

**CAPITAL FINANCING AND RE-VITALIZATION OF MICRO
ENTREPRENEURSHIP: A PERFORMANCE APPRAISAL OF PRADHAN
MANTRI MUDRA YOJANA (PMMY)**

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ABSTRACT

Rejuvenation of small and micro business units is a quintessential requirement for meeting the macro-economic goals of employment generation, financial inclusiveness and importantly the recovery of economic growth after economic slowdown spurred out of the pandemic. As per the study report published by Asian Development Bank Institute (2016), 78% of the finance used by MSMEs is carried out through informal sources and self-finance. Identifying the high degree of dependence of micro entrepreneurs especially in the rural India on informal financing avenues, the central Government of India officially launched the Pradhan Mantri MUDRA Yojana (PMMY) in 2015 with a vision to strengthen the institutional finance framework for ensuring the sustainability of entrepreneurial activities. The present paper is an attempt to bring out the progress assessment of PMMY scheme over the past five years across India. The analysis of different loan categories of schemes is done in order to understand the specific implications on the needs of the micro enterprises. The region wise analysis of the scheme with respect to the loan disbursement reveals that Southern region perform better over the past five years. The paper also throws light on the impact of PMMY in bridging the gender divide in the MSME sector by focusing on the utilization trends among women entrepreneurs regarding the Shishu, Kishore, and Tarun sub schemes under PMMY.

Keywords: Capital financing, MSME Finance, Micro entrepreneurship, Self-employment, Financial Inclusion, Women Empowerment, Member Lending Institutions

1. Introduction

The resilience trends in the small business sector both in the rural and urban areas of India after the devastating effects of the pandemic has reached new optimistic directions owing to the extensive coverage through the Pradhan Mantri MUDRA Yojana (PMMY). Development of a

comprehensive and inclusive business culture is enhancing the micro enterprises through the strengthening of the formal financial institutions under the aegis of MUDRA scheme. Extending affordable and timely credit to the needy entrepreneurs enable them to unleash their creative potential for achieving the wider macroeconomic goals of employment, financial inclusion, poverty reduction and sustainable development.

1.1 Capital Financing, Micro Entrepreneurship and Financial Inclusion: Some Theoretical and Empirical Evidences

The importance of capital has been observed as a vigorous component for the progress of small and micro business units. Earlier studies have emphasized credit gap as a fundamental constraint associated with the growth and development of entrepreneurial class (Levy, 1993). Generally, micro business units confront with enlarged transaction expenses than bigger firms in gaining capital finance (Saito, 1981). Effective and timely credit disbursement to the micro entrepreneurs through formal finance generate multiplier effects on income generation, reinvestment of profit and further capital formation. Increased access and usage of formal finance enhance their financial inclusiveness and boost up their confidence about the financial ecosystem in the country. Gautam, A. (2020) highlights that the assurance of hassle-free loans under PMMY initiative customizing the needs of the small business enterprises has the possibility to be a game changer in developing a new set of successful entrepreneurs specifically among women and other marginalized sections in the society.

1.2 Objectives of the study

- To analyze the credit disbursement patterns under PMMY during the period 2017-2022.
- To assess the reachability of PMMY through cross state, cross district, and region wise comparisons with respect to the loan amount sanctioned.
- To understand the sub product wise utilization trends and patterns of PMMY focusing on Shishu, Kishore and Tarun schemes.
- To analyze utilization of PMMY among the specific category of women entrepreneurs in India.

1.3 Research Methodology

The present study is both descriptive and explorative in nature. The study is conducted principally based on the secondary data collated from Pradhan Mantri MUDRA Yojana (PMMY) annual reports, scholarly research articles, various government websites, journals, newspapers etc. The study has covered the period from 2017-2022.

2. PMMY- A Game Changer in Attaining Financial Inclusion Targets

Micro Units Development and Refinance Agency (MUDRA) banks established under the aegis of Pradhan Mantri MUDA Yojana for bolstering micro entrepreneurship was one amongst the greatest financial sector innovation witnessed by the Indian economy in the recent years. Addressing the lags associated with formal financing institutions PMMY initiative launched on 8th of April 2015 with the motto to fund the unfunded is a great step towards a more financially inclusive era. Accomplishing seven years of its operations, encompassing a collective amount of 18.91lakh crore under the programme to 34.93 crore loan accounts, largely profiting the debtors of marginalized sections of the society.

