

Factors Determining the Success of Pradhan Mantri MUDRA Yojana : A Study of North India

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Abstract

The present study was a primary data-based research work in which attempt was made to identify the determinants of Pradhan Mantri MUDRA Yojana. For this study, data were collected with the help of a designed questionnaire and the respondents for the study were branch managers, assistant managers, and other responsible employees of public and private sector commercial banks. A total of 161 questionnaires were filled, although we approached more than 480 respondents at their branch locations. The reliability and validity of the collected data were tested by employing Cronbach's alpha. Furthermore, the data were analyzed by employing exploratory factor analysis with the help of SPSS. The study found six determinants of success of PMMY, and these determinants are responsible for creating awareness in weaker sections about start-ups and job creator non-funded individuals. This scheme is suitable for both banks and borrowers because this scheme does not require any collateral. Therefore, it should be continued by the Central government as it is a very close substitute of the other loan schemes. The results of this study will be quite useful for the Government of India, commercial banks, and other financial institutions in the marketing of this scheme in disbursement of loans to the rural & urban unemployed and non-funded individuals.

Keywords : Commercial banks, government, job creator, collateral, corruption, financial institutions, substitute

JEL Classification Codes : E5, G2, G4

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These days, a lot of discussion is being held on issues related to growth and development and the role of industry in sustainable development. But very less is being discussed to solve the problems of industries and not much has been done for entrepreneurship development, particularly for small and micro enterprises which lack in skills, managerial competencies, and above all, financial competencies. It is strongly believed that shortage of adequate finance is a major obstacle in the development of small business entities. On the other hand, the importance of the SME sector is continuously increasing in the country because more than 42.50 million, registered and unregistered SMEs, together provide employment to more than 106 million people, next to the agricultural sector. It contributes around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities, 33.4% of India's manufacturing output, and 40% in the total exports. In spite of such contribution, only 16% loans of the total bank lending are being given to this sector. The Prime Minister, Shri Narendra Modi identified and recognized the problems of non-corporate small manufacturing units, small shopkeepers, fruit and vegetable vendors, taxi drivers, food caterers, car repair shops, artisans, and many others by

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launching the MUDRA Yojana on April 8, 2015 with the vision to provide financial support to the non-corporate small businesses to achieve the objective of economic and social development. The MUDRA Yojana is a new window for micro enterprises through which they can take financial assistance from banks without any collateral and guarantee. This scheme is the extension of Jan Dhan Yojana through which the objective of financial inclusion was targeted. Under the MUDRA scheme, a new institution named Micro Units Development and Refinance Agency (MUDRA) Bank has been set up by the Government of India for development and refinancing activities relating to micro units. It was announced by the Finance Minister while presenting the Union Budget for FY 2015. The purpose of MUDRA is to provide funding to the non-corporate small business sector up to ₹10 lakhs. Under the Pradhan Mantri MUDRA Yojana scheme, three categories of interventions have been named, that is, Shishu (covering loan up to ₹ 50,000), Kishore (₹ 50,000 – ₹5 lakhs), and Tarun (₹ 5 lakhs – ₹10 lakhs) to cater the needs of financial support of micro units who always lack financial support. If financial support was available to these small sector units, these could have contributed even more than the current contribution in GDP and employment generation. The launching of MUDRA loan scheme signifies the growth and development and fulfill the funding needs of many small organizations, companies, and startups in India because MUDRA Bank has been set up with only one goal, that is, fulfilling the funding needs of unfunded non - corporate small businesses.

Review of Literature

Venkatesh and Kumari (2015) underscored the MUDRA Bank's importance and the responsibility in the upliftment of the MSME sector because it has to prop up the non-corporate small entrepreneurs. Verma and Garg (2016) studied the efficacy of PMJDY with the help of outreach of financial literacy program and financial awareness about PMJDY, especially in Central University of Rajasthan and Bandrasindri village of Ajmer district in Rajasthan. They found that there is a long distance to travel to eradicate financial untouchability from our country in the true sense. Kavitha and Baag (2016) found that Indian banks did not disburse loans efficiently. The public sector banks worked efficiently in relation to private sector banks in loan disbursement to small businesses and start-ups under the Pradhan Mantri MUDRA Yojana. Reddy (2016) studied the effectiveness of various existing available resources and schemes like bank branches network, basic savings bank deposit accounts, pension schemes for unorganized sector, post office deposits, PMJDY and MUDRA Yojana, etc., in increasing financial inclusion. The study found that a significant chunk of rural population has not been covered under the ambit of financial inclusion so far. Further, Tripathi, Yadav, and Shastri (2016) steered a study to investigate the role of the Pradhan Mantri Jan Dhan Yojana in increasing the financial inclusion and found an upsurge in credit disbursement and bank deposits with the help of regression analysis. They highlighted that banks should put more efforts to enhance financial literacy among the masses.

