri Mudra Yojana has come as a boon for MSME (Micro, small and medium Enterprises) sector and is widely hailed as a robust measure to achieve inclusive growth.

The Principal Objectives of the MUDRA Bank under Mudra Yojana [3]:

- Regulate the lender and the borrower of microfinance and bring stability to the microfinance system through regulation and inclusive participation.
- Extend finance and credit support to Microfinance Institutions (MFI) and agencies that lend money to small businesses, retailers, self-help groups and individuals.
- Register all MFIs and introduce a system of performance rating and accreditation for the first time. This will help last-mile borrowers of finance to evaluate and approach the MFI that meets their requirement best and whose past record is most satisfactory. This will also introduce an element of competitiveness among the MFIs. The ultimate beneficiary will be the borrower.
- Provide structured guidelines for the borrowers to follow to avoid failure of business or take corrective steps in time. MUDRA will help in laying down guidelines or acceptable procedures to be followed by the lenders to recover money in cases of default.
- Develop the standardised covenants that will form the backbone of the last-mile business in future.
- Offer a Credit Guarantee scheme for providing guarantees to loans being offered to micro businesses.
- Introduce appropriate technologies to assist in the process of efficient lending, borrowing and monitoring of distributed capital.

- Build a suitable framework under the Pradhan Mantri MUDRA Yojana for developing an efficient last-mile credit delivery system to small and micro businesses.

**VII. MAJOR PRODUCT OFFERINGS**

Under the scheme of PMMY, MUDRA Bank has rightly classified the borrowers into three segments: the starters, the mid-stage finance seekers and the next level growth seekers.

To address the three segments, MUDRA Bank has launched three loan instruments [4]:

**Shishu:** covers loans upto Rs 50,000/-

**Kishor:** covers loans above Rs 50,000/-and upto Rs 5 lakh

**Tarun:** covers loans above Rs 5 lakh and upto Rs 10 lakh

**Rate of Interest Charged:**

**Shishu:** The rate of interest charged underthis scheme by the banks is around 10% to 12%. And public sectors banks are charging at lower rate.

**Kishor:** The rate of interest isfrom14%to 17% depends on bank to bank.

**Tarun:** The rate of interest starts at 16%

It should be noted that at least 60% of the credit flows to Shishu Category Units and the balance to Kishor and Tarun Categories are ensured.

Following Figure.1 shows the offerings of MUDRA [5]

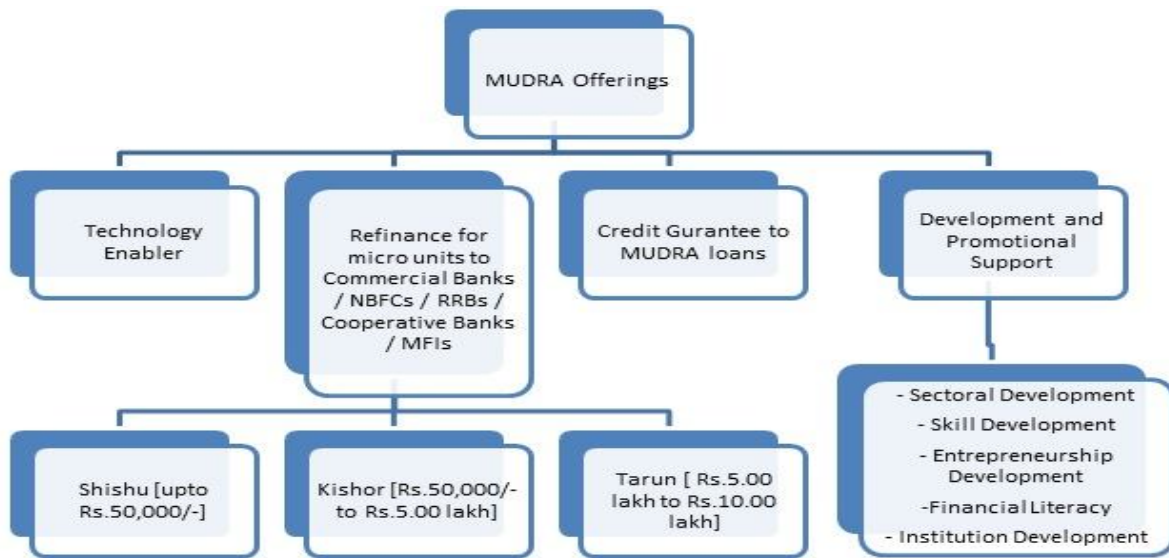


Figure 1. Mudra Offerings

**The funding supports from MUDRA are of four types:**

*A. Micro Credit Schemes:*

Micro Credit Scheme is offered mainly through Micro Finance Institutions (MFIs), which deliver the credit upto Rs.1 lakh, for various micro enterprise activities. Although, the mode of delivery may be through groups like SHGs/JLGs, the loans are given to the individuals for specific income generating micro enterprise activity. The MFIs for availing financial support need to enroll with MUDRA by complying to some of the requirements as notified by MUDRA, from time to time.