2.1 Credit Disbursement across Various Categories of Financial Institutions

Table 1: Financial Institutions wise Credit Disbursements under PMMY (2017-2022)

| Financial Institutions | Loan Sanctioned (2017-'18) | Loan Sanctioned (2018-'19) | Loan Sanctioned (2019-'20) | Loan Sanctioned (2020-'21) | Loan Sanctioned (2021-'22) |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <i>Public Sector Banks (including RRBs)</i> | 107947.19 | 117281.85 | 1,17,729 | 1,29,915 | 1,24,425 |
| <i>Private Sector Banks</i> | 49,545.11 | 64,037.25 | 91,780 | 93,613.20 | 1,17,679.30 |
| <i>SFBs</i> | 19,022.89 | 29,794.37 | 29,501 | 19,646.68 | 29,207.40 |
| <i>MFI</i> s | 50,143.75 | 63,470.97 | 57,967 | 46,601.40 | 49,101.18 |
| <i>NBFC</i> s | 27,018.16 | 47,136.75 | 40,518 | 31,983.17 | 18,697.14 |
| Total | 2,53,677.10 | 3,21,722.79 | 3,37,495 | 3,21,759 | 3,39,110.40 |

Source: Compiled from various annual reports of MUDRA Yojana

The credit disbursement data shows 5% surge over the preceding year owing to the increased size of disbursements done in FY 2021-22 by the NBFC-MFI & SFBs. A significant growth regarding the credit deliveries of Public Sector Banks and Private Sector Banks is also visible from the analysis.

2.2 State wise Performance under PMMY

The progress of the initiative in different states is supervised by the State Level Bankers Committee of the respective states. Of all the states, West Bengal topped with sanction of `

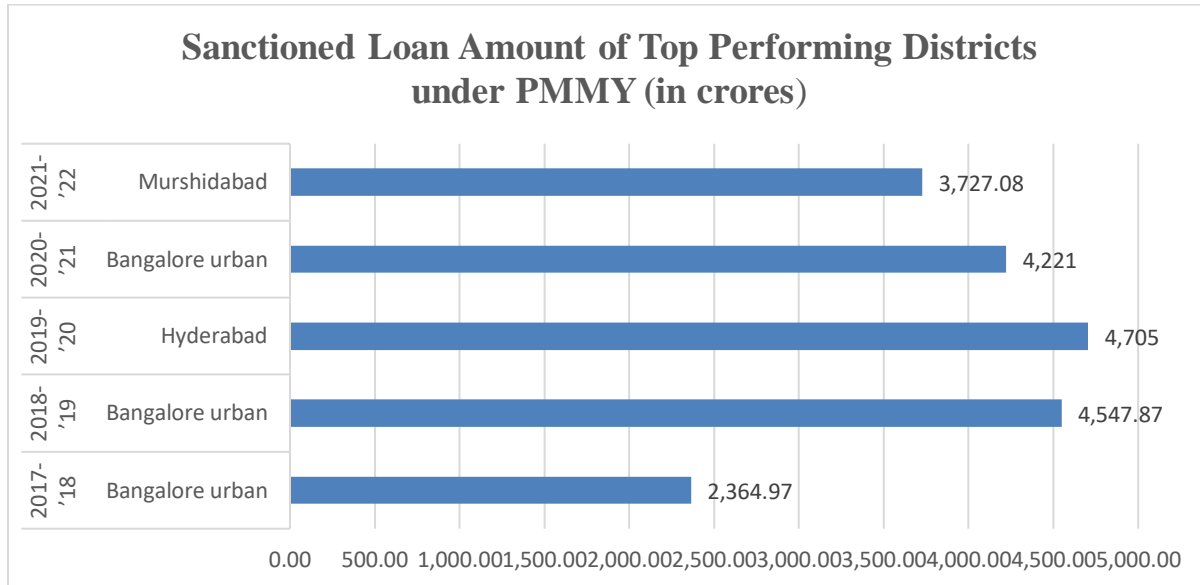
34,893.2 crore, followed by Uttar Pradesh with 33,663.73 crore and Tamil Nadu stood at third position with 32,477.55 crore in the year 2021-2022. It is also interesting to take note that the top six performing states in the past five year data are same set of states comprising of Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, West Bengal and Bihar.

