

Futuristic Perspectives to Lower the NPA With Focus on Pradhan Mantri Mudra Yojana: Contribution to United Nations SDG-8

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Abstract: Youth empowerment is definitely a committed component for any country; therefore, Pradhan Mantri Mudra Yojana (PMMY) is the internationally valued plan of the Government of India. PMMY plan encourages keen entrepreneurs and presents a micro-credit of up to Rs. 10 lakhs for businesses who expect to establish their businesses. Besides the fact that this program works as an enhancer for micro-enterprises, there is certainly a significant percentage of nonperforming assets (NPA), so this concern has to be tackled to prevent the burden on the bank. NPAs are nonproductive as they crash to create profits for the bank. The Reserve Bank of India (RBI) imparts NPA if the assignee is qualified to be overdue for more than 90 days. Currently, to cope with NPA deficits, the bank maintains funds besides their earning, which are provisioning facilities. The Maharashtra State NPA recorded till June 2022 was 16.32 percent towards the Pradhan Mantri MUDRA Yojana. Hence, this paper is focused on developing the dual strategy for the 'Shishu,' 'Kishor,' and 'Tarun' slabs of PMMY and seeks new entrepreneurs to avail of the PMMY facility and motivate old entrepreneurs to boost their businesses. Accordingly, this approach can be a conceivable way to lower NPA, which will encourage sustainable banking. This paper focuses on the United Nations goal 'Sustainable Development Goal-8', which is meant for decent work and economic growth.

Keywords: NPA, PMMY, RBI, Mudra loan, SDG-8

1. Introduction

The Group of Twenty (G20) eventually raised issues regarding banks' coordination for loan losses. So the accrued loss model, reasoning the incurred loss model, holds off loss reputation and restorative conducts by banks. Certainly, there is an ongoing issue regarding the role of prudential filters that safeguard regulatory capitular from fair value (FV) variations of several resources. [1] Suppose the income-generating process gets halted from the borrower's end for any purpose. In that case, that asset turns into a nonperforming Asset for the bank, considering that the bank cannot generate any income. Consequently, the property that is not likely to produce any specific profits for the banks is regarded as a "nonperforming Asset." Per the Reserve Bank of India's predetermined rules, any loans or improvements that lasted

delinquent for more than 90 days are deemed nonperforming Assets. Additionally, NPA is subdivided into three other groups according to the overdue period. [2]

According to the MUDRA structure ledger (2020), Public Sector Banks (PSBs) approved the maximum quantity of Mudra loans, approximately 31% of the total amount within the structure, between the various other partner lending organizations. Seeing that PSBs account for the major contributor to the advances of these plans, it is crucial to analyze how effectively the PSBs have utilized their assets to boost their social effectiveness and what can be achieved to enhance NPA. [3] Financial inclusion pertains to executing monetary solutions for people with low incomes at a cost-effective expense. The RBI's wider plan for monetary inclusion strives to 'connect customers to the banking program and so allow them to reach the payment systems with no excessive credit distribution.' Consequently, PMMY's actions focus on improving the self-confidence of young, well-informed, competent personnel who want to be first-generation entrepreneurs; existing small businesses can also broaden their activations. [4]

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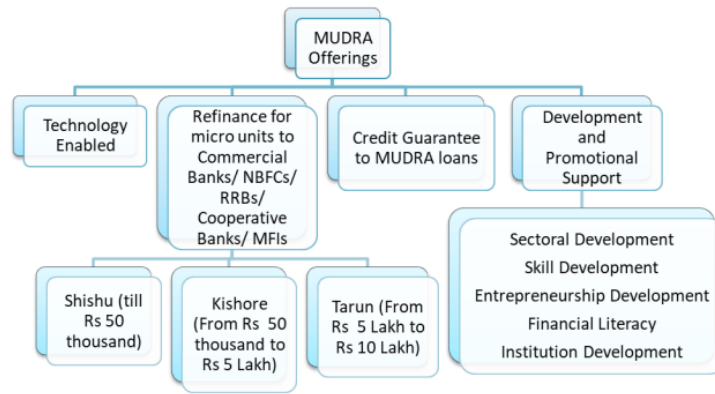


