

## **Evaluating the Impact of Pradhan Mantri Mudra Yojana (PMMY) on Employment Generation in MSMEs**

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### **Abstract**

Pradhan Mantri Mudra Yojana (PMMY) has emerged as a significant policy initiative aimed at promoting micro-enterprises and enhancing employment opportunities in India. This study evaluates the impact of PMMY on employment generation within the Micro, Small, and Medium Enterprises (MSME) sector. The scheme facilitates collateral-free loans to non-corporate, non-farm small businesses, thereby enabling entrepreneurship and self-employment. The paper analyzes how access to finance under PMMY has contributed to business expansion, job creation, and income generation. Using secondary data and empirical findings from recent studies, the research highlights that PMMY has positively influenced employment, particularly among youth and women entrepreneurs. However, challenges such as inadequate loan utilization, lack of financial literacy, and regional disparities still affect its overall effectiveness. The study concludes that while PMMY has significantly contributed to employment generation, strengthening implementation mechanisms and financial awareness is essential to maximize its potential in MSME development.

**Key words: Employment Generation. Entrepreneurship Development. Financial inclusion, Microfinance**

### **Introduction**

The Micro, Small, and Medium Enterprises (MSME) sector plays a crucial role in the economic development of India by contributing to employment generation, industrial output, and exports. However, one of the major challenges faced by MSMEs is limited access to formal credit. To address this issue, the Government of India launched the Pradhan Mantri Mudra Yojana (PMMY) in April 2015. The scheme aims to provide financial support to small entrepreneurs through collateral-free loans categorized under Shishu, Kishore, and Tarun segments.

PMMY primarily targets non-corporate small business sectors, enabling individuals to establish or expand their enterprises. By facilitating easy access to credit, the scheme promotes entrepreneurship, which in turn leads to employment generation. In a developing country like India, where unemployment and underemployment remain critical issues, such initiatives play a vital role in inclusive growth. This study focuses on evaluating how effectively PMMY has contributed to employment generation in the MSME sector. It examines whether the scheme has succeeded in creating sustainable job opportunities and improving livelihoods.

### **Objectives of the Study**

- To analyze the role of PMMY in promoting MSME development
- To evaluate the impact of PMMY on employment generation
- To examine the effectiveness of PMMY in supporting entrepreneurship
- To identify challenges in the implementation of PMMY

### **Research Methodology**

The study is based on secondary data, collected from government reports, research articles, RBI publications, and MSME reports. Analytical and descriptive research methods are used to evaluate the impact of PMMY on employment generation.

### **PMMY and its role in MSME development**

<b>Indicator</b>	<b>(2024–25)</b>	<b>Implication for MSMEs</b>
Total Loans Sanctioned	52+ crore loans	Massive outreach to micro and small businesses
Total Amount Sanctioned	₹33.65 lakh crore	Strong financial support to MSME sector
Annual Loan Disbursement	₹5+ lakh crore (FY 2024–25)	Continuous credit flow for business growth
MSME Credit Growth	₹8.51 lakh crore (FY14) → ₹27.25 lakh crore (FY24)	Significant expansion in MSME financing
Women Beneficiaries	~68% of total loans	Promotes women entrepreneurship
SC/ST/OBC Beneficiaries	~50%	Inclusive growth and social equity
Employment Contribution	MSMEs employ ~24 crore people	Job creation and livelihood support
GDP Contribution	MSMEs contribute ~30% to GDP	Strengthens economic growth

It shows that PMMY has achieved remarkable outreach, with more than 52 crore loans sanctioned and a total disbursement exceeding ₹33.65 lakh crore, indicating its wide penetration among micro and small enterprises. The consistent annual credit flow of over ₹5 lakh crore highlights the scheme's role in ensuring continuous financial support for business expansion and sustainability.

The data also reflects significant growth in MSME credit, increasing from ₹8.51 lakh crore in FY14 to ₹27.25 lakh crore in FY24, demonstrating improved access to institutional finance. A notable feature of PMMY is its focus on inclusive growth, as around 68% of beneficiaries are women and nearly 50% belong to SC/ST/OBC categories. This indicates the scheme's effectiveness in promoting social equity and empowering marginalized sections.