Table 2: Top Performing States under PMMY (2017-2022)

| Rank | Loan Sanctioned (2017-'18) | | Loan Sanctioned (2018-'19) | | Loan Sanctioned (2019-'20) | | Loan Sanctioned (2020-'21) | | Loan Sanctioned (2021-'22) | |
|------|----------------------------|-----------|----------------------------|-----------|----------------------------|--------|----------------------------|-----------|----------------------------|-----------|
| 1 | Tamil Nadu | 25,331.68 | Tamil Nadu | 34,260.05 | Tamil Nadu | 35,017 | Karnataka | 30,199.18 | West Bengal | 34,893.20 |
| 2 | Karnataka | 23,009.73 | Karnataka | 29,995.35 | Uttar Pradesh | 30,949 | West Bengal | 29,335.98 | Uttar Pradesh | 33,663.73 |
| 3 | Maharashtra | 22,751.40 | West Bengal | 26,462.13 | Karnataka | 30,188 | Uttar Pradesh | 29,231.35 | Tamil Nadu | 32,477.55 |
| 4 | Uttar Pradesh | 22,077.89 | Maharashtra | 26,438.94 | Maharashtra | 27,903 | Tamil Nadu | 28,967.97 | Bihar | 32,096.95 |
| 5 | West Bengal | 20,552.19 | Uttar Pradesh | 26,190.58 | Bihar | 27,442 | Bihar | 25,589.31 | Karnataka | 28,695.29 |
| 6 | Bihar | 15,919.40 | Bihar | 24,405.99 | West Bengal | 26,790 | Maharashtra | 25,208.63 | Maharashtra | 25,797.74 |

Source: Compiled from various annual reports of MUDRA Yojana

Figure 1: Cross District Comparison of MUDRA Yojana (2017-2022)



Source: Compiled from various annual reports of MUDRA Yojana

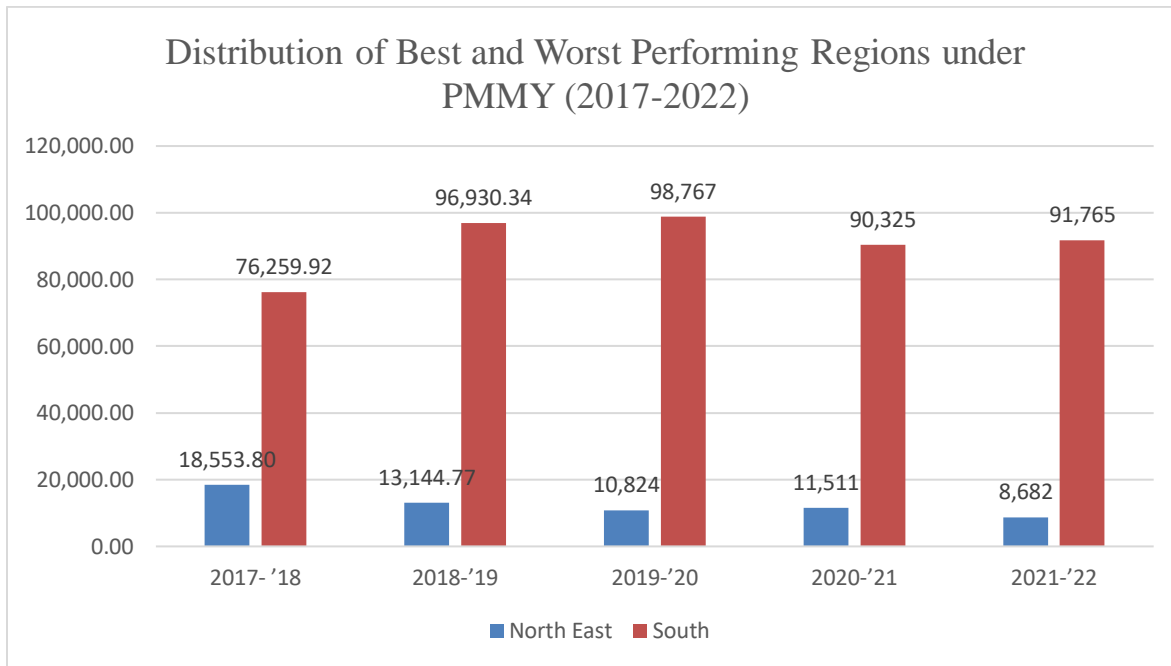
Murshidabad tops the list with Rs.3,727.08 crores as the total sanctioned loan amount in 2021-'22. The urban biasness visible from the above analysis regarding the best performing districts under PMMY indicates the creative possibilities and innovative steps taken by the small business firms and the incidence of bulk number of financial agencies to assist them.

