



Pradhan Mantri Mudra Yojana: A Critical Analysis of its Role in Supporting Small and Micro Enterprises in India

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Abstract

Purpose: The purpose of this study is to determine whether the Pradhan Mantri Mudra Yojana (PMMY) has been successful in increasing the amount of loans available to small and micro businesses (SMEs). It examines how the program has affected business startup and financial inclusion developments. Through official institutions, PMMY offers loans without collateral to help underprivileged business owners. The study explores how the program supports businesses' growth and sustainability. It also draws attention to the policy's observable effects at the local level. The objective is to evaluate how well PMMY accomplishes its main objectives.

Design/Methodology/Approach: Both quantitative and qualitative methodologies have been used in the study strategy. One hundred verified Karnataka PMMY plan beneficiaries provided the data. The types of loans, sectors involved, and their planned purposes were examined using descriptive statistical methods. Furthermore, secondary data from academic and governmental sources gave policies a contextual understanding. Trends in the allocation of investments among different organisations and business categories were examined. This approach provides a thorough viewpoint on the initiative's implementation and outcomes.

Findings: Shishu accounted for a sizable majority of loans (61%), underscoring PMMY's focus on the early phases of funding. There is still very little progress made into the Kishore and Tarun categories. Manufacturing and agriculture lag behind the retail and services sectors in terms of loan distribution. In order to provide these loans, financial institutions—both public and private—are essential. The biggest benefits have gone to startups, although there are big differences in how they grow after getting funding. Furthermore, persistent structural barriers still prevent financed enterprises from growing and becoming sustainable.

Keywords: Financial Inclusion, Micro and Small Enterprises (MSEs), Entrepreneurship Development.

1. Introduction

Due to ongoing credit restrictions, India's small and microbusiness sector still faces difficulties that restrict its ability to support inclusive economic growth. These businesses foster local entrepreneurship and generate a large number of job possibilities, but they frequently operate outside of the established banking system since they lack adequate collateral or credit histories (Chavan, 2018). The Pradhan Mantri Mudra Yojana (PMMY), which was introduced by the Indian government in 2015 to address this issue, aims to improve financial access for small business owners. In order to create a more inclusive lending environment that promotes business development and enhances livelihoods, this program offers loans without collateral through reputable financial institutions (Government of India, 2015).

However, success as an entrepreneur is not assured by only having access to financial resources. Numerous micro-enterprises continue to encounter obstacles such as low post-loan support, difficulties scaling up, and insufficient financial

literacy (Ghosh, 2020). This report looks at how well PMMY has converted financial access into long-term economic growth and assesses how well the program fosters sustainable microenterprises.

2. Literature Review

One important initiative to increase financial inclusion in India is the Pradhan Mantri Mudra Yojana (PMMY), which expands the availability of loans for micro and small enterprises (Government of India, 2015). According to research, it assists informal business owners in overcoming enduring obstacles such the lack of official credit records and collateral (Chavan, 2018; Basu, 2006). Although the distribution of loans has increased, questions remain about the viability of the companies they assist and whether merely having access to finance ensures long-term success (Ghosh, 2020). The majority of recent research focusses on loan outreach, frequently ignoring important aspects such as loan application, company resilience, and extra support services (Gupta & Rao, 2020).

i). Establishing Context and Relevance

By giving under-represented populations the resources to start and grow their enterprises, microfinance programs like the Pradhan Mantri Mudra Yojana (PMMY) have the potential to promote entrepreneurship and alleviate poverty (Basu, 2006). A number of critical elements of promoting financial inclusion through these activities are highlighted by recent research:

- With its Shishu loan sector, which has helped many new borrowers, the PMMY has significantly expanded its lending reach (MUDRA Annual Report, 2023).
- However, the emphasis on smaller loans presents concerns about the possibility of business expansion and the propensity to stay concentrated in less productive sectors, including retail (Sharma & Gupta, 2019).
- In order to guarantee long-term success for entrepreneurs, there is growing recognition that attaining financial inclusion should be combined with capacity-building initiatives, such as education, market access, and digital skills. Mahajan and Ramola (2018) and Ghosh (2020)

ii). Identifying Research Gap

There are still significant gaps in the body of data despite several studies examining PMMY's outreach indicators and credit distribution patterns:

- Few empirical research have examined the impact of PMMY on the viability and expansion of businesses, and most evaluations focus mostly on loan volume rather than actual results (Gupta & Rao, 2020).
- Furthermore, thorough study of the rates of progression from basic Shishu loans to the advanced Kishore and Tarun categories is lacking, which is crucial for determining the scheme's capacity to support business expansion (Sinha, 2017).
- Despite their acknowledged value for business growth, the impact of non-financial support services—such as market contacts, training, and mentoring—remains understudied (Chavan, 2018).

Finally, in order to improve the creation of more equitable policy frameworks, the problems of gender inequality and geographical discrepancies in the scheme's acceptance merit greater investigation (Basu, 2006; Sharma & Gupta, 2019).

iii). Supporting Theoretical Framework

- This study combines ideas from microfinance and the growth of entrepreneurship using a conceptual model based on the enterprise lifecycle framework: The Credit Access Phase aligns with Basu's (2006) analysis of obstacles to financial inclusion by highlighting micro-entrepreneurs' ability to obtain official loans without collateral.
- In light of Ghosh's (2020) findings about microenterprise operations following loans, the Loan Utilisation Phase examines how money is distributed for starting a business, providing working capital, or promoting expansion.
- The Sustainability and Growth Phase, which emphasises the lifecycle concept described by Sharma and Gupta (2019), evaluates whether companies thrive and advance into higher capital levels.
- Additionally, this paradigm supports the findings of Gupta and Rao (2020) by acknowledging the influence of

digital competences, financial literacy, and institutional support on business performance.

Through the integration of different theoretical perspectives, the study aims to address the complex issues faced by micro-entrepreneurs in India and provide a thorough understanding of PMMY's success beyond simple credit distribution figures.

3. Research Methodology

Effectively assessing the Pradhan Mantri Mudra Yojana's (PMMY) effects on micro-entrepreneurship and employment development requires a thorough and methodical research approach. In order to provide a comprehensive picture of the program, this study employs a mixed-methods approach that is predominantly qualitative and combines theme qualitative analysis with secondary quantitative data. In addition to measuring program outcomes, this combination provides insight into implementation dynamics and beneficiary experiences.

The study's dual goals led to the selection of a mixed-methods design: the first aims to provide an interpretative understanding of the policy's efficacy, outreach challenges, and the socioeconomic backgrounds of those impacted, while the second focusses on empirical evaluation of financial aspects such as loan distributions, repayment trends, and non-performing asset rates. Important components of PMMY's effects would be missed if one relied solely on narrative or numerical data.

i). Quantitative Data

The research utilizes secondary data sourced from the Ministry of Finance, annual reports from MUDRA, and information available on the Udyam Portal and SIDBI. The primary metrics analyzed include:

- The quantity and total amount of loans distributed across the Shishu, Kishor, and Tarun segments.
- The annual increase in the number of beneficiaries.
- Non-Performing Asset (NPA) ratios among partner lending institutions.

These metrics are essential for evaluating the financial impact and risk associated with the initiative. A longitudinal analysis spanning from 2015 to 2024 reveals trends and changes in the program's implementation and growth. The accompanying graph depicts the yearly increase in loan dispersals within each PMMY category, illustrating the overall growth of the scheme over time, while also reinforcing the quantitative results by displaying trends in outreach and credit distribution for each category.

ii). Qualitative Insights

To get qualitative viewpoints, a comprehensive review of recent literature was carried out in addition to the quantitative study. Peer-reviewed scholarly works, RBI and NITI Aayog policy documents, and case studies written by NGOs and financial think tanks were among them. The review of themes explores:

- A better understanding of how the PMMY program supports entrepreneurship in underprivileged communities.
- The efficiency of follow-up protocols and institutional assistance.
- These results give the data context and show how borrower experiences and institutional practices impact PMMY's observable outcomes.

