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Empowering Dreams: An Analysis of PMMY's Impact on Micro-Entrepreneurship and Financial Inclusion.

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Abstract

The Pradhan Mantri Mudra Yojana (PMMY) was inaugurated on April 8, 2015. This government initiative holds the noble objective of empowering small and micro enterprises that operate outside the corporate and agricultural sectors by extending financial support in the form of loans up to Rs. 10 lakh. By facilitating access to such funding, the PMMY endeavors to foster growth and development in non-farm activities undertaken by enterprising individuals. The present research study is primarily dedicated to evaluating the efficacy and performance of the Mudra Yojana. And in the process, an attempt has been made to put forth a discerning critique of the scheme itself. The analytical framework employed within this scholarly work relies exclusively on robust secondary sources, effectively capturing crucial dimensions such as the performance of individual states, and a granular regional analysis.

Keywords – PMMY, MUDRA, Entrepreneurship Policy, Micro and Small Enterprises, Financial Inclusion.

Introduction

A visionary approach that prioritizes the attainment of balanced economic progress and advancement is rooted in the principles of inclusivity, fairness, and socio-economic justice for all. The very essence of inclusive development lies in providing equal opportunities and seamless accessibility to every individual, extending to both financial and non-financial aspects. By addressing the issue of inequality, inclusive economic growth generates productive livelihood prospects for all citizens, including those who are most impoverished and vulnerable. To this end, establishing access to the financial system serves as a crucial initial stride towards empowering the masses on a sustainable basis. A pivotal aspect of fostering inclusive growth and development involves promoting financial inclusion, which entails ensuring that everyone has access to fundamental financial services such as bank accounts, affordable credit for entrepreneurial pursuits and personal needs, insurance coverage, and more. In essence, enabling universal access to financial services and their effective delivery to all individuals embodies the core principles of economic inclusion and financial empowerment.

The Pradhan Mantri Mudra Yojana (PMMY) represents a commendable endeavor aimed at addressing the crucial credit requirements of micro-businesses and self-employed individuals, who predominantly operate within the informal sector. By doing so, it seeks to tackle the significant barrier that hampers their socio-economic progress. During the inauguration of the MUDRA Yojana in 2015, the esteemed Prime Minister of India, Shri Narendra Modi, astutely observed that the common perception often revolves around large industries and corporate entities being the primary drivers of employment generation. However, the reality is quite different, with only 12.5 million people employed by corporate giants compared to a staggering 120 million individuals who find livelihood opportunities within the Micro, Small, and Medium Enterprises (MSME) sector. This highlights the urgent need to recognize the potential and vitality inherent at the grassroots level and provide them with the necessary means to uplift themselves.

In essence, the government, through the establishment of the MUDRA institution in 2015, endeavors to accomplish three overarching objectives. Firstly, it aims to foster entrepreneurship and generate employment opportunities at the grassroots level. Secondly, it strives to bolster the growth of micro-businesses by facilitating enhanced access to credit and financial resources. Lastly, it undertakes the crucial task of evaluating and refinancing banks and microfinance institutions (MFIs) that extend loans to micro and small-scale entrepreneurs.

Review of Literature

Verma (2015) elucidates that the design of the MUDRA scheme not only addresses the financial challenges faced by Micro, Small, and Medium Enterprises (MSMEs), but also serves as a source of moral encouragement for a significant segment of the youth population aspiring to become entrepreneurs.

The research conducted by Dr. J. Venkatesh and MS. R. Lavanya Kumari (2017) demonstrates that in addition to the comprehensive schemes aimed at promoting the overall growth and development of the Micro, Small, and Medium Enterprises (MSME) sector, specific initiatives have been launched with a primary focus on nurturing entrepreneurs. These schemes play a pivotal role in enhancing the welfare of individuals involved in small-scale industries, thereby exerting a positive impact on the progress and advancement of the entire economy.