Fig. 1: Overview of PMMY (Pandey et. al, 2023)

Refer to Fig. 1 for the PMMY capability summary layout. MSMEs are the anchor of the Indian economy, increasing the country's GDP and then generating employment opportunities. In this paper, we check the genesis and effectiveness of the MUDRA Bank included in the MUDRA Yojana. Nevertheless, the government has unveiled various credit strategies; however, at the moment, the major concern is that all these schemes are struggling with the challenge of default; so at last, we have executed the analysis to verify the effect of the NPA on the bank sphere within the MUDRA Yojana. Then, the cause of the rise in NPA in Mudra Banks and the steps the bank has undertaken in many areas to lower the NPA. [5]

2. Literature Review

According to the author, Mudra Yojana thrives for the general public and the economy. It produces cash flow, offers jobs, supports technological progression, and stimulates entrepreneurship and MSME. However, it raises challenges for banking institutions by elevating the NPA related to this Yojana. Public sector banking institutions' NPA is huge when assessing private sector banks. Generally, the cause of this differentiation is deemed to be substandard credit evaluation, as well as monitoring and sluggish credit risk administration by public sector banks. [6] In another study, the author stated that the MUDRA plan has made good attempts to encourage monetary inclusion and assist the progress of MSEs in India. Nevertheless, distinctive disadvantages must be addressed to ensure the scheme's sustainability and success. More stringent credit evaluation methods, improved monitoring systems, and a wider environmental strategy are important for the plan to sustain a decent effect on the current Indian economic climate. [7]

In India, monetary organizations provide and cover many MUDRA loans with advantageous and suitable outcomes. It is appreciated that with the execution of this program, financial inclusion has grown beneficially. The government anticipated results from this financial inclusion effort. Mudra loans are much less extravagant, less difficult to get, and have a low paperwork charge compared to various other venture lending options provided to enterprises. Consequently, small and medium-sized businesses can conveniently get a MUDRA loan and increase their business. [8] Nevertheless, NPA disadvantages are not mentioned by the author, which is an essential aspect for both public and private sector banking.

Based on several reports of PMMY, the author contended that the lending options from Mudra Bank can assist small firms in offering institutional credit in instances of loan shortcomings. This structure can increase women's empowerment by delivering hassle-free funding. In the latest scientific exploration in the circumstance of Manipur, Singh (2018) finds the system extremely useful in broadening MSMEs' venture connectivity, building up the MSME's financial placement and success, and promoting entrepreneurship by stimulating youngsters to take up new businesses. On the other hand, the impact of NPAs on overall technical efficiency (OTE) is trivial. The research reveals that technology spaces are the key origin of ineffectiveness in banks. The authors deduce that banks, specifically PSBs, can prolong credit to the top priority area without impacting the performance of banks. [9]

The impact of micro, small, and medium enterprises (MSME) on India's GDP is about 29%, and the government's goal is to boost it to 50% by 2025. MSMEs encounter numerous challenges in

obtaining funding, i.e., insufficient collateral investments, agency services, financial illiteracy, deficiency of details, high credit cost, etc. (Khatri). To overcome these obstacles, the government of India has launched the Pradhan Mantri Micro Unit Development and Refinance Agency (PMMUDRA) plan to finance the unfunded segments of society. [10] The author recommended that state-wise, the effectiveness of PMMY in India should be a space for further research. Additionally, because of inadequate disclosure concerning NPAs within PMMY, the NPAs prior to 2018 and the elimination of NPAs after 2019 cannot be correctly examined. With the availability of proper details on NPAs taking place within PMMY in the future, the situation could be significantly assessed, and tangible inferences can be shown. [11]

From the times of the Integrated Rural Development Program (IRDP) finances, bankers have discovered that loans powered by the government require or are linked to government financial aid of principal or interest rate subventions, resulting in poor profile performance. Consequently, bankers are likely to be underfinanced by loans associated with government plans for the dread of larger NPAs. To limit the increased concerns and exertion, bankers frequently rebrand outdated loan solutions within new plans rather than seeking progressive financing alternatives. Hard EMI-based loans cannot support the exclusive issues of entrepreneurial undertakings, resulting in raised NPAs and poor returns on investment.

