

Mudra's Ripple Effect: Examining the Spillover Impact on Indian Economy

Siddharth Jayagopal

Professional, Freelance

Abstract

The Mudra (Micro Units Development and Refinance Agency) scheme, initiated by the Government of India, has been a pivotal intervention aimed at facilitating financial inclusion and entrepreneurial development. Since its inception, Mudra has been recognized for its potential to spur economic growth at the grassroots level. This research paper aims to analyze the ripple effect of the Mudra scheme on local economies across India. Utilizing real-time data and statistical analysis, this study investigates the extent to which Mudra loans have influenced various economic indicators, such as employment generation, income levels, and business expansion, within different regions. By examining the spillover impact of Mudra on local economies, this paper provides insights into the efficacy of microfinance initiatives in fostering inclusive growth.

Introduction

Access to capital is one of the biggest challenges for micro and single-owner business enterprises. Consequently, many rely on meager capital from their own limited resources or informal credit sources. This limits their growth potential, as they remain unfunded or underfunded by formal sources. A survey conducted by the National Sample Survey Organization (NSSO) in 2013 revealed that more than 5.7 crore micro units exist in our country, providing employment to nearly 12 crore people. However, not more than 5% of these units access credit from the formal credit system. In response, the Government of India decided to address this issue by creating a new financial institution—the Micro Units Development and Refinance Agency Ltd. (MUDRA).

The Micro Units Development and Refinance Agency Limited (MUDRA) has been established to provide funding to micro enterprises that lack access to finance. MUDRA will offer refinancing to all banks, micro-finance institutions (MFIs), and other lending bodies that provide loans to micro and small business entities involved in manufacturing, trading, and service activities. By doing so, MUDRA aims to strengthen Last Mile Financial Institutions by providing refinancing and developmental support to enhance their outreach. This initiative will help micro businesses throughout the country. Additionally, MUDRA's mandate includes transforming the micro enterprise sector into a viable economic sector through various developmental interventions, including financial and business literacy programs.[1]

The Pradhan Mantri Mudra Yojana (PMMY) is a scheme launched by the Hon'ble Prime Minister on April 8, 2015, to finance income-generating small business enterprises. Under this scheme, all banks are required to provide loans up to ₹10 lakh to micro-entrepreneurs, regardless of whether they receive refinance support from MUDRA. MUDRA loans are available in three categories: the 'Shishu' category offers loans up to ₹50,000 for small businesses, the 'Kishor' category provides loans beyond ₹50,000 and up to ₹5 lakh, and the 'Tarun' category offers loans beyond ₹5 lakh and up to ₹10 lakh.

PMMY loans will be provided by all types of banks, including PSU banks, Regional Rural Banks (RRBs), Cooperative Banks, Private Sector Banks, Foreign Banks, Micro Finance Institutions, and Non-Banking Finance Companies. In the 2015-16 fiscal year, a target of ₹1.22 lakh crore was set and exceeded by the end of the year. For the fiscal year 2016-17, a target of ₹1.8 lakh crore has been established. For the fiscal year 23 -24, ₹2.05 lakh crore were sanctioned. The progress of PMMY is monitored weekly through a dedicated PMMY Portal. Besides refinancing, MUDRA also offers credit guarantee support for eligible loans granted under the Pradhan Mantri Mudra Yojana.

Who gets the MUDRA Loan ?

Any Indian citizen with a business plan for an income-generating micro or small business activity in manufacturing, processing, trading, or the service sector, and whose credit need is less than ₹10 lakh, can apply for a MUDRA loan under PMMY at a Bank or MFI. Applicants must adhere to the usual terms and conditions of the lending agency. The lending rates are determined according to the RBI guidelines issued periodically.

