

PRADHAN MANTRI MUDRA YOJANA AND ENTREPRENEUR DEVELOPMENT: AN ANALYSIS OF ITS IMPACT ON MSMES AND SMALL ENTREPRENEURS IN INDIA

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Abstract :

The Pradhan Mantri Mudra Yojana (PMMY) was launched by the Government of India in 2015 as a key initiative to promote financial inclusion, encourage entrepreneurship, and support the growth of micro and small businesses. With a focus on non-corporate, non-farm small/micro enterprises, PMMY aims to provide accessible financial resources to entrepreneurs, particularly in rural and semi-urban areas, to facilitate the growth and development of micro, small, and medium-sized enterprises (MSMEs). This research paper explores the role of PMMY in fostering entrepreneurship and examines its impact on MSME development in India. It assesses the challenges entrepreneurs face in accessing and utilizing the funds, the impact of the scheme on their business growth, and offers recommendations for further enhancing the effectiveness of the initiative.

Introduction :

Entrepreneurship is a cornerstone of economic growth, particularly in developing countries like India, where small and medium-sized enterprises (SMEs) play a vital role in creating jobs, fostering innovation, and contributing to economic dynamism. Despite their critical role in economic development, many small businesses in India face significant barriers in accessing financing. The **Pradhan Mantri Mudra Yojana (PMMY)**, launched in April 2015, seeks to address these barriers by offering micro-financing facilities to non-corporate, non-farm businesses.

PMMY provides loans to micro-entrepreneurs under three categories—**Shishu**, **Kishore**, and **Tarun**—based on the stage of business growth. The primary aim of this scheme is to promote entrepreneurship by making credit accessible to people who do not have access to traditional banking channels. This research paper investigates the scheme's impact on entrepreneurship development in India, the challenges faced by beneficiaries, and suggestions for improving the scheme.

Objectives:

- To evaluate the role of **Pradhan Mantri Mudra Yojana (PMMY)** in fostering entrepreneurial growth and development in India.
- To analyze the impact of PMMY loans on the performance and sustainability of micro-enterprises and MSMEs.



- To explore the challenges faced by entrepreneurs in accessing and utilizing loans under PMMY.
- To provide recommendations for improving the implementation and reach of the PMMY initiative.

Methodology :

This research paper adopts a mixed-method approach, combining qualitative and quantitative data:

1. **Qualitative Method:** Secondary data is gathered from government publications, reports by financial institutions, articles in academic journals, and other reliable sources. This provides an in-depth understanding of the policy framework and its intended goals.
2. **Quantitative Method:** Primary data is collected through surveys conducted among entrepreneurs who have availed of Mudra loans. The survey includes questions related to the loan application process, utilization of funds, impact on business operations, repayment behaviour, and challenges faced by entrepreneurs.

Data Analysis :

Overview of PMMY Loan Disbursement :

PMMY was designed to provide funding to micro-entrepreneurs across India in a way that promotes self-employment and business growth. As of **March 2023**, the government had disbursed a total of INR 15 lakh crore under PMMY, with over **30 crore loans** granted. The distribution of loans is segmented into three categories based on the business stage:

1. **Shishu Category** (up to INR 50,000): Aimed at new businesses and start-ups.
 2. **Kishore Category** (INR 50,001 to INR 5 lakh): For established businesses looking to expand operations.
 3. **Tarun Category** (INR 5 lakh to INR 10 lakh): For businesses that are well-established and need larger funding for expansion.
- **Shishu loans** make up the largest proportion of the total loans disbursed under PMMY, indicating a strong preference for micro-loans aimed at new entrepreneurs.
 - **Kishore and Tarun loans** are seeing consistent growth, with an increasing number of small enterprises needing more substantial financial support to expand.

Geographical Distribution of PMMY Loans:

PMMY has been designed to be inclusive and reach entrepreneurs across India. However, the geographic distribution of the loans reveals regional disparities:

- **Uttar Pradesh, Maharashtra, Tamil Nadu, and West Bengal** are the leading states in terms of loan disbursement. These states have a high concentration of small businesses and entrepreneurs, which aligns with the scheme's objectives.
- **Rural Areas:** Despite efforts to promote rural entrepreneurship, there is a **low penetration of Mudra loans in rural areas**. A substantial portion of loan



disbursements still occurs in urban and semi-urban areas.

