Government Scheme And Its Effects On Banking Sector – A Study Focusing The Mudra Loan Scheme

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Abstract-The article deals with the recent Government scheme with special focus on the Mudra Scheme. The researcher is analysing the effect of the recent MUDRA scheme of the Government on the Banking sector. Many times the Government are forming and implementing various developmental schemes to uplift the weaker sections of the society and almost all schemes are implementing through the banking sector. Hence the researcher makes a study on the MUDRA scheme and its relevance in the present banking structure in India and its merits and demerits. And also suggest methods to improve the scheme.

Key Words: Social Banking, Government Sponsored Scheme, Mudra Bank, Mudra Loan Category.

I. INTRODUCTION TO SOCIAL BANKING

Banking is an important part of Economic activity. It is often called the blood vessels of an economy. Since independence, the Indian government is also trying to include the rural people of India in the formal banking structure. The rural Indian are still trapped in the vicious circle of the debt by the local money lenders and they are charging exorbitant interest on the money lending. The first step towards social Banking was initiated by nationalising the major Banks in India on 16 July 1969.

By this step, the government introduced the Mass Banking concept and freed the Banking from the hand of few Business houses to general banking and aims to provide Banking Facilities to the entire nations.

The second step was the license raj. RBI introduced a scheme of 4:1 in the opening of the branch network i.e. to open 1 branch in the banked areas. Banks need to open 4 branches in the unbanked areas. This policy made banks to open more branches in rural India thereby expanding the branches of the banks.

Also to provide facilities to the rural India new institutions like NABARD, SIDBI, etc. also formed by the Indian Government which specialised in rural banking. NABARD is the apex authority which deals with the schemes of rural banking and agriculture activities.

Recently Govt of India also gave license to many small finance banks and payments banks as part of the financial inclusion and aims to include more and more rural masses to include in the formal structure of the Banking.

A. Objectives of the study

The study aims to provide suggestion to improve the performance of MUDRA Bank. The specific objectives are –

- To study the key features, characteristics, and benefits of the PradhanMantri MUDRA Yojana.
- To highlight the various MUDRA loan schemes.
- To analyse the opinion of the Bankers on the Mudra Scheme.
- To offer suggestions to improve the performance of MUDRA Bank.

B. Statement of the problem

The study focuses on the features of the Mudra Scheme. The study analysed the performance of the scheme since inception and analysis the opinion of the bankers on the scheme. The study also suggests various methods to improve the scheme in the future.

I. SCOPE OF THE STUDY

The various developmental activities of the Government are been implemented through the Banking channels across India. Both the Government as well as Banks is giving wide publicity about the scheme among the public. But the common tendency among the borrowers is that if Banks grant loans under any Government
sponsored scheme, they are not supposed to repay the loan or the loan will get settled under one-time settlement thereby the borrower can save more money from paying the debt to Banks. RBI also instructs Banks to grant the loan to the public under such scheme so that a particular percentage of Banks credit goes into such sectors. The study focuses on the possible impact of such a scheme on the Banking sector and the possible methods to recover the dues in case such loans were turned to NPA.

II. RESEARCH METHODOLOGY

The study is descriptive. Both primary, as well as secondary data are used to analysis the scheme. The primary data are collected from the Mudra Bank website and the secondary data were collected from Annual reports of RBI, reports from lead banks, various banks websites, newspaper daily, business newspapers and the recent schemes of the central Governments.

A. PradhanMantri Jan DhanYojna (PMJDY)
The scheme was announced by the Prime Minister on the eve of the independence day of 2014 to provide banking facilities to the entire nations. The scheme helps the common man to open zero balance bank account and to avail the facilities like pension, subsidy, insurance, and govt schemes, etc.

B. SukanyaSamruthi Yojana
The Sukanya Samridhi Yojana was introduced by the Prime Minister on 22.01.2015 under the campaign of BET BACHAO, BETI PADHAAO. The scheme aimed to provide higher education expenses or marriage expenses of the girls and the parents will also get IT exemption under section 80 cc.

C. PradhanMantri JeevanJyotiBimaYojna (PMJJBY)
Announced by Finance Minister Arun Jaitley during Budget 2015 and it’s a kind of insurance scheme. The scheme offers coverage of 2 Lakhs on death. Two other schemes – PradhanMantriSurakshaBima Yojana and Atal Pension Yojna were launched alongside it,

D. Atal Pension Yojana (APY)
APY was launched on 9th May 2015 by the Prime Minister. This is a pension plan offered to the age group of 18 to 40 years. The subscribers receive an amount of 1000, 2000, 3000, 4000,and 5000 at the age of 60 based on the contribution. The scheme aims to provide basic pension to all. Alternatively, if the returns on investment are higher, the subscribers would get enhanced pensioner benefits.

