

A Study of Performance of PMMY among MSMEs in Promoting Financial Inclusion

Dr. Jayasree Nambiar¹

¹Assistant Professor

Balaji College of Arts, Commerce and Science, Pune-33

Publication Date: 2025/02/22

Abstract: An economy as vast as India, with a population exceeding 1.25 billion, cannot thrive without a robust presence of small, medium, and micro enterprises that generate employment opportunities for its rapidly growing population. At present, these small, micro, and medium-scale enterprises already employ more than 20% of India's workforce. Consequently, it becomes crucial to provide government support to these MSME in the form of loans, training, exposure, and marketing assistance for their products. Small businesses and micro-enterprises encounter several challenges, such as lack of information, financial illiteracy, restrictive entry-level policies, high operational costs, inadequate infrastructure, limited financial access, and technological barriers. In recognition of these obstacles, the Government of India introduced MUDRA loans in 2015, offering collateral-free loans to support these enterprises and ensure financial literacy. The scheme has been very active in disbursing loans to the MSME sector, with over 93% of the loans granted being below Rs. 50,000. Given these circumstances, it becomes imperative to conduct a comprehensive study and review the performance of the Pradhan Mantri Mudra Yojana (PMMY) to understand the success rate of this policy and its contribution towards financial inclusion. While the Mudra scheme has shown considerable success in all states, there is still a need for further efforts to ensure financial inclusion across all segments of the population.

Keywords: MUDRA Loan, MSME Sector, PMMY, Financial Inclusion, Maharashtra, Financial Literacy.

How to Cite: Dr. Jayasree Nambiar. (2025). A Study of Performance of PMMY among MSMEs in Promoting Financial Inclusion. *International Journal of Innovative Science and Research Technology*, 10(2), 294-299. <https://doi.org/10.5281/zenodo.14908884>.

I. INTRODUCTION

The Pradhan Mantri Mudra Yojana (PMMY) was initiated on April 8, 2015, by the Indian Government as a significant program with the purpose of offering financial aid to micro and small enterprises within the country. The term "Mudra" denotes Micro Units Development and Refinance Agency. Its primary goal is to foster entrepreneurship and generate job opportunities by providing financial assistance to small businesses and individuals, particularly those involved in non-farm income-generating activities. Financial Inclusion is defined as a process to ensure access to necessary financial services to the entire sections of the society such as low-income groups and weaker sections at an affordable rate. This scheme is effectively implemented through a network of banking systems like cooperative banks, rural banks and other microfinance institutions to ensure financial inclusion. This research paper delves deeper into the various aspects of the PMMY's implementation and highlights its achievements so far.

A. Objectives of Study

- To study the importance of PMMY in promoting start-ups and MSMEs.
- To review the performance of PMMY in financial inclusion.
- To make suggestions for better implementation of PMMY.

B. Research Methodology

The research adopted a descriptive approach, relying on secondary statistics gathered from diverse sources like websites and published articles, annual reports of SLBC and MUDRA bank, and annual economic survey of Maharashtra Government and the official website of MUDRA. It has covered the period of 8 years from the year of inception.

II. LITERATURE REVIEW

PMMY supported women entrepreneurs and broadened its base through financing new entrepreneurs over the years. This initiative of the government may

change the country's employment dynamics to the deserving community. (Silas et al., 2023)

The loan account statistics show that there is a continuous growth in banking transactions among the unprivileged section of the population. There was continuous growth in loan accounts opened and loan sanctioned in the category of Shishu users of PMMY in the study period. It shows that it is going to reduce the financial burden of poor and first-generation entrepreneurs. Also support to the existing business developers through the schemes of Shishu, Kishore and Tarun. (Sivabushanan & Rajendran, 2019)

The fast-growing performance of MUDRA scheme indicates the achievement of financial inclusion and growth of MSMEs in India. But shortcomings like sustainability and effectiveness need to be taken care of. (Pandey & Dixit, 2023).

➤ *Research Gap*

Many research articles have examined the impact of the Mudra scheme on the enhancement of the economy. They have analysed its effectiveness in various states and have also explored its role in promoting the "Make in India" initiative, which contributes to the growth of small-scale industries. This current study not only assesses the Mudra scheme's performance in fostering the growth of MSMEs but also its effectiveness in achieving financial inclusion. Additionally, it investigates the diverse Mudra offerings and products available, recent accomplishments in women's empowerment through the scheme, and a categorical analysis of the performance of PMMY. Another beneficiary are Women's self-help group borrowers. They can avail Mudra Loan at a lower interest rate (Shishu) which provides financial support to them and achievement of women empowerment.