Table 3: Region wise Analysis of PMMY (2017-2022)

| Region | Loan Sanctioned 2017- '18 | Loan Sanctioned 2018-'19 | Loan Sanctioned 2019-'20 | Loan Sanctioned 2020-'21 | Loan Sanctioned 2021-'22 |
|------------|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| North | 60,535.36 | 74,437.45 | 82,045 | 78,555 | 82,700 |
| East | 48,744.33 | 79,580.84 | 84,574 | 85,472 | 98,637 |
| North East | 18,553.8 | 13,144.77 | 10,824 | 11,511 | 8,682 |
| South | 76,259.92 | 96,930.34 | 98,767 | 90,325 | 91,765 |
| West | 49,583.68 | 57,629.39 | 61,285 | 55,897 | 57,327 |

Source: Compiled from various annual reports of MUDRA Yojana

Figure 2: PMMY Utilization Trends between North-Eastern region and South Indian region



Source: Compiled from various annual reports of MUDRA Yojana

2.3 Loan Category wise Analysis of PMMY (2017-2022) – Shishu, Kishore, Tarun Sub Schemes

Table 4: Utilization of loans under Shishu Figure 3: Account Distribution under Shishu

| Year | Loan Sanctioned |
|----------|-----------------|
| 2017-'18 | 1,06,001.6 |
| 2018-'19 | 1,42,345.25 |
| 2019-'20 | 1,63,559 |
| 2020-'21 | 1,09,953 |
| 2021-'22 | 1,24,747.37 |

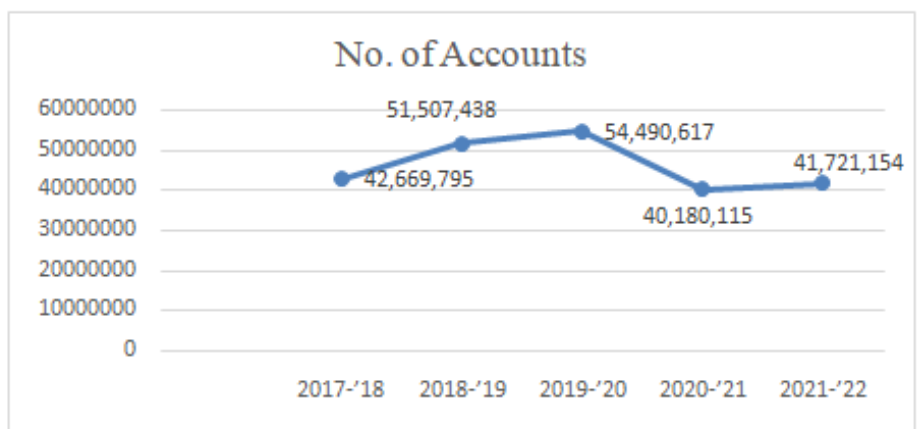
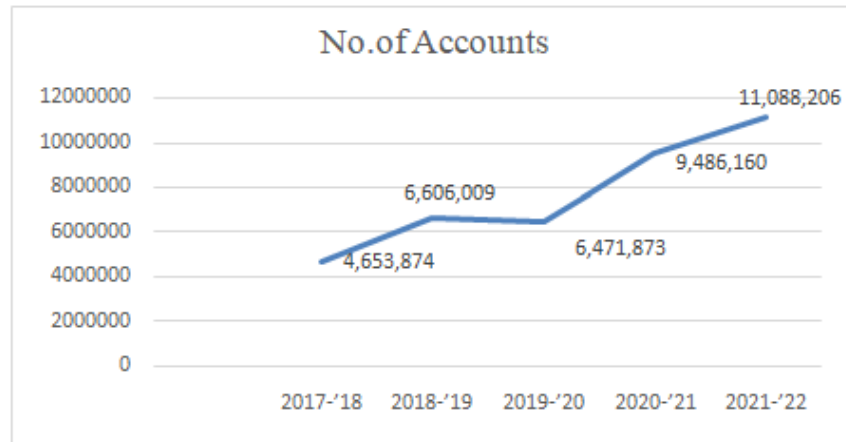