Besides that, concerning 2015 and 2024, within the PMMY, over 41.16 crore loans were paid out, amassing Rs.22.90 lakh crore. It is worth mentioning that 68.6% were approved to women, accounting for 41.7% of the detailed loan amount. Many PMMY loans fit into the Shishu category ($\leq$ Rs.50,000) by way of a typical loan amount of Rs.27,507 adequate to sustain lower-end subsistence Own Account Enterprises (OAEs). [12] A Financial add-on is a convenient and economical entry point to standard banking services. However, a significant portion of the world's populace cannot access many of these primary monetary solutions, specifically in growing countries with lower incomes. For considerably better financial development, a significant proportion of people's involvement in the formalized monetary system is

needed. The banking sphere plays a major role in a society's development and financial expansion.

The bank sphere represents a major purpose in offering an authorized monetary system to the prevalent citizens. Banks encourage a culture of savings amongst citizens and execute other actions that add to economic inclusion. Several activities give convenient and inexpensive entry points to solutions like savings and interim credit for vulnerable communal categories. Such fairly charged options support fortifying the ranking of these categories in society and enable them to get more completely integrated into society. [13]

In another territorial analysis, the author uncovered different difficulties ahead for institutional financing in Assam. Subsequently, the authorities must present appropriate banking plans to reduce these troubles. This research is designed to provide the much wider objective of endorsing advantageous development, cutting down disparities, and increasing the wellness of Assam's entire population. As the 1st to particularly talk about the financial situation of Assam at the time of its quick socioeconomic alteration, the paper's information can notify policy and tactical preferences at both territorial and national levels. [14] Since its beginning, over Rs.1,000 crore was approved for micro-enterprises in Telangana with the aid of the PMMY system, with a vital percentage pointed towards female entrepreneurs. In 2021, about 60- 65% of the loans paid out within PMMY were to females, yielding to their business undertakings. [15]

Previous studies have implied that entrepreneurial expertise, financial stability, and industry situations possess a higher bearing on MSMEs' overall performance than the ultimate sum of financing. With small financing, business owners can succeed in cases where they have a solid business strategy and a comprehensive awareness of the sector. The study may analyze how MUDRA successfully functions in dispersing funds and helping develop MSMEs. The sum approved, and the genuine effect on MSMEs may not meet up if the execution process is not quick. Former analyses have pointed out the qualitative factors of MSME development, integrating industry access, mentorship, and skill advancement. [16]

As a crucial research gap, Indian banking professionals opinioned that requiring no collateral for a bank loan that is staying persuaded by the

regulating operations is specific to wreck. The regulating supervision recognizes banking experts to sanction loans to anyone who enters the bank. However, many of these loan seekers have no business methodology. A lot of Mudra loans are getting approved against banking fundamentals.

3. Research Methodology

The proposed research executed quantitative and qualitative research methodologies. Primarily, it is necessary to educate people about business planning and execution incubation. However, PMMY is missing a link to bridge this gap. Numerous studies discussed only the failures due to NPA throughout these years since 2015. However, important factors are identification of reasons for PMMY losses and further suggestions to avoid these kinds of losses.

3.1 Research Questions

The proposed methodology focused on following research questions:

RQ1. How PMMY scheme will be Effective?

RQ2. How PMMY scheme can become Efficient?

RQ3. How PMMY scheme will be benefited for the Indian Economy?

