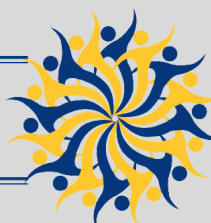


Pradhan Mantri MUDRA Yojana

An Impact Assessment Study in Delhi NCR

JUNE 2018

लोक नीति
शोध केन्द्र



PUBLIC POLICY
RESEARCH CENTRE



प्रधानमंत्री
किसान मुद्रा
योजना

पूँजी, सफलता की कुंजी



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June 2018

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ACRONYMS AND ABBREVIATIONS

CGFMU	Credit Guarantee Fund for Micro Units
CGFSSI	Credit Guarantee Fund (Scheme) For Small Industries
CGTMSE	Credit Guarantee Fund Trust For Micro And Small Enterprises
GDP	Gross Domestic Product
DBT	Direct Benefit Transfer
NCSBS	Non-corporate Small Business Sector
MFI	Micro Finance Institutions
MSME	Medium Small & Micro Enterprises
MUDRA	Micro Units Development and Refinance Agency
NCR	National Capital Region
NBFC	Non-Banking Financial Company
NSIC	National Small Industries Corporation Limited
PMMY	Pradhan Mantri Mudra Yojana
RSETIs	Rural Self Employment Training Institutes
SHG	Self Help Groups
SIDBI	Small Industries Development Bank of India
SMEs	Small and Micro Enterprises
SUI	Standup India
UNDP	United Nations Development Program

INTRODUCTION

A vision focused on ensuring equitable economic growth and development is based on inclusiveness, fairness and socio-economic justice for all. The very concept of inclusive development is characterized by equal opportunity and accessibility till the last mile both in financial and non-financial terms. Along with addressing the issue of inequality, economic inclusion creates productive livelihood opportunities for every citizen including the poorest and the most vulnerable.¹ For this reason, access to the financial system is a prime step towards ensuring lasting empowerment of the masses. A critical step towards inclusive growth and development is facilitating financial inclusion.² This entails ensuring *access* to basic financial services such as bank accounts, low-cost credit for business/self-employment, personal purposes, insurance etc. In other words, access to and delivery of financial services to one and all is the essence of economic inclusion and financial empowerment.

The MSME sector is an important pillar of the Indian Economy and currently contributes to about 44% of the total national GDP and about 45% of exports.³ Micro-enterprises constitute an important pillar of Indian economy and are among the among the top two employment generating sectors as they account for more than 90% of total number of enterprises and also 90% of non-agriculture employment. The sector continues to grow despite issues like non-availability of credit, limited market linkages, technology obsolescence etc. Therefore, any economic policy discussion or decision or reform such as access to credit must include and involve the MSMEs, especially entrepreneurship/self-employment at the bottom of the economy. Here it is important to note that despite the established significance of the sector, it has not been able to unleash its true potential due to limitations with respect to access to finance. In recent years in India, there has been a rapid growth and expansion, greater competition and diversification of ownership of banks and financial institutions, leading to increase in efficiency in the banking and financial services (BFSI) sector. Most MSMEs are financially excluded due to unfavorable lending terms and conditions by commercial banks and other financial institutions in the formal economy, this acts as a major obstacle to their growth and expansion. It is has been established through research that the practice of financial rationing by banks and financial institutions using interest rates hampers most MSMEs from accessing credit as only large scale borrowers who expect higher returns can bear the high cost of borrowing.⁴

The PM Mudra Yojana (PMMY) is a positive effort to fulfill the credit needs of the micro businesses and self-employed individuals, the majority of whom are in the informal sector and thereby address the biggest obstacle to their socio-economic growth. As the Honorable Prime Minister of India, Shri Narendra Modi observed at the launch of the MUDRA Yojana in 2015, *“...people tend to think that it is the big industries and corporate houses that provide greater employment. The truth is, only 12.5 million people are employed by big corporate*

¹ “Inclusion” should be seen as a process of including the excluded as (economic) agents whose participation is essential in the very design of the development process and not simply as targets of welfare (development) programs (Planning Commission, Government of India, 2007).

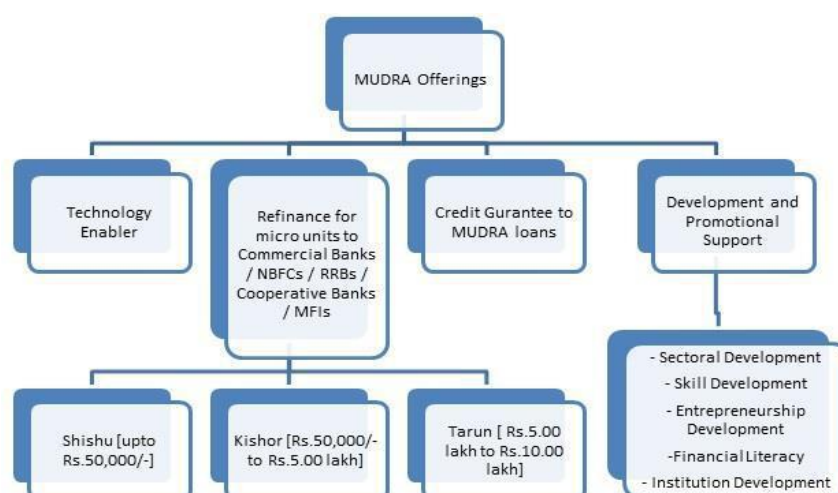
² The Committee on Financial Inclusion headed by Dr. C. Rangarajan in 2008 defined financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

³ MSME Ministry Annual Report 2015-2016, Available:

http://www.mudra.org.in/Default/DownloadFile/Annual_Report_Of_Mudra_2015-16.pdf

⁴ Stiglitz and Weiss, 1981. Available: <http://chss.uonbi.ac.ke/sites/default/files/chss/.pdf>

houses, against 120 million by the MSME sector. We need to understand the energy of the individuals at the bottommost level and provide them with means for upliftment.”⁵



Source: www.mudra.org.in

In a nutshell, the government, through the new institution called MUDRA established in 2015 seeks to achieve three broad objectives viz. Promoting entrepreneurship and employment at the grassroots, Developing micro businesses through greater access to credit / finance and Reviewing and refinancing banks and MFIs that lend to micro and small entrepreneurs.

NEED FOR THE MUDRA MODEL OF MICRO CREDIT

The informal sector, despite its immense potential for employment generation and GDP has suffered due to lack of access to credit or working capital, which has impeded their potential to expand and grow. Lack of access to credit is indicated as a key problem for SMEs worldwide.

