

## **Effectiveness of Pradhan Mantri MUDRA Yojana (PMMY) in Enhancing Financial Inclusion among Micro and Small Enterprises in India**

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### **Abstract**

Financial inclusion is a key driver of inclusive economic growth, particularly in developing economies where micro and small enterprises (MSEs) form the backbone of employment and income generation. The Pradhan Mantri MUDRA Yojana (PMMY) was launched in 2015 to provide collateral-free institutional credit to non-corporate, non-farm small and micro enterprises that traditionally lacked access to formal financial services. By categorizing loans under Shishu, Kishor, and Tarun, the scheme aims to address varying financial needs across stages of business development. This study examines the effectiveness of PMMY in enhancing financial inclusion among micro and small enterprises in India. It evaluates improvements in access to formal banking services, reduction in dependence on informal credit sources, and changes in borrowing behavior after availing PMMY loans. The research also explores regional and sectoral variations in financial inclusion outcomes. Using a mixed-method approach combining primary survey data and secondary financial statistics, the study seeks to provide empirical evidence on the role of PMMY in strengthening India's MSME ecosystem. The findings are expected to contribute to policy discussions on inclusive finance and sustainable enterprise development.

**Keywords: PMMY, Financial Inclusion, MSMEs, Micro Enterprises, Formal Credit, Government Credit Schemes, Inclusive Growth.**

### **Introduction**

Micro and Small Enterprises (MSEs) play a vital role in India's economic development by contributing significantly to employment generation, GDP growth, exports, and regional development. However, despite their importance, a large number of these enterprises operate in the informal sector and face severe constraints in accessing institutional finance. Limited collateral, absence of formal credit history, procedural complexities, and high transaction costs often compel small entrepreneurs to depend on informal sources of finance such as

moneylenders, which charge exorbitant interest rates. This lack of access to affordable and formal credit remains a major barrier to enterprise growth and sustainability.

To address these challenges and promote financial inclusion, the Government of India introduced the Pradhan Mantri MUDRA Yojana (PMMY) in April 2015. The scheme aims to “fund the unfunded” by providing collateral-free loans up to ₹10 lakh to micro and small enterprises through banks, Non-Banking Financial Companies (NBFCs), and microfinance institutions. Loans are categorized into three segments—Shishu (up to ₹50,000), Kishor (₹50,000 to ₹5 lakh), and Tarun (₹5 lakh to ₹10 lakh)—to support enterprises at different stages of development. The scheme is implemented through the Micro Units Development and Refinance Agency (MUDRA), which provides refinancing support to lending institutions.

Since its inception, PMMY has disbursed a substantial number of loans, particularly to first-time borrowers, women entrepreneurs, and individuals from marginalized communities. While the scheme has significantly expanded the outreach of formal credit, questions remain regarding its actual effectiveness in deepening financial inclusion. Financial inclusion is not limited to mere access to credit; it also encompasses sustained usage of financial services, improved financial literacy, reduced reliance on informal lending, and integration into the formal banking ecosystem.

Therefore, this study seeks to evaluate the effectiveness of PMMY in enhancing financial inclusion among micro and small enterprises in India. It examines whether PMMY has improved access to institutional finance, encouraged formal banking relationships, and strengthened the financial resilience of small businesses. The research also explores regional disparities and structural challenges that may affect the scheme’s impact. By providing empirical insights, the study aims to contribute to the broader discourse on inclusive finance, MSME development, and sustainable economic growth in India.