Table 5: Utilization of loans under Kishore Figure 4: Account Distribution under Kishore

| Year | Loan Sanctioned |
|----------|-----------------|
| 2017-'18 | 86,732.15 |
| 2018-'19 | 1,04,386.68 |
| 2019-'20 | 95,578 |
| 2020-'21 | 1,32,516 |
| 2021-'22 | 1,37,644.38 |

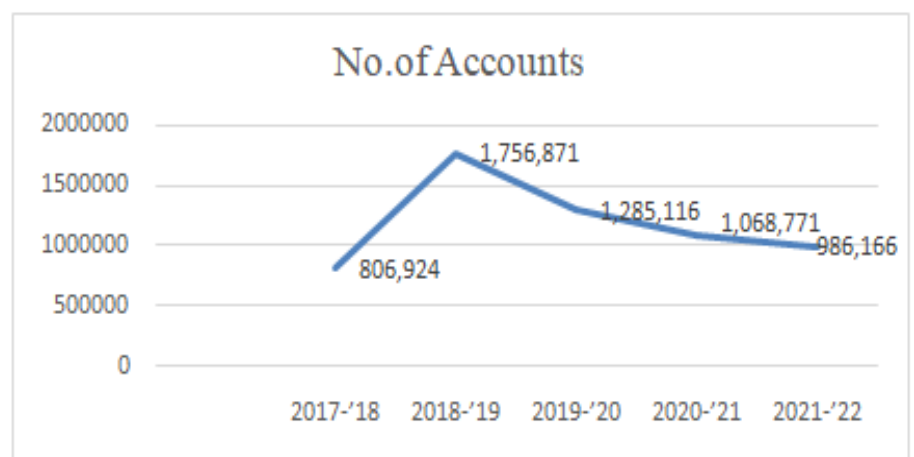


Source: Compiled from various annual reports of MUDRA Yojana

Based on the size of the credit delivered, Mudra loans are categorized into three namely Shishu (up to Rs.50,000), Kishor (above Rs. 50,000 and up to 5 lakh) and Tarun (Above 5 lakh and up to 10 lakh). Loan category wise analysis of coverage and credit delivery under PMMY over the past five years are summarized here. Number of accounts opened under Kishor sub scheme is showing a consistent upward trend over the years whereas that of Tarun scheme is declining from 2018-'19 onwards.

Table 6: Utilization of loans under Tarun Figure 5: Account Distribution under Tarun

| Year | Loan Sanctioned |
|----------|-----------------|
| 2017-'18 | 60,943.36 |
| 2018-'19 | 74,990.86 |
| 2019-'20 | 78,358 |
| 2020-'21 | 79,290 |
| 2021-'22 | 76,718.61 |