MUDRA Card

The MUDRA Card is an innovative credit product that allows borrowers to access credit in a hassle-free and flexible manner. It provides a working capital arrangement through an overdraft facility. As a RuPay debit card, the MUDRA Card can be used to withdraw cash from ATMs or Business Correspondents, and to make purchases using Point of Sale (POS) machines. Additionally, borrowers can repay the amount whenever they have surplus cash, thereby reducing the interest cost.[1]

MUDRA App

MUDRA MITRA is a mobile application available on the Google Play Store and Apple App Store. It provides information about the Micro Units Development and Refinance Agency Ltd. (MUDRA) and its various products and schemes. The app guides loan seekers on how to approach a banker to avail of a MUDRA loan under the Pradhan Mantri Mudra Yojana (PMMY). Users can also access useful loan-related materials, including sample loan application forms.[1]

Case Studies

Mudra Loans have been in operation since 2015, thousands of low income entrepreneurs have been benefited from the scheme. Some data has been shown below which shows how the money was distributed among people.

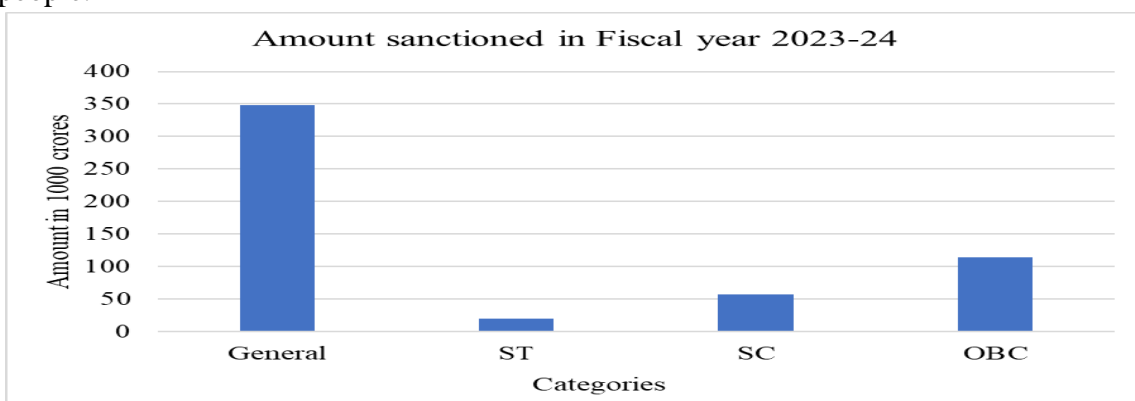


Figure 1. Amount sanctioned for each category for the Fiscal year 2023 – 24

- The total sanctioned loan for the fiscal year 2023 – 24 was 5.4 lakh crores.
- 1.5 lakh crore were sanctioned in the Shishu Category
- 2.6 lakh crore were sanctioned in the Kishore category
- 1.3 lakh crore were sanctioned in the Tarun category
- Even though more money was sanctioned to Kishore category, Shishu category has the most no of accounts registered of about 4.16 crores, this means that most of the people borrowed less than Rs 50000.
- 2.36 crore accounts were created for the Kishore category.
- 15.7 lakh accounts were created for the Tarun category. [2]

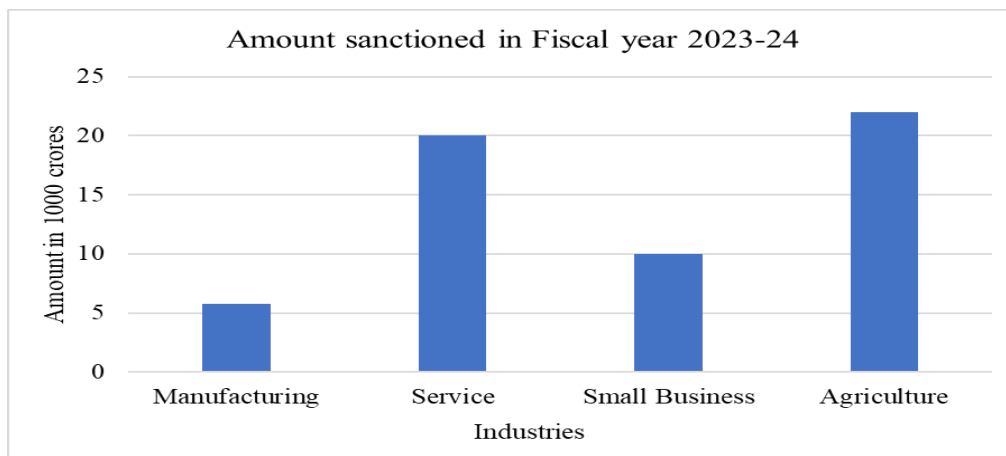


Figure 2. Amount sanctioned for different industries for the fiscal year 2023 – 24