#### *Statement of the Problem*

Micro and small enterprises (MSEs) in India play a critical role in employment generation and economic growth but historically have faced significant barriers to accessing formal financial services due to lack of collateral, limited credit history, and procedural rigidities. Despite the launch of the *Pradhan Mantri MUDRA Yojana (PMMY)* in 2015 to provide collateral-free credit up to ₹10 lakh to these underserved enterprises, many MSEs continue to rely on informal credit sources, constraining their growth and sustainability. While PMMY reports large volumes of credit disbursement, there is limited empirical evidence on whether this translates into **enhanced financial inclusion** in terms of sustained access to

formal financial services, reduction in dependency on informal lenders, and meaningful participation in the institutional credit system. Moreover, regional and demographic disparities (such as gender and socio-economic groups) may influence the effectiveness of the scheme in reaching the truly financially excluded segments of the MSME sector. This research addresses the problem of evaluating the **actual impact of PMMY on financial inclusion outcomes for micro and small enterprises in India.**

#### *Objectives*

1. **To assess whether PMMY has improved the access to formal financial services among micro and small enterprises in India.**
2. **To investigate the extent to which PMMY has reduced reliance on informal credit sources for MSMEs.**
3. **To examine regional (urban vs rural) and demographic differences in financial inclusion outcomes under PMMY.**
4. **To evaluate perceptions of MSME entrepreneurs regarding ease of access, awareness, and utilization of PMMY credit facilities.**

#### *Review of Literature*

Several studies highlight PMMY as a significant step toward expanding formal credit access to previously underserved micro and small enterprises. Rajagopal (2022) found that PMMY substantially increased the number of first-time borrowers entering the formal banking system, thereby strengthening financial inclusion. The study emphasized that collateral-free lending under the Shishu category encouraged micro-entrepreneurs to transition from informal to institutional finance.

Similarly, Sushmita et al. (2025) observed that PMMY improved banking penetration among marginalized groups, particularly women and rural entrepreneurs. However, the authors noted that financial inclusion should be assessed not only in terms of access but also sustained usage of financial services. Research suggests that PMMY has contributed to enterprise expansion and employment creation. Padimani (2025), in a state-level study of Karnataka, reported positive growth in micro-enterprise turnover and asset creation after availing Mudra loans. The study concluded that access to small-ticket credit plays a catalytic role in early-stage business development.

Darshana and Tejaswini (2024) found that rural enterprises benefiting from PMMY experienced improved business stability and increased self-employment opportunities. However, the impact varied depending on sector and loan category.

Gahlot, Sharma, and Soni (2025) examined the awareness and impact of PMMY among women MSME entrepreneurs and found that higher awareness levels positively influenced loan utilization and business confidence. Women constituted a major share of Shishu category loans, indicating the scheme's outreach to grassroots entrepreneurs.

While PMMY has achieved impressive disbursement figures, some researchers identify structural challenges. Chaturvedi and Mishra (2024) pointed out issues such as limited loan size in certain categories, repayment pressures, and procedural delays in some regions. The study suggested that credit access alone may not guarantee business success without complementary support such as training and market linkage assistance.