The proposed study focuses on systematic execution of the proposed methodology. The proposed strategy is depicted in following Fig.1 where, data collection for the Maharashtra region is focused. The NPA study is done based on two groups. First group comprises of Shishu, Kishor and Tarun slabs (Group-1) of PMMY, and second group consists of women, new entrepreneurs and SC/ST/OBC (Group-2) enrollments.

Further to execute case studies, we identified businesses in both the categories which led to failure causing NPA. The interview has been conducted to understand the case-to-case variables for the failure and stored as a record set.

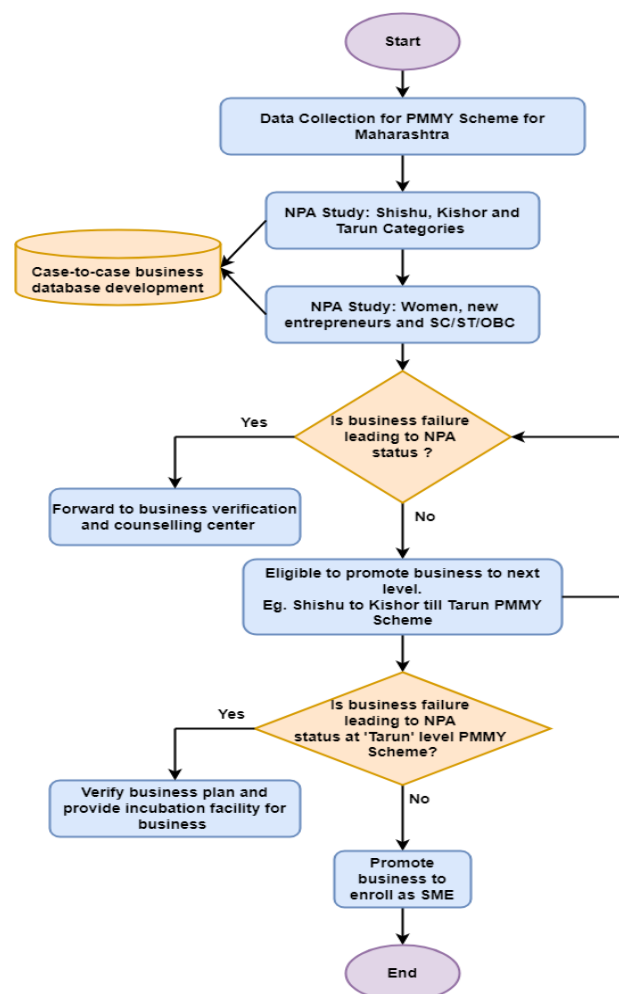


Fig.1: Representation of proposed dual strategy model (Generated by the Researcher)

As per the case-to-case studies conducted for both the groups, and we identified that for Group-1 there are less business failures in cases where we provided business verification and counseling facility and the primary reason for failure is lack of awareness of business handling strategy. We also identified the potential to promote 'Shishu' category businesses to 'Kishor' and this can be promoted further to 'Tarun'. Aside from that Group-2 case studies revealed that, women entrepreneurs and SC/ST/OBC category businesses facing less NPA issue as compared to new entrepreneurs and these can be further promoted to SME schemes which intern enhance the employment opportunities. Here, proposed research suggests the business plan verification and incubation center facility for under-performing businesses which may helpful to reduce NPA.

4. Data Analysis & Interpretation

Further we formulated and tested hypotheses with Pearson correlation based on the qualitative study parameters. The sample size of research is calculated using Yamane formula for Maharashtra region where total PMMY accounts are 5279979 (w.r.t. www.mudra.org.in).

$n = N / (1 + (N \times e \times e))$
 n = Sample size for N population
 N = Population
 e = Variance of sample (0.05)
 $n = 5279979 / (1 + (5279979 \times 0.05 \times 0.05))$
 $n = 399.969$
Hence, participant sample size is
 $n = 400$

Hypothesis- I

H_0 : There is no significant impact of the 'PMMY' on effectiveness of growth profitability of startups and small entrepreneurs.

H_1 : There is a significant impact of the 'PMMY' on effectiveness of growth profitability of startups and small entrepreneurs.