- Manufacturing industry got the least amount sanctioned as well as least number of registered accounts. This shows that low income entrepreneurs do not want to enter the manufacturing industry.
- Agriculture industry got the highest number of registered accounts with over 22.5 lakh accounts, also the sanctioned amount is the highest at 21.9 thousand crores.
- This graph shows that most people are connected with the agriculture industry and want to continue in that, perhaps this may change in the coming years when those people feel more confident and venture into other industries. [2]

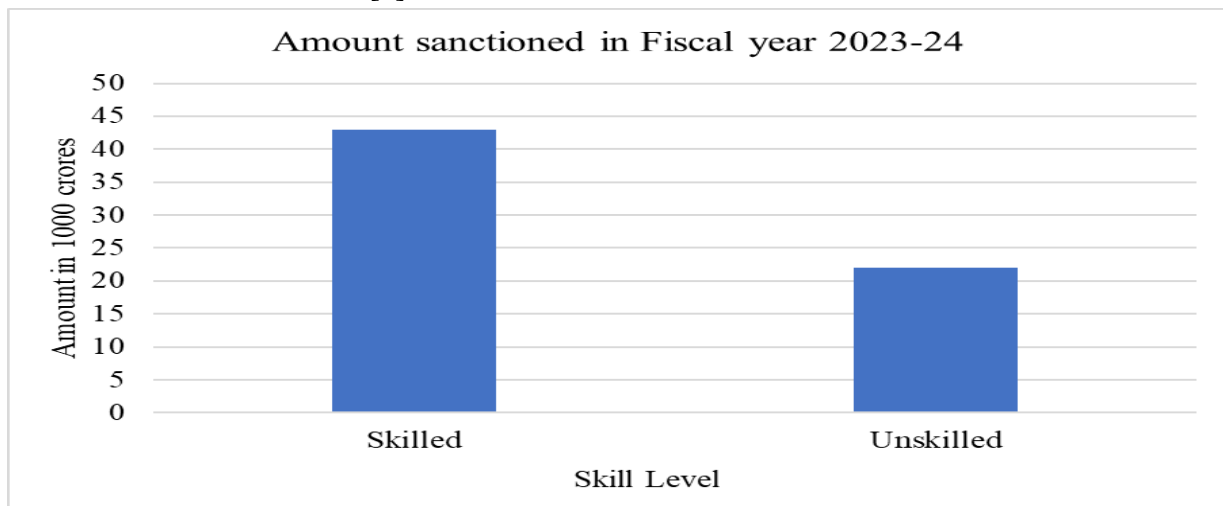


Figure 3. Amount sanctioned categorized in terms of skill level of entrepreneurs

- It can be seen that people with some level of skills have the most number of accounts registered at 24