The research conducted by Agarwal and Dwivedi (2017) delved into the analysis of the Pradhan Mantri Mudra Yojana (PMMY), examining its performance in relation to state, caste, and category. The study also encompassed an exploration of the features and SWOT analysis of the PMMY. Notably, the growth rate in certain Union Territories, such as the A&N Islands and Lakshadweep, exhibited a negative trend and failed to meet satisfactory levels when analyzed on a state-by-state basis. Conversely, Assam and Tripura displayed the highest growth rates. According to the author, the PMMY scheme stands as a laudable initiative undertaken by the government, which has significantly aided the weaker sections and low-income segments of society.

Rudrawar, M. A. A., and Uttarwar, V. R. (2016) have expounded upon the potential of the Pradhan Mantri Mudra Yojana (PMMY) to bring about a transformative impact. When implemented effectively at the grassroots level, it has the capacity to serve as a game-changing idea, propelling the Indian economy to new heights. To achieve this, the PMMY should prioritize streamlined processes with minimal documentation requirements, ensuring easy accessibility for the intended beneficiaries. In the forthcoming years, MUDRA is anticipated to assume a pivotal role in fostering entrepreneurship, contributing to an increase in the Gross Domestic Product (GDP), and fostering employment opportunities, thereby facilitating holistic development.

Objectives

The overarching objectives of the research paper encompass a comprehensive analysis of the performance exhibited by diverse categories operating within the MUDRA Scheme framework, and a meticulous evaluation of the loan sanction process employed by financial institutions across various states in India. Also, to get a comprehensive understanding of the MUDRA scheme and to assess the degree and nature of change this scheme has brought in the entrepreneurial scene of the nation.

Methodology

The study is mainly premised on the secondary data which was available. The official government reports were gone through. The research studies which were previously conducted on this scheme were referred. The researchers have meticulously collated pertinent information from secondary sources such as scholarly journals, informative articles, and the authoritative MUDRA websites.

PMMY

The Pradhan Mantri Mudra Yojana (PMMY) is open to all Indian citizens who have viable business plans in small-scale industries encompassing trading, manufacturing, and processing, with a loan requirement of up to Rs. 10 lakh. The interest rate on these loans is determined by the Reserve Bank of India (RBI) and is subject to periodic adjustments. The scheme extends its benefits to the Non-Corporate Small Business Sector (NCSBS), which includes service-oriented enterprises, micro-manufacturing units, fruit and vegetable distributors, maintenance and repair services, handicrafts, and food service providers, among others.

MUDRA Bank

In the Union Budget for the fiscal year 2015-16, the esteemed Finance Minister, Shri Arun Jaitley, introduced the establishment of the Micro Units Development and Refinance Agency (MUDRA Bank). MUDRA Bank was incorporated as a company in March 2015 in accordance with the Companies Act, 2013. It operates as a Non-Banking Financial Institution (NBFI) registered with the Reserve Bank of India since April 7th, 2015, with the primary objective of funding the previously unfunded sectors. The honorable Prime Minister, Shri Narendra Modi, officially launched MUDRA Bank on April 8th, 2015. The bank collaborates with various banks, Micro Financial Institutions, and other lending institutions to fulfill its objectives. MUDRA Bank plays a significant role in promoting financial inclusion within the Indian economy. It was primarily established as a wholly-owned subsidiary of the Small Industries Development Bank of India (SIDBI), with 100% of its capital being contributed by SIDBI. MUDRA Bank has an authorized capital of 1,000 crores and a paid-up capital of 750 crores.

The Pradhan Mantri MUDRA Yojana (PMMY) is a government-backed scheme that provides loans to micro and small enterprises (MSEs) without collateral security. The loans are divided into three categories: Shishu (up to Rs. 50,000), Kishor (above Rs. 50,000 to up to Rs. 5 lakh), and Tarun (above Rs. 5 lakh to up to Rs. 10 lakh).

Category	Loan Amount
Shishu	Up to Rs. 50,000/-
Kishor	Above Rs. 50,000/- to up to Rs. 5 lakh
Tarun	Above Rs. 5 lakh to up to Rs. 10 lakh

Source – MUDRA annual report, 2021-22

Borrowers can avail loan facility from any Member Lending Institution (MLI), which includes public sector banks, private sector banks, foreign banks, regional rural banks, small finance banks, non-banking financial companies (NBFCs), and microfinance institutions (MFIs). There is no processing fee for loans up to Rs. 50,000 (Shishu category).