A few factors impeding the growth of micro enterprises have been identified. Following are some of the key challenges facing the MSME sector that the government is seeking to address by resolving the gap between demand for and supply of funds through banks and non-banking financial institutions:

Policy Issues	Explanation
Risk Aversion	<ul style="list-style-type: none"> Preference is given to people with established businesses and credit history.
Lack of Documentation and KYC	<ul style="list-style-type: none"> Migrants and marginalized sections do not have the requisite KYC documentation and their loans applications are rejected during the due diligence checks. Micro institutions have inadequate reporting mechanisms, lack proper books of accounts, other legal compliance requirements.

⁵ MUDRA Annual Report 2015-2016, Available: http://www.mudra.org.in/Default/DownloadFile/Annual_Report_Of_Mudra_2015-16.pdf

Lack of Collateral Security	<ul style="list-style-type: none"> • The poor and unfunded lack any kind of asset/security to be offered as collateral against financing, thus making them ineligible for financial support. • Many people from the economically disadvantaged sections have an inherent fear of pledging their assets, because of a high probability of not being able to repay and losing their asset.⁸
Limited Credit History	<ul style="list-style-type: none"> • A large section of people have limited or no credit history and so a majority of those in the informal/unorganized sector remain outside the tax net. • The very nature of the informal business cash dependence underpins their lack of financial inclusivity. Banks do not have enough verifiable check points before disbursing loans.
Business building /Capacity-	<ul style="list-style-type: none"> • Micro enterprises/self employed individuals often lack the technical support to evaluate business plans/proposals and those unable to come up with a convincing business model fail to secure loans for their venture. • This generally forces people to go to private money lenders, increasing the risk manifold.
Viability of Small Loans	<ul style="list-style-type: none"> • Processing fees, paperwork and high interest rates tend to appear irrational compared to the amount being borrowed. • Considering the relatively lesser net interest margins/margins on small ticket loans, banks are less willing to advance them.
Financial Literacy / Information Asymmetry	<ul style="list-style-type: none"> • Lack of financial literacy acts as a major deterrent. • Increase in vulnerability to fraudsters and local money lenders
Legal Structure and related issues	<ul style="list-style-type: none"> • Legal paperwork for securing loans can be time consuming • Existing laws for recovery of loans

To address the above challenges, the government has adopted a comprehensive approach by way of the MUDRA scheme which is designed to effectively resolve systemic constraints, thereby facilitating the flow of credit to the micro enterprise sector. Further, several innovative initiatives of the Government and the RBI to foster entrepreneurship and promote innovation by creating an ecosystem that is conducive for the growth of start-ups, Credit Guarantee Fund for Micro Units with the objective of guaranteeing payment against default in micro loans extended by banks/NBFCs/MFIs/other FI intermediaries, enhancing the credit guarantee limit from Rs 1 crore to Rs 2 crore under Credit Guarantee Fund Trust for Micro and Small Enterprises, extending credit guarantee coverage to eligible Non-Banking Finance Companies in respect of collateral-free and/or third party guarantee-free credit facilities to SMEs etc. not only strengthen the micro enterprise ecosystem, but also make them stronger, more vibrant and competitive. Further, to facilitate digital access to financial services for MSMEs, a centralized loan portal “www.udyamimitra.in”, has been positioned by SIDBI for SUI, MUDRA and MSME loans to provide *end-to-end* solutions for credit delivery and range of services like application tracking and interface with stakeholders.⁹ To summarize the

⁸ Perspective considered by bankers as a red flag in flawed understanding of collateral free loans and the inherent callous approach of the borrowers in absence of any pledged assets in exchange of loans. As lack of collaterals takes the pressure to repay the loans off from the borrowers. (Lead Bank Manager - SBI)

⁹ MUDRA Annual Report 2016-17, Available: https://www.mudra.org.in/Default/DownloadFile/Annual_Report_Of_Mudra_2016-17.pdf

essence of MUDRA it would be apt to quote political and economic analyst S.Gurumurthy, 'In a nutshell, MUDRA Bank is an indigenously designed modern financial engine to align the non-formal financiers and informal micro businesses and formalize both'.¹⁰

BACKGROUND TO THIS RESEARCH

The Vision and Objective of the MUDRA Yojana

Prime Minister Shri Narendra Modi launched the Pradhan Mantri MUDRA Yojana in New Delhi on 8th April, 2015. He expressed confidence in the contribution of micro entrepreneurs to the economy and stated that "*combining their integrity with MUDRA capital would be the key to their success*".¹¹

PMMY envisages self-employment/employment creation through financial inclusion by instituting a policy scheme to foster entrepreneurship. This is sought to be achieved by enabling over 50 million unfunded (grassroot) entrepreneurs to access formal credit from and through the financial infrastructure of credit institutions.¹² The creation of the MUDRA Bank fundamentally rests on theoretical depth and practical wisdom about the Indian economy. Aptly pronounced in its stated mission "*to create an inclusive, sustainable and value based entrepreneurial culture, in collaboration with our partner institutions in achieving economic success and financial security.*"¹³

Objectives and Scope of the Research

This research was conducted by Public Policy Research Center (PPRC), New Delhi from November 2017 to January 2018 using a mix of primary and secondary research methodology. Random samples of MUDRA scheme loanees / beneficiaries were collected from various Public Sector Banks and then information about the impact of MUDRA was obtained using survey questionnaires along with informal discussions during fieldwork in Delhi NCT. The three main objectives of this research for the MUDRA scheme were-

1. To assess the impact of the scheme in the state of Delhi NCR
2. To study the extent of livelihood and job generation through the scheme
3. To document successful case studies of MUDRA beneficiaries including the impact on their business.

Through this portal till July 2017, banks have sanctioned 2057 MUDRA loans amounting to a total of Rs. 470 crores. In fact, with support from institutions like Rural Self-Employment Training Institutes (RSETIs), there has been a recent uptick in MUDRA loan applications from 117 per month in January 2017 to 1025 per month by July this year

¹⁰S.Gurumurthy, The Hindu Business Line, 4th March 2015

¹¹ PIB news release, Available : <http://pib.nic.in/newsite/PrintRelease.aspx?relid=118049>

¹² The micro entrepreneurs not only earn their livelihood but also provide jobs to others. They need credit at reasonable interest, not doles or subsidies with which the idea of inclusive growth has come to be incorrectly associated.