lakhs and most sanctioned amount compared with unskilled workers

- People with no skill have 14.5 lakh registered accounts

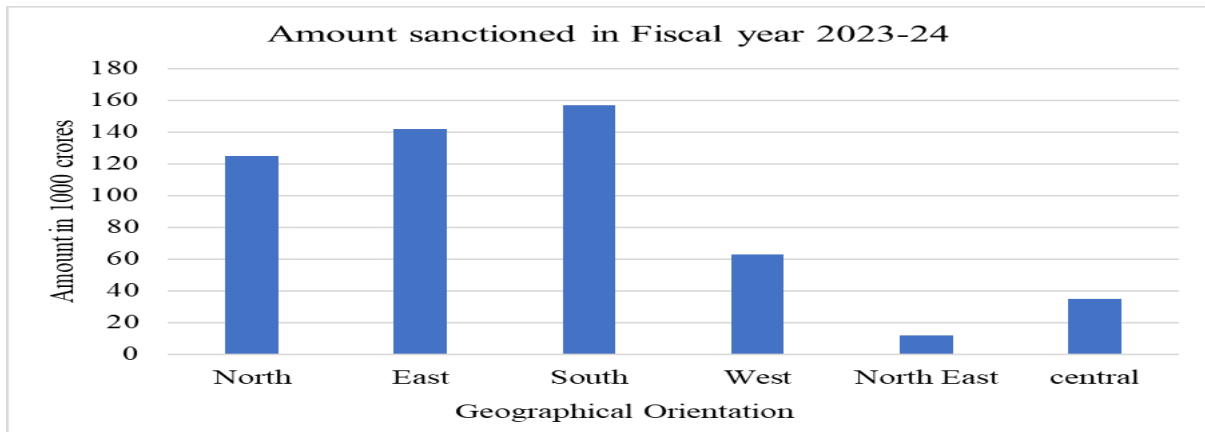


Figure 4. State wise sanctioned Amount [3]

Northern Region

States/UT: Chandigarh, Delhi, Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab, Rajasthan, Uttar Pradesh, Uttarakhand.

Southern Region

States/UT: Andaman & Nicobar Islands, Andhra Pradesh, Karnataka, Kerala, Lakshadweep, Puducherry, Tamil Nadu, Telangana,

Eastern Region

States/UT: Bihar, Jharkhand, Odisha, West Bengal.

Western Region

States/UT: Dadra and Nagar Haveli, Daman & Diu, Goa, Gujarat, Maharashtra,

Northeast Region

States/UT: Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura.

Central Region

States/UT: Chhattisgarh, Madhya Pradesh

It can be seen from the above graph that eastern and southern states have been sanctioned the most amount. Eastern and Southern states have the highest number of accounts registered followed by Northern states. North East region has the lowest number of registered accounts and the lowest sanctioned amount.

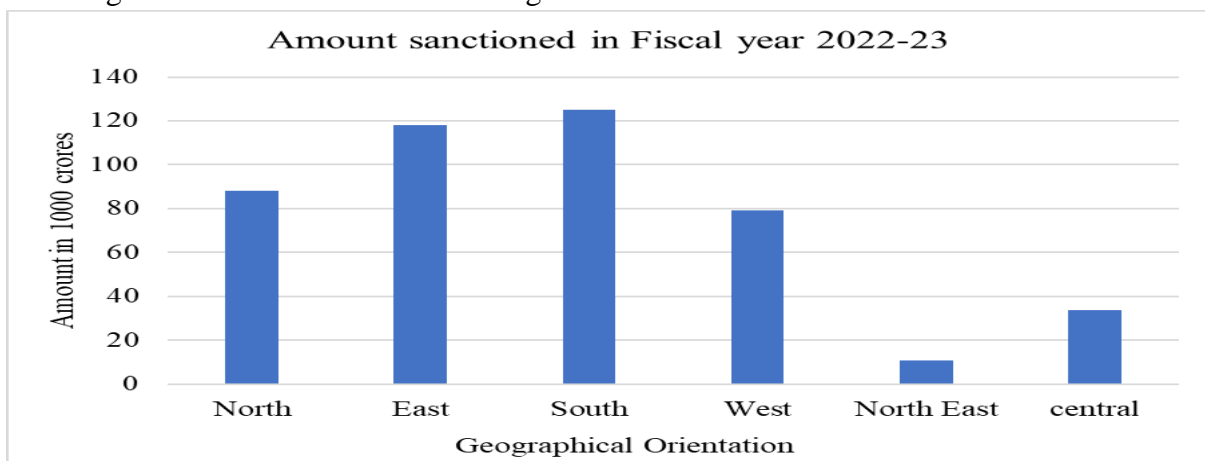


Figure 5. Amount sanctioned for the fiscal year 2022 -23 [4]

