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Evaluating the Effectiveness of Pradhan Mantri Mudra Yojana in Promoting Financial Inclusion in India

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Abstract

The Indian government's major purpose with the Pradhan Mantri Mudra Yojana (PMMY), which launched in 2015, is to help small and informal company owners access loans without having to put up collateral. This study looks at how PMMY has influenced Karnataka, focusing on how beneficiaries spend the money and if the program is accomplishing its goals of making money more accessible and boosting entrepreneurship.

We employed a mixed-methods approach that integrated quantitative data from 100 verified PMMY beneficiaries in different regions of Karnataka with qualitative insights from reviews of literature and policy. The dataset includes information on loan sorts (Shishu, Kishore, Tarun), sanctioned amounts, business categories, locations, and lending institutions. A conceptual framework based on financial inclusion helps figure out the link between giving out loans, using them, and results like business growth and involvement in the economy.

Findings reveal that over 60% of applicants acquired Shishu loans, often using them to start micro-enterprises in sectors like retail, tailoring, beauty services, and food vending. Moreover, half of them utilized the money to build new firms, and a third of them used it to grow existing ones. This shows that PMMY has been successful in encouraging people to start their own enterprises. The survey also demonstrates that firms can't stay open for long as there aren't enough resources to aid them, like skills training, digital tools, and access to markets.

This study is different because it leverages data from major recipients to look at real-world results instead than just national trends or overall metrics. It gives policymakers and banks vital information on how to better align PMMY's implementation with its goals. The study underscores the requirement of coupling financial access with developmental support to ensure long-term success for micro and small companies.

Keywords: PMMY, loans, economy etc.

1. Introduction

Initiated by the Indian government in 2015, the Pradhan Mantri Mudra Yojana (PMMY) is a targeted program aimed at improving financial inclusion by providing unsecured loans to micro and small businesses, mainly within the informal sector. These businesses play a critical role in India's economy but often encounter significant challenges in accessing official financial services due to insufficient documentation, weak credit histories, and a lack of collateral (Basu, 2006; Chavan, 2018). To mitigate these issues, PMMY seeks to facilitate easier access to credit while decreasing dependence on informal lenders, who typically charge exorbitant interest rates.

This research will investigate the program's outreach across various sectors, the effectiveness of its regional implementation, the utilization of different loan types, and its success in helping transition micro-entrepreneurs into stable, income-generating small businesses. Findings from the study conducted in Karnataka are expected to yield valuable insights regarding the practical advantages and limitations of the PMMY framework.

2. Literature Review

In India, studies have uncovered ongoing challenges that prevent entrepreneurs in rural and informal sectors from securing credit. According to Basu (2006), traditional financial institutions often overlook the unique needs of informal enterprises in rural regions, largely due to their perceptions of risk and various bureaucratic hurdles. Likewise, Chavan (2018) points out that high transaction costs, complicated paperwork, and a general lack of awareness contribute to the exclusion of a large segment of India's labor force from formal financial systems.

Research conducted by Das and Mehta (2020) indicates that while there has been a significant volume of loan disbursements under the Shishu category, there is noticeable stagnation in progression to the Kishore and Tarun categories. This stagnation is often linked to insufficient support for business development and a lack of follow-up. The authors also highlight that many recipients of these loans often lack the necessary technical skills or formal training for effective business growth, which diminishes the long-term impact of the initiative.

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Context and Significance

Financial inclusion focuses on enabling individuals and small enterprises to obtain affordable financial services. The World Bank (2020) underscores its vital importance in alleviating poverty and fostering equitable growth. In India, micro and small businesses often encounter obstacles like insufficient collateral and unfavorable credit histories (Basu, 2006; Chavan, 2018). To address these challenges, the Pradhan Mantri Mudra Yojana (PMMY) was launched in 2015, providing unsecured loans via an extensive network of banks and microfinance organizations (Government of India, 2015). This initiative helps businesses at various stages through its Shishu, Kishore, and Tarun tiers and plays a crucial role in promoting self-employment and local entrepreneurship (Gupta & Rao, 2020).