¹³ Available: <https://www.mudra.org.in/>

The scope and limitations of the study include:

- The survey was conducted across Delhi NCR. The capital region was segregated geographically into North, South, East, West and Central Delhi and the NCR region around. Details of MUDRA beneficiaries were obtained from a random sample of local bank branches in the five zones.
- To enable better focus on the impact of MUDRA loans on the end users or beneficiaries, the following variables were considered during the survey:
 - Existing and new entrepreneurs/self-employed created by MUDRA
 - Jobs created by MUDRA loan beneficiaries
 - Utilization of the loan money according to the purpose stated by the beneficiaries
 - Source of awareness about the scheme among loan takers
 - Banker's perspective on the MUDRA loan processing and recovery

Methodology

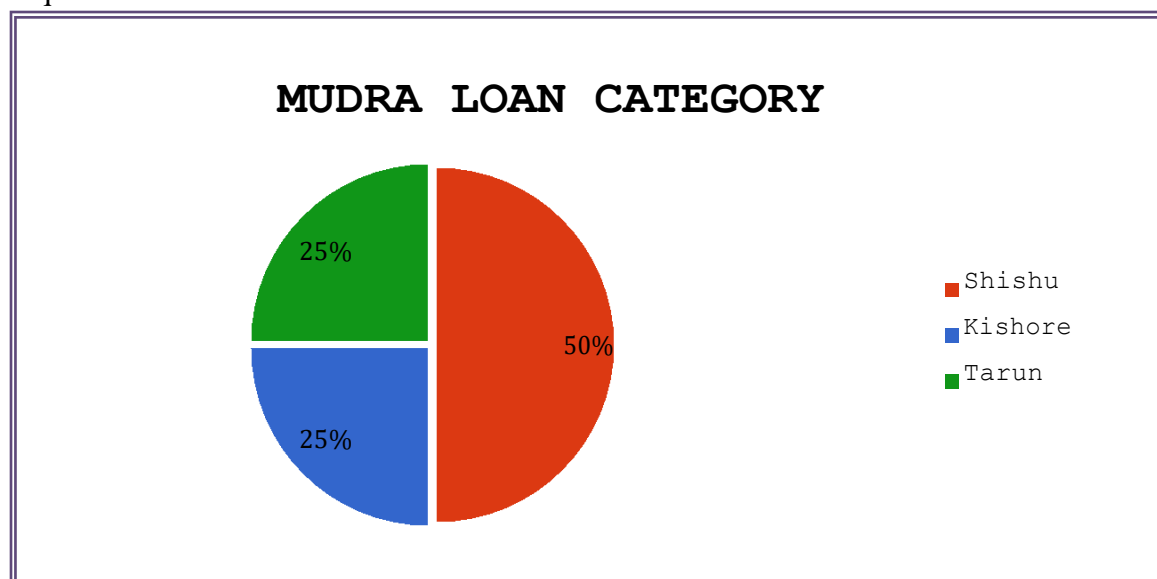
This research is based on responses obtained through focus group discussions and personal interviews with beneficiaries by conducting structured survey in Delhi NCR among a random sample of around 1000 MUDRA loan beneficiaries. The perspectives of several stakeholders including MUDRA loan beneficiaries, Branch Managers (of sample banks), Lead Bank Managers, NSIC (National Small Industries Corporation) representatives, SIDBI etc. have been recorded and included to generate quantitative data and qualitative insights. Some of the cases of MUDRA loan takers were then further studied and analyzed using a multiple case study approach in order to better understand the impact and reasons for improving the scheme and its implementation.

FINDINGS AND DATA ANALYSIS BASED ON PRIMARY RESEARCH

The field survey brought forth certain key observations and insights on the implementation of the scheme and its public impact. We identified the following key primary research parameters which can help assess the impact of the MUDRA Yojana.

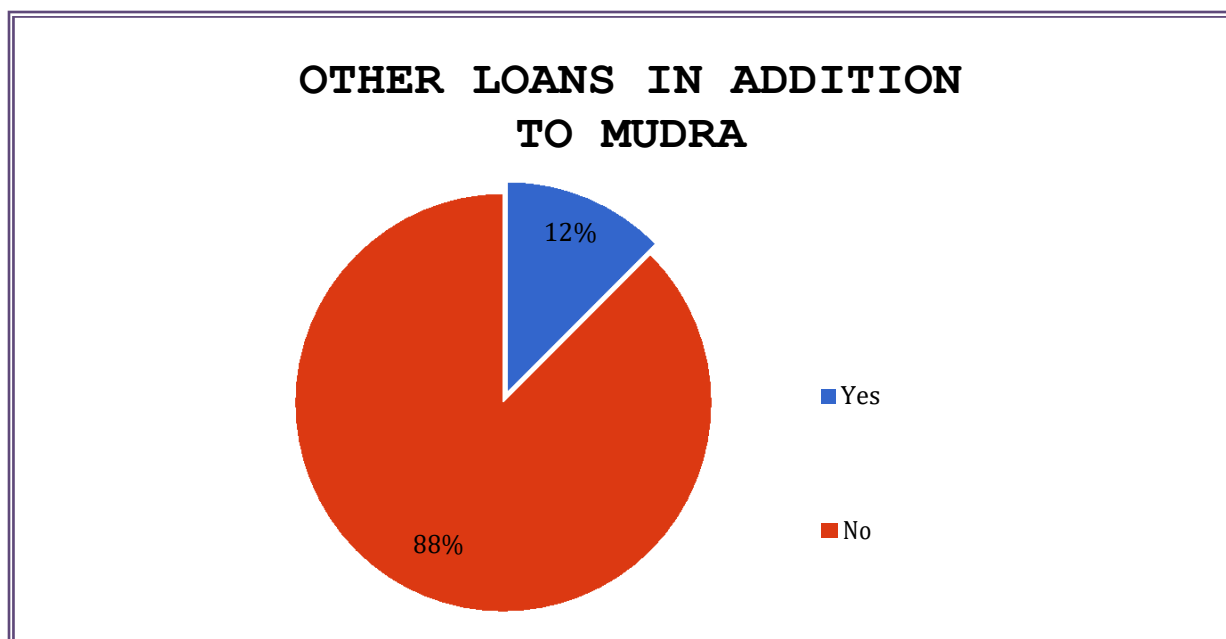
1. Maximum loan disbursements to the Shishu category

The MUDRA scheme has emerged as a significant source for small ticket size credit requirements.



Half of the respondents belonged to Shishu with the other half equally from the Tarun and Kishore segments. The pattern of loan segmentation helps in understanding the potential of the scheme to effectively reach out to the micro and small entrepreneur's requirements.