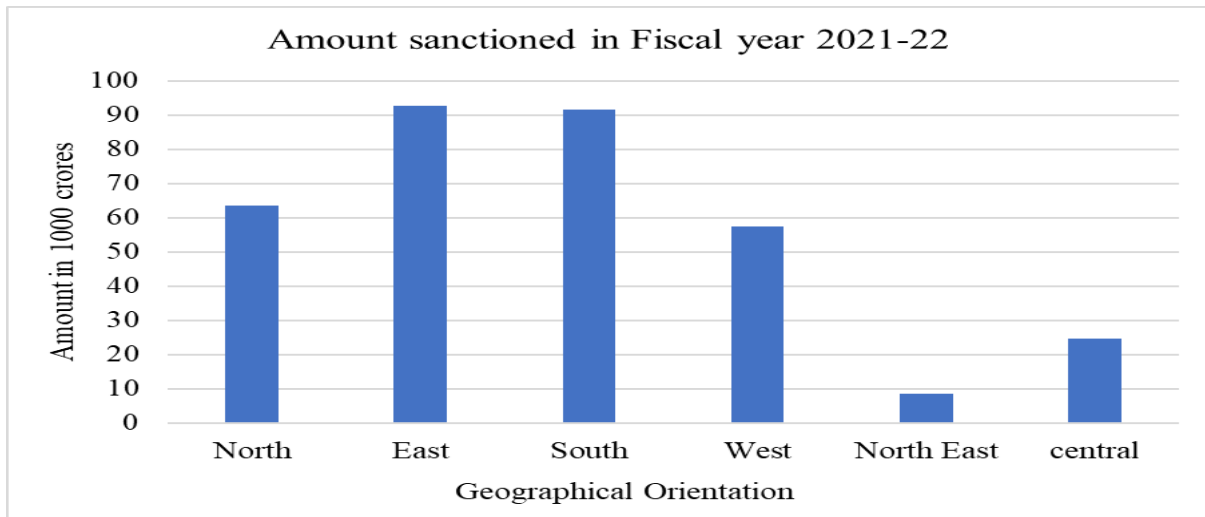


Figure 6. Amount sanctioned for the fiscal year 2021 -22 [5]

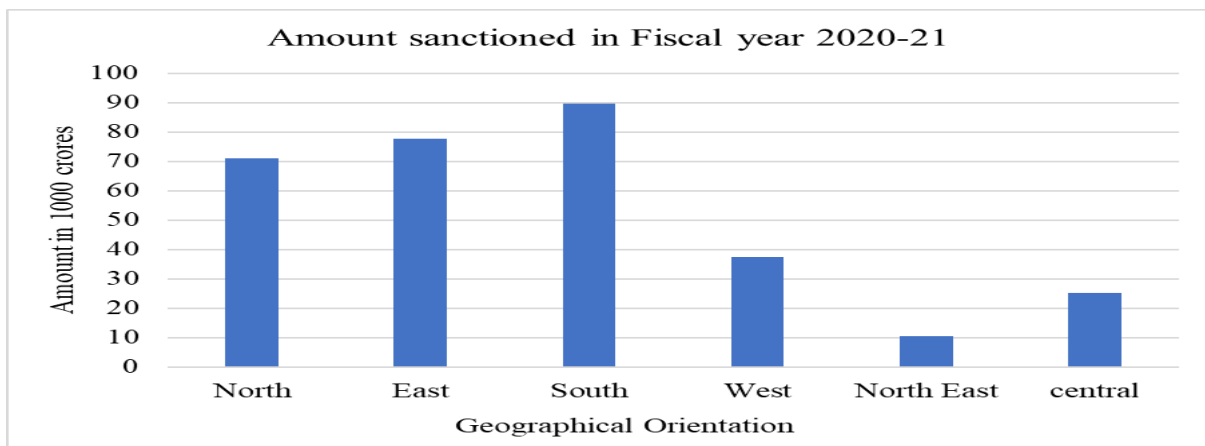


Figure 7. Amount sanctioned for the fiscal year 2020 -21 [6]