Research Gap Identification

While PMMY has benefited millions, studies indicate that there has been limited advancement beyond Shishu loans. According to Das and Mehta (2020) and Sinha (2017), many entrepreneurs find it difficult to scale their operations due to insufficient support and follow-up services. Additionally, Sharma and Gupta (2019) observed that banks are often reluctant to provide larger loans, even to reliable borrowers. Gender disparities in access to loans also persist (Singh & Thakur, 2021). Much of the existing research has relied on aggregate data; this study aims to bridge this gap by analyzing beneficiary-specific data from Karnataka.

Theoretical Framework Support

This research is grounded in the financial inclusion framework, which encompasses access, utilization, and the quality of financial services (World Bank, 2020). The PMMY program aligns with this framework by improving access to credit (input), fostering entrepreneurial endeavors (process), and pursuing financial empowerment (outcome). However, Ghosh (2020) and Mahajan & Ramola (2018) contend that mere access to credit does not ensure sustainable business expansion without adequate training and market connections. This study utilizes this framework to evaluate the effectiveness of PMMY in Karnataka.

3. Methodology

This research utilizes both descriptive and empirical methodologies to assess the implementation of the Pradhan Mantri Mudra Yojana (PMMY) and its impact on micro and small enterprises in Karnataka. The study's framework incorporates a comprehensive analysis of both primary and secondary data to explore trends in loan distribution and the role of local institutions.

The primary dataset comprises a validated list of 100 PMMY beneficiaries from various districts across Karnataka. This dataset encompasses essential details such as approved loan amounts, loan categories (Shishu, Kishore, or Tarun), business sectors, borrower's locations, and the financial institutions that provided the loans. The beneficiaries represent a wide spectrum of urban, semi-urban, and rural areas.

The Analysis Focuses on Four Key Aspects

i). **Loan Type:** Loans are categorized as:
- *Shishu* (up to ₹50,000) for new businesses,
- *Kishore* (₹50,001 to ₹5,00,000) aimed at business expansion,
- *Tarun* (₹5,00,001 to ₹10,00,000) for established enterprises needing growth capital.

ii). **Business Category:** PMMY supports businesses in four primary sectors:
- Retail (e.g., grocery stores, tea stalls),
- Services (e.g., tailoring, beauty parlors),
- Agriculture and related fields (e.g., dairy, poultry),
- Manufacturing (e.g., incense making, small-scale production).

iii). **Geographic Spread:** Analyzing beneficiaries by district helps understand the program's reach across:
- Urban settings (e.g., Bengaluru Urban),
- Semi-urban areas (e.g., Tumakuru),
- Rural regions (e.g., Chikkamagaluru, Kalaburagi).

iv). **Loan Usage:** The purposes for which the loans are utilized include:
- Starting a new enterprise,
- Expanding current businesses,
- Addressing working capital needs,
- Purchasing assets or equipment.

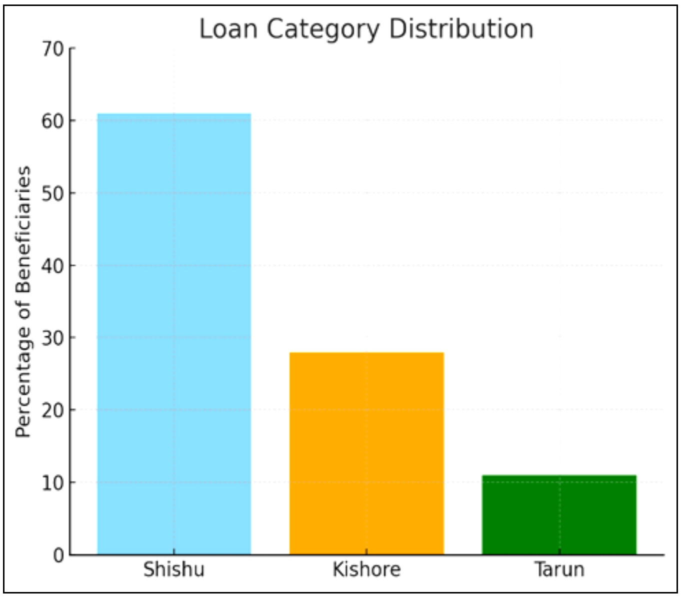

Fig 1: Loan category distribution.