III. ANALYSIS

A. *Pradhan Mantri Mudra Yojana program.*

During the scheme's launch, the Prime Minister emphasized the importance of supporting small entrepreneurs in India to drive economic growth and prosperity. He highlighted that micro enterprises employ significantly more people (120 million) compared to large corporate houses (12.5 million), underscoring the significance of uplifting the bottom of the pyramid through this initiative.

➤ *The PMMY offers Three Types of Loans:*

- **Shishu:** For loans up to Rs. 50,000, aimed at new or early-stage businesses.
- **Kishor:** For loans above Rs. 50,000 and up to Rs. 5 lakhs, targeting businesses seeking expansion or improvement of their existing operations.
- **Tarun:** For loans above Rs. 5 lakhs and up to Rs. 10 lakhs, designed for established enterprises looking for substantial growth and development.

This scheme is an integral part of the Government of India's efforts to promote financial inclusion and support the growth of the micro and small business sector, which plays an important role in the country's economic development. Its main objective is to provide loans to non-corporate, non-farm, small and micro enterprises, basically in sectors like manufacturing, services, retail and allied industries. The PMMY aims to empower unbanked citizens, offer microcredits, and foster self-reliance, contributing to the overall development of the economy.

As of November 25, 2022, according to data, over 37.76 crore loans amounting to more than Rs. 20.43 lakh crore have been disbursed since the scheme's inception in April 2015. The Ministry of Labour and Employment survey indicates that the scheme has led to the generation of 1.12 crore net additional employment opportunities in India from 2015 to 2018, within 3 years. Another feature is collateral free loans up to Rs.10 lakh is provided by the Member Lending Institutions (MLIs) such as Regional Rural Banks, Non-Banking Financial Companies, and Micro Finance Institutions. Under this scheme, any eligible person with a business plan can avail themselves of the loan for income-generating activities in manufacturing, trading, services, or activities allied to agriculture.

B. *Mudra Bank*

MUDRA Bank (Micro Units Development and Refinance Agency Bank) was launched in April 2015 as part of the Pradhan Mantri MUDRA Yojana (PMMY). It is a financial institution established by the GOI to provide financial assistance to non-corporate and non-farm small/micro enterprises. The primary objective of MUDRA Bank is to support and promote entrepreneurship and self-employment in India, particularly among small business owners and micro-entrepreneurs. MUDRA Bank operates as a refinancing institution for Scheduled Commercial Banks, Regional Rural Banks, NBFCs, and Micro Finance Institutions. These financial institutions, known as Member Lending Institutions (MLIs), offer collateral-free loans to micro and small businesses up to a certain loan amount under the three categories.

The MUDRA scheme offers different loan products tailored to the financial needs of micro and small entrepreneurs, allowing them to access funds for working capital, business expansion, purchase of equipment, and other business-related activities. The loans are typically provided for non-agricultural activities and allied agricultural activities. The scheme has been instrumental in providing financial support to millions of small business owners and has contributed to job creation and economic growth in the country. It aims to bridge the gap between the formal financial sector and the unbanked or underbanked sections of the population, fostering a culture of entrepreneurship and innovation. The primary aim of MUDRA banks is to promote and support small investors in expanding their capabilities and operations. Additionally, they aim to address the issue of over-indebtedness and provide a formal credit system to the rural and urban

economy. The bank focuses on agriculture and self-employment as key areas of emphasis.

➤ *The Main Functions of MUDRA Bank Include:*

- Formulating policies and guidelines for micro/small enterprises and Microfinance Institutions (MFIs).
- Registering MFIs and regulating their operations.
- Promoting and regulating responsible finance that benefits clients' welfare, and provides protection apply reasonable recovery methods.
- Accrediting and rating the MFIs.
- Providing appropriate technological solutions for the challenges faced by MFIs and borrowers.
- Establishing a robust architecture for last-mile credit delivery to MSMEs under the umbrella of the PMMY.

The clients of MUDRA Bank cater to various types of business, including proprietorship and partnership firms running small manufacturing units, shopkeepers,

fruit/vegetable sellers, hair cutting salons, beauty parlors, transporters, truck operators, hawkers, cooperatives, food service units, repair shops, machine operators, small industries, artisans, food processors, self-help groups, professionals, service providers, etc., in both rural and urban areas. These units can avail financing up to Rs. 10 lakhs.

