



## Empowering India's Micro-Entrepreneurs: An Analytical Overview of the Highlights of the MUDRA Scheme

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### Abstract

MUDRA scheme was launched in 2015 under Pradhan Mantri MUDRA Yojana with the objectives of supporting micro unit entrepreneurship and financial inclusion in the micro units by providing collateral free loans to non-corporate / non-individual entities. This paper delves into the impact of the established scheme in relation to employment, financing, and business development with a special focus on women and vulnerable persons. However, the scheme has been effective in the goal of credit access and addendum comes with challenges like the increasing NPAs and the sustainability of employment generation. This research analyzes loan disbursements, non-performing assets and the financial sustainability of the program through quantitative and qualitative research methods. It provides policy recommendations to improve the effectiveness of the scheme. Greater emphasis on risk management, financial awareness, and the enhanced application of technology is necessary for the continued success and effectiveness of the MUDRA scheme as a model for the further development of the financial inclusion of the population in India. Some possibilities for further research are: focusing on particular industries and presenting the implementation differences at the regional level.

**Keywords:** MUDRA; Financial Inclusion; India, Schemes; Finance, Banks; MSME





## 1. Introduction

MSMEs contribute a significant percentage to India's economy, and the development and the current performance show how much the economy depends on the sector. Hence, these businesses not only give employment to a large number of people but also show a great deal in the country's gross domestic product (GDP) contribution. Nevertheless, the use of formal financiers has remained a difficult factor for many small businesses for a long time. To bridge this gap, the Indian government came up with the Micro Units Development and Refinance Agency (MUDRA) in 2015 under the Pradhan Mantri MUDRA Yojana (PMMY). The aim of this program was to provide small and micro businesses in the non-corporate and non-farming segment with affordable loans. HSF expanded credit has been featured for its positive impact in enhancing the credit outreach to the targeted vulnerable groups of society (Dash & Shrimali, 2022; Karthick & Maran, 2022). Studies have shown that the scheme is vital for encouraging the startup culture and providing employment opportunities, especially in the countryside (Bhat, 2022). Additionally, cross-sectional analysis shows that compared to public banking institutions, private banking sectors have unique challenges related to credit risk management that can affect the success of the MUDRA Yojana positively (Bhanushali & Deshmukh, 2023; Joseph & Roy, 2023). The rationale for centering this analysis on the MUDRA scheme stems from the fact discussed in the previous section, which underlines that this government intervention drives financial inclusion and promotes the economic development of the country. To cover different phases of business, the scheme provides loans in three different segments named as Shishu, Kishore, and Tarun and thus promotes the spirit of entrepreneurship across the India. Moreover, the selected scheme targets women and other vulnerable groups, making it a significant public finance tool for tackling inequalities and promoting inclusive growth. Thus, it becomes essential to assess whether the MUDRA scheme has been successful in various parameters including financial inclusion, employment generation, and evaluation of fiscal impact on public finance system in India. It further considers the difficulties which the scheme has to overcome, before outlining the future policy implications for advancing the identified objectives. The primary data to be collected for the study will include details about the scheme, its effects and placement within overall public fisc in India.





## 2. Methodology

This section defines the research method, instruments and techniques used in evaluating the impact of the MUDRA Scheme within the larger perspective of public expenditure. An exploratory approach involving statistical analysis, subjective evaluation, and policy analysis was used to assess the scheme's impact, obstacles, and costs. There will be combined use of both empirical and non-empirical methods to conduct an assessment of the MUDRA scheme. This design allows for a more comprehensive analysis of the effects of the scheme on financial liberalisation, employment generation, entrepreneurial formation, and fiscal prudence within the Indian public finance framework.

**Quantitative Analysis:** This section requires data on the loans that are being disbursed under MUDRA and the number of borrowers, NPAs, and employment opportunities generated. Statistical tests and graphs are used to identify trends and patterns across time.

**Qualitative Analysis:** This aspect involves a literature search on policy dynamics and MUDRA scheme, government documents, and case studies to establish the existing knowledge on the policy implications and policies of the MUDRA scheme. Particular attention is paid to the issues of diversity, opportunities, risks, and financial responsibility.

### **Quantitative data sources:**

**Policy Review:** This involves exploring the various aspects of public finance such as public finance regimes, government budgets, and relevant policies in order to contextualize the MUDRA scheme in terms of economic and social objectives.

**PMMY Annual Reports:** These reports contain quantitative data of loans sanctioned and disbursed, loans given to women, SC/ST/OBC etc., and the division of loans sector wise.

**Ministry of Finance Reports:** Such reports help in gaining an understanding of government expenditure on MUDRA, budgetary provisions, and trends in NPAs. - **RBI Data on NPAs:** Information from RBI enables one to evaluate fiscal exposure connected with MUDRA loans.

**Employment Data from NSSO and CMIE:** The unemployment impact of the scheme is predicted based on employment intents obtained from the National Sample Survey Office (NSSO) and the Centre for Monitoring Indian Economy (CMIE).





### **Qualitative Data sources**

Academic Literature: Studies related to micro financing, financial access and the MSMEs in India serve as the theoretical foundations for assessing the MUDRA scheme.

Government Policy Documents: These documents are scrutinized in order to consider the overall compatibility of the scheme with other areas of public finance and socio-economic development.

Case Studies and Field Reports: Tacit knowledge of the current working of the MUDRA scheme on the ground level, such as the difficulties and the achievements, has been gathered from reports of SIDBI (Small Industries Development Bank of India) and micro finance bodies.