The interest rate on MUDRA loans is decided by the MLIs and is charged only on the money held overnight by the borrower. MUDRA Card is provided to borrowers for drawing working capital. It is a RuPay Debit Card and can be used for drawing cash from any ATM or making purchases using Point of Sale machines (POS).

The PMMY is a significant initiative by the government to promote entrepreneurship and economic growth in India.

Performance assessment of the PMMY.

The Government of India, in its pursuit of the Pradhan Mantri MUDRA Yojana (PMMY) for the fiscal year 2021-22, established a formidable target of ₹3.06 lakh crore. This significant amount was strategically allocated among diverse lending institutions such as banks, microfinance institutions (MFIs), and non-banking financial companies (NBFCs), taking into account their extensive reach and geographical presence across the nation. A comprehensive assessment of their respective performances against the overarching targets for the fiscal year 2021-22 revealed the following outcomes across different categories :

Category	Target	Sanction Amount	Achievement in %age.
Public Sector Banks (incl. Regional Rural Banks)	1,29,200	1,24,425	96%
Private Sector Banks (incl. Foreign Banks)	91,444.59	1,17,679.30	129%
Small Finance Banks	20,000	29,207.40	146%
Micro Finance Institutions	41,005.81	49,101.18	120%
Non-Banking Finance Companies	24,350	18,697.14	77%
State Co-operative Banks	0	0.36	10%
Total	3,06,000.40	3,39,110.40	5%

Source – MUDRA annual report, 2021-22

The allocation of institution-wise targets by the Government of India was further distributed among states by the respective lending institutions based on their network and lending capacity. The performance of the top 10 states in terms of sanctioned amounts for the fiscal year 2021-22, presented in crore rupees, is as follows:

Sr. No.	Name of State	Sanction Amount 2020- 2021	Sanction Amount 2021-2022
1	West Bengal	29,335.98	34,893.20
2	Uttar Pradesh	29,231.35	33,663.73
3	Tamil Nadu	28,967.97	32,477.55
4	Bihar	25,589.31	32,096.95
5	Karnataka	30,199.18	28,695.29
6	Maharashtra	25,208.63	25,797.74
7	Rajasthan	18,571.38	18,999.20
8	Madhya Pradesh	18,474.24	18,814.95
9	Odisha	15,328.63	16,900
10	Gujarat	11,579.26	12,152.39
Total		2,32,485.93	2,54,491

Source – MUDRA annual report, 2021-22

Mudra loans are categorized into three distinct categories, depending on the loan amount. These categories are Shishu, which encompasses loans up to ₹50,000, Kishor, which includes loans above ₹50,000 and up to ₹5 lakh, and Tarun, which covers loans above ₹5 lakh and up to ₹10 lakh. An analysis of the distribution of these three categories within the Pradhan Mantri MUDRA Yojana (PMMY) has been conducted and the results are presented in the following table.

Category	FY 2021 - 22		FY 2020 - 21		%age
	No. of loan accounts	Sanction Amount	No. of loan accounts	Sanction Amount	(Sanction Amt.)
	Share	Share	Share	Share	
Shishu	4,17,21,154	1,24,747.37	4,01,80,115	1,09,953.34	12%
	77.60%	36.79%	79.20%	34%	
Kishor	1,10,88,206	1,37,644.38	94,86,160	1,32,516.34	4%
	20.60%	40.59%	18.70%	41%	
Tarun	9,86,166	76,718.61	10,68,771	79,289.57	-3%
	1.80%	22.62%	2.10%	25%	
TOTAL	5,37,95,526	3,39,110.35	5,07,35,046	3,21,759.25	5%

Source – MUDRA annual report, 2021-22

When considering the three categories of Mudra loans, it is noteworthy that Shishu loans accounted for the highest proportion, representing 77.6% of the total number of accounts. In terms of value, however, Kishor loans held the largest share at 41%, followed closely by Shishu loans at 37%. This indicates that while Shishu loans had a greater presence in terms of the number of accounts, Kishor loans carried more weight in terms of monetary value.

