



## Financial Inclusion of Micro Units and Pradhan Mantri MUDRA Yojana (PMMY)

### KEYWORDS

MUDRA, PMMY, CGFMU, NBFC-MFIs

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**ABSTRACT** RBI in its Midterm path review report on financial inclusion has stressed on credit inclusion. PMMY scheme launched by the Government is a fresh step for the credit inclusion of micro units whose loan requirement are up to Rs. 10.00 lac. As per NSSO, there are 5.77 crore of such micro units which are not covered under formal system of credit. More steps are required to cover this unfunded or underfunded segment of the economy. This neglected segmented has been coined as "Missing Middle" of India's MSME sector which has potential for providing jobs to unemployed youth in rural as well as urban areas. CGFMU and refinance scheme are components of PMMY. NBFC-MFIs & MFIs have also been engaged under the scheme and it has shown good results. Credit bureaus and Rating agencies are being involved to speed up the credit inclusion process.

### Introduction:

In 2005, for the first time, then Governor of RBI Shri Y.V.Reddy introduce the term financial inclusion and advised banks to review their banking Practices to align them with financial inclusion of the unbanked population. It was suggested to open no frill accounts with 'nil' or very minimum balance and charges. This was followed by number of other initiative in Banking like basic bank account, brick- mortar branches, Banking correspondents, schemes like PMJDY, PMJJBY, PMSBY etc. These initiatives have linked masses to banking services. Credit Inclusion is the next step required to create jobs and new enterprises/ entrepreneurs. RBI in its report on medium term path for financial inclusion has stressed on credit inclusion and recommended that key component of the financial inclusion policy should be to improve the credit system for the underprivileged, particularly millions of poor agricultural households, so as to ensure a perceptible shift of credit demand from the informal to the formal sector. The next transformation phase of financial inclusion is **Micro Credit financial Inclusion**.

As per MSME Act, Micro enterprises are classified as per the investment in plant and machinery for manufacturing enterprises (up to Rs. 25.00 lac) and investment in equipments (up to Rs. 10.00 Lac) in case of services sector enterprises. However, focus of this paper is on those micro units whose loans requirement is up to Rs.10.00 lac and it is irrespective of investments as defined by MSME Act for micro enterprises. To resolve confusion, we shall use term **"Micro units instead of micro enterprise"**. For developing countries like India, micro units are mostly operating in unorganized sector. As per final fourth all India MSME Census 2006-07, share of micro enterprises and small enterprises in unorganized sector in terms of no of enterprises, generation of employment and gross output may be seen at figure1. The graph shows the dominance of micro enterprises in MSME sector. Micro units (covered under micro enterprises) have immense potential.

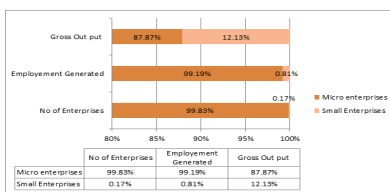


Figure 1

### Need to Focus on Micro enterprises:

At present there is no study on MSME in India which depict the exact position of the micro units (fund requirement of Rs. 10.00 lakh). However The National Commission on Enterprises in the Unorganized Sector (NCEUS) has estimated the size of the unorganized non-farm sector enterprises at 5.8 crore during 2006-07, providing employment to 10.4 crore workers. It defines unorganized sector as an enterprise employing less than 10 workers. Of these, 94% are with an investment of less than Rs.5 lakh. Finance Minister in his budget speech for FY 2015-16 has mentioned that there are some 5.77 crore(NSSO data) small business units, mostly individual proprietorship, which run small manufacturing, trading or service businesses. 62% of these are owned by SC/ST/OBC. This bottom-of-the-pyramid, hard-working entrepreneurs find it difficult, if not impossible, to access formal systems of credit. The financial requirement of these units is up to Rs. 10.00 lac. The above discussions show the potential of micro unit sector and its financial requirement. Government has taken some very effective steps to fund this unfunded/ underfunded micro unit segment through initiatives like Pradhan Mantri Mudra Yojana (PMMY).

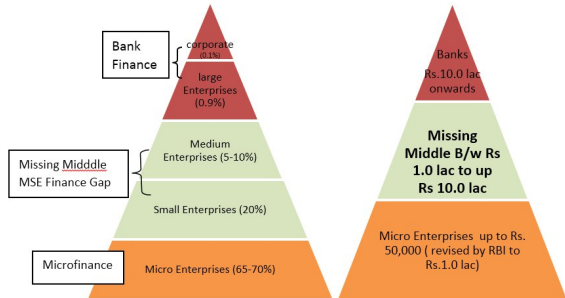
### Missing Middle

There are two views/opinions regarding of Missing Middle. The diagrammatic explanation of two views on missing middle is as per fig 2(a) and 2(b).

First view is as per FCI report on SME Banking Knowledge guide which focuses on Small and medium enterprises (SME). The SME banking market consists of firms whose financial requirements are too large for microfinance, but are too small to be effectively served by corporate banking models. SMEs, particularly in developing countries, have historically lacked access to financial products and services. MFIs have emerged to serve the smallest of these enterprises, while banking institutions have typically concentrated on large corporations. SMEs fall between these two markets where there is a finance gap commonly described as the "missing middle."