Sectoral Distribution:

The PMMY scheme has had significant sectoral reach, with loans being provided to businesses in several sectors:

1. **Retail Sector:** A significant portion (around **35%**) of loans has been disbursed to the retail sector, including small shop owners, street vendors, and other retail entrepreneurs.
2. **Manufacturing:** Approximately **25%** of the total loans have supported small manufacturing unit, which includes the production of goods in sectors like textiles, food processing, and handicrafts.
3. **Service Sector:** About **30%** of loans have been disbursed to businesses in services such as education, healthcare, beauty services, and transport.

Challenges in Loan Repayment:

While PMMY has successfully supported entrepreneurship, the challenge of loan repayment remains a concern. Loan default rates have been a growing issue, particularly for Shishu category borrowers. Reasons for defaults include:

- **Low Business Turnover:** Many micro-enterprises struggle to generate sufficient revenue to repay loans.
- **Lack of Financial Literacy:** Many entrepreneurs lack the skills to manage their finances and adhere to repayment schedules.
- **Delays in Customer Payments:** A large number of small businesses face cash flow issues due to delayed payments from customers.

Findings:

1. **Increased Access to Finance:** PMMY has been successful in improving access to credit for small and micro-entrepreneurs, who previously struggled to obtain loans from traditional financial institutions due to the lack of collateral or formal business documentation.
2. **Growth in Business Activity:** Entrepreneurs who availed of Mudra loans have reported an increase in their business activity. Many entrepreneurs have been able to expand their product lines, hire additional staff, and improve their overall operations.
3. **Challenges in Loan Utilization:** Despite access to funds, the proper utilization of loans remains a significant concern. Some entrepreneurs report that the funds were insufficient for large-scale business development. Others indicate that the lack of guidance on financial management made it difficult to optimize the loan.
4. **High Default Rates:** A number of small businesses struggle to repay loans due to economic hardships, business challenges, and lack of financial discipline. Default rates are higher among Shishu loans, which are granted to newer entrepreneurs with limited business experience.
5. **Uneven Geographical Reach:** While urban areas have seen success in loan disbursement, the rural and remote areas still face barriers in accessing the scheme, including lack of awareness, infrastructure, and financial literacy.



Conclusion:

The Pradhan Mantri Mudra Yojana (PMMY) has undeniably played a pivotal role in promoting entrepreneurship and supporting the growth of small businesses in India. The scheme has helped create a more inclusive financial environment by providing easy access to capital for micro-enterprises, especially in sectors such as retail, manufacturing, and services. However, challenges such as high loan defaults, geographical disparities, and insufficient loan utilization indicate that there is room for improvement in the implementation of PMMY.

To ensure that the scheme's benefits are fully realized, targeted interventions are required to improve financial literacy, extend outreach to rural areas, and reduce default rates. By addressing these challenges, PMMY can further contribute to the growth of MSMEs and the development of entrepreneurial ecosystems in India.

Recommendations:

- 1. Financial Literacy Programs:** A strong emphasis should be placed on financial education, particularly in rural areas. Financial literacy programs can help entrepreneurs understand the loan process, repayment schedules, and effective utilization of funds. This will reduce default rates and ensure the sustainability of businesses.
- 2. Strengthening Outreach in Rural Areas:** A more aggressive campaign should be launched to promote PMMY in rural regions, using local channels such as village meetings, mobile banking units, and local government agencies. This will help bridge the urban-rural divide and ensure equitable access to the scheme.
- 3. Loan Monitoring and Support Systems:** Improved loan monitoring systems should be developed to track the progress of loan utilization and repayment. Banks and financial institutions should offer personalized guidance and advisory services to borrowers, ensuring that they use the funds effectively and maintain regular repayment schedules.
- 4. Incentives for Timely Repayment:** To encourage responsible borrowing, the government could introduce incentive schemes for entrepreneurs who repay their loans on time, such as offering lower interest rates on future loans or additional funding.
- 5. Sector-Specific Financial Products:** Financial products tailored to specific sectors, such as agriculture, technology, and manufacturing, can help address unique challenges faced by entrepreneurs in different industries. Specialized loan products can better meet the specific needs of entrepreneurs in these sectors, improving their chances of success.

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