2. Maximum Number of MUDRA disbursements for first time Loanees



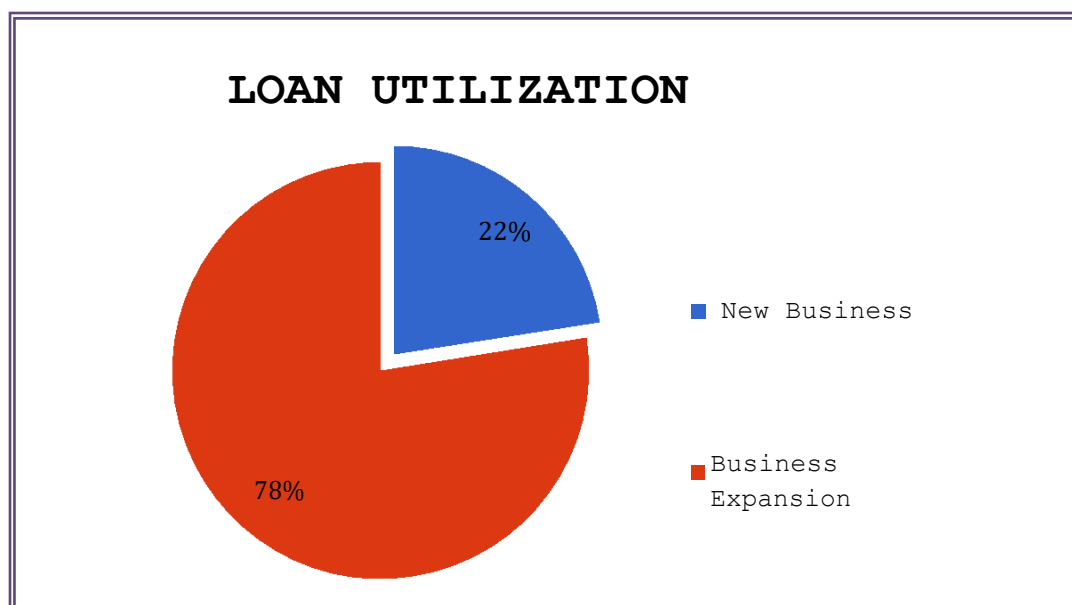
The survey revealed that around 88% of the respondents had taken a loan for business for the first time. The finding that MUDRA Yojana has attracted several first time loan beneficiaries is significant for its outreach amongst the unfunded entrepreneurs.

The survey also generated certain qualitative insights to help assess the reason behind why a large number of micro entrepreneurs were willing to avail credit or loans for the first time. As per our in-depth interviews with a random sample of MUDRA beneficiaries and bankers, the following were the main reasons that made MUDRA an attractive option for availing credit.

- Security-free loans
- Less documentation or paperwork
- Willingness and trust to avail the loan owing to the fact that it is a central government scheme
- Moderate interest rates
- Reliable alternative to people other than local money lenders who lend at unreasonably high interest rates

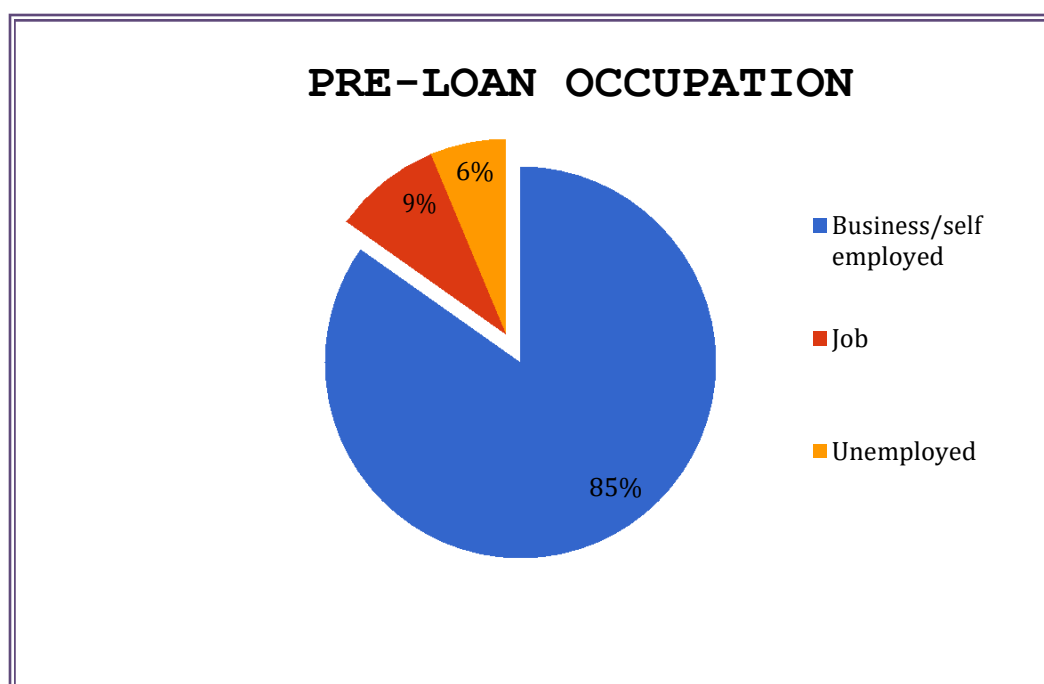
MUDRA is instrumental to create credit history for those who lacked access to credit. Consequently, they become eligible to secure further credit and sustain their respective enterprises.

3. **MUDRA loans have largely been utilized by micro entrepreneurs for growing or expanding their business.**