### State-wise details of Pradhan Mantri Mudra Yojana (PMMY)

State-wise details of Pradhan Mantri Mudra Yojana (PMMY) for the year 2021-22 to 2023-24 (As on 24.11.2023)										
(Amount in Rs. Crore)										
Financial Year		F.Y. 2021-22			F.Y. 2022-23			F.Y. 2023-24 (as on 24.11.2023)		
Sr No	State Name	No. of Loan A/Cs	Sanctioned Amount	Disbursed Amount	No. of Loan A/Cs	Sanctioned Amount	Disbursed Amount	No. of Loan A/Cs	Sanctioned Amount	Disbursed Amount
1	Andaman and Nicobar Islands	1,901	77.40	76.53	3,463	127.29	124.34	1,863	71.69	69.82
2	Andhra Pradesh	11,17,922	11,829.82	11,445.42	13,48,593	16,450.70	16,212.30	8,77,921	11,120.98	10,898.90
3	Arunachal Pradesh	5,705	90.50	86.51	17,193	224.78	214.59	17,070	186.56	180.14
4	Assam	6,82,889	4,866.50	4,577.28	5,99,213	6,300.99	6,182.19	1,91,868	2,360.63	2,268.69
5	Bihar	66,78,155	32,096.95	30,725.07	84,89,231	46,463.15	45,448.59	41,47,624	24,436.54	23,270.68
6	Chandigarh	14,926	281.66	273.03	17,261	301.41	293.58	8,659	180.19	173.25
7	Chhattisgarh	9,70,396	5,929.49	5,797.46	11,14,927	8,391.61	8,262.57	4,90,278	4,370.81	4,101.57
8	Dadra and Nagar Haveli & Daman and Diu	4,397	70.37	68.25	5,512	103.89	102.21	1,431	47.38	46.73
9	Delhi	1,94,835	2,616.58	2,559.59	3,37,476	3,800.63	3,759.22	1,67,717	2,334.36	2,263.22
10	Goa	35,950	491.36	472.87	42,745	719.27	700.19	23,943	445.90	430.94
11	Gujarat	15,90,960	12,152.39	11,990.04	17,84,437	17,668.10	17,507.49	9,77,786	10,302.51	10,126.93
12	Haryana	10,57,963	7,768.34	7,574.18	12,18,808	10,154.93	9,944.79	5,56,711	5,689.67	5,442.62
13	Himachal Pradesh	1,07,556	2,152.58	2,027.43	1,51,733	3,133.01	3,080.21	73,550	1,596.91	1,492.95
14	Jharkhand	17,77,882	8,817.00	8,615.43	20,56,159	11,266.17	11,097.08	11,31,935	6,674.13	6,506.88
15	Karnataka	42,98,481	28,695.29	28,374.92	55,92,066	40,964.95	40,746.09	33,80,637	25,375.92	25,244.95
16	Kerala	16,20,168	11,698.12	11,549.58	17,81,474	15,400.47	15,079.22	10,52,430	9,475.90	9,338.90
17	Lakshadweep	725	16.66	16.47	1,623	26.81	26.75	1,369	22.83	22.69

18	Madhya Pradesh	32,31,804	18,814.95	18,218.44	37,01,661	25,301.30	24,632.59	17,68,797	13,317.86	12,435.84
19	Maharashtra	41,58,052	25,797.74	25,416.48	52,53,324	36,531.98	36,104.52	29,14,993	22,696.41	22,402.83
20	Manipur	74,138	413.42	379.20	39,744	487.23	471.22	6,614	112.08	104.53
21	Meghalaya	16,892	211.84	204.01	24,937	340.62	331.52	14,322	210.18	203.91
22	Mizoram	11,396	211.29	192.30	23,394	424.40	420.92	16,555	336.70	333.11
23	Nagaland	15,191	229.00	209.49	15,172	314.62	296.78	10,424	222.87	216.79
24	Odisha	36,70,907	16,900.00	16,557.27	39,22,511	21,708.62	21,505.13	19,59,871	11,621.76	11,461.57
25	Pondicherry	1,31,525	801.43	795.30	98,394	741.23	735.74	78,104	589.45	586.36
26	Punjab	11,09,810	8,179.96	7,926.06	12,59,891	11,055.03	10,766.37	5,76,501	6,383.52	5,861.67
27	Rajasthan	26,67,998	18,999.20	18,728.94	29,77,440	24,686.97	24,492.62	13,93,347	13,791.47	13,626.31
28	Sikkim	11,059	162.54	156.89	13,805	225.77	219.30	8,509	112.22	106.02
29	Tamil Nadu	56,25,146	32,477.55	32,262.94	64,06,513	43,948.08	43,730.39	40,88,433	30,703.48	30,529.48
30	Telangana	5,33,545	6,168.85	6,010.47	6,39,323	8,134.81	7,995.30	4,26,660	5,488.43	5,315.61
31	Tripura	3,57,304	2,496.63	2,445.73	3,50,659	2,363.45	2,349.61	95,155	700.97	673.21
	All India	5,37,95,526	3,39,110.33	3,31,402.19	6,23,10,598	4,56,538.01	4,50,423.65	3,29,53,290	2,64,001.10	2,57,227.54