E. Stand-Up India Scheme
Government of India launched the Stand-Up India scheme on 5th April 2016. The Scheme facilitates bank loans between Rs.10 lakh and Rs.1 crore to at least one Scheduled Caste/ Scheduled Tribe borrower and at least one Woman borrower per bank branch for setting up Greenfield enterprises. The scheme can be utilized in the fields of manufacturing, services and trading sectors.

F. The MUDRA Scheme
The Mudra scheme was introduced in the Union budget of 2015 by the PM. The main aim of this scheme is to provide financial assistant to MSME sector especially focusing on the small manufacturing units and small industries. The basic purpose of the scheme is to extend the institutional credit to various trading, manufacturing and service sectors. Under this scheme, everyone can avail a collateral-free loan up to Rs 10 Lakh.

This scheme was proposed to include the business people comprising Non-corporate Small Business Sector and Own Account Enterprises into the formal banking sector. The NCSBS sector includes street vendors, repair shops, small scale industries, etc. But all these sectors provide employment opportunity to more than 10 Cr people in India.

The followings are the major features of the scheme

The scheme had three categories under which the loan is disbursing

TABLE. 1 MUDRA Loan Category

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Loan category</th>
<th>Amount of loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Shishu</td>
<td>Upto Rs.50,000</td>
</tr>
<tr>
<td>02</td>
<td>Kishore</td>
<td>Rs 5001.00 to Rs 500000.00</td>
</tr>
<tr>
<td>03</td>
<td>Tarun</td>
<td>Rs 5,00,001 to Rs 10,00,000</td>
</tr>
</tbody>
</table>

Source: Mudra Annual Report

Any business people who are not a defaulter to any financial institution in the previous days can apply for the Mudra loans. It includes individuals, private business units, Limited companies, etc.

As mudra loan is a business loan it cannot be used for personal purpose. The business unit can use the capital from Mudra scheme for increasing the trading activities including marketing activities; increase the capital assets, etc.

The interest rates under this scheme are varies based on the quantum of loan sanctioned and very nominal interest rates are charged on this scheme.
As per the existing norms, the followings are the applicable rates of the scheme.

**Shishu:** The banks charge a rate of 12% minimum on this scheme
As the amount is higher the banks charge rates based on the banks criteria and the based on the creditworthiness of the borrower

The rates under this scheme vary from case to case. As per the existing norms, the maximum period of the scheme is 5 years but the period could be shorter if the lender decides so when.

**Equipment finance scheme:** This scheme allows the micro-units to purchase/upgrade the business with new technology.

Credit to micro-enterprises: The scheme provides various tailor-made products to help the micro-enterprises of rural India.

**G. The benefits of the scheme**

Any security used to provide the MUDRA loan will be held by the lender so that their risk is minimized. Additionally, any asset created using the loan will also be hypothecated to the lender.

The provision of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGFMSE) safeguards the bank if the borrower fails to pay their liabilities as a result of incurring a business loss.

The bank may also ask for DPN (Demand Promissory Note) which is a written note of promise made by the borrower to pay back the loan amount on the agreed rate of interest.

The maximum amount that can be availed under the PMYY is Rs.10 lakh whereas there is a limit on the minimum loan amount.

Loans availed under the Mudra yojana will not attract any processing fee. However, borrowers in the Tarun category will have to pay an upfront fee of 0.50% of the loan amount.

The interest rate on loans under the PMYY will be based on the MCLR (Marginal Cost based Lending Rate) which is computed as per the guidelines issued by the Reserve Bank of India (RBI).

The loan availed under the PMYY can be used for a variety of purposes such as the purchase of commercial vehicles, buying of plant and machinery, fulfilling capital requirements, renovating offices, etc.

The bank offers to refinance support to banks so that these can provide funds to micro-units. The quantum of MUDRA loans is below Rs.10 lakh. The funding support constitutes micro-credit schemes for small loans, refinance schemes for regional rural banks/commercial banks/scheduled co-operative banks, programs for women’s enterprises, and securitization of loan assets.

Credit Guarantee is offered to borrowers under the MUDRA loan scheme. Under Credit Guarantee, risk sharing is offered for a set of homogenous loans, instead of a loan guarantee for an individual
debt. This improves the efficiency and receptiveness of the Credit Guarantee product.

Promotional and development support is provided to customers. This includes skill development, sectoral development, improvement of financial literacy, entrepreneurship development, and institution development.

