

To avoid yet another crisis in NPAs, Key flaws in PMMY need to be fixed properly. Discuss?

The RBI has recently raised concern over the growing NPAs in Pradhan Mantri MUDRA Yojana (PMMY). There is no denial that PMMY provided loans to non-financed & under-financed non-farm small/micro enterprises. The loan of ₹10.4^{lakh} crore shows the amount of diversity this has achieved. However, as RBI raised, growing NPAs are causes of concern.

Problems with PMMY

1) MUDRA Bank refinancing:

- Created to implement the Scheme of PMMY
- It refinances all banks seeking refinancing of small business loans
- However there is a huge gap in providing refinance to banks & delay in refinancing it causing already NPA-affected-banks

2) Due Diligence

- Targets were set to banks by govt. and banks just to show the number providing loans without due diligence.

3) NPA Jump

- 2.1% jump in NPAs of MUDRA loans from 3.98% (march 2018) to 5.28% (march 2019)
- Mainly Cishore (loan ~~Rs. 50000~~ - Rs. 5 lach) & Tarun (loan Rs. 5 lach - Rs. 10 lach) contributes to this raise in NPA

4) Repayment challenge

- Since this loan does not require collateral, it is becoming to collect the loan amount in case of bad loans
- Also focus is more on larger loans than smaller ones (e.g. banks go after larger ^{bad} loans. Say Rs. 10 lach. than 10 smaller bad loan of Rs. 1 lach)

Fixe for the Problem

- Liquidate mudra bank to refinance banks
- Creating a credit criteria before providing loans & apply due diligence
- More scrutiny for large loans (Cishore & Tarun components) with the help of other factors such as IT returns, credit score, other loans transaction etc

Small & Micro Enterprises employs almost around 40% of our labour force. It is our priority to back them up with credit & provide environment to sustainably pay them back.