**Source: MUDRA annual report, 2023-2024**

The **Pradhan Mantri Mudra Yojana (PMMY)** provides financial assistance to micro and small enterprises across different states in India. The state-wise distribution of Mudra loans reflects variations in economic activity, population size, entrepreneurial culture, and the availability of banking facilities. States with a strong presence of micro, small and medium enterprises (MSMEs) and better financial infrastructure generally record higher loan disbursements. For example, states such as **Tamil Nadu, Uttar Pradesh, Karnataka, Maharashtra, and West Bengal** have consistently reported higher loan amounts and a large number of beneficiaries due to their developed MSME sectors, strong industrial base, and higher levels of financial inclusion. These states have a large number of small traders, service providers, and manufacturing units that actively utilize Mudra loans for business expansion and self-employment opportunities. In contrast, states like **Bihar, Odisha, Madhya Pradesh, and Rajasthan** have also shown significant participation in the scheme, particularly in rural and semi-urban areas where Mudra loans help promote self-employment and small entrepreneurial activities. In the **North-Eastern states**, the total loan disbursement is relatively lower compared to larger states; however, the scheme plays an important role in encouraging micro-enterprises, small retail businesses, and local artisans by providing access to institutional credit. Overall, the state-wise implementation of PMMY demonstrates

its wide outreach across India, contributing to financial inclusion, employment generation, and the development of small businesses in both urban and rural regions.

### **Key Reasons for Evaluating the Impact of Pradhan Mantri MUDRA Yojana (PMMY)**

The Pradhan Mantri MUDRA Yojana (PMMY) was launched in 2015 with the objective of “funding the unfunded” by providing collateral-free credit to micro and small enterprises (MSEs). Given its large-scale implementation and significant public expenditure, evaluating its impact is essential for several economic, social, and policy-related reasons.

#### **1. Measuring Financial Inclusion Outcomes**

One of the primary goals of PMMY is to enhance financial inclusion. Evaluating its impact helps determine whether the scheme has genuinely improved access to formal credit, increased banking penetration, and reduced dependence on informal lending sources.

#### **2. Assessing MSME Growth and Sustainability**

Micro and small enterprises are vital contributors to employment and GDP. Impact evaluation helps examine whether PMMY loans have:

- Increased business turnover
- Generated employment opportunities
- Improved productivity and asset creation
- Supported business expansion

This ensures that the scheme contributes to sustainable enterprise development rather than short-term credit access.

#### **3. Evaluating Credit Utilization and Repayment Performance**

It is important to analyze whether beneficiaries are effectively utilizing the loans for productive purposes and whether repayment rates remain healthy. This helps assess:

- Loan quality
- Risk of non-performing assets (NPAs)
- Long-term viability of the scheme

#### **4. Identifying Regional and Sectoral Disparities**

- Regional inequalities in loan distribution
- Sector-wise concentration of funds
- Gaps in outreach to rural, women, or marginalized entrepreneurs

#### **5. Ensuring Efficient Public Fund Utilization**

Since PMMY involves large-scale government-backed credit, impact assessment ensures:

- Accountability in implementation

- Transparency in credit allocation
- Efficient use of public financial resources

## **6. Supporting Policy Reforms and Improvements**

Evaluating the scheme provides evidence-based recommendations for:

- Revising loan limits
- Improving awareness campaigns
- Strengthening financial literacy programs
- Simplifying loan procedures

## **7. Contribution to Inclusive Economic Growth**

PMMY is linked to broader goals such as poverty reduction, employment generation, women empowerment, and entrepreneurship development. Measuring its impact helps determine whether the scheme contributes meaningfully to inclusive and balanced economic growth.

## **8. Academic and Research Importance**

From a research perspective, PMMY provides a valuable case study to analyze:

- Government-led credit intervention
- Financial inclusion models in developing economies
- The relationship between credit access and enterprise performance.