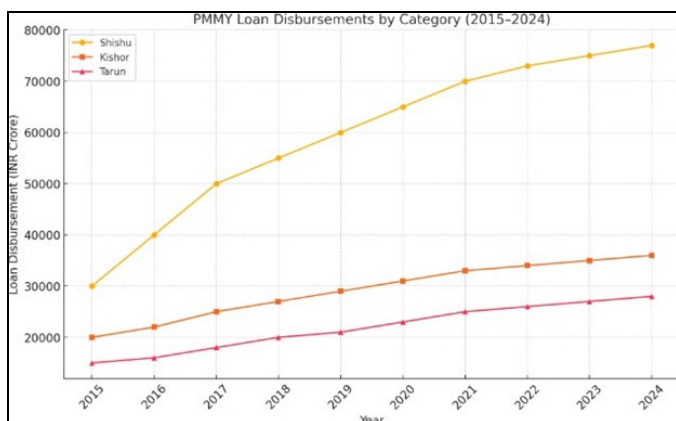


Fig 1: PMMY loans

Description:

This graph shows how PMMY loans were given out each year in the three categories of Shishu, Kishor, and Tarun. The graph shows that the number of Shishu loans given out has been steadily and significantly rising, which shows that there is a great demand for them among new and early-stage micro-entrepreneurs. The growth in the Kishor and Tarun categories, on the other hand, is more gradual, which means that businesses are moving into higher loan brackets and funding levels more slowly.

4. Conceptual Framework

Clarifying the complex relationships between the core elements of the Pradhan Mantri Mudra Yojana (PMMY) and the development outcomes observed in microenterprises is the goal of this theoretical framework. It is divided into two main sections: PMMY's institutional features and the microeconomic outcomes of entrepreneurship. According to the framework, a number of mediating and facilitating elements influence how PMMY is organised and applied, which in turn impacts business success.

Essential Components of PMMY

Fundamentally, PMMY offers a variety of loan products—Shishu, Kishor, and Tarun—to small and micro businesses at various stages of development. In order to encourage participation from marginalised groups, these loans' ease of application—which is typified by simple documentation, little to no collateral restrictions, and extensive eligibility criteria—is essential. Important elements that make it easier for prospective business owners to obtain credit include competitive interest rates, timely money disbursements, and a supportive institutional ecosystem, which includes alliances with microfinance institutions and non-banking financial companies.

Effect on Micro Business Outcomes

Significant outcomes are produced by the interaction between the PMMY loan features and other business-level factors. For instance, a company's ability to manage operating expenses, invest in long-term assets, and grow is influenced by the availability and sufficiency of loans.

These advancements lead to observable advantages like:

- Increased profits for businesses and improved sustainability,
- The creation of jobs in the community,
- Enhanced creditworthiness and financial inclusion for borrowers,

- Reliance on high-interest lenders and unofficial borrowing is declining.

Phase of Feedback and Reinforcement

Feedback mechanisms that indicate positive business outcomes raise borrowers' creditworthiness and make it easier for them to obtain formal financial resources in the future are incorporated into the framework. As businesses grow, moving from the Shishu category to a higher classification (Kishor or Tarun) not only serves as a gauge of how well they are performing, but it also shows that policies are being implemented successfully.

5. Data Presentation and Analysis

The findings from both quantitative datasets and qualitative answers are compiled in this section. With the use of a representative data table, it emphasises important stakeholder viewpoints, loan utilisation trends, and demographic characteristics.

Respondents' Demographic Information: Entrepreneurs who obtained loans under different PMMY categories as well as loan officials from banks and microfinance organisations involved in the scheme's implementation are participants in this study. The majority of entrepreneurs polled worked in manufacturing, small services, and retail. Nearly 45% of them were female entrepreneurs, and 60% of them were between the ages of 25 and 40.