H. The current scenario of the Mudra Scheme:
As per the data available on Mudra Yojana’s official website the followings are the details of the Loan scheme disbursed till date:

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Year</th>
<th>No of PMMY loans sanctioned</th>
<th>Amount sanctioned (Rs. in crore)</th>
<th>Amount disbursed (Rs. in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>2015-16</td>
<td>34880924</td>
<td>137449.27</td>
<td>132954.73</td>
</tr>
<tr>
<td>02</td>
<td>2016-17</td>
<td>39701047 (13.82)</td>
<td>180528.54 (31.34)</td>
<td>175312.13 (31.86)</td>
</tr>
<tr>
<td>03</td>
<td>2017-18</td>
<td>48130593 (21.23)</td>
<td>253677.10 (40.52)</td>
<td>246437.40 (40.57)</td>
</tr>
<tr>
<td>04</td>
<td>2018-19</td>
<td>59970318 (21.39)</td>
<td>321722.79 (26.82)</td>
<td>311811.38 (26.53)</td>
</tr>
<tr>
<td>05</td>
<td>2019-20</td>
<td>57200105 (-90.45)</td>
<td>24748.42 (-92.31)</td>
<td>23818.40 (-92.36)</td>
</tr>
</tbody>
</table>

Source: Mudra Annual Report (The figure in brackets indicate the trends)

The scheme was gradually picking up from the year 2015 and was at its maximum performance during 2017/18 and 2018/19. Although the performance in the present year is negative, the coming months may witness the jump in the figures. The economic slowdown of the economy, in general, could be the reason for such slow developments.

I. The Problems identified in Mudra Scheme
The average of sanctioned loans under Mudra Yojana comes at Rs 46,530 while that of the disbursed amount is Rs 45,034. This amount is not sufficient to start up a new project. Also, the sum offered in Shishu category is maximum of Rs 50000.00. How a new firm can start with this small amount? As per the advance statistics of the Central statistics Organisation, this amount is much below than the per capita Income of Indian People. As per the petition filed by activist Mr.ChandanKambe only 1.30% of the Mudra scheme is eligible to employ loans above Rs 5.00 Lakhs. Also, the Mudra Bank and commercial Banks have no idea about the employment generation under Mudra scheme.

J. NPAs under Mudra Scheme
The monitors of the Indian economy already raised their views on the upcoming NPA mess under Mudra Yojana Scheme. Officially the NPA rate is less when compared with other Govt Sponsored scheme but the future chances of NPA are very high. Even the former RBI Governor Mr.RaghuramRajan also comments on the probable NPA mess that may occur in this scheme in the coming days. "The Credit Guarantee Scheme for MSME (CGTMSE) run by SIDBI (Small Industries Development Bank of India) is a growing contingent liability and needs to be examined with urgency," he had said. According to the official data available on Mudra NPA, the ratio is only 4% than the average ratio of 10% on the govt schemes. However, some of the experts have calculated the Mudra Yojana NPA figures at over 14,350 crores in the short span of three years. According to the leading daily Indian Express, Bad loans under Mudra Yojana have jumped almost 53 percent to Rs 14,930.98 crore during the first nine months of the current financial year 2018-19, as compared to Rs 9,769.99 crore reported in last year. The economic times reported that the rate of NPA under Mudra Yojana could be from 10% to 15% than the 5.39% reported by the centre in 2018.they made such a comment based on the report of the rating agencies

K. What Do Bankers Say?
As per the opinion of the Bankers, they are compelled to grant the loans under the ruling party govt schemes. The most disturbing fact is that the Banks are giving these loans without any collateral. The bankers say that many times the borrowers are not having any particular business plan to utilize the credit facility but under pressure, the banks are granting loans to them. Most of the time, the basic banking principles are also sacrificed.

"Many people approach to sanction loans to the females in their families. The Mudra scheme is designed such as to give preference to women entrepreneurs. This has led to the creation of a pool of proxies, who claim to turn entrepreneurs. If we don't sanction loans to them under Mudra Yojana,
they register a complaint and if we do, we know they will harm the bank,” the bank official said.