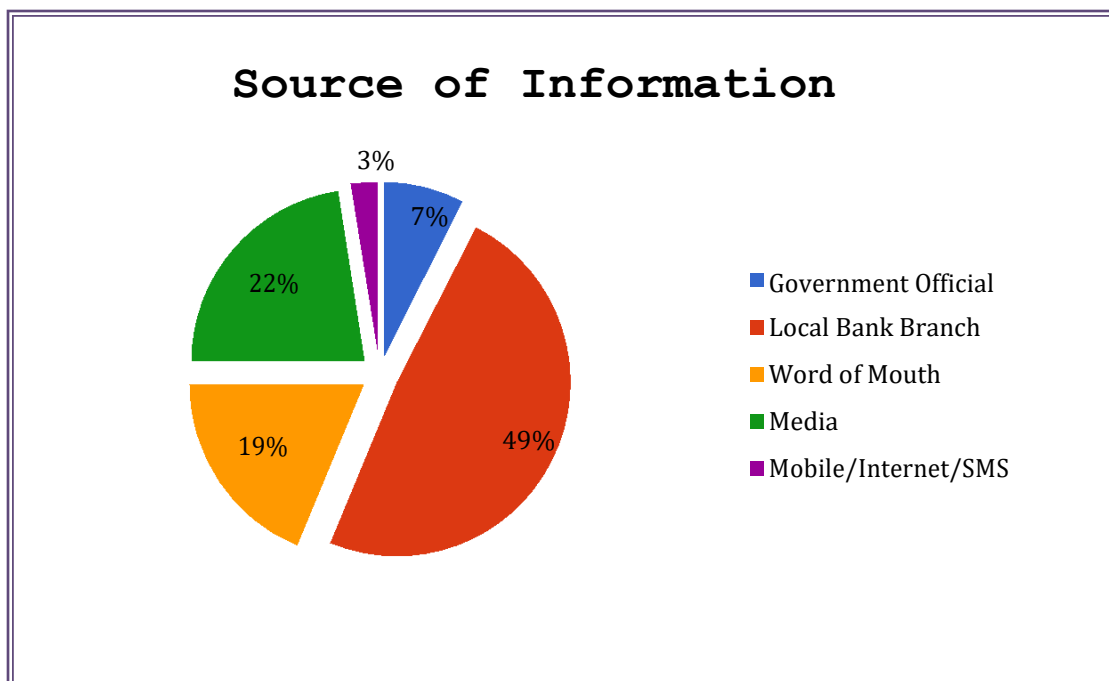
The pie charts on loan utilization reveal the fact that 78% of the beneficiaries sought MUDRA loan for further expanding their business. The loaned amount was put to several uses including working capital needs, buying new equipments, diversifying product range, increasing customers etc. while the remaining 22% set up new businesses with the loan.

4. **Existing business owners/self employed individuals and prime beneficiaries**



Data on pre-loan occupation shows that 85% of the respondents had existing business/self employment as their primary occupation before applying for the loan. This implies that the MUDRA Yojana has been supplementing the business and expansion needs of micro enterprises and is emerging as an engine of economic growth. However, it is noteworthy that around 6% of the respondents were unemployed before availing loan and another 9% quit their job to become entrepreneurs/self-employed.

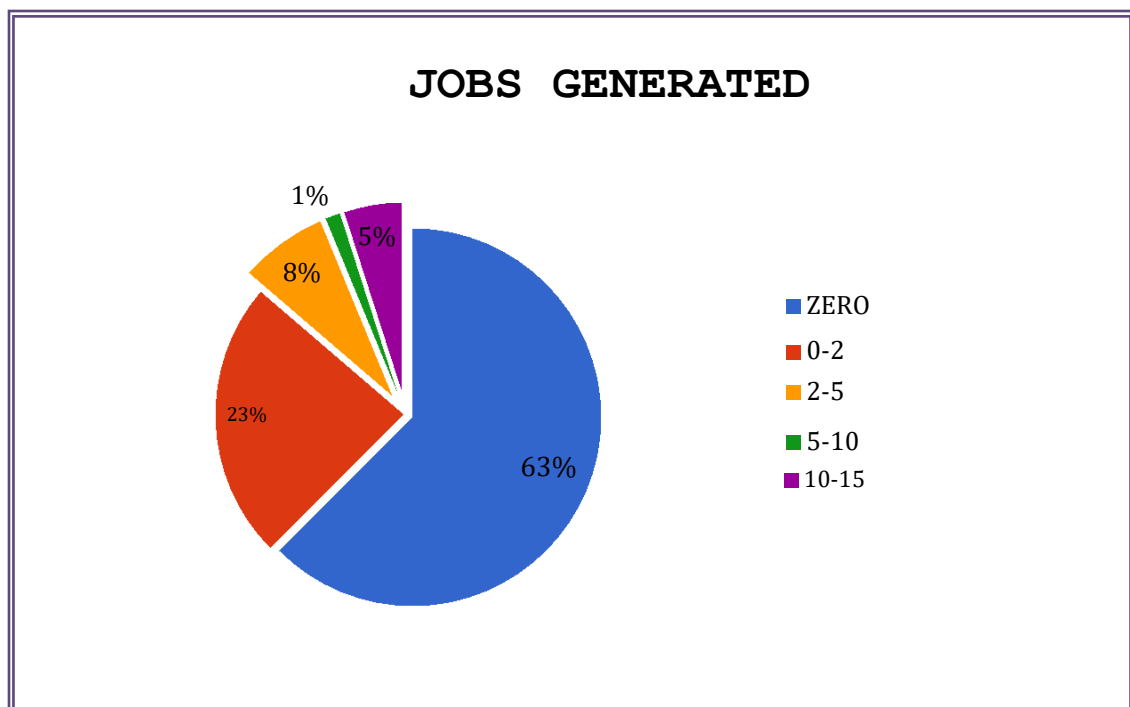
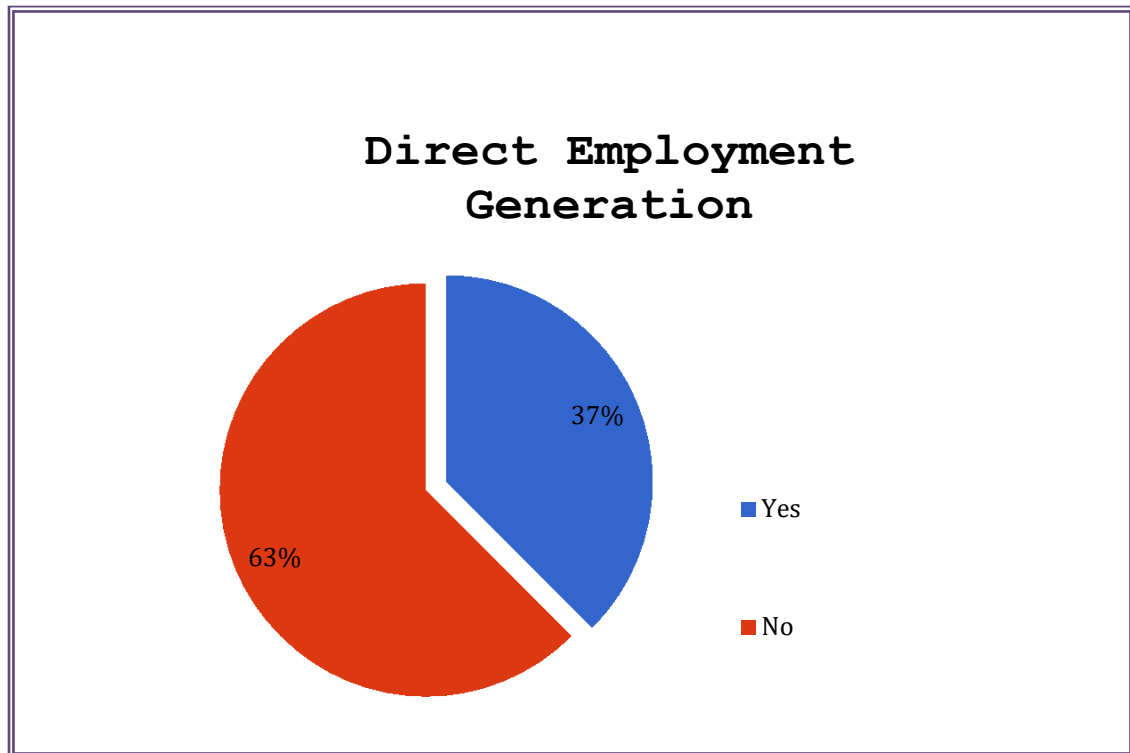
5. Local bank branches prime source of information/awareness