Scheduled Commercial Banks, RRBs, and Cooperative Banks seeking refinancing from MUDRA must adhere to the interest rates recommended by MUDRA Ltd., and the interest rate is kept at the Marginal Cost of Funds Based Lending Rate. In the Budget of 2023-24, the government revamped the credit guarantee scheme for MSMEs, which came into effect on 1st April 2023. The scheme received an infusion of Rs 9,000 crore (US\$ 1.09 billion) in its corpus. This move is expected to enable an additional collateral-free guaranteed credit of Rs 2 lakh crore (US\$ 24.41 billion) and reduce the cost of credit by approximately 1%.

Table 1: Performance of Top 10 States (in crores)

Sr. No	Name of State	Disbursement Amt (2022-2023)	Disbursement Amt (2021-2022)
1	Uttar Pradesh	47,427.26	32,850.8
2	Bihar	45,448.59	30,725.07
3	Tamil Nadu	43,730.39	32,262.94
4	Karnataka	40,746.09	28,374.92
5	West Bengal	38,353.85	33,949.81
6	Maharashtra	36,104.52	25,416.48
7	Madhya Pradesh	24,632.59	18,218.44
8	Rajasthan	24,492.62	18,728.94
9	Odisha	21,505.13	16,557.27
10	Gujarat	17,507.49	11,990.04

Source: Compiled by Researcher, Data Obtained from www.mudra.org.in

The percentage of women entrepreneurs in terms of account holders is very high as per the data. Most of the Micro Finance Institutions deals with Shishu loan, their clients are mostly women entrepreneurs. The women borrowers' amounts to 71.03% in terms of the number of accounts and 47.74% by disbursement amount in FY 2022-23.

C. Mudra Card

Another initiative is Mudra card issued by various lending institutions which enables the borrowers to

withdraw the working capital as and when required. As per the data during FY 2022-23, 1.71 lakh Mudra cards have been issued for an amount of 4,402.61 crore. Since the cards issued in the last one year are usable in the next year also, the total number of cards reported relate to only the new cards issued during FY 2022-23. However, the total number of cards issued amounts to 20 lakhs which also includes the cumulative number of Mudra Cards issued so far. Majority of card holders are either women or new entrepreneurs. Which is a remarkable achievement towards financial inclusion.

Table 2: Cumulative data of Mudra Loan Beneficiaries for 8 Years Under Pradhan Mantri Mudra Yojana

Category	No. of Accounts	Sanctioned (Crore)	Amount Disbursed (Crore)
Total of Shishu, Kishore & Tarun	41,16,62,033	23,48,250	22,89,781
Out of the above			
Women	28,24,88,984 68.62%	10,58,623 45.08%	10,21,457 44.61%
New entrepreneur Accounts	8,46,68,872 20.57%	7,26,070 30.92%	6,96,287 30.41%
SC/ST/OBC	20,91,35,349 50.80%	8,16,714 34.78%	8,00,056 34.94%

Source: Compiled by Researcher, Data Obtained from www.mudra.org.in

The loan beneficiaries for the last 8 years cumulative data shows the participation of the under-privileged sections (SC, ST & OBCs) of the society in the PMMY program was 50.80% in terms of the number of loan accounts, and 34.94% in terms of the total loan amount disbursed. New entrepreneur loan accounts stood at 20.57% of total loan accounts and 30.41 % of the total disbursed amount. Nearly one crore new entrepreneur loan accounts disbursed loan under PMMY during the year 2022-23, compared with 65 lakhs in FY 2021-2022, registering a growth of 53.85%. The MUDRA Yojana supported to fulfil the aspirations of many MSM entrepreneurs who were otherwise outside the system of the formal banking system for a long time. Thus, contributing empowerment of weaker sections of the society to earn a living.

D. MSME Sector

The MSMEs have played a significant role in fostering entrepreneurial ventures through innovative business practices. These enterprises are characterized by diversified operations across the economy, offering a wide range of products and services to cater to both domestic and global markets. In India, MSMEs have proven crucial by generating substantial employment opportunities with lower capital costs compared to large industries. Also, they have helped to industrialize rural areas, reducing regional imbalances and enabled them to promote a more equitable distribution of national income and wealth. According to the recent survey conducted by NSS, India had approximately 633.88 lakh unincorporated non-agricultural MSMEs involved in diverse economic activities.