Second view is specifically for Indian Economy which focuses on micro units which are either unfunded or funded by own sources. They are out of formal system of credit and need immediate attention. The financial requirements of micro units usually range from Rs. 1.0 lac to around Rs 10.00 lac. On one

hand the banks often find it difficult to provide credit to such small amounts and on the other hand this amount is too large for microfinance institutions, as they typically deal in loans below Rs. 50,000 (RBI has revised the limit to Rs. 1.0 lac in 2016). Thus, this segment gets completely excluded from the financial services both from the banks as well as from the MFIs. Thus the financial gap to this segment has been termed as the **"Missing Middle"**.



**Figure 2(a) Missing middle of Emerging Economies as per FCI**

**Figure 2(b) India's Missing Middle**

Focusing Missing middle may create livelihood opportunities for rural poor who migrates to nearby cities. Government of India has taken steps on both issues of missing middle. On one hand RBI has included Medium enterprises under PSL to give boost to medium enterprises financing which will create skilled job opportunities and employment. On other hand Govt. has launched MUDRA whose main focus is on micro units with loan requirements up to Rs. 10.00 lac and will provided employment to 5-10 person unit.

**Pradhan Mantri MUDRA Yojana (PMMY)**

Government launched Pradhan Mantri Mudra Yojana and Micro Units Development and Refinance Agency (MUDRA Ltd.) on 08.04.2015 with the objective of **'funding the unfunded'** micro units segment. The idea is to cover the existing micro units and to promote new enterprises/micro units. Three important offerings of MUDRA loans have been designed according to the growth stage of an enterprise.

- Loans up to Rs. 50,000
- Loans above Rs.50, 000 and up to Rs. 5.0 lac
- Loans above Rs.5.0 lac and up to Rs. 10 lakh

**Shishu  
Kishore  
Tarun**

The range of micro enterprises activities involves saloons, beauty parlours, gymnasium, boutiques, tailoring shops, dry cleaning, cycle and motorcycle repair shop, Medicine Shops, Courier Agents, papad making, aachaar making, jam / jelly making, agricultural produce preservation at rural level, ice making units, ice cream making units, biscuit, bread and bun making, handloom, powerloom, chikan work, traditional embroidery and hand work, computerized embroidery, stitching and other textile non garment products such as bags, vehicle accessories, furnishing accessories, etc. Recently agri-allied activities (excluding pure agriculture activity) have also been covered under MUDRA.

PMMY scheme is being implemented through scheduled commercial banks, NBFCs / MFIs / other financial intermediaries engaged in providing credit facilities to micro units. These institutions required to sign a MoU with MUDRA Ltd. PMMY has included MFI institutions as member lending institution of MUDRA. MFIs with huge customer base operates in varied geographical areas and provides micro loans to the beneficiaries at door steps in time bound manner. Under PMMY, MFIs will target micro units in rural areas under shishu category.

MUDRA has been entrusted with two important functions:

1. Refinance operation: Refinance facility is available for the Member Lending Institution (MLI) subject to fulfilment of the eligibility criteria as prescribed by MUDRA. A sum of Rs.20,000 crores has been allocated to the MUDRA by Reserve Bank of India from the money available from shortfalls of Priority Sector Lending for creating a Refinance Fund to provide refinance to the Last Mile Financers. Commercial Banks have to lend at Base rate/ MCLR to micro units for availing MUDRA refinance. Similarly, the RRBs and Cooperatives have been allowed an interest cap of 3.50% over and above MUDRA refinance rate, while lending MUDRA loan to avail MUDRA refinance. MFIs will charge as per RBI guidelines for NBFC-MFIs.

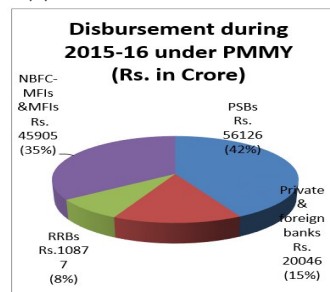
2. Credit guarantees Fund for micro units (CGFMU): A credit guarantee fund for micro units of Rs.3000 crore has been set up for providing guarantee cover for loans upto the specified limit (Up to Rs. 10.0 lac) sanctioned by MLIs. It is to fulfil the requirement of specific category of micro unit engaged in manufacturing, trading and services activities. Scheme will cover loans sanctioned since 8th April, 2015. The committee of Midterm path of financial inclusion has also recommended that multiple guarantee agencies, both public and private, that can provide credit guarantees in niche areas may be encouraged. Portfolio guarantee is a distinct feature of this fund as compared to the individual cover for all individual units. **"Guarantee Cover" under CGFMU** means maximum cover available per portfolio, based on the amount in default, in respect of the credit facility extended by the lending institution. The first 5% of the amount in default will be borne by the eligible lending institution. The amount in default over and above 5% will be settled by the fund to the extent of 50% on pro-rata basis.