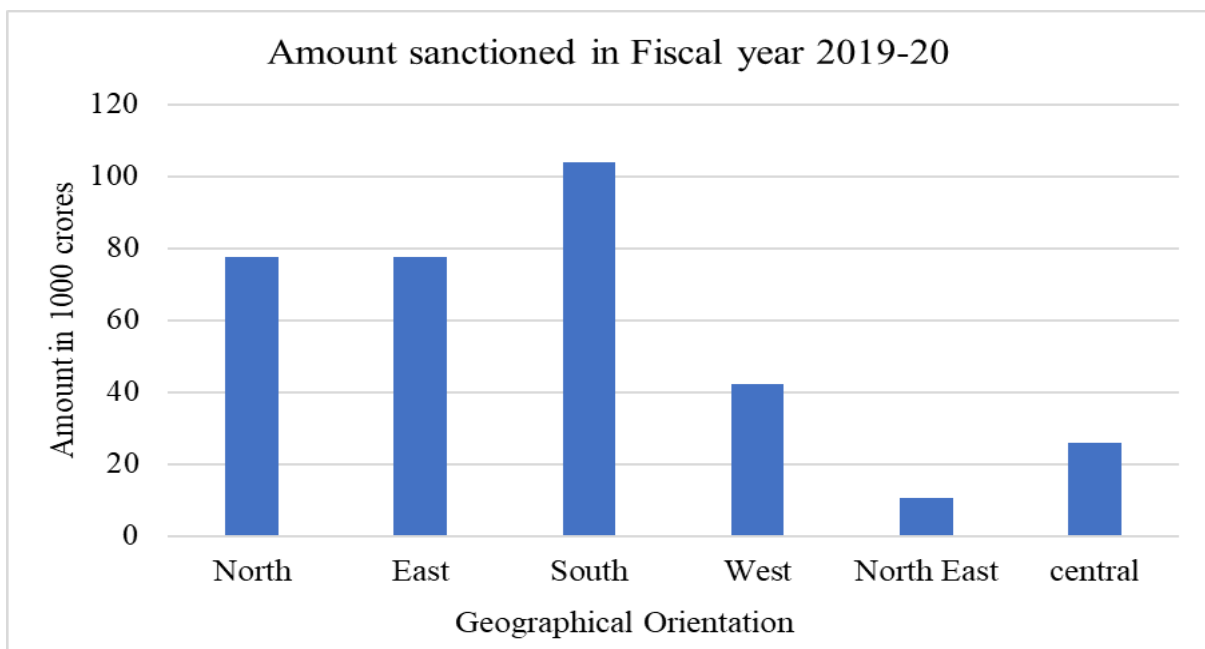


Figure 8. Amount sanctioned for the fiscal year 2019 -20 [7]

From the above graphs we can see a similar trend in the amount of money sanctioned for each region, North East seems to have the least number of registered accounts and least sanctioned amount for all the years preceding 23-24. Eastern and the Southern region seem to get the most amount of money sanctioned for all the years.