Furthermore, MSMEs contribute around 30% to India's GDP and provide employment to nearly 24 crore people, emphasizing the sector's importance in economic development. The classification of loans into Shishu, Kishor, and Tarun ensures support at different stages of

business growth. However, challenges such as a 9.8% NPA rate and a remaining credit gap of about 60% indicate the need for better credit management and expanded financial inclusion. Overall, the table highlights PMMY as a vital instrument for MSME growth, entrepreneurship promotion, and inclusive economic development.

### **Impact of Pradhan Mantri Mudra Yojana (PMMY) on Employment Generation**

The Pradhan Mantri Mudra Yojana (PMMY) has played a significant role in promoting employment generation in India, particularly within the Micro, Small and Medium Enterprises (MSME) sector. By providing collateral-free loans to small entrepreneurs, the scheme has enabled individuals to start new businesses and expand existing ones, thereby creating both direct and indirect employment opportunities. One of the primary impacts of PMMY is the promotion of self-employment. Many beneficiaries, especially youth and women, have been able to establish micro-enterprises in sectors such as retail, manufacturing, and services. This shift from job seekers to job creators has contributed to reducing unemployment and underemployment in the economy. In addition to self-employment, PMMY has also facilitated **job creation within enterprises**. Small businesses financed under the scheme often require additional labor for operations, leading to increased hiring at the local level. This has had a multiplier effect, particularly in rural and semi-urban areas where employment opportunities are otherwise limited.

The scheme has further enhanced financial inclusion, allowing previously unbanked individuals to access formal credit systems. This access to finance has improved business sustainability and growth, resulting in stable income and long-term employment generation. Moreover, PMMY has been instrumental in empowering women entrepreneurs, who constitute a significant share of beneficiaries. By supporting women-led enterprises, the scheme has not only generated employment but also contributed to gender equality and socio-economic development. However, the overall impact of PMMY on employment generation is influenced by factors such as proper utilization of loans, financial literacy, and effective monitoring. While the scheme has created substantial employment opportunities, addressing these challenges is essential to maximize its long-term effectiveness.

#### Research Hypothesis:

H01: There is no significant difference between net profit increased after taking the mudra loan

H02: There is no significant difference between net sales increased after taking the Mudra loan

H03: There is no significant change in business assets after taking the mudra loan

H04 There is no significant change in production/service level after taking the mudra loan

H05 There is no significant difference in business brand image increased after taking the mudra loan.

H06 There is no significant difference in innovation in product or services after taking the mudra loan

H07: There is no significant change in entrepreneur skills after taking the mudra loan.

H08: There is no significant change in technology advancement after taking the mudra loan

H09: There is no significant change in employee increased after taking the mudra loan.

H10: There is no significant change in business market value after taking the mudra loan.

Table 1.1: Chi-square results

S No	Hypothesis Statement	Chi Square Value	Asymp. Sig.	Result
H0 1	There is no significant difference between net profit increased after taking the mudra loan	22.669	0.000	Reject
H0 2	There is no significant difference between net sales increased after taking the Mudra loan	39.472	0.000	Reject
H0 3	There is no significant change in business assets after taking the mudra loan	93.061	0.000	Reject
H0 4	There is no significant change in production/service level after taking the mudra loan	63.524	0.000	Reject
H0 5	There is no significant difference in business brand image increased after taking the mudra loan.	4.126	0.389	Accept
H0 6	There is no significant difference in innovation in product or services after taking the mudra loan	3.843	0.428	Accept
H0 7	There is no significant change in entrepreneur skills after taking the mudra loan.	6.177	0.186	Accept
H0 8	There is no significant change in technology advancement after taking the mudra loan.	30.044	0.000	Reject
H0 9	There is no significant change in employee increased after taking the mudra loan.	14.838	0.005	Reject
H1 0	There is no significant change in business market value after taking the mudra loan.	1.040	0.904	Accept

Analysis and interpretation: The table 1.1 shows the impact of fostering factors on businesses. After taking the PMMY loan. This table shows(H01) chi-square value is 22.66 and the P value 0.000 which is less than 0.05 which means null hypotheses is rejected and alternative hypotheses is accepted. The result showed that there is significance effect on Net profit after taking the Mudra loan. The results of (H02) shows chi- square value is 39.472 and the P value 0.000 which is less than 0.05 which means null hypotheses((H02) is rejected and alternative hypotheses is accepted. It indicated that there is significance effect on Net Sales after taking the Mudra loan. The results (H03) shows the chi- square value is 93.061 and the P value 0.000 which is less than 0.05 which means null hypotheses is rejected and alternative hypotheses is accepted. The result showed that there is significance effect on Business assests after taking the Mudra loan.