Source: Compiled from various annual reports of MUDRA Yojana

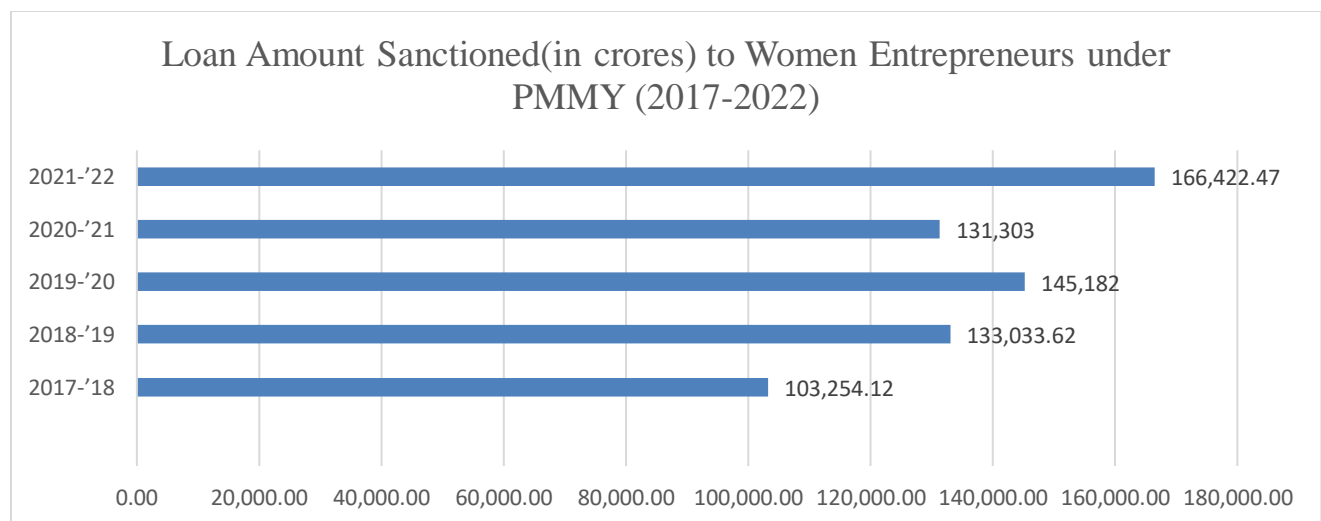
Table 7: Sub Schemes wise Distribution of Women Owned Loan Accounts under PMMY (2017-2022)

| Sub Schemes under PMMY | Number of Women Owned Loan Accounts | | | | |
|------------------------|-------------------------------------|-------------|-------------|-------------|-------------|
| | 2017-'18 | 2018-'19 | 2019-'20 | 2020-'21 | 2021-'22 |
| <i>Shisu</i> | 3,21,44,132 | 3,34,03,579 | 3,57,17,217 | 2,77,53,288 | 3,04,41,921 |
| <i>Kishor</i> | 13,35,192 | 28,75,392 | 29,88,307 | 54,68,211 | 78,92,778 |
| <i>Tarun</i> | 78,914 | 7,83,591 | 3,97,825 | 82,105 | 94,560 |
| <i>Total</i> | 3,35,58,238 | 3,70,62,562 | 3,91,03,349 | 3,33,03,604 | 3,84,29,259 |

Source: Compiled from various annual reports of MUDRA Yojana

Out of the total credit delivered under PMMY in 2021-'22, 49% went to the women borrowers. The reason behind the increasing representation of women borrowers in Shisu category is the prevalence of the micro credit schemes of different Micro finance Institutions and Small Finance Banks.

Figure 6: PMMY Utilization Trends among Women Entrepreneurs



Source: Compiled from various annual reports of MUDRA Yojana

Pradhan Mantri MUDRA Yojana benefits millions of unfunded small and micro business units to get into the path of self-reliance and assist them to materialize their hidden entrepreneurial potential fostering the economic progress of the nation.

3. Findings and Concluding Remarks

- ❖ Inadequate provisions under institutional financing, consequent credit gap and information asymmetry prevailed among the small and micro entrepreneur firms were identified as the prime challenges in the domain of micro entrepreneurship before the government intervention through MUDRA Yojana.
- ❖ Tailored credit solutions are the need of the hour which should cater to the specific needs of distinct business entities like nascent firms and also the firms in the expansionary phase.
- ❖ MUDRA Yojana has increased the trust of the marginalized sections in the financial ecosystem upon the strength and reachability of formal institutional financing agencies.
- ❖ No mandate for the pledging of collateral securities drastically reduces the prevailing vulnerabilities of small business units and extend the utilization trends.
- ❖ Innovation and technology should be given prime focus while framing policies for building entrepreneurship.
- ❖ Diligent credit assessment is required for avoiding the danger of default payments contributing towards unmanageable levels of NPAs.
- ❖ Product diversification to other areas of business success is vital for enhancing micro entrepreneurship.
- ❖ Least political interventions and periodic stringent monitoring is inevitable for the accomplishment of the programme.

Fostering the entrepreneurial culture for inclusive economic growth is the agenda behind the establishment of the innovative programme titled MUDRA Yojana. On a wider note, it envisions the sustainability aspect of the financial inclusion goals by ensuring self-employment opportunities in an economy. Extending adequate credit to micro entrepreneurial units engaging in distinct domains like production, trading and other non-farming fields through recognized institutional finance at lower interest rates without any collateral security can bring revolutionary changes in the entrepreneurial culture of Indian economy.

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