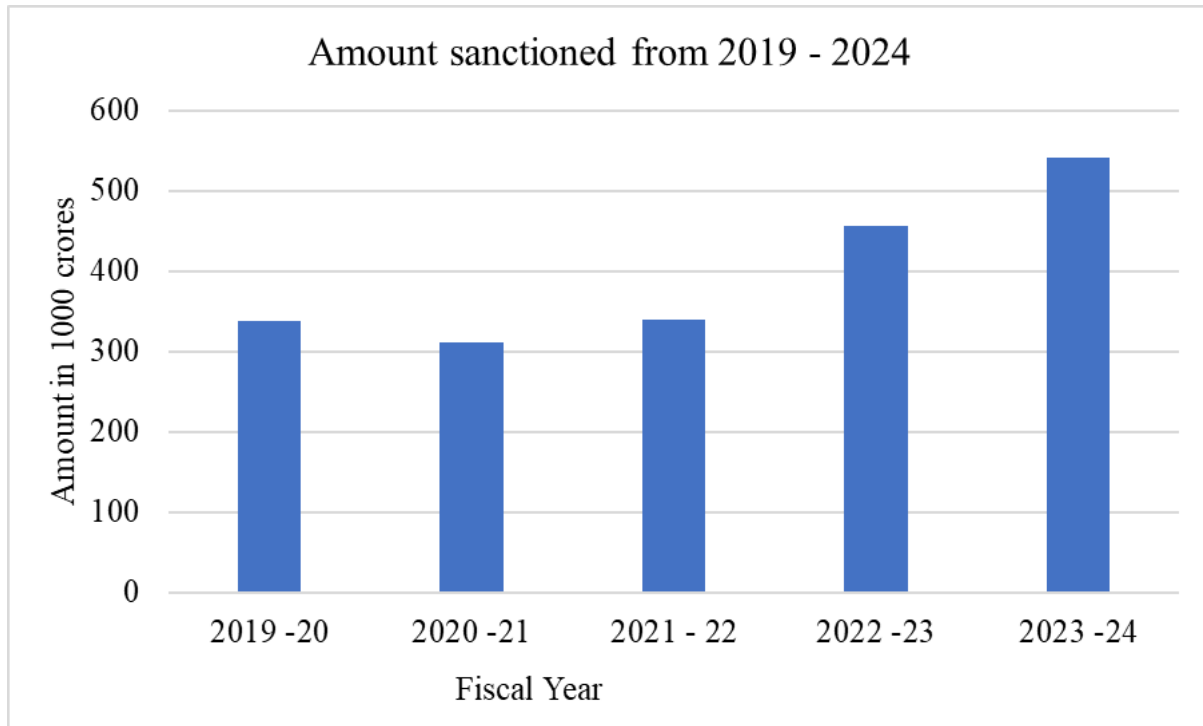


Figure 9. Amount sanctioned since 2019

Figure 9 shows us that there is an upward trend in terms of the amount sanctioned. There is a slight dip in 2020 due to the covid 19 pandemic. So far the most amount sanctioned was in the fiscal year 2023-24 with 5.4 lakh crore rupees.

Literature review

Indian Government scheme for start ups

The Raw Material Assistance Scheme is designed to support Micro, Small, and Medium Enterprises (MSMEs) by providing financing for the purchase of raw materials, whether sourced domestically or imported. This financial aid helps MSMEs concentrate on producing high-quality products by alleviating the burden of raw material procurement costs. Any Manufacturing or Service MSME with a valid Udyam Registration Certificate can apply for assistance under the Raw Material Assistance Scheme.[8]

Maximum exposure to a single unit under the scheme is Rs. 1000 lakhs for manufacturing units and Rs. 600 lakhs for service units. For infrastructure units, the maximum exposure is Rs. 500 lakhs, whether individual or group. The ceiling for all associate/sister concerns or connected accounts belonging to a 'GROUP' is fixed at Rs. 2000 lakhs for manufacturing units, Rs. 1500 lakhs for service units, and Rs. 500 lakhs for infrastructure units.[8]

Benefits of the scheme

- Facilitating purchase of Raw Materials with credit limit up to 180 days
- Help in getting discounts on bulk orders

Credit Facilitation through bank

To meet the credit requirements of MSME units, National Small Industries corporation (NSIC) has signed MoUs with various nationalized and private sector banks. Through these partnerships, NSIC facilitates credit support (both fund-based and non-fund-based) for MSMEs. MSMEs can approach any NSIC branch to submit loan applications to partnered banks. NSIC officials at the branches assist MSMEs with the necessary documentation and submission of credit proposals to the banks.[9]

Features

- Provides credit to MSMEs through a combined network of various public and private sector banks.
- Offers MSMEs the option to apply for a new bank account or switch to a different bank under tie-up arrangements.
- Assists MSMEs in completing the required bank documentation and, after submission, has an NSIC officer follow up with the bank.
- To assist a greater number of MSMEs seeking to obtain credit.
- To offer comprehensive support to MSMEs at no cost to them.

Women Entrepreneurship

Mahila Coir Yojana

Skill Upgradation & Mahila Coir Yojana (MCY) is a key initiative under the Scheme Coir Vikas Yojana, previously known as the Coir Plan (General) scheme. This program focuses on developing domestic and export markets, skill development and training, empowering women, creating and developing employment/entrepreneurship opportunities, enhancing raw material utilization, providing trade-related services, and offering welfare activities for coir workers. Specifically, Mahila Coir Yojana (MCY) aims to empower women by providing them with spinning equipment at subsidized rates following appropriate skill development training.[10]

The stipend for trainees in skill development programs will be capped at Rs. 1000 per month. For training programs lasting less than a month, the stipend will be disbursed on a prorated basis. Trainers will receive an honorarium of up to Rs. 6000 per month. Additionally, a financial assistance of Rs. 400 per trainee per month will be provided to the training sponsoring agency to cover operational costs such as raw materials, power charges, and other incidentals. Under MCY, the Coir Board provides a one-time subsidy covering 75% of the cost of motorized Ratts/motorized traditional Ratts. The subsidy is capped at Rs. 7,500 for motorized Ratts and Rs. 3,200 for motorized traditional and electronic Ratts. [10]