Another important insight generated from the survey is that almost half the respondents' source of awareness/information about MUDRA Yojana was their local bank representative. Following were the broad reasons for the relatively active role of the local bank branches in information dissemination:

- Immediate connectivity with local branches and loan officers
- Personal relationship with bank representatives (existing businesses)
- Initiatives by local branches to promote the scheme (*loan melas* etc.)
- Communication at Point of Sale inside banks

6. Employment Generation



The data on number of jobs generated shows that 37% of all entrepreneurs who availed MUDRA loans created new jobs. The distribution of jobs generated in the range of 0-2, 2-5, 5-10 and 10-15 persons employed shows that around 24% of the respondents created indirect jobs of up to 2 persons each.

Key observations from the sample set surveyed:

- Segregating the data further, the 37% of the beneficiaries who created direct jobs, comprised of both existing businessmen (80%) and first time entrepreneurs (20%). In addition to creating self employment, people have secured livelihood opportunities and acquired new skills. More than 50% of jobs were generated by MUDRA beneficiaries with existing businesses.
- Micro entrepreneurs also employ casual labor apart from regular employees which cannot be accounted or measured but could give rise to questions on their sustainability.

In summary, more number of jobs were created for the less skilled and the less formally educated. Based on the above findings and analysis, our overall observation is that MUDRA loans not only help in ensuring economic stability for entrepreneurs and their ventures, but also as a means to financial independence and social empowerment.

7. Ease of Access to Finance

Ease of Access has been an important determinant in success of MUDRA. Many respondents expressed relief over the relative procedural simplicity and hassle free access. They also expressed that the cash credit facility available in the MUDRA scheme helped them manage their finances better. The respondents were requested to rate their satisfaction with the scheme and were asked to rate their overall experience with the scheme out of 10. They were also asked to rate the likelihood of recommending the scheme to others. The average rating of 8 out of 10 based on our primary survey underlines the fact that the scheme has been popular and well received. Based on the beneficiaries' responses, a majority of them also seem likely to recommend the MUDRA scheme to other potential micro-entrepreneurs.

FINDINGS AND OBSERVATIONS BASED ON CASE STUDIES

Employment Generation and Livelihood Support

Our research sheds light on the potential of MUDRA in employment generation and finds that encouragement to entrepreneurship and its multiplier effect on job creation is an important dimension of employment generation. Self-employed individuals / micro entrepreneurs sustain the livelihood of families and also provide the much needed employment to the semi-skilled and unskilled workforce.

Growth of Micro Businesses

Despite the potential of the micro sector to generate employment and sustain livelihood, the sector has ever been credit starved due to variety of reasons including lack of credit history, inability to provide security/collaterals etc. These factors effectively debilitate entrepreneurship, employment generation, economic activity and livelihood support of millions. MUDRA Yojana is an effort to address this drawback by enabling micro enterprises to grow by accessing credit easily.

CASE STUDY 1 SUSTAINING LIVELIHOODS



Mr. Deepak Bhatia, Retail Trader in Namkeen, Snacks etc., Model Town, North Delhi. Deepak Bhatia is today a successful businessman and runs a trading business from his residence in Mahendru Enclave, Model Town. Devastated by huge losses in two business ventures, Mr. Bhatia was able to start afresh after taking MUDRA loan of

1.25 lakhs and started trading in snacks and beverages in 2015. Easy availability of finance helped him sustain his livelihood in difficult times.

Mr. Bhatia claims that there is a 5-7% increase in his profit margin. He is currently a supplier and intends to become a distributor. He aspires for a MUDRA loan of 7-10 Lakh and also a GSTN. His son has also applied for MUDRA loan and has been sanctioned Rs. 30,000/- and plans to diversify into popcorn trading along with his current set up.

*‘कारोबार में दो बार घाटे के बावजूद मुझे मुद्रा लोन मिला जिससे मेरे अन्दर इतना
सामर्थ आया की अब मैं अपने परिवार को संभाल सकता हूँ, मुझे विश्वास है की मैं मुद्रा
लोन से अपने कारोबार का विस्तार कर सकूँगा।’*

*“I got finance despite losses and came as a much needed help in tough times. Today I
am aspiring for expanding my business through MUDRA” - Deepak Bhatia*

Access to finance allows investments in capital, new technologies, diversification, and innovation and meeting liquidity requirements in day to day functioning of business. A formal source also improves risk management in firms, and allows the acquisition of productive assets. This support organically leads to indirect employment generation in the entire supply chain.

CASE STUDY 2 CREATING EMPLOYMENT AND GROWING BUSINESS

Mr. Rajinder Singh, Amar Hosiery, Uttam Nagar, West Delhi An established entrepreneur, Mr. Rajinder Singh, used MUDRA Loan of 10 Lakh and opened a new wing of women’s wear in his retail clothes shop in Uttam Nagar. The new wing has helped him increase his revenues and Business expansion.

Employment generated

Mr. Singh employed **four** salesmen for the new unit.



Empowering and Motivating Non-Formal Entrepreneurs

The India-centric approach to support and integrate the informal economy into the overall economic system and the current model of development is based on the agenda to fund 58 million micro and small businesses in the non-formal sector. The MUDRA policy is an innovative solution for this most job-intensive, yet totally credit-starved segment of an economy unique to India.

The impact of the MUDRA credit scheme on various sections and various aspects is summarized below:

Impact on Youth

The massive youth potential of India brings in its wake the challenge of providing employment and generates livelihood opportunities. A scheme like MUDRA has enormous potential to effectively address this issue and convert “job seekers to job givers”. Inspiring confidence and financial support for starting entrepreneurial ventures, the youth is empowered for self sustenance and innovation by broadening their employability and as a result, their choices for employment.

