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Interest Subvention Scheme for Shishu Loan Accounts

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Why in News

The government has approved a **2% interest subsidy scheme for Shishu loan account holders** under the **Pradhan Mantri Mudra Yojana (PMMY)**.

The Scheme will help small businesses tide over difficulties created by the lockdown following **Covid-19 outbreak**.

Pradhan Mantri Mudra Yojana

- PMMY is a scheme launched by the government in **2015** for providing **loans up to Rs. 10 lakh to the non-corporate, non-farm small/micro-enterprises**.
- **MUDRA**, which stands for **Micro Units Development & Refinance Agency Ltd.**, is a financial institution set up by the Government to provide funding to the non-corporate small business sector through various last-mile financial institutions like Banks, **Non-Banking Financial Companies (NBFCs)** and Micro Finance Institutions (MFIs).

MUDRA does not lend directly to micro-entrepreneurs/individuals.

- Under the aegis of PMMY, **MUDRA has created three products** i.e. 'Shishu', 'Kishore' and 'Tarun' as per the stage of growth and funding needs of the beneficiary micro unit.
 - **Shishu:** Covering loans up to Rs. 50,000.
 - **Kishore:** Covering loans above Rs. 50,000 and up to Rs. 5 lakh
 - **Tarun:** Covering loans above Rs. 5 lakh and up to Rs. 10 lakh
- Loans under this scheme are **collateral-free loans**.

Key Points

- **In-Line with Atmanirbhar Abhiyan:**

The **2% Interest Subsidy Scheme** is in line with the measures announced relating to Micro, Small and Medium Enterprises (MSMEs) under the **Atmanirbhar Bharat Abhiyan**.

- **Eligibility:**

- 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 the **Reserve Bank of India (RBI)** guidelines on 31st March 2020 and during the period of operation of the Scheme.
- The interest subsidy 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.

- **Implementation:**

- The Scheme will be implemented through the **Small Industries Development Bank of India (SIDBI)** and will be in **operation for 12 months**.
 - SIDBI was set up on 2nd April 1990 under an Act of the Parliament.
 - It acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for coordination of functions of institutions engaged in similar activities.
- 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 1st September 2020 till 31st August 2021. For other borrowers, the scheme would commence w.e.f. 1st June 2020 and will last till 31st May 2021.

- **Cost to the Government:** The estimated cost of the Scheme would be approximately **Rs. 1,542 crore**.

- **Background:**

- 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.

Way Forward

- The Scheme is expected to provide much-needed relief to the MSME 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 expected to have a positive impact on the economy and support its revival, which is necessary for employment generation in future.

Source: PIB