Mahila Samridhi Yojana

National Scheduled Castes Finance And Development Corporation (NSFDC) provides Mahila Samridhi Yojana for units costing upto Rs.1,40,000/-

Features

- NSFDC provides loans covering up to 90% of the project cost, with a maximum loan amount of Rs. 1.25 lakhs.
- NSFDC will charge an interest rate of 2% from the SCAs/CAs, who will then charge 6% from the beneficiaries.
- The loan under the Yojana must be repaid in quarterly installments within a maximum period of three

years, including a three-month moratorium period.[11]

Women Entrepreneurial platform

The Women Entrepreneurship Platform is designed to be a transformative force in the entrepreneurial landscape, empowering women to not only envision but also actualize their business aspirations with resilience, knowledge, and action.

Some of the funding partners are SIDBI, Bill & Melinda Gates, BharatPe, Unicef Yuwaah, FICCI. Individuals with mentorship experience, industry experience, professional backgrounds, or experience running family businesses or non-profit organizations can join individual mentoring to support women entrepreneurs.[12]

Trade Related Entrepreneurship Assistance and Development (TREAD) Scheme for Women

Objectives

Experience has shown that, in addition to counseling and training, providing credit is a significant challenge for poor women. Since these women often lack easy access to credit, it has been planned to make credit available through NGOs capable of managing funds appropriately. These NGOs will handle both the disbursement of loans and provide necessary counseling and training for women to engage in productive activities. The main focus of the scheme is to offer grant assistance to the nodal NGO, which has been approved for a bank loan, to pass on to eligible women for non-farm activities.[13]

Training organizations such as Micro, Small, and Medium Enterprises – Development Institutes (MSME-DIs), Entrepreneurship Development Institutes (EDIs), NIMSME, NIESBUD, and NGOs that conduct training programs for the empowerment of women beneficiaries identified under the scheme will be provided a grant of up to Rs. 1.00 lakh per program. This is contingent upon these institutions contributing at least 25% of the Government grant, or 10% in the case of institutions from the North Eastern Region (NER), provided applications from the NER are recommended by NSIC/IIE, Guwahati. [13]

Pradhan Mantri Shram Yogi Maan-dhan

In 2019, the Government of India launched the Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM) pension scheme to provide old age security for unorganized workers. Unorganized workers typically include home-based workers, street vendors, mid-day meal workers, head loaders, brick kiln workers, cobblers, rag pickers, domestic workers, washermen, rickshaw pullers, landless laborers, self-employed workers, agricultural workers, construction workers, beedi workers, handloom workers, leather workers, audio-visual workers, and those in similar occupations, earning Rs 15,000 per month or less. They should be between 18 and 40 years old, not enrolled in the New Pension Scheme (NPS), Employees' State Insurance Corporation (ESIC) scheme, or Employees' Provident Fund Organization (EPFO), and not be income tax payers. [14]

Features of this scheme

- **Minimum assured pension**

Each subscriber to the PM-SYM scheme will receive a minimum assured pension of Rs 3000 per month upon reaching the age of 60.

- **Family Pension**

If the subscriber dies while receiving the pension, the spouse will be entitled to receive 50% of the pension

-as a family pension. This benefit is only applicable to the spouse. If a beneficiary who has been making regular contributions dies for any reason before reaching the age of 60, their spouse can choose to join and continue the scheme by making regular contributions, or they can exit the scheme according to the provisions for exit and withdrawal. [14]

Conclusion

The Indian government has implemented a variety of schemes to support low-income entrepreneurs, demonstrating a strong commitment to fostering entrepreneurship and economic growth. Programs like the MUDRA Loan, which provides micro-financing to small businesses, and the Women Entrepreneurial Platform, which offers resources and support specifically for women entrepreneurs, are prime examples of this commitment. These initiatives have laid a solid foundation for entrepreneurship in India, enabling individuals from diverse backgrounds to start and grow their businesses. As these programs continue to expand and evolve, they are poised to further stimulate the economy, create jobs, and promote inclusive growth, ensuring that India's entrepreneurial ecosystem remains vibrant and dynamic.

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