However, small businesses in the highly competitive Indian market face numerous challenges, including limited resources, lack of collateral, and a limited credit history. Access to funding becomes crucial for them to meet working capital needs, purchase equipment, expand their operations, and foster innovation. Adequate financial support not only helps these businesses survive but also empowers them to capitalize on growth opportunities and contribute to the country's overall economic progress.

Recognizing the importance of skill development and entrepreneurship, the government announced the launch of a unified Skill India Digital Platform in the 2023-24 budget. This platform aims to provide formal skilling opportunities based on demand and facilitating access to entrepreneurship schemes to the employers. As part of the Azadi ka Amrit Mahotsav celebrations, the Ministry of MSME, along with its various institutions, organizations and field offices, has organized numerous commemorative events and activities. These include conclaves in different regions of the country, awareness programs for various MSME schemes benefiting weaker sections, SCs, STs, women, and aspiring micro and small entrepreneurs. The Ministry also conducted a week-long Iconic Week during the Azadi ka Amrit Mahotsav, which included nationwide awareness programs through its field offices. Additionally, special initiatives such as "SAMARTH," a women-focused entrepreneurship promotion drive, was launched on occasions like International Women's Day. The Ministry also organized

job fairs, targeted campaigns on Udyam Registration, street plays in Aspirational Districts, and expeditions. Under the 'Azadi ka Amrit Mahotsav' initiative, the Ministry of MSME organized a month-long campaign called Udyami Bharat, culminating with an event presided over by the Hon'ble Prime Minister on June 30, 2022.

PMMY stands as one of the flagship schemes of the Indian government, designed to promote self-employment. It specifically targets micro and own-account enterprises, which form a vibrant business ecosystem in India. These micro enterprises are involved in various activities such as manufacturing, processing, trading, and services, with many being single-owner ventures.

According to the current guidelines, any eligible individual with a business plan for non-farm income-generating activities is eligible for credit under PMMY if their credit need is up to Rs. 10 lakhs. Between 2019-20 and 2021-22, 16.67 crore loans were issued under PMMY, amounts to 9.98 lakh crore of the total sanctioned value. Minister of State for Finance, Dr. Bhagwat Kisanrao Karad, stated that loans granted under Shishu category accounted for 66% of the additional employment generated by MUDRA recipients' enterprises and followed by this is Kishore (19%) and Tarun (15%).

To promote financial literacy and encourage rural entrepreneurship, 1,107 Centres for Financial Literacy (CFL) were established across the country as of 30.06.2022. These centers offer training programs to help rural residents develop business skills. Additionally, banks provide training through their Rural Self Employment Training Institutes (RSETIs) to support skill development and entrepreneurial growth among rural youth. The Pradhan Mantri MUDRA Yojana (PMMY) scheme has revolutionized the way small businesses in India by bridging the gap between traditional banking channels and small enterprises, empowering them to realize their dreams and contribute to the nation's economic growth.

E. Advantages

- Collateral free loans, comparatively low interest rate, Interest subvention of 2% is available to shishu category borrowers.
- Funding the unfunded (unregistered/informal business sectors can easily avail this fund).
- Mudra card to meet their working capital requirements.
- Loans are classified based on the OBC/SC/ST/WOMEN which determines their status and helps the government to take appropriate measures.
- Increase in the number of entrepreneurs and creating the employment opportunity.
- Women are becoming independent economically and financially. Economic and social status and standard of living women is increasing.

F. Disadvantages:

The loans are not always used effectively. Some borrowers use the loans to finance unproductive activities, such as consumption. The loans can be difficult to repay, especially for businesses that are not profitable. The PMMY has been criticized for supporting large businesses, as some large businesses have been able to access MUDRA loans even though they do not meet the eligibility criteria. Stricter credit assessment procedures, enhanced monitoring mechanisms, and a broader ecosystem approach are essential for the scheme to have a lasting positive impact on the Indian economy.

IV. FINDINGS

The scheme is so significant in entrepreneurship promotion, employment generation according to increase in the population, attainment of economic growth and equal distribution in rural and urban areas.

Creating self-employment opportunities for the people reduces the excess dependency on informal sector. The banks provide training to the rural population through rural self-employment institutions.

Better monitoring is required to ensure the effectiveness of the scheme. This can avoid the complaints from the beneficiaries that are unable to generate sufficient income to repay the loan.

Promote the categories other than shishu among women entrepreneurs. And the separate calculation of economically weaker section of the people among the beneficiaries is needed.