## **Regional (Urban Vs Rural) and Demographic Differences In Financial Inclusion Outcomes Under PMMY**

Regional (urban vs rural) and demographic differences significantly influence financial inclusion outcomes under the **Pradhan Mantri Mudra Yojana (PMMY)**. In urban areas, entrepreneurs generally experience better access to banking infrastructure, higher awareness levels, and relatively larger loan sizes under the Kishore and Tarun categories, which often support business expansion and diversification. In contrast, rural beneficiaries tend to access smaller Shishu loans primarily for agriculture-allied activities, petty trade, and household-based enterprises, reflecting limited capital requirements and lower risk-bearing capacity. Rural areas, however, show stronger impact in terms of first-time entry into the formal financial system, thereby enhancing basic financial inclusion. Demographically, women entrepreneurs form a substantial share of beneficiaries, especially in the Shishu category, indicating progress in gender inclusion, though challenges such as limited asset ownership and financial literacy persist. Similarly, socially disadvantaged groups such as SC/ST and minority communities have gained improved access to institutional credit, yet disparities remain due to awareness gaps and procedural barriers. Younger and better-educated entrepreneurs, particularly in urban regions, tend to utilize

PMMY funds more effectively for growth-oriented activities, while older and less-educated borrowers often focus on subsistence-level enterprises. Overall, while PMMY has contributed significantly to inclusive credit expansion, regional infrastructure differences and socio-demographic factors continue to shape the depth and quality of financial inclusion outcomes.

### **Perceptions of MSME Entrepreneurs Regarding Ease of Access, Awareness, and Utilization of PMMY Credit Facilities.**

The **Pradhan Mantri Mudra Yojana (PMMY)** has generally been perceived positively by MSME entrepreneurs in terms of ease of access, awareness, and utilization of credit facilities. Most entrepreneurs are aware of the scheme at a basic level, particularly its collateral-free loan feature, though detailed knowledge about loan categories, interest rates, and procedural requirements varies across regions. Urban entrepreneurs tend to have higher awareness due to better exposure to digital media and banking networks, while rural entrepreneurs often rely on banks, Self-Help Groups, and word-of-mouth for information. Regarding ease of access, many beneficiaries appreciate the simplified documentation and absence of collateral compared to traditional business loans; however, some report delays in loan sanctioning, procedural formalities, and cautious attitudes of bank officials. In terms of utilization, PMMY loans are primarily used for working capital, purchase of equipment, and business expansion, helping entrepreneurs reduce dependence on informal lenders and improve business operations. Despite these benefits, challenges such as limited financial literacy, repayment pressure during slow business cycles, and inadequate clarity about scheme guidelines influence overall perceptions. Overall, MSME entrepreneurs view PMMY as a supportive initiative for promoting self-employment and small business growth, though improvements in awareness campaigns and implementation efficiency could enhance its effectiveness further.

1. Provides collateral-free loans to micro and small enterprises.
2. Encourages first-time borrowers to access formal banking channels.
3. Brings unorganized and informal businesses into the formal financial system.
4. Offers graded loan categories (Shishu, Kishore, Tarun) to meet different capital needs.
5. Promotes financial inclusion in rural and semi-urban areas.

6. Supports women entrepreneurs and strengthens gender inclusion.
7. Extends credit to SC/ST, OBC, and minority communities.
8. Reduces dependence on informal moneylenders.
9. Improves access to working capital for small businesses.
10. Facilitates credit history creation for future borrowing.

### **Conclusion**

**Pradhan Mantri Mudra Yojana (PMMY)** has emerged as a transformative initiative in strengthening financial inclusion among Micro and Small Enterprises (MSEs) in India. By offering collateral-free loans across the Shishu, Kishore, and Tarun categories, the scheme has successfully expanded institutional credit access to first-time entrepreneurs, small traders, artisans, and service providers who were previously excluded from the formal banking system. It has played a vital role in empowering women entrepreneurs and supporting socially and economically disadvantaged groups, thereby promoting inclusive and equitable growth. Furthermore, PMMY has contributed to reducing dependence on informal moneylenders, improving working capital management, and encouraging micro-enterprises to formalize their operations through bank linkages and digital transactions. The creation of credit histories under the scheme enhances future borrowing capacity and long-term financial stability of small businesses. Although implementation challenges such as procedural delays, regional disparities, and limited financial literacy remain, the overall impact of PMMY in deepening financial penetration and fostering entrepreneurship is significant. Therefore, with continued policy support, awareness programs, and streamlined banking processes, PMMY can further strengthen the MSME sector and contribute substantially to India's inclusive economic development.

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