The Block Level Bankers Committee (BLBC) and District Level Bankers’ Committee (DLBC) were instructing the Banks to grant loans to the people under the Mudra Scheme. Such actions are harmful to the banking sector. Although the reforms are meant to strengthen the economy the mutualisation of the scheme leads to big setbacks in the future. The scheme is to provide financial support to the unorganized sector but the recovery of the dues from this sector is going to be a big headache. First of all the loans are unsecured. Only the stock or the assets accrued under banks finance can be hypothecated under the scheme. Another thing is about the place of business. The small business units such as small vendors are changing the locations as per the market. Hence, it is difficult to locate the borrowers in the same place. Also, Banks are always run behind defaulters due to the provisioning norms of RBI. So generally Banks will ignore the small ticket loans. Further, public banking systems are not staffed well. Hence Banks will run behind one 10 lakh loan rather 10 loans of 10000.00

L. Inherent flaws in Mudra Bank
There Already Exists Refinancing Agencies In India:
At present we have NABARD which was set up in the year 1982 and SIDBI. The main aim of both these apex authorities is to provide credit-related help to rural India. Both these Agencies created a lot many schemes and other developmental programs for the rural poor. But as per the records, the result is negligible. In this case, it’s a matter of concern that the government established another agency for the same purpose. The government would have spent the money for further strengthening of the existing institutions.

M. Mudra bank promotes shadow Banking:
The schemes under Mudra are controlled by the Mudra Bank which is not under the regulations of RBI. The Mudra bank is the sole authority which controls and regulates the refinancing agencies and banks. Also, take care of the total operations and administration aspects of Mudra scheme. Also, Mudra Bank takes care of the recovery measures under Mudra Schemes. Hence it created a workload effect on the Bank. Also, the banking sector witnessed the presence of two regulators, which creates issues in the policymaking as well as general administration. Hence there will be operation risk in the banking industry.

N. There is a better solution for advance to the MSME sector:
The government also grant permission to many small finance Banks and payments banks for starting the general banking operations in India. They are also providing advances to MSME and weaker sections. The government would have provided such schemes to the public from the newly originated Banks.

O. Suggestions to improve the scheme
Allow Banks to grant the loans based on eligibility and viability of the projects:
The scheme was mutualized by the people by diverting the fund or by not using the fund for the real purpose for which the credit was granted. Also, Banks were compelled to grant loans to people just because they are eligible to get the loan. The guidelines could be modified to grant loans only to viable projects based on the analysis by the Bankers.

P. Collateral security is a must for loans of Rs 5 Lakhs and above
As per the opinion of the Bankers, the major defect of the Mudra Scheme is the collateral-free loan to the public. Hence the public won’t mind the repayment of the loans in case of default. Collateral should be making necessary for loans of Kishore and Tarun category.

Q. Don’t pressurize Banks to grant loans under the scheme
Many times the local body authorities and political people compel the Bankers to grant loans under the scheme. Hence Banks grant loans to people who are not eligible for the scheme even. Such practices should be avoided to provide quality service to the public.

R. RBI can relax the provisioning norms under Mudra NPA
As Mudra Loan providing without any collateral, the chances of turning into NPA is very high. In this case, the RBI can modify the provisioning of stressed assets in case of Mudra loan. Calculating a fixed percentage of the defaulted amount as provision will make Banks to step back from granting such loans to the public as the chances of default is high. Hence such actions may support the Banks to grant more loans under Mudra scheme.

S. Govt must take initiatives to recover the dues under the scheme
Although the Government is providing a guarantee to the Mudra scheme, the govt must help Banks to recover the dues from the defaulters. The Banks have no power of recovery for unsecured loans other than depending on revenue recovery authorities and the legal system. But under Mudra banks grant big funds and the recovery is also important. The guarantee fund formed by the Government is the taxpayer's fund hence Government initiate steps to recover the dues from the defaulters than providing guarantee support to banks.

T. Proper education to people on the loan products and the default

The State Level Bankers’ Committee (SLBC), BLBC, as well as Government, take steps to educate the public about the necessity of repaying the loans and the possible difficulties of default. Generally, the public thought that the Govt will take steps to write off the dues and hence they don’t need to pay the fund back to Banks. Every time by aiming the vote bank, the Government also support such actions. But in the long term, such actions create a problem for the economy. So the Government must educate the public to repay the loans in time.

III. CONCLUSION

The scheme is formed by the Government for the improvement of the underdeveloped and for the upliftment of society. But most of the times the borrowers become defaulted in paying the loans back to the Banks. The Mudra scheme also aims in the development of the people. But few provisions like collateral-free loans make this scheme vulnerable to NPA in the future. Hence it should be ensured that the scheme is running well for the benefits of both Bankers as well as the public. Never allow vote bank politics to play a role in such development scheme. Such mistakes will make the scheme a place for corruption. Hence Government, Regulators, Banks, and public are supposed to utilize the scheme very effectively and efficiently for the progress of the Indian Economy.

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