CASE STUDY 3 EMPOWERING THE YOUTH

Mr. Shubham Pandey, Tea Stall Owner, Bhikaji Cama Place

Shubham Pandey, a 28 year old, runs a *Pandey ji tea and snacks stall* in the busy commercial area of Bhikaji Cama Place. Shubham utilized the loan of Rs. 4 lakh to meet the working capital needs of his business.

Employment generated – With the loan amount he bought a machine for making fresh juice and has employed one person specifically for that. One more has been employed for assisting in daily operations.

He points out that easy paperwork, close proximity to the bank and proactive help and attitude of the banker has significantly helped him.



‘मुद्रा योजना के अंतर्गत लोन की मदद से आज मैं अपने बलबूते पर आगे बढ़ सकता हूँ।’

‘The loan has given me a good financial support and I can now plan for future expansion and investment’- Shubham Pandey

Impact on Women

The participation of women in micro entrepreneurship is critical in achieving balanced and inclusive economic development. MUDRA extends a reduction of 25 bps in its interest rates to MFIs / NBFCs which provide loans to women entrepreneurs.¹⁶ In fact, as per the Ministry of Finance (MoF) data, approximately 70% of the beneficiaries under MUDRA are women.

CASE STUDY 4 EMPOWERING WOMEN

Mrs. Seema Sahani, Principal, Rising Stars Day Care Centre, Sadar Bazaar, Delhi Cantt.

Mrs. Sahani, Principal cum founder of Rising Stars Day Care Centre in Sadar Bazaar, Delhi Cantonment area. Before starting her venture, she used to take home tuitions for about 8 to 10 years.



Aspiring to take her interest and expertise to the next level she ventured for setting up a fully fledged play school cum day care centre.

She secured a MUDRA loan of Rs. 50,000 clubbed with her personal savings and put the basic infrastructure in place. Today her venture has grown manifold with 100 students and another branch in Dwarka, New Delhi.

Employment generated – Mrs. Sahani today employs 13 people -10 teachers and 3 helpers. At the Dwarka Branch, she employs 10 people - 8 teachers and 2 maids.

‘ये सोच के बहुत अच्छा लगता है की आज मैं आत्मनिर्भर और परिवार का सहारा ही नहीं, बल्कि कई और लोगो को रोज़गार देने में समर्थ हूँ।’

‘I feel satisfied that along with supporting my family, I have been able to generate employment for so many people’ - Mrs. Seema Sahani

Impact on Marginalized Sections

Over 56% of borrowers under PMMY are SC, ST and OBC¹⁷. Economic empowerment being the vision of this scheme, its priority to lend to these marginalized and economically disadvantaged sections of our society is an effective answer to their empowerment and livelihood generation.

¹⁶ As suggested on the MUDRA website.

¹⁷ Lok Sabha starred question No. 178, answered by Finance Minister on 29.12.2017. Available: <http://164.100.47.194/Loksabha/Questions/QResult15.aspx?qref=60144&lsno=16>

Case Study 5 Till The Last Mile

Mr. Inderpal, E-Rickshaw driver,
Old Rajendra Nagar, West Delhi
Mr. Inderpal, a cycle rickshaw puller,
took a loan of Rs.100, 000/- under
PMMY. He used the loan for upgrading to
an e-Rickshaw.



While the e-rickshaw has increased his earnings slightly, Inderpal feels that the decision has helped him relax a bit and feels less tired by the end of the day.

iv. Impetus for Entrepreneurship

Instilling a culture of entrepreneurship of innovation and productivity rather than toeing the line of traditional means of livelihood can be instrumental in providing the youth with a self sustaining model of self employment and employment generation where every entrepreneurial venture created through MUDRA leads to more growth.

The Meta data on MUDRA from Delhi NCT shows an increasing trend of entrepreneurs seeking and receiving these loans.

Pradhan Mantri MUDRA Yojana (2017-2018 Provisional) - Delhi											
[Amount Rs. in Crore]											
Shishu (Loans up to Rs. 50,000)			Kishor (Loans from Rs. 50,001 to Rs. 5.00 Lakh)			Tarun (Loans from Rs. 5.00 to Rs. 10.00 Lakh)			Total		
No Of Sanctions	Sanctioned Amt	Disbursement Amt	No Of Sanctions	Sanctioned Amt	Disbursement Amt	No Of Sanctions	Sanctioned Amt	Disbursement Amt	No Of Sanctions	Sanctioned Amt	Disbursement Amt
72421	192.67	185.56	29878	861.40	840.82	17483	1325.37	1293.35	119782	2379.44	2319.74

Pradhan Mantri MUDRA Yojana (2016-2017) - Delhi											
[Amount Rs. in Crore]											
Shishu (Loans up to Rs. 50,000)			Kishor (Loans from Rs. 50,001 to Rs. 5.00 Lakh)			Tarun (Loans from Rs. 5.00 to Rs. 10.00 Lakh)			Total		
No Of Sanctions	Sanctioned Amt	Disbursement Amt	No Of Sanctions	Sanctioned Amt	Disbursement Amt	No Of Sanctions	Sanctioned Amt	Disbursement Amt	No Of Sanctions	Sanctioned Amt	Disbursement Amt
148741	417.99	406.96	52485	1571.01	1550.65	23749	1773.96	1742.90	224975	3762.95	3700.51

Source: Official PMMY (MUDRA) Website

Bringing the masses under the umbrella of formal financial institutions

MUDRA has given the common man a reliable mode of financing and has been particularly impactful for the self employed and base level entrepreneurs who found it virtually impossible to manage finance earlier from formal sources. It is an institutional and effective alternative to the finance provided by unscrupulous money lenders at exorbitant rates. Moreover, the scheme eliminates possibility of any intermediate agency in the entire process from loan application to loan disbursement since customers have a direct interface with the banks who undertake to responsibly disburse the loans.

The Economic Impact of MUDRA

Encouraging the informal sector and bringing them under the direct tax net would be instrumental in aligning them along with the organized sector. MUDRA has been driven by an idea and intention to create employment/jobs by facilitating access to credit/finance to the bottommost socio-economic segment of society which fully lies within the informal sector.

This government is justified in seeing the potential of this sector to drive up jobs and taxes. It has realized the multiplier impact on the economy through the formalization of the informal sector. This is also the core of the new economic philosophy of supporting entrepreneurship and self-employment wherever possible while continuing with better targeted social security policies for the poor and needy. More importantly, it marks an end to the jobless growth era based on previous economic policies till 2014 and marks the beginning of a deeper and broader enterprise and entrepreneurship-driven economics which clearly fits the expectations of innovative policy reform.