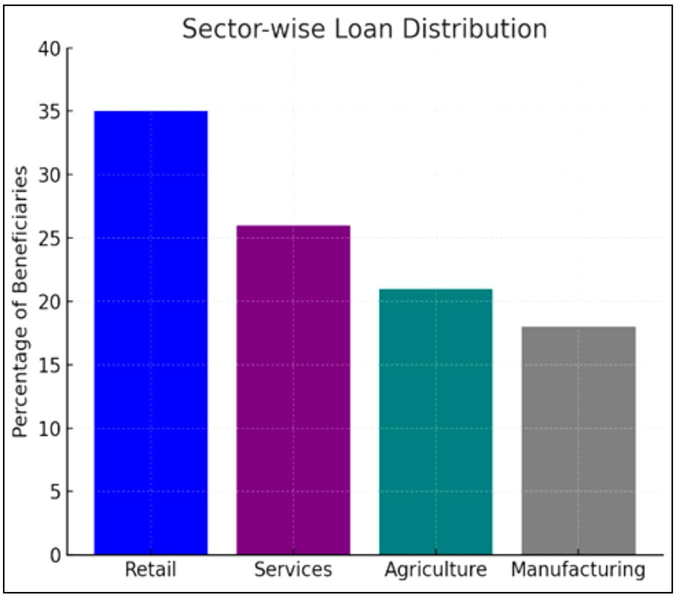

Fig 2: Sector-wise Loan distribution

By utilizing these variables, the research applies descriptive statistical methods such as frequency distribution and percentage analysis to identify patterns in credit usage, access by region, and characteristics of businesses. These analytical techniques yield crucial insights into the application of PMMY loans and their coherence with the objectives of the program.

The study also includes secondary data to enrich its analysis and corroborate its findings. It assesses reports from entities like the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD), and MUDRA Ltd. to juxtapose national trends with local outcomes. This external information aids in placing the implementation of PMMY in Karnataka within a broader national context, enhancing the comprehension of both policy advancements and challenges faced.

The chosen methodology facilitates a comprehensive understanding of the operational dynamics of PMMY by integrating primary data with wider economic perspectives.

4. Conceptual Framework

The research is based on the enterprise lifecycle framework, which provides a comprehensive view of how the Pradhan Mantri Mudra Yojana (PMMY) impacts small and micro enterprises. This lifecycle commences when entrepreneurs obtain access to credit, a vital resource for initiating or growing their businesses. In the absence of such financial backing, many aspiring entrepreneurs, particularly in underserved regions, may forfeit opportunities to engage in the formal economy.

After securing funding, the manner in which it is utilized significantly influences the developmental trajectory of a new business. The strategic deployment of these funds—whether for operational expenses, equipment acquisitions, or infrastructure improvements—can substantially enhance an enterprise's stability and revenue potential.

Moreover, ongoing support, such as financial education, mentorship, and business development services, is essential for the long-term success of these enterprises. This support facilitates their transition from mere survival to actively seeking growth and attracting additional investment.

Nevertheless, challenges like inadequate program awareness, limited business skills, and low digital literacy may obstruct the realization of these advantages. Such hurdles can diminish the program's effectiveness and lead to less favorable outcomes. Through this thorough approach, the study intends to evaluate not only loan distribution but also the success and sustainability of enterprises, along with their broader implications for policy formulation.

5. Data Presentation and Analysis

Loan Category Distribution: Survey results indicate that the Shishu loan category, which offers funding of up to ₹50,000, is the most favored by recipients, representing 61% of total loans granted. This impressive adoption underscores the program's success in assisting budding entrepreneurs who often face challenges in accessing financial assistance. The Kishore loan category (₹50,001 to ₹5 lakh) makes up 28% of the total, while Tarun loans (₹5 lakh to ₹10 lakh) account for just 11%. This variation suggests that the initiative effectively supports start-ups and early-stage businesses, even though fewer enterprises have reached the stage to secure larger loans.