		PMMY	Profitably
PMMY	Pearson Correlation Sig. (1-tailed) N	1 400	0.807 0.002 400
Profitably	Pearson Correlation Sig. (1-tailed) N	0.807 0.002 400	1 400

	tailed) N		
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*Correlation is significant at 0.05 levels (1-tailed)

Correlation of PMMY with itself ($r=1$), and the number of non-missing observations ($n=400$). Correlation of PMMY and profitably ($r=0.807$), based on $n=400$ observations with pair wise non-missing values. Correlation of PMMY and profitably ($r=0.807$), based on $n=400$ observations with pair wise non-missing values. Correlation of profitably with itself ($r=1$), and the number of non-missing observations ($n=400$). PMMY and profitably have a statistically significant linear relationship ($r=0.807$, $p < 0.05$). The direction of the relationship is positive i.e., PMMY and profitably are positively correlated. Hence, the positive hypothesis is accepted.

Hypothesis- II

H_0 : There is no significant impact of the 'PMMY' on overall employment ratio.

H_1 : There is a significant impact of the 'PMMY' on overall employment ratio.

		PMMY	Employment
PMMY	Pearson Correlation Sig. (1-tailed) N	1 400	0.849 0.003 400
Employment	Pearson Correlation Sig. (1-tailed) N	0.849 0.003 400	1 400

*Correlation is significant at 0.05 levels (1-tailed)

Correlation of PMMY with itself ($r=1$), and the number of non-missing observations ($n=400$). Correlation of PMMY and Employment ($r=0.849$), based on $n=400$ observations with pair wise non-missing values. Correlation of PMMY and Employment ($r=0.849$), based on $n=400$ observations with pair wise non-missing values. Correlation of Employment with itself ($r=1$), and the number of non-missing observations ($n=400$). PMMY and profitably have a statistically

significant linear relationship ($r=0.849$, $p < 0.05$). The direction of the relationship is positive i.e., PMMY and Employment are positively correlated. Hence, the positive hypothesis is accepted.

Hypothesis- III

H_0 : There is no significant impact of the ‘Shishu, Kishor and Tarun’ on Gross NPA ratio.

H_1 : There is a significant impact of the ‘Shishu, Kishor and Tarun’ on Gross NPA ratio.

		PMMY	Gross NPA ratio
PMMY	Pearson Correlation	1	0.812
	Sig. (1-tailed)	400	0.004
	N	400	400
Gross NPA ratio	Pearson Correlation	0.812	1
	Sig. (1-tailed)	0.004	400
	N	400	400

*Correlation is significant at 0.05 levels (1-tailed)

Correlation of PMMY with itself ($r=1$), and the number of non-missing observations ($n=400$). Correlation of PMMY and Employment ($r=0.812$), based on $n=400$ observations with pair wise non-missing values. Correlation of PMMY and Employment ($r=0.812$), based on $n=400$ observations with pair wise non-missing values. Correlation of Employment with itself ($r=1$), and the number of non-missing observations ($n=400$). PMMY and profitably have a statistically significant linear relationship ($r=0.812$, $p < 0.05$). The direction of the relationship is positive i.e., PMMY and Employment are positively correlated. Hence, the positive hypothesis is accepted.

Hypothesis- IV

H_0 : There is no significant impact of the ‘Women/new entrepreneurs and SC/ST/OBC’ categories on Gross NPA ratio.

H_1 : There is a significant impact of the ‘Women/new entrepreneurs and SC/ST/OBC’ on Gross NPA ratio.