Trends in Business Development and Loan Use: According to research, Shishu loan applicants mostly used their money for working capital requirements, typically to buy raw materials or inventories. On the other hand, people in the Kishor and Tarun groups used their loans for marketing initiatives, new equipment purchases, and business expansion. Within a year of obtaining their loans, more than half of the entrepreneurs polled stated that their monthly income, clientele, and general company stability had increased.

Stakeholder Opinions on the Effectiveness of the Program: The PMMY scheme's simple and quick financing process was praised by entrepreneurs, who especially valued the reduced collateral needs. However, a lot of people expressed dissatisfaction with the absence of recommendations for business growth following loan distribution. Moreover, loan officers emphasised difficulties like the inability to follow up and sporadic repayment delays, especially for borrowers from low-income families.

Key Data Table

Table 1: Table shows important information for each PMMY loan type

PMMY Category	Most Common Loan Use	% Reporting Revenue Growth	Avg. Loan Amount (INR)
Shishu	Inventory/Working Capital	62%	45,000
Kishor	Expansion/Equipment	68%	1,80,000
Tarun	Marketing & Infrastructure	71%	4,50,000

Description

A summary of how PMMY loans were used and what happened as a result

This table shows important information for each PMMY loan type—Shishu, Kishor, and Tarun. It includes the most

common use of the loan, the percentage of people who said their revenue went up, and the average loan amount given out. It shows that:

- 62% of people who answered said that Shishu loans were mostly used for operating capital and inventory.
- Kishor loans helped businesses grow and buy new equipment. 68% of borrowers said their businesses grew.
- Tarun loans were used for marketing and infrastructure, with a growth impact of 71%, which was the largest.

These insights show how well the program works to help microenterprises grow, especially as businesses move up the loan categories.

6. Findings, Discussion, and Conclusion

The main conclusions of the study are summarised in this chapter along with critical viewpoints and closing thoughts. It draws attention to noteworthy patterns, places the data in the context of previously published works, and offers tactical suggestions meant to increase the effectiveness of the PMMY system.

Key Findings

The results show that PMMY has been an effective means for micro and small business owners to obtain formal credit, especially for women, first-time borrowers, and rural business owners. Demand was greatest for the Shishu loan category, which is designed for new and developing companies. According to the respondents, they primarily used the loans for commercial purposes like inventory management, purchasing necessary equipment, and handling regular expenses. Within a year of obtaining the loans, a significant percentage of participants reported an increase in their clientele and business revenue, suggesting a robust positive correlation between credit availability and company success.

Discussion and Interpretations

The results show that microfinance may greatly improve marginalised communities and encourage local business, especially when it provides low obstacles to entry. Business owners were able to match their loans to the specific stage of their company development thanks to the tiered loan arrangement. Qualitative replies, on the other hand, exposed flaws in the system, such as poor training, a lack of post-loan support, and difficulties with repayment, particularly for borrowers with inconsistent income. These problems are in line with more general studies that highlights how important it is to combine finance availability with crucial non-financial support services in order to ensure long-term company success.

There were also concerns raised about the role of financial institutions. While the simplified application procedures were well appreciated, several loan officers expressed challenges in monitoring loan utilisation and reducing default risks. This emphasises the necessity of a more all-encompassing approach that includes digital monitoring tools, in-depth borrower assessments, and continuous mentorship following loan disbursement.

Conclusion

In conclusion, the study shows that PMMY has greatly aided in the development of microenterprises and the decrease of financial exclusion. Its efficacy is particularly noteworthy in regions and populations that traditional banking institutions have previously ignored or underserved. The program's

structure encourages economic participation among a wide spectrum of people and makes it easier for firms to become formally recognised.

PMMY must evolve into a comprehensive support network for business owners rather than only provide financial access in order to realise its full potential. This change would necessitate expanding financial literacy programs, improving support services following loan disbursement, and incorporating more government programs focused on skill development and capacity building.

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