Industrialized states like Maharashtra need to promote loans by putting more effort.

The share of SC, ST and OBC categories in kishor and tarun categories also increased by providing awareness.

35.91% increase in the disbursement of loan amount in 2022-23 shows the increasing popularity of the scheme.

Mudra scheme is facing some issues in utilization of funds, repayment terms and management of funds.

V. CONCLUSION

The Pradhan Mantri MUDRA Yojana (PMMY) scheme has revolutionized the way small businesses in India to access financial assistance. It has bridged the gap between traditional banking channels and small enterprises, empowering them to realize their dreams and contribute to the nation's economic growth. To maximize the benefits of the PMMY scheme, it is crucial to have a reliable banking partner. IndusInd Bank, with its customer-centric approach, seamless banking services, and a wide range of financial products, including small ticket business loans, is well-positioned to support and nurture the aspirations of small

business owners. Embrace the opportunities offered by Pradhan Mantri MUDRA Yojana (PMMY) and open a Current Account to unlock the potential for growth and attain success of small business. Together, let us create a thriving ecosystem for entrepreneurship in India.

REFERENCES

- [1]. (n.d.).<https://www.ibef.org/government/schemes/pradhan-mantri-mudra-loan-bank-yojana>
- [2]. (n.d.).
<https://economictimes.indiatimes.com/industry/banking/finance/banking/npas-from-mudra-loans-in-maharashtra-at-16-32-till-june-2022-official>
- [3]. (n.d.).
https://mospi.gov.in/sites/default/files/publication_reports/AnnualReport2022-23_0.pdf
- [4]. (n.d.).
<https://www.indusind.com/iblogs/categories/sme/understanding-pradhan-mantri-mudra-yojana-pmmy>
- [5]. (n.d.).
<https://msme.gov.in/sites/default/files/MSMEA%20ANNUALREPORT2022-23ENGLISH.pdf>
- [6]. Gupta, S. (2015). MUDRA: Financial Inclusion of the Missing Middle. *Indian Journal of Applied Research*, V (11) 277-279
- [7]. Kumar, S. (2017). Impact of Mudra Yojana on Financial Inclusion. 6th International Conference on Recent Trends in Engineering, Science & Management, (pp. 861-865).
- [8]. Patil, S. G., & Chaudhari, P. T. (2016). MUDRA Helping Hand to Non-Corporate Small Business Sector (NCSBS). *Splint International Journal of Professionals*, III (3), 126-128
- [9]. Singh, K. R. (2018). Development of Micro, Small and Medium Enterprises through MUDRA Loans with Special Reference to Manipur. *Abhinav National Monthly Refereed Journals of Research in Commerce & Management*, VII (1), 55-61
- [10]. Anup Kumar Roy (2016), Mudra Yojana - A Strategic Tool for Small Business Financing, *International Journal of Advance Research in Computer Science and Management Studies*, Vol.4, Issue-1, Jan. ISSN2321-7782, pp. 68-72.
- [11]. Venkatesh J. and Kumar R. L. (2015), Performance of Mudra Bank : A Study on Financial Assistance to MSME Sector, *International Journal of Research in Economic and Social Sciences*, Vol.5, Issue-7, July, ISSN 2249-7382, pp.185-191.
- [12]. Aparna (2016), An Evaluatory Study of MUDRA Scheme, *International Journal of Multifaceted and Multilingual Studies*, Vol. 3, Issue-4, June, pp. 1-5.
- [13]. Kumari Seema (2015), MUDRA - Micro Units Development & Refinance Agency, *International Journal in Commerce, IT & Social Sciences*, Vol. 2, Issue-10, Oct., ISSN 2394- 5702, pp. 23-27.
- [14]. Sumit Kumar Gupta & et. al. (2015), Role of Mudra Yojana in Promotion of Trend in Scientific Research & Development, Vol. 1, Issue-6, ISSN2556-6470, Sept., pp. 1085-1089

- [15]. pandey, a., & dixit, v. (2023). empowering dreams : an analysis of pmmy ' s impact on micro-entrepreneurship and financial. july.
- [16]. Silas, c., sabina, p., & bodra, r. (2023). status & growth of pradhan mantri mudra yojana (pmmy) in india. 8(8), 876–879.
- [17]. Sivabushanan, v., & rajendran, g. (2019). mudra -a game changer in indian financial inclusion mudra – a game changer in indian financial inclusion.