		PMMY	Gross NPA ratio
PMMY	Pearson Correlation	1	0.856
	Sig. (1-tailed)	400	0.001
	N	400	400
Gross NPA ratio	Pearson Correlation	0.856	1
	Sig. (1-tailed)	0.001	400
	N	400	400

*Correlation is significant at 0.05 levels (1-tailed)

Correlation of PMMY with itself ($r=1$), and the number of non-missing observations ($n=400$). Correlation of PMMY and Employment ($r=0.856$), based on $n=400$ observations with pair wise non-missing values. Correlation of PMMY and Employment ($r=0.856$), based on $n=400$ observations with pair wise non-missing values. Correlation of Employment with itself ($r=1$), and the number of non-missing observations ($n=400$). PMMY and profitably have a statistically significant linear relationship ($r=0.856$, $p < 0.05$). The direction of the relationship is positive i.e., PMMY and Employment are positively correlated. Hence, the positive hypothesis is accepted.

5. Suggestions

Based on the case-to-case business plan analysis, following summarized solutions for proposed research questions can be considered:

AQ1. The effectiveness of PMMY scheme can be boosted with the following elements:

- Encouraging women entrepreneurs with incubation center establishment
- Increasing the reached out to Micro and Small Entrepreneur Accounts from ‘Shishu’ level to ‘Tarun’ level with time-constrained strategy.
- Focus on District wise and Activity wise segregation of business model and empower them with PMMY.
- The number of loan accounts and amount sanctioned to aspirational districts has increased hence; district wise incubation centers can contribute to sustainability of the banking goals by improving profit ratio and reducing NPA.

- The rotational process of loan and repayment can be streamlined by quarterly progress report analysis by incubation centers.

AQ2. PMMY scheme can become efficient to avoid NPA occurrences:

- Looking at schemes available for rural self help group (SHG), Deendayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) is a scheme in India that supports Self-Help Groups (SHGs). Where, Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAY-NULM) is a scheme that helps urban poor households form Self-Help Groups (SHGs).
- As PMMY scheme facilitates non-agriculture and non-corporate businesses, PMMY can elaborate the facility for transformation of self help group in urban and rural areas to SMEs by incorporating growing SHGs.
- In case, PMMY scheme announces the inclusion of well performing SHGs to SMEs with additional increased financial support via PMMY then more participant with steady growth ration can lower the risk of NPA.
- Risk of NPA in PMMY account will be curtail through daily recovery in loan account through UPI QR Code issued by bank for those businesses which has daily regular income, so the account has timely repayment with advance recovery.
- Bank can focus to those business which are previously availed the facility under government scheme PM SVANIDHI and PM Vishwakarma to set up their business and paid there loan regularly and now they are interested to expand their business. Previous loan repayment record can minimize the risk of NPA.

AQ3. PMMY scheme can be benefited for the Indian Economy by:

- By providing micro-credit to small businesses in rural areas, PMMY can help uplift the livelihoods of marginalized communities and contribute to poverty reduction.
- The scheme's focus on small businesses contributes to a more resilient economy by diversifying the economic base and reducing dependence on large corporations.
- By providing readily available funding, PMMY empowers small businesses to expand operations, invest in new technologies, and create more jobs, thereby significantly contributing to the

growth of the MSME sector which forms the backbone of the Indian economy.

- The scheme targets to reach the unbanked and under-served segments of society, including women entrepreneurs and rural communities, by offering easy access to credit without stringent collateral requirements, promoting financial inclusion.
- By facilitating funding for new ventures, PMMY encourages young entrepreneurs to start their own businesses.
- Agri allied businesses in rural area can be facilitated through PMMY, which increase the rural income and create employment generation.
- Candidates of vocational institute like RSETI and ITI which are set up at district level can be finance with PMMY for there start up as they are having skills.

6. Conclusions

Strategically, PMMY play a very important role in the employment generation and the banks are actively taking steps to promote and execute the PMMY scheme as a result there is a year by year increase in the number of loan accounts created as well as loan amount sanctioned and loan amount disbursed. Due to active initiative and government role the banks openly provided the fund for the MSMEs under the PMMY scheme as a result a slight percentage of MUDRA loans turning into NPAs. The proposed research suggested the business plan feasibility analysis at initial stage, business progress report analysis to avoid the business failures, promoting incubation facility which ultimately can contribute to United Nations SDG-8.

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