Agarwal and Dwivedi (2017) found a negative growth in amount of disbursement and number of beneficiaries in Andaman and Nicobar, Lakshadweep, and slow growth in the country besides Assam and Tripura in PMMY. They found that the number of General category beneficiaries were more, but the amount disbursement was less than the OBC category beneficiaries, whilst SC and ST category beneficiaries were lacking in terms of actual amount disbursement, but it was found to be satisfactory in numbers of accounts. Finally, they concluded that this scheme could be a game changer for the Government of India and the Indian economy if it is implemented appropriately. Rajeev and Dhirender (2017) conducted a survey to appraise the impact of MUDRA loan scheme on micro and small printing units in semi-urban areas and found that 40% printers upgraded their printing capacity, 36% printers were capable of completing the task, 23% printers enhanced their working capital, and 48% printers were of the opinion that the loan tendered under the MUDRA scheme should be increased. Thereafter, Mahajan (2018) observed that the MUDRA scheme increased liquidity, enhanced the production capacity of small

entrepreneurs, generated more employment, improved the status of backward sections and women, particularly those who were less educated and semi-skilled ; whereas, Vijai (2018) found that the MUDRA scheme concentrated especially on entrepreneurs and improved the well-being of small business individuals of Tamil Nadu. Singh (2018) found that the Pradhan Mantri MUDRA Yojana should be implemented transparently by the government, and hence, this scheme could prove to a boon for the industrially backward states. George and Nalini (2018) found that PMMY boosted the confidence in the young, educated, and skilled individuals to be entrepreneurs.

Statement of the Problem and Objective of the Study

The economic survey of 2012 revealed that there were 57.7 million enterprises in India, and these generated 460 million jobs, out of which 262 million were self-employed. Unfortunately, such a large-scale micro unit has been ignored for several decades. Reports have concluded that the Indian GDP can be raised almost by 15% if the informal sector data is incorporated in the GDP series. The government launched PMMY in 2015 to provide credit to the non-funded small businesses up to ₹ 10 lakh and till March 2019, an amount of ₹ 8.94 lakh crores was disbursed under this scheme. Here, a question came to our mind that what are the factors that motivate the individuals towards MUDRA loan and why commercial banks and financial institutions are enthusiastic in distributing such a big amount to the un-funded individuals ? Therefore, an endeavor has been made in this study to examine the factors determining the success of the Pradhan Mantri MUDRA Yojana.

Research Methodology

This research uses primary data for which a questionnaire was designed to collect the data. For data collection, convenient sampling technique was adopted. Only those bankers were contacted, whose bank branches were located near or adjoining to the National Highways. First portion of the questionnaire was related to the demographic profile of bankers such as age, gender, qualification, state, location, etc. The second portion consisted of 35 statements that were rated using a 5 - point Likert scale (*Strongly Agree* = 5, *Agree* = 4, *Neutral* = 3, *Disagree* = 2, and *Strongly Disagree* = 1).

The sample for this empirical research was drawn from the branch managers, assistant managers, and clerks of different public and private sector banks and from branches that were situated in Haryana, Punjab, Himachal Pradesh, and Jammu & Kashmir. The time period of the study was from September 2017 – March 2018. The targeted respondents were contacted personally and were requested to fill the questionnaire. A total 161 questionnaires were filled by the respondents, even though we approached more than 480 respondents at their bank branch locations. The sample comprised of 46 respondents from Haryana, 49 respondents from Punjab, 35 respondents from J&K, and 31 respondents from Himachal Pradesh. There were 139 male respondents and 22 female respondents. We personally visited the bank branches at different locations and the response rate of getting the questionnaire filled was almost 35% because some bankers replied that their regional bank office had directed them not to reveal any type of data to the visitors or researchers. Some bankers refused to fill the questionnaire by saying that they were very busy because of the working hours. The response rate in the morning hours was not satisfactory. The data has been analyzed by applying factor analysis to determine the factors of PMMY with the help of IBM SPSS statistics version 20.0.