*B. Refinance Schemes for Banks:*

Different banks like Commercial Banks, Regional Rural Banks and Scheduled Cooperative Banks are eligible to avail of refinance support from MUDRA for financing micro enterprise activities. The refinance is available for term loan and working capital loans, upto an amount of 10 lakh per unit. The

eligible banks, which have enrolled with MUDRA by complying with the requirements as notified, can avail of refinance from MUDRA for the loan issued under Shishu, Kishor and Tarun categories.

*C. Women Enterprise Programmes:*

In order to encourage women entrepreneurs the financing banks / MFIs may consider extending additional facilities, including interest reduction on their loan. At present, MUDRA extends a reduction of 25bps in its interest rates to MFIs / NBFCs, who are providing loans to women entrepreneurs.

*D. Securitization of Loan Portfolio:*

MUDRA also supports Banks / NBFCs / MFIs for raising funds for financing micro enterprises by participating in securitization of their loan assets against micro enterprise portfolio, by providing second loss default guarantee, for credit enhancement and also participating in investment of Pass Through Certificate (PTCs) either as Senior or Junior investor.

## VIII. PROGRESS OF MUDRA BANK YOJANA

The idea of MUDRA Bank is not just based on meeting the credit and financial needs of small enterprises. Rather than just providing credit, it is based on the “Credit Plus” approach under which access to credit will be combined with various enterprises development and welfare related services. MUDRA Bank is providing much needed financial access to NCSBSs, promote growth of small businesses, help boost the country’s GDP and create job in the coming times [6].

So far during the FY 2015-16 in India total 34880924 no. of sanctions have been made involving sanction of Rs.137449.27crores and disbursement of Rs. 132954.73 crores. Performance of 2016-17 also mentioned in the table.1 below.

Table 1

PRADHAN MANTRI MUDRA YOJANA (Amt in Rs.)		
Financial Year	2016-17 (as on 21/10/2016)	2015-16
No. of PMMY Loans Sanctioned	17583183	34880924
Amount Sanctioned (Rs.)	65062.28 Crores	137449.27 Crores
Amount Disbursed (Rs.)	62749.30 Crores	132954.73 Crores

Source: PMMY Report [7]

Pradhan Manthri Mudra yojana is performing well in the state of Karnataka also. The performance of Mudra Bank in Karnataka State has been shown in table 2 below

Table 2

PRADHAN MANTRI MUDRA YOJANA – KARNATAKA (Amt in Rs.)		
Financial Year	2016-17 (as on 21/10/2016)	2015-16
No. of PMMY Loans Sanctioned	2216283	4459609
Amount Sanctioned	8702.29 Crores	16861.35 Crores
Amount Disbursed	8464.81 Crores	16469.43 Crores

Source: PMMY Report

Table 2.1

PRADHAN MANTRI MUDRA YOJANA (Amt in Rs.)			
Financial Year	SHISHU (Loans Up to Rs. 50,000)		
	No. of Sanctions	Sanctioned Amt	Disbursement Amt
2015-16	4153714	9157.83 Crores	9071.71 Crores
2016-17 (as on 21/10/2016)	2032854	4358.00 Crores	4310.86 Crores

Source: PMMY Report

Table 2.2

PRADHAN MANTRI MUDRA YOJANA (Amt in Rs.)			
Financial Year	KISHOR (Loans From Rs. 50,000-to- Rs. 5 Lakh)		
	No. of Sanctions	Sanctioned Amt	Disbursement Amt
2015-16	264744	4890.55 Crores	4744.94 Crores
2016-17 (as on 21/10/2016)	159185	2597.15 Crores	2491.91 Crores

Source: PMMY Report

Table 2.3

PRADHAN MANTRI MUDRA YOJANA (Amt in Rs.)			
Financial Year	TARUN (Loans From Rs. 5 Lakh to Rs. 10 Lakh)		
	No. of Sanctions	Sanctioned Amt	Disbursement Amt
2015-16	41151	2812.97 Crores	2652.78 Crores
2016-17 (as on 21/10/2016)	24244	1747.14 Crores	1662.04 Crores

Source: PMMY Report

We can see the progress in the Mudra yojana by comparing both FY 2015-16 and 2016-17. Above tables 2.1, 2.2, and 2.3 reveals productwise progress of mudra yojana in Karnataka.

## IX. CONCLUSION

Growth of MSMEs will contribute to the development of 'Make in India' initiative. Launching bank like MUDRA will hugely benefit to small manufacturing units and self-employed individuals in rural and urban areas. PMMY scheme will contribute to the well-being of the individuals engaged in small scale industries which will positively affect the progress of the economy as a whole. MUDRA creates a vision of formalizing the informal and thereby funding the unfunded. Its role as an apex refiner, providing low-cost finance is likely to be its USP, thereby hoping to fill a yawning gap in India's microfinance space. 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.

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