

PRADHANMANTRI MUDRA YOJANA; A MEASURE TO MUDRA SUCCESS

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ABSTRACT

Pradhan Mantri Mudra Yojana, under the Micro Units Development and Refinance Agency(MUDRA) Bank is a new institution being set up by Government of India for development and refinancing activities relating to micro units. It was announced by the Finance Minister while presenting the Union Budget for FY 2016. The purpose of MUDRA is to provide funding to the non corporate small business sector. Loans worth about Rs 1 lakh crore have been sanctioned to small entrepreneurs under the Pradhan Mantri MUDRA Yojana, Prime Minister Narendra Modi said that the government wants youth to be job creators and not job seekers. Under the scheme, Pradhaan Mantri Mudra Yojana three categories of interventions has been named which includes. Prime Minister Modi, in a recent interview, indicated that his focus was to create a third sector—the personal sector—other than farms and factories wherein a person turns into a job provider through entrepreneurship rather than a job-seeker in the other two sectors. This statement assumes significance as it has many policy implications for the next few years.

GOVERNMENT INITIATIVES

- The government has already been active in translating this vision into reality. The Pradhan Mantri Mudra Yojana (PMMY) is one of the cornerstones of this policy.
- According to estimates, the total amount of loans disbursed under the PMMY programme crossed Rs.1.25 trillion as of March 2016.

About the Pradhan Mantri MUDRA Yojana (PMMY) scheme

The PMMY Scheme was launched in April, 2015. The scheme's objective is to refinance collateral-free loans given by the lenders to small borrowers.

- The scheme, which has a corpus of Rs 20,000 crore, can lend between Rs 50,000 and Rs 10 lakh to small entrepreneurs.
- Banks and MFIs can draw refinance under the MUDRA Scheme after becoming member-lending institutions of MUDRA.

SIGNIFICANCE OF THE SCHEMES

It will greatly increase the confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs.

- Existing small businesses, too, will be able to expand their activities.
- Under the scheme, by floating MUDRA bank, the Centre has ensured credit flow to SMEs sector and has also identified NBFCs as a good fit to reach out to them.
- People will now be able to get refinance at subsidised rate and it would be passed on to the SMEs. Moreover, it would enable SMEs to expand their activities.

There are three types of loans under PMMY:

1. Shishu (up to Rs.50,000).
2. Kishore (from Rs.50,001 to Rs.5 lakh).
3. Tarun (from Rs.500,001 to Rs.10,00,000).

CHALLENGES

- One of the most persistent problems that Indian economy is facing is the inequitable distribution of funds. The larger portion of the capital is available to the bigger companies whereas too little of the capital is distributed to micro, small and medium business sector.
- At present the non-profit micro financing institutes (MFI's) are not able to provide enough support to small businesses. The commercial banks are also hesitant to provide funds to small and medium entrepreneurs. They avoid exposure to this particular segment because they consider it highly risky in nature with no performance history.
- Even within the organized sector in India, it is the larger units that are deploying the most capital, providing the most jobs, wages and emoluments and generating the most output. Also, only 2% of the factories covered by the ASI generate net value-added (NVA) of over Rs.50 crore. They employ a quarter of the total employed in factories, provide 40% of all emoluments; generate half the total output from factories and 71% of NVA. Small businesses hardly come into picture.
- Another problem is that as firms age in India they fail to employ more people. Even as firms become more than three decades old, they do not employ more people. If anything, employment size, relative to the size of employment at the birth of the firm, goes down.

WAY AHEAD

The government should measure the success or failure of its interventions including Mudra Yojana by the extent of reduction in informal employment, the rise in formal employment and the extent of mobility of firms to medium and large sizes. Objective criteria will help in making these decisions in an apolitical fashion. For that, one of the conditions of the loans must be that entrepreneurs start to maintain books of accounts on employment, output, revenues, expenses and taxes. Government should also bring in policy measures to create incentives for firms in India to increase their size. The aim of policy must be to make them grow out of their sizes at birth.

CONCLUSION

Under this scheme, Rs.1.25 trillion disbursements have been done in the space of less than a year. If such rates of growth were maintained, they would constitute a sizeable chunk of total non-farm credit in the economy. Therefore, given its importance to the future evolution of the economy, it is useful to have as precise an idea as possible, ex-ante, of the economic and social outcomes that the government is seeking with such generous credit support.

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