



## Challenges and Opportunities under the Pradhan Mantri Mudra Yojana in India

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DOI - 10.5281/zenodo.15542661

### Abstract:

*This paper examines the challenges and opportunities associated with the Pradhan Mantri Mudra Yojana (PMMY), a flagship financial inclusion program aimed at supporting micro, small, and medium enterprises (MSMEs) in India. The study evaluates the scheme's implementation, identifies key bottlenecks, and highlights potential areas for policy enhancement. Insights from secondary data sources, policy reports, and case studies form the basis of this research.*

**Keywords:** Pradhan Mantri Mudra Yojana, Financial Inclusion, MSMEs, Credit Access, Economic Development, Entrepreneurship.

### Introduction:

The Pradhan Mantri Mudra Yojana (PMMY), launched in 2015, aims to empower small entrepreneurs by providing affordable credit. This study investigates the scheme's operational framework, its socio-economic impact, and the challenges and opportunities it presents. The scheme provides collateral-free loans to micro and small enterprises through formal banking institutions, enabling business growth and job creation. By targeting the underserved segments of society, including women and marginalized groups, PMMY seeks to bridge the credit gap and stimulate economic development. This paper analyzes the scheme's implementation, highlights critical challenges, and explores emerging opportunities that can enhance its effectiveness in driving inclusive economic growth.

### Objectives:

1. To evaluate the implementation and performance of PMMY.
2. To identify key challenges faced by beneficiaries.
3. To explore opportunities for improving the scheme's effectiveness.
4. To suggest policy recommendations for addressing the gaps and leveraging growth opportunities under PMMY

### Review of Literature:

"Impact Assessment of Pradhan Mantri Mudra Yojana (PMMY)" by NITI Aayog (2024). This comprehensive report assesses the effectiveness of PMMY, identifying contributions, barriers, gaps, and areas for improvement within the scheme's value chain. It includes quantitative and qualitative analyses, along with stakeholder interactions.

"A Study and Review of Pradhan Mantri Mudra Yojana (PMMY) in the State

of Maharashtra" by Anupam Das (2020). This paper examines the status of MUDRA loans in Maharashtra, evaluating the scheme's success in promoting financial inclusion and entrepreneurship within the state.

"Pradhan Mantri Mudra Yojana: A Critical Review" by S. K. Baral and S. K. Soni (2017). This critical review analyzes the performance of PMMY, discussing disbursement targets, growth rates, and regional disparities. It provides insights into the scheme's implementation challenges and successes.

"MUDRA Yojana: Its Awareness Level and Problems Faced by Beneficiaries in Haryana State" by Ritu Gupta and Suman (2022). This study investigates the awareness levels of MUDRA Yojana among beneficiaries in Haryana and identifies the challenges they face in accessing and utilizing the scheme's benefits.

### Research Methodology:

This study is based on secondary data which has been gathered from website of MUDRA and its annual reports. For this descriptive study, quantitative and analytical techniques are applied on the secondary or published data. The information for MUDRA Yojana was mostly acquired from the yearly reports of MUDRA Yojana and its official website; however, it was also obtained from several journals, articles, magazines, and quarterly publications, among other sources and also analysed the strength, weaknesses, opportunities and challenges (SWOC) for better understanding the MUDRA Yojana. Surveys and interviews with beneficiaries and bank officials provide qualitative insights into the scheme's impact.

### Challenges of PMMY:

**High NPAs (Non-Performing Assets):** Some Mudra loans have shown increasing defaults, especially in the **TARUN** category

(loans above 5 lakh to 10 lakh). This raises concerns about creditworthiness and recovery mechanisms.

**Lack of Financial Literacy:** Many small entrepreneurs, especially in rural areas, lack financial awareness and understanding of loan processes. This can lead to mismanagement of funds and loan defaults.

**Collateral-Free Nature:** While collateral-free loans are beneficial, they increase the lender's risk. This can result in stricter eligibility checks, limiting access for high-risk borrowers.

**Limited Credit Absorption Capacity:** Small businesses in rural areas may lack the capacity to effectively utilize large loans, reducing their growth potential despite loan availability.

**Operational Bottlenecks:** Banks and MFIs sometimes face delays in processing Mudra loans due to insufficient manpower, resulting in slower disbursement.