The MUDRA scheme is based on the idea of entrepreneurial economics. It has been envisioned and developed on the basis of the view that a majority of Indians are seeking credit or finance for creating livelihood and/or entrepreneurial opportunities for themselves. From a purely economic point of view, there are two impacts of the MUDRA policy that can be game-changing for an economy that needs (GDP/economic) growth as much as it needs productivity by way of employment.

CHALLENGES

While MUDRA has given the much needed impetus/stimulus to micro enterprises, self employed individuals and the huge unfunded sector of the society, certain factors both systemic and institutional work to obstruct its effective implementation. Following are certain observed factors that have to be addressed for realizing complete potential of MUDRA:

Banker's Risk Appetite

Bankers expressed some inhibition in disbursing loans with the lurking fear of increasing number of NPAs. The inhibition is mainly with respect to applicants with no credit history or guarantee. From a banker's perspective, the lack of credit history is a palpable impediment for approving the loan for first time (credit) applicants. In addition, since MUDRA applicants in Delhi NCR are mostly migrants, such beneficiaries become difficult to track. It was also observed that the reporting process also lags on several accounts and needs to be addressed.

Lack of awareness

It has emerged as a bottleneck in ensuring equitable access to finance. More information on government schemes and policies intended for mass public benefit needs to be disseminated more effectively.

Capacity building and support

Productive and formal employment generation depends on the availability of an adequately skilled labor force through sustained investments in skills development and generating opportunities for job creation through entrepreneurship. Under MUDRA, the applicants appear to have little support with respect to soft skills required for sustenance of any venture.

Monitoring

Monitoring the loan disbursal process including the beneficiaries and appropriate use of the amount is a challenge and is required for ensuring targeted lending.

CONCLUSION

- **Impact on job generation** - Improving access of finance to micro entrepreneurs has been found to have a positive correlation with employment generation. A multiplier effect through indirect job generated by MUDRA beneficiaries is significant and has helped provide livelihood avenues for semi-skilled and unskilled people. 37% of all beneficiaries in the sample set created new jobs.
- **MUDRA's Multiplier Effect** - The MUDRA scheme has been a key instrument for creating livelihoods and jobs for the lowest socio-economic segments of our society today. It has enabled them to stand up on their feet and not only empower themselves but also others who are seeking opportunities to make a living. The employment multiplier for all MUDRA loan segments is 1.32 which is the minimum employment created per MUDRA loan. As per official data over 36.2 lakh loans were sanctioned in Delhi NCR from 2015-16 till 2017-18 creating nearly 5 million jobs in Delhi NCR.
- **MUDRA is fuelling growth of micro enterprises and informal sector** - Addressing the financial requirements for working capital and expansion such as new machinery, product/service diversification, manpower, client outreach etc, MUDRA is an effective solution to the credit starved sector. With maximum beneficiaries i.e. 50% of the sample set in the Shishu segment, the potential of the scheme to effectively reach out to the small and micro enterprises is well established. Further, 78% of the beneficiaries used the loan for expanding their current businesses. The funds have been greatly used for buying new equipments, diversifying product range and increasing consumer base.
- **An alternative to private money lenders** - MUDRA yojana is an alternative solution to those turning to local money lenders lending at usurious rates. Moderate interest rates and collateral free finance have enabled many to access financial help through these means. The scheme also places the beneficiaries in direct contact with banks/registered financial institutions thereby effectively eliminating middlemen.
- **Impetus to entrepreneurship** - 22% of the beneficiaries used the loan for setting up new businesses. While a maximum no. of beneficiaries acquired the loan for expansion/working capital of their existing businesses. It is noteworthy that 6% of the respondents were unemployed and started new business with the loan and another 9% quit their existing jobs and became self-employed.
- **An attractive option to many first time loan takers** - The MUDRA Yojana has also been successful in attracting many first time loan takers because factors such as - ease of access, low interest rates, collateral free and an element of security. In the sample set surveyed, 80% of the beneficiaries were the ones who took loan for their business for the first time.
- Banks have emerged as the major source of awareness creation among the masses with 49% of them stating banks as their first source of information. Many branches have taken proactive initiatives such as holding loan camps, sending representatives in nearby locales to spread awareness.

The MUDRA scheme has been the first phase of a major effort to create entrepreneurship and jobs for the masses. The second phase of MUDRA may also bring about an angel of sustainability to the efforts. Improving access to finance for small business not only aids in their growth and development but is also an essential means to poverty reduction and social empowerment. Every job creates economic activity by allocating resources both personal and material to productive purposes which further leads to creation of growth oriented opportunities for the society by contributing to the common goods and services. Supporting micro firms in their economic activities can lead to their expansion and thereby create job opportunities. Jobs can have a transformational value when they contribute to end objectives of livelihood opportunities, reducing income inequalities, reducing gender gaps etc.

RECOMMENDATIONS AND THE WAY FORWARD

The scheme has the potential to create a self sustaining environment for the burgeoning population in working age group. However, there is a need to create a robust mechanism that effectively addresses the challenges impacting the scheme. For positioning MUDRA not just as a micro credit scheme for encouraging and supporting growth and development of the unorganized/micro enterprises/self employed individuals, we propose certain key action areas for to add an element of assurance for both the bankers and beneficiaries.¹⁸

- **Mentorship** - Hand holding with the new entrepreneurs such as financial advice, business/ trading advice, managing accounts etc is essential to ensure productive use of the loaned amount and ensure sustainability of the results. A mechanism must be created to aid the existing micro entrepreneurs for moving up the ladder by extending professional support in maintaining books of accounts, legal formalities and other paperwork.
- **Skill Development** – Skill training to the people availing the loans would help to maximize the impact of the scheme along with making it more viable at the end of the beneficiary.
- **Institutionalizing a Convergence Platform** - To ensure a more rational disbursal of loans, a platform may be created to link MUDRA with skill development centers. This would ensure easy availability of credit to skilled personnel and encourage entrepreneurship among the trained candidates.
- **Guidelines for assessing the creditworthiness of individuals** - A set of guidelines to provide a security net for the banks must be enlisted. Since the loans are collateral free, a proper risk assessment of the every disbursal would impact sustainability of results and ultimate success of the scheme.
- **Prioritizing** - The deliverables of the scheme may be redesigned to suit socio-economically determined priorities. This would enable targeted approach of the scheme and focused utilization of the fund. Such assessment must be carried out at all levels.

¹⁸In the sense that addresses the concerns of the bankers and also assures development of the applicant-see that it reaches the right beneficiary and is utilized in an optimum manner

APPENDIX

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