Distribution by Business Sector: The data shows a significant concentration of loan recipients in the retail and service sectors, which combined represent over 60% of all funded businesses. Prominent business types include grocery stores, tailoring services, food vendors, and repair shops. Conversely, manufacturing and agriculture make up 39%, including enterprises such as incense stick production, dairy farming, and poultry businesses. This variety highlights the program's capability to aid both traditional and small-scale industrial sectors.

District-wise Loan Disbursement: PMMY loans have been effectively distributed across several areas in Karnataka, with Bengaluru Urban at the forefront for total loan sums, followed closely by Mysuru. Additionally, many rural and semi-urban districts such as Tumakuru, Kalaburagi, and Chikkamagaluru have shown a notable number of beneficiaries. This trend indicates that the program reaches beyond metropolitan areas, reflecting a dedication to promoting inclusivity by also benefiting developing regions.

Institutional Participation: A review of the financial entities involved in the loan distribution reveals that public sector banks, particularly the State Bank of India and Canara Bank, are at the forefront of the PMMY loan program. They collaborate with small finance institutions like Ujjivan and Bandhan Bank, which are notably active in rural locales. The alliance between public and private sectors has broadened the program's footprint, improving credit accessibility through a more decentralized framework.

Purposes of Loan Utilization: An analysis of how the loans are utilized shows that 52% of borrowers used the funds to launch new businesses, while 34% reinvested the capital to grow their current operations. The remaining recipients used the loans for operational costs or to purchase essential equipment. These trends indicate that PMMY has been instrumental in fostering both new entrepreneurial initiatives and their ongoing viability, though continued support may be necessary to secure long-term advantages.

Table 1: The following table provides a concise overview:

Parameter	Category	Percentage (%)
Loan Category	Shishu	61%
	Kishore	28%
	Tarun	11%
Business Sector	Retail & Services	61%
	Manufacturing & Agriculture	39%
Geographic Spread	Urban (Bengaluru Urban, Mysuru)	45%
	Semi-Urban & Rural (Tumakuru, Kalaburagi)	55%
Lending Institution	Public Sector Banks	58%
	Small Finance/Private Banks	42%
Loan Purpose	Business Start-up	52%
	Business Expansion	34%
	Working Capital/Tools	14%

Description:

The table presents a short overview of main trends among 100 PMMY beneficiaries in Karnataka. A plurality (61%) received loans under the Shishu category, demonstrating the scheme's strong assistance for first-time entrepreneurs, while Kishore and Tarun loans accounted for 28% and 11%, respectively. Most businesses (61%) engaged in the retail and service sectors, such as tailoring, food stalls, and beauty parlors, while 39% were in agriculture and small-scale manufacturing. Geographically, 55% of loans were issued in semi-urban and rural areas, indicating the program's outreach beyond metropolitan cities. Public sector banks were the leading lenders, responsible for 58% of disbursements, with the remaining 42% handled by private and small financing institutions. In terms of fund utilization, 52% of recipients utilized the loans to create new enterprises, 34% grew existing businesses, and 14% used them for operating capital or equipment acquisitions. These findings indicate PMMY's involvement in boosting micro-level entrepreneurship while also pointing to the need for greater support to help firms advance to higher funding levels.

6. Findings, Discussion and Conclusion

The results show that PMMY has been instrumental in connecting small borrowers with formal banking systems. The broad availability of Shishu loans underscores their accessibility; however, the limited progression to Kishore and Tarun categories indicates possible structural barriers.

While not widely represented, female entrepreneurs were identified, especially in the tailoring and food sectors, indicating a positive trend toward gender inclusivity. The variety of industries demonstrates the program's flexibility in accommodating different types of businesses.

However, ongoing challenges such as low financial literacy, inadequate post-loan support, and a limited understanding of loan scaling persist. These outcomes are consistent with earlier findings.

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