Analysis and Results

Table 1 shows the results of validity (KMO and Bartlett's test of sphericity) and reliability (Cronbach's alpha) statistics. Most frequently practiced measure of internal consistency in social sciences research for multi-item scaling questionnaire is Cronbach's alpha (Schmitt, 1996). From Table 1, the value of the coefficient of Cronbach's alpha has been found to be 0.709, which means that approximately 70% of the variability in a composite score is being represented by 35 items. The 0.709 value of coefficient of Cronbach's alpha represents satisfactory internal consistency or reliability of the questionnaire (Schmitt, 1996). This indicates that the data collected with the help of a designed questionnaire were reliable and further analysis could be conducted.

The coefficient value of Kaiser – Meyer – Olkin is found to be significant (0.738 ; see Table 1) as the *p* - value of Bartlett's test of sphericity came out to be significant at 0.000 (Costello & Osborne, 2005). These results establish that factor analysis could be employed on this data set.

In this study, a total of 35 statements have been considered to identify the factors that determined the success of PMMY by applying the principal component analysis through varimax (orthogonal) rotation method. Some statements were discarded because their individual KMO values obtained by anti-image correlation matrix were less than 0.5 (Johnson & Wichern, 2007). The analysis identifies the six factors whose initial Eigen value (see Table 2) came out to be greater than 1 and these six extracted factors cumulatively explain 60.094% of the variance for the entire set of statements/variables and which had sufficient variance for the representation (Costello & Osborne, 2005). It means that 60% characteristics of PMMY are explained by the six extracted factors. Factor 1 explains 22.804% of the variance, Factor 2 describes 11.991% of the variance, Factor 3 exhibits 7.212% of the variance, Factor 4 accounts for 6.307% of the variance, Factor 5 explains 6.167% of the variance, and the last, Factor 6 explains 5.613 % of the variance, respectively.

Table 1. Results of Reliability Statistics

Cronbach's Alpha	.709	Number of Items
		35
Kaiser – Meyer – Olkin Measure of Sampling Adequacy		.738
Bartlett's Test of Sphericity	Approx. Chi-Square	680.205
	<i>df</i>	171
	Sig.	0.000***

Note. *** Level of significance at the 1% level.

Table 2. Results of Total Variance Explained

Factor	Initial Eigen Values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.333	22.804	22.804	4.333	22.804	22.804
2	2.278	11.991	34.795	2.278	11.991	34.795
3	1.370	7.212	42.007	1.370	7.212	42.007
4	1.198	6.307	48.314	1.198	6.307	48.314
5	1.172	6.167	54.481	1.172	6.167	54.481
6	1.066	5.613	60.094	1.066	5.613	60.094

Table 3. Factor Analysis of Determinants of PMMY

Statement Number	Factors and Statements	Factor Loading
"Awareness Creator" - Created awareness in weaker sections about start ups.		
S24	MUDRA should acquire all the cooperative and regional rural banks to make the biggest MUDRA Bank.	0.779
S17	MUDRA scheme has created awareness and mass interest for self employment.	0.678
S10	This scheme focuses on weaker sections of the society.	0.540
S21	MUDRA loan yojana is a very good scheme for the start-ups.	0.510
"Job Creator"- Creating jobs for the non-funded.		
S3	PMMY is fulfilling the objective of providing funding to the non -funded.	0.817
S4	The MUDRA loan is helpful for job creators and not job seekers.	0.738
"Suitability" - Suitable for banks and borrowers.		
S18	The repayment terms are decided by the anticipated cash flow from the business activity.	0.686
S28	All the banks are very enthusiastic to give MUDRA loans.	0.606
S5	Amount given under MUDRA scheme is sufficient to start a business.	0.541
S33	MUDRA SHISHU scheme is a joke to the borrowers as it offers financial assistance of only ₹ 50,000.	0.529
"Non-Collateral"- Collateral free/Guarantor free.		
S23	There is a need to develop and expand the delivery channel at the ground level by MUDRA.	0.728
S11	Guarantor is mandatory for these types of loans.	0.588
S34	MUDRA loan is catering to the needs of the non - corporate small business segment for bringing them in the mainstream of the society.	0.580
"Non-Corrupt" - Corruption free, therefore, it should be continued.		
S20	Some of the borrowers offer bribes to pass the loans.	0.703
S16	MUDRA loan holders are repaying EMIs regularly.	0.457
S35	MUDRA scheme should be continued.	0.446
"Substitutability"- Substitute for other schemes.		
S12	Other schemes failed to provide loans to the most vulnerable and landless sections.	0.743
S14	Lack of credit facility to the unorganized business sector led the government to devise the MUDRA scheme to secure credits.	0.696
S30	The eligibility for the MUDRA loan is decided at the bank branch level.	0.593