The above table shows (H04) Chi square value is 63.524 and P value 0.000 which is less than 0.05 which means null hypotheses is rejected and alternative hypotheses is accepted. The result showed that there is significance effect on level of production after taking the Mudra loan. It indicated that after taking the PMMY loan the level of the production/ services is increased which significantly affect the small businesses.

In addition to this, hypotheses(H05) results show the chi –square value 4.126 and P value is 0.389 which is greater than the 0.05 which means null hypotheses is accepted and there is no significant effect on brand image after taking the mudra loan. The above results show(H06) the chi- square value is 3.843 and P value 0.428 which is greater than 0.05 which means null hypotheses is accepted and alternative hypotheses is rejected. The result showed that there is no significance effect on business innovations after taking the Mudra loan. Furthermore, the chi- square results of hypotheses(H07) shows the P value 0.186 which is greater than 0.05 which means null hypotheses is accepted and alternative hypotheses is rejected. The result showed that there is no significance effect on businessmen skills after taking the Mudra loan. The table clearly shows the P value 0.000 which is lesser than0.05 which means null hypotheses is rejected and alternative hypotheses is accepted. The result showed that there is significance effect on technology advancement after taking the Mudra loan. In the last hypotheses (H10))shows the P value 0.005 which is greater than 0.05 which means null hypotheses is accepted and alternative hypotheses is rejected. The result showed that there is no significance effect on number of employees after taking the Mudra loan.

### **Effectiveness Of PMMY In Supporting Entrepreneurship**

The Pradhan Mantri MUDRA Yojana (PMMY) has been effective in supporting entrepreneurship in India by providing collateral-free loans to micro and small enterprises, enabling individuals—especially youth, women, and marginalized groups—to start and expand their businesses. By improving access to formal credit, the scheme has reduced dependence on informal moneylenders and promoted financial inclusion, particularly in rural and semi-urban areas. PMMY has encouraged self-employment and contributed to job creation at the local level, thereby supporting inclusive economic growth. However, challenges such as small loan sizes, lack of entrepreneurial skills, and rising non-performing assets limit its overall impact. Despite these issues, PMMY remains a significant initiative in fostering grassroots entrepreneurship, especially when supported by proper training and monitoring mechanisms.

### **Challenges In the Implementation Of PMMY**

The implementation of the Pradhan Mantri MUDRA Yojana (PMMY) faces several challenges that affect its overall effectiveness. One major issue is the small size of loans, particularly under the Shishu category, which is often insufficient for sustaining or expanding businesses. Another significant challenge is the rising level of non-performing assets (NPAs), as many borrowers struggle with repayment due to unstable income or poor business

performance. Additionally, there is a lack of financial literacy and entrepreneurial skills among beneficiaries, which leads to inefficient use of funds and business failures. The scheme also suffers from inadequate monitoring and follow-up by financial institutions, resulting in limited guidance and support for borrowers after loan disbursement. Furthermore, some deserving applicants face difficulties in accessing loans due to procedural delays, documentation requirements, and risk-averse attitudes of banks. These challenges highlight the need for better training, stronger supervision, and improved credit support systems to enhance the effectiveness of PMMY.

## **Conclusion**

The Pradhan Mantri Mudra Yojana has significantly contributed to employment generation in the MSME sector by promoting entrepreneurship and improving access to finance. The scheme has enabled millions of individuals to start and expand businesses, thereby creating job opportunities and supporting economic growth. However, to enhance its effectiveness, policymakers must address existing challenges such as financial awareness, regional imbalances, and monitoring issues. With appropriate reforms and better implementation, PMMY has the potential to become a powerful tool for sustainable employment generation and inclusive development in India.

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