

2% INTEREST SUBVENTION APPROVED ON PROMPT REPAYMENT OF SHISHU LOANS UNDER PRADHAN MANTRI MUDRA YOJANA FOR A PERIOD OF 12 MONTHS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Union Cabinet chaired by Prime Minister Shri Narendra Modi today approved a scheme for interest subvention of 2% for a period of 12 months, to all Shishu loan accounts under Pradhan Mantri Mudra Yojana (PMMY) to eligible borrowers.

The scheme will be extended to loans which meet the following criteria - outstanding as on 31st March, 2020; and not in Non-Performing Asset (NPA) category, as per Reserve Bank of India (RBI) guidelines, on 31st March 2020 and during the period of operation of the Scheme.

The interest subvention would be payable for the months in which the accounts are not in NPA category including for the months that the account becomes a performing asset again, after turning NPA. The scheme will incentivize people who will make regular repayments of loans.

The estimated cost of the Scheme would be approximately Rs. 1,542 crore which would be provided by the Government of India.

Background

This Scheme is for implementation of one of the measures relating to MSMEs, announced under the Atma Nirbhar Bharat Abhiyan. Under PMMY, loans for income generating activities up to Rs. 50,000 are termed as Shishu loans. PMMY loans are extended by Member Lending Institutions viz. Scheduled Commercial Banks, Non Banking Finance Companies and Micro Financial Institutions, registered with Mudra Ltd.

The ongoing COVID-19 crisis and the consequent lockdown has led to severe disruption of business for micro and small enterprises which are funded through Shishu Mudra loans. Small businesses typically function on thin operating margins, and the current lockdown has had a severe impact on their cash flows, jeopardizing their ability to service their loans. This could lead to default in repayment and have a resultant impact on access to institutional credit in future.

As on 31st March 2020, about 9.37 crore loan accounts under the Shishu category of PMMY with a total loan amount of about Rs 1.62 Lakh crore, were outstanding.

Implementation strategy

The Scheme will be implemented through the Small Industries Development Bank of India (SIDBI) and will be in operation for 12 months.

For borrowers, who have been allowed a moratorium by their respective lenders, as permitted by RBI under the 'COVID 19 Regulatory Package', the Scheme would commence post completion of the moratorium period till a period of 12 months i.e. from September 01, 2020 till August 31, 2021. For other borrowers, the scheme would commence w.e.f. June 01, 2020 till May 31, 2021.

Major Impact

The Scheme has been formulated as a specific response to an unprecedented situation and aims to alleviate financial stress for borrowers at the 'bottom of the pyramid' by reducing their cost of credit. The Scheme is expected to provide much needed relief to the sector, thereby enabling small businesses to continue functioning without laying off employees due to lack of funds.

By supporting small businesses to continue functioning during these times of crisis, the Scheme is also expected to have a positive impact on the economy and support its revival, which is necessary for employment generation in future.

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