A critical review.

The MUDRA (Micro Units Development and Refinance Agency) scheme was launched by the Government of India in 2015 with the aim of providing financial assistance to micro and small enterprises (MSEs) in the country. It is an ambitious initiative designed to promote entrepreneurship and facilitate access to credit for small businesses. However, a critical analysis of the scheme reveals both positive aspects and areas of concern.

One of the key strengths of the MUDRA scheme is its focus on the neglected sector of MSEs. By providing financial support to these enterprises, the government seeks to foster inclusive growth, generate employment, and boost economic development. The scheme has undoubtedly created awareness about the importance of small businesses and has increased their visibility in the financial ecosystem.

Moreover, the MUDRA scheme offers three categories of loans: Shishu (up to INR 50,000), Kishore (INR 50,000 to INR 5 lakh), and Tarun (INR 5 lakh to INR 10 lakh). This classification ensures that small businesses at different stages of development can access appropriate credit. It recognizes the diverse needs and capacity of MSEs and provides tailored financial solutions accordingly.

Additionally, MUDRA has partnered with various financial institutions, including commercial banks, regional rural banks, small finance banks, and microfinance institutions, to disburse loans to MSEs. This collaborative approach has expanded the reach and accessibility of credit facilities, benefiting a wide range of entrepreneurs across the country.
The above mentioned points can be summarized in the following manner :

- It provides loans to MSEs that would otherwise have difficulty accessing credit.
- The loans are offered without collateral security, which makes them more accessible to small businesses.
- The interest rates on MUDRA loans are relatively low.

However, there are several areas of concern regarding the MUDRA scheme that warrant attention. Firstly, there have been reports of loan defaults and a rising number of non-performing assets (NPAs) under the scheme. This suggests that proper due diligence and credit assessment may not always be performed, leading to an increased risk of default.

Furthermore, the disbursal of loans under the MUDRA scheme has been criticized for being driven more by political motives than by the viability and sustainability of the businesses. This has resulted in potential misallocation of funds, as loans are sometimes given without proper evaluation of business plans, market viability, or repayment capabilities. Such practices undermine the long-term success and impact of the scheme.

Another issue is the lack of effective monitoring and evaluation mechanisms to track the progress and impact of the MUDRA loans. While there are periodic reports on the number of loans disbursed, there is limited data available on the outcomes and performance of the assisted businesses. This makes it difficult to assess the effectiveness and efficiency of the scheme in achieving its intended objectives.

Additionally, the MUDRA scheme primarily focuses on providing credit but lacks complementary measures to enhance the overall ecosystem for MSEs. Factors such as infrastructure support, skill development programs, access to markets, and regulatory reforms are equally critical for the success of small businesses. A more holistic approach, addressing these multifaceted challenges, would significantly improve the long-term prospects of MSEs.

Broadly, the shortcomings of the PMMY can be iterated in the following way:

- The loans are not always used effectively. Some borrowers use the loans to finance unproductive activities, such as consumption.
- The loans can be difficult to repay, especially for businesses that are not profitable.
- The PMMY has been criticized for being a subsidy for large businesses, as some large businesses have been able to access MUDRA loans even though they do not meet the eligibility criteria.

Overall, the PMMY is a positive initiative by the government to promote entrepreneurship and economic growth in India. However, the scheme has some limitations that need to be addressed.

Here are some recommendations for improving the PMMY:

- The government should provide more training and support to borrowers so that they can use the loans effectively.
- The government should make it easier for borrowers to repay the loans.
- The government should tighten the eligibility criteria for MUDRA loans so that they are only available to truly small businesses.

Conclusion

In conclusion, the MUDRA scheme has made commendable efforts to promote financial inclusion and support the growth of MSEs in India. However, there are notable shortcomings that need to be addressed to ensure the scheme's sustainability and effectiveness. Stricter credit assessment procedures, enhanced monitoring mechanisms, and a broader ecosystem approach are essential for the scheme to have a lasting positive impact on the Indian economy.

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