**Sector-Specific Risk:** Some sectors like agriculture and small-scale manufacturing face inherent market risks, affecting their ability to repay loans consistently.

### Opportunities of PMMY:

**Boosting MSME Sector Growth:** PMMY continues to be a significant driver for the growth of micro and small enterprises (MSMEs), which contribute to **30% of India's GDP**. More credit flow can spur entrepreneurship and job creation.

**Women and Youth Empowerment:** Mudra loans have a high share of beneficiaries from **women entrepreneurs (around 68%)** and youth. This aligns with the government's focus on gender equality and employment generation.

**Rural Development:** Expanding Mudra loans in rural areas can boost local businesses, enhance rural livelihoods, and reduce migration to urban centers.

**Digital Inclusion and Fintech:** With greater integration of **Fintech and digital platforms**, the loan application and

disbursement process has become faster and more transparent, reducing red tape.

**Support for Unbanked and Underbanked:** PMMY bridges the gap for those lacking access to formal credit systems, fostering financial inclusion for marginalized communities.

**Post-Pandemic Recovery:** Mudra loans play a crucial role in revitalizing small businesses affected by the pandemic, facilitating economic resilience and recovery.

### Evaluation of the implementation and performance of PMMY:

#### 1. Implementation Analysis:

**a. Loan Disbursement and Coverage:** Since its inception, PMMY has witnessed substantial growth in loan disbursement. As of FY 2023-24, more than ₹24 lakh crore has been disbursed to over 43 crore beneficiaries. Women entrepreneurs constitute around 68% of total beneficiaries, and approximately 55% of loans have been sanctioned to SC/ST/OBC categories.

**b. Institutional Participation:** The scheme is implemented through a network of public and private sector banks, regional rural banks (RRBs), microfinance institutions (MFIs), and non-banking financial companies (NBFCs). This multi-channel approach enhances accessibility to credit, especially in underserved regions.

**c. Sectoral Distribution:** A significant proportion of Mudra loans cater to the trading and services sector, followed by agriculture-allied activities and manufacturing. While the scheme has facilitated growth in small businesses, the uptake in manufacturing remains relatively low.

#### 2. Performance Evaluation:

**a. Employment Generation:** PMMY has been instrumental in promoting self-employment and small-scale entrepreneurship. Government reports

estimate that the scheme has created approximately 1.2 crore jobs annually. However, long-term sustainability of these enterprises is still under review.

**b. Financial Inclusion:** PMMY has contributed significantly to financial inclusion by formalizing the informal sector and integrating micro-enterprises into the banking framework. This has enhanced access to institutional credit for previously unbanked or underbanked segments.

**c. Empowerment of Marginalized Groups:** The scheme has empowered women, SC/ST entrepreneurs, and other marginalized communities, fostering greater economic participation and narrowing socio-economic disparities.

**d. Non-Performing Assets (NPAs):** Despite its success, PMMY faces challenges related to loan repayment. NPAs under Mudra loans range between 3-5%, with higher default rates observed in certain regions and sectors. This remains a concern for financial institutions.

### Policy Recommendations & suggestions

- Enhance financial literacy programs for better business management.
- Strengthen monitoring mechanisms to ensure proper loan utilization.
- Promote partnerships with fintech firms for credit assessment.
- Address regional imbalances through targeted outreach in underserved areas.

### Conclusion:

The Pradhan Mantri Mudra Yojana has emerged as a transformative policy for fostering entrepreneurial growth in India. By addressing financial barriers and promoting inclusive lending, the scheme has empowered millions of small businesses and micro-enterprises. Despite these successes, challenges such as rising NPAs, regional imbalances, and limited financial literacy persist. To unlock the full potential of

PMMY, policymakers must focus on enhancing financial literacy programs, leveraging digital technology for loan monitoring, and fostering partnerships with fintech firms to improve credit assessment and recovery processes. Additionally, targeted outreach in rural and underserved areas can bridge regional disparities and ensure equitable access to credit.

As India continues its journey towards economic self-reliance, PMMY stands as a critical pillar for MSME growth, job creation, and inclusive development. By refining existing mechanisms and embracing innovative solutions, the scheme can further contribute to the vision of 'Aatmanirbhar Bharat' and drive sustainable economic progress.

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