Table 3 depicts the results of factor analysis of Pradhan Mantri MUDRA Yojana with the respective factor loading values along with the number of statements which constituted the particular factor. These factor loading values were achieved after performing the varimax rotation with Kaiser normalization method (Costello & Osborne, 2005). A total of six factors have been identified as determinants of PMMY. The first determinant of the success of PMMY has been named as Awareness Creator because it has created awareness in weaker sections about start ups in India and it consists of four statements (S24, S17, S10, and S21) and the respective factor loading values (0.779, 0.678, 0.540, and 0.510) are quite acceptable. The second factor has been named as Job Creator as the PMMY is good for job creators, that is, the non-funded small business owners and this factor consists of two statements (S3 & S4) and the respective factor loading values are found (0.817 and 0.738) to be quite high. The third determinant (Suitability) has been found to be responsible for the success of PMMY because this scheme has been found to be

suitable for both banks and borrowers and this factor comprises of four statements (S18, S28, S5, and S33) and the respective factor loading values are also found (0.686, 0.606, 0.541, and 0.529) to be quite good. The fourth determinant has been named as Non - Collateral, which means collateral free or guarantor free. This factor comprises of three statements (S23, S11, and S34) and the respective factor loading values have been found to be suitable (0.728, 0.588, and 0.580). The fifth determinant has been named as Non - Corrupt, which means that PMMY is corruption free. This factor has been represented by three statements (S20, S16, and S35 with factor loadings of 0.703, 0.457, and 0.446) and the factor loadings values are found to be quite reasonable for the analysis. Last but not the least, the sixth determinant has been named as Substitutability. It means that PMMY has proven itself as a good substitute for other contemporary schemes. This factor comprises of three statements (S12, S14, and S30) and the respective factor loading values are found to be (0.743, 0.696, and 0.593) pretty high. The findings of this study have been found to be similar to the findings of Venkatesh and Kumari (2015) ; Reddy (2016) ; Tripathi et al. (2016) ; and Agarwal and Dwivedi (2017). Therefore, governments and self-help groups should promote this scheme to achieve a high level of financial inclusion and employment in the country.

Conclusion

The PMMY is a success story because it has created awareness in weaker sections about start-ups through which the level of employment can be boosted. It is very helpful for job creators, who were earlier non - funded because of unpractical restrictions. This scheme is suitable for both banks and borrowers. But it is risky for banks because it is collateral and guarantor free. Therefore, some of the borrowers also offer bribes to the bankers, however, this has not been reported anywhere.

Research Implications, Limitations of the Study, and Scope for Future Research

The implication of this study is that the Central government should continue this scheme to increase the level of financial inclusion through which the desired level of employment can be achieved so that the ultimate goal of high economic growth can be accomplished. The sample respondents for this study were taken only from bank branches adjacent to the national highways of Haryana, Punjab, Jammu & Kashmir, and Himachal Pradesh because of time and money constraints. Therefore, future research can be conducted at a large scale by targeting the big population of interior branches of different states. A comparative study can be done by adding different dimensions of PMMY at a large scale.

Authors' Contribution

Dr. Khujan Singh conceived the basic idea to study the bankers' perceptions towards MUDRA Yojana and study the characteristics of the scheme, which helped him in developing the questionnaire design to undertake the empirical study. Dr. Anil Kumar reviewed the available literature and both authors interviewed the respondents personally. The data were coded and entered by Dr. Anil Kumar. He also wrote the manuscript in consultation with Dr. Khujan Singh.

Conflict of Interest

Dr. Khujan Singh submitted the Minor Project to Guru Jambheshwar University of Science & Technology,

Hisar for financial help. The authors certify that they do not have any financial interest with any organization in the subject matter discussed in this manuscript.

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