

Pradhan Mantri Mudra Yojana - A Boon for Entrepreneurs

Participants:

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Context:

The Minister of State for Finance, Dr. Bhagwat Kisanrao stated that a total of over 30 crore loans amounting to Rs. 15 lakh 97 thousand crore have been sanctioned under the [Pradhan Mantri Mudra Yojana](#) scheme till now.

Pradhan Mantri Mudra Yojana (PMMY)

- It was launched on April 8, 2015, by the Prime Minister to provide loans to micro and small business units.
- MUDRA is the acronym for Micro-Units Development Refinance Agency. Under MUDRA, entrepreneurs get loans of various amounts up to Rs.10 lakhs to start their business.
- This scheme apart from providing support to small businesses also links them to the formal sector i.e. to the banking sector.
- Many small business owners have to take loans from their immediate family members or from money lenders at very high rates to start any new business. High rates of interest make their business unviable unless their business picks up very fast as the cost of loans is very high.
- So, the entrepreneurial route is very difficult for such people. These entrepreneurs have skills but do not have access to cheap money. This is where the Mudra Yojana becomes very helpful.
- Under Mudra loan, there are many advantages. The chief advantage is the low rate of interest, which is bearable for people.
- There are three types of mudra loans:
 - Shishu: Loans sanctioned under the PMMY scheme up to Rs. 50000.
 - Kishore: Loans sanctioned under the PMMY scheme from Rs. 50001 up to Rs. 5.00 lakh.
 - Tarun: Loans sanctioned under the PMMY scheme Rs. 5,00,001 up to Rs. 10.00 lakh.
- Many of the borrowers are first-time borrowers and hence do not have a specific credit history. The interests charged under the PMMY are very less as compared to traditional money lenders who charge very high-interest rates. Also, the borrowers do not have to give collateral for availing the loans.

Performance of PMMY:

- Given the size of the Indian economy, the loan disbursement should have been much more than the current level. In 2019-20, 88% of the total loans fell under the Shishu category. However, this has

changed and the latest data shows that 66% of the total loans are under the Shishu category, 19% under the Kishore, and 15% under the Tarun category.

- It should be noted that entities that are giving these loans are banks, [NBFCs](#), or microfinance institutions. There are no separate institutions for lending loans.
- Hence, people need not visit any specialized agency to access loans. They can go to the nearest bank or microfinance institution.

Also read: [Regulatory Framework For Microfinance: RSTV – Big Picture](#)

Role of Microfinance institutions in lending MUDRA loan:

- Microfinance institutions are best suited for the disbursement of these loans because in rural areas, agents of microfinance institutions are known to people and people are more comfortable in dealing with them as compared to banks.
- It should be noted that MUDRA is itself not giving loans to people. It gives loans to commercial banks, [regional rural banks](#), microfinance institutions, etc. who in turn give loans to people.
- In states where microfinance institutions are well developed such as Andhra Pradesh, Tamil Nadu, and Bihar, the PMMY scheme is doing very well.
- The age criteria for availing loans is that beneficiaries must be between 18 years and 65 years and the return period is from 1 year to 5 years.
- Under PMMY there is also a forbearance period i.e the time period after which borrowers start repaying loans. Hence, they do not have to pay right after borrowing.
- This gives confidence to borrowers in availing loans and starting their own businesses.
- It is through these types of loans that entrepreneurship expanded and people had benefited in the developed markets.
- Even last year during the COVID wave, microfinance institutions and NBFCs asked RBI to delay loan repayment to help the first-time borrowers and entrepreneurs to get over the financial distress of the pandemic.
- All these measures have helped small business owners to survive the effects of the pandemic.

Conclusion:

PMMY has helped many first-time borrowers, especially women and people from weaker sections of society to avail loans and start their own businesses. This has expanded the universe of the formal lending system thus strengthening the entrepreneurial spirit.

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