**MUDRA Card and credit history of borrowers**

Card facility is available to borrowers under Mudra loans. MUDRA Card is a debit card for working capital portion of the loan. The borrower can make use of MUDRA Card in multiple withdrawal and credit, so as to manage the working capital limit in a most efficient manner and keep the interest burden minimum. MUDRA Card will also help in digitalization of MUDRA transactions and creating credit history for the borrower. With the growth of responsible lending practices, Credit Bureaus (CB) have gained increasing level of acceptability in the micro finance sector. The CB culture will help in creating credit history over a period of time which will facilitate faster credit dispensation as the system evolves.

**Progress made under PMMY**

Data collected from all PSBs shows that disbursement of Rs. 33,000 crore (approx.) was made during 2014-15. With the intervention of MUDRA, amount of disbursement to same category of loans was Rs. 56126 crore in 2015-16. Total disbursement of Rs. 132954 Crore was made against the target of Rs.122188 crore by the Banks and MFIs together. The share of the disbursement by different MLIs in terms of no of accounts and amount disbursed is being depicted by the pie graph in figure 3(a) and 3(b).



**Figure 3(b)**

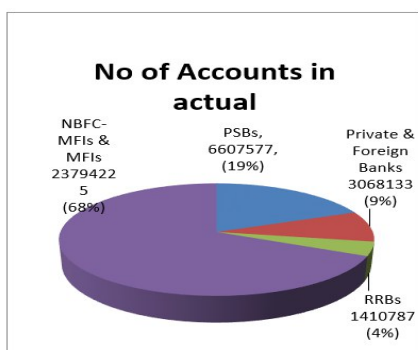


Figure 3(b)

The maximum amount has been disbursed by PSBs however maximum number of borrowers is of NBFC-MFIs & MFIs. This is because of most of the loans by MFIs are shishu category of

loans. For the first time MFIs were directly involved for implementing government scheme and these group of institutions have performed well. 38 NBFC-MFIs and 10 MFIs are partnering with MUDRA. With the launch of MUDRA, cost of fund of NBFC-MFIs has come down and within a year. The top 10 NBFC-MFIs have a weighted average interest rate of 23.13%, far below the 26% max cap prescribed by RBI. Over 36 NBFC-MFIs have reduced rates significantly in the last financial year itself. SKS Microfinance, one of the biggest NBFC-MFIs has reduced its rate of interest charged from borrowers to 19.76%. Interest rate of 19.76 percent is the lowest rate charged by any private sector MFI in the world. Refinance facility of MUDRA are being availed by NBFC-MFIs and has helped in reduction of cost of fund of NBFC-MFIs. Government of India has set a target of Rs.1,80,000 crore for FY 2016-17. Out of which, NBFC-MFIs have been given a target of Rs.64,240 crore. The detailed performance of PMMY as on 31.03.2016 is summarized in Table 1.

Table1: Performance under PMMY as on 31.03.2016 under different categories.

Category	Shishu		Kishore		Tarun		Total	
	No Of A/Cs	Disbursement Amount	No Of A/Cs	Disbursement Amount	No Of A/Cs	Disbursement Amount	No Of A/Cs	Disbursement Amount
General	14680777	28523.35	1458346	30286.31	340239	24948.65	16479362	83758.31
SC	5952403	10715.73	143357	2680.14	18898	1295.82	6114658	14691.69
ST	1606476	2982.86	62869	1179.43	8993	579.72	1678338	4742.01
OBC	10161188	19805.45	404889	6927.4	42287	3029.57	10608364	29762.42
<b>Total</b>	<b>32400844</b>	<b>62027.39</b>	<b>2069461</b>	<b>41073.28</b>	<b>410417</b>	<b>29853.76</b>	<b>34880722</b>	<b>132954.43</b>
<b>Out of Above</b>								
Women Entrepreneurs	27102916	50639.71	473536	8675.43	51611	3874.98	27628063	63190.12
New Entrepreneurs / Accounts	11081057	20942.07	1191917	22991.63	201629	14974.26	12474603	58907.96
Minority	3831859	6840.49	222084	4309.33	34176	2410.33	4088119	13560.15
PMJDY OD Account	2417030	271.45	184	2.29	5	0.28	2417219	274.02
Mudra card	456630	556.2	46266	405.85	14560	429.2	517456	1391.25
Skill Trained Persons	1872479	2519.45	27820	526.55	6176	468.26	1906475	3514.26

## Conclusion

NBFC-MFIs involvement in financial inclusion of micro units has significantly benefitted the PMMY scheme. Further, RBI has also increases the limit of loans to be extended by MFIs to Rs. 1.0 lac. It will promote healthy competition among the financial institutions to provide credit support to this unfunded segment which has vast potential for generation of employment and creation of new line of entrepreneurs especially in rural areas. MFIs should be allowed to extended loans under kishore category of loans (up to Rs. 5.0 lac). Efforts are needed to attract multiple guarantee agencies both from private and public sector to support the financing of micro units by financial institutions.

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