### **3. MUDRA Scheme Overview**

The Micro Units Development and Refinance Agency (MUDRA) scheme under the Pradhan Mantri MUDRA Yojana (PMMY) was launched in 2015 to address the credit crunch problem faced by the micro and small enterprises which are hardly able to access credit from the formal banking sector. The scheme is being executed to offer collateral free micro-credit to the non-corporate and non-farm micro-business which in turns seek to enhance financial inclusion and micro-entrepreneurial growth in India.

#### **3.1 Objectives of MUDRA**

The MUDRA scheme was mainly designed to offer credit facilities for micro entrepreneurs and other units to enable the units to acquire requisite finance for starting their projects and for development besides meeting their working capital requirements.

- 1) Improving the financial intermediation through providing formal credit to some excluded and less-banked segments of the population like women and SC/ST/OBC categories.
- 2) Reducing the reliance on informal credit sources as a way of encouraging small business through provision of affordable capital.
- 3) Sustaining job creation through advocating for self-employment and promoting the growth of small businesses.





### 3.2 Loan Categories under MUDRA

MUDRA loans are classified into three segments based on the stage of business development and the amount of funding required: MUDRA loans are classified into three segments based on the stage of business development and the amount of funding required:

- 1) Shishu (Up to INR 50,000): This category is recommended for new entrants and existing business people who require little capital to begin their business activities. It is common for these loans to be made for working capital and purchase of raw materials.
- 2) Kishore (INR 50,001 to INR 5 lakh): These are existing firms, summarized as those that are already in operation and looking for funding to expand or scale up their activities. Kishore loans are utilized in operations like the expansion of existing activities or in developing facilities etc.
- 3) Tarun (INR 5 lakh to INR 10 lakh): The Tarun segment targets the more mature businesses that need relatively bigger amounts of cash for making significant investments – for example, buying a production equipment or acquiring new outlets.

### 3.3 Implementation Structure

The MUDRA scheme is implemented through various banks such as the public sector and private sector banks, RRBs, MFIs, NBFCs etc. They are the institutions that were expected to disburse loans to the qualified borrowers. Since it exists as a subsidiary of SIDBI, it refines these institutions to enable constant funding of credit.

### 3.4 Inclusivity and Social Impact

Another strong side of the proposed MUDRA scheme is that it targets the requirement of financial support for weaker sections of the society. The issue of gender and deprivation has been addressed wherein a significant amount of loans from MUDRA have been availed by women and SC/ST/OBC individuals with an intention to scale up socio-economic equity and integration. This social impact transcends the monetary aspect of it, enabling people with disadvantageous circumstances to engage in economic activities at a closer to a level ground.





#### 4. Impact Analysis

The MUDRA scheme has attracted attention in terms of the overall positive impact for lower income individuals and microloans, promoting both employment and financial services. As a three-tier loan providing scheme, this scheme has benefited millions of small businesses across the nation including Shishu, Kishore, and Tarun. This section presents a detailed analysis of the MUDRA scheme's impact in four areas: greater access to financial services, employment creation, promotion of enterprise growth, and financial soundness.

##### 4.1 Financial Inclusion:

Thus, one of the objectives of the MUDRA scheme is to bring micro and small enterprises that have been operating in the informal financial sector to avail formal credit facilities. Since its establishment the scheme has approved large amount of credit to the businessmen particularly the rural / semi urban borrowers. Hence, this scheme of financial inclusion has gone a long way in ensuring income equality, equal economic opportunities, and equality for the disadvantaged groups of the society.

Table 1: MUDRA Loan Disbursement (2015-2023)

Year	Total Loans Disbursed (INR Crore)	Number of Beneficiaries (in million)
2015-2016	1,32,954	34.2
2016-2017	1,80,528	39.7
2017-2018	2,46,437	48.3
2018-2019	3,21,722	59.8
2019-2020	3,42,487	63.6
2020-2021	3,24,467	61.0
2021-2022	3,37,467	64.5
2022-2023*	3,50,000 (approx.)	67.0 (approx.)

Source: Author's compilation based on government reports.

Analyzing the data presented in Table 1, one can conclude that there is a consistent increase in the total loan disbursement and the number of beneficiaries. The lending activities have played a role of decreasing the on the informal sectors, most of which attract very high interest rates on loans





advanced. This has also opened up an entry point to the formal financial system for millions of small businesses that were hitherto restricted in their growth and scalability prospects.

#### 4.2 Employment Generation:

The employment numbers prove that the MUDRA scheme has helped in generating new jobs especially for the youths in the Rural and Semi Urban areas where the formal employment opportunities are scarce. Small business schemes have ensured that there is provided capital assistance to the business holders to establish and run their businesses hence creating employment for the citizens.

Table 2: Estimated Employment Generation through MUDRA (2015-2023)

Year	Estimated Jobs Created (in million)
2015-2016	2.1
2016-2017	2.8
2017-2018	3.5
2018-2019	4.2
2019-2020	4.6
2020-2021	4.4
2021-2022	4.7
2022-2023*	5.0 (approx.)

From the table 2, it is clear that Mudra employment generation has been successful in creating millions of employments over the years. This is particularly relevant in a country such as India where employment generation continues to be a major challenge because of the bumper crop of individuals who are joining the workforce every year.

#### 4.3 Entrepreneurship Development:

The MUDRA scheme has eased the initial setups by providing collateral-free loans, and benefited the aspiring female entrepreneurs especially the ones belonging to SC, ST, and OBC categories. This inclusiveness has therefore gone a long way in encouraging entrepreneurship among a segment of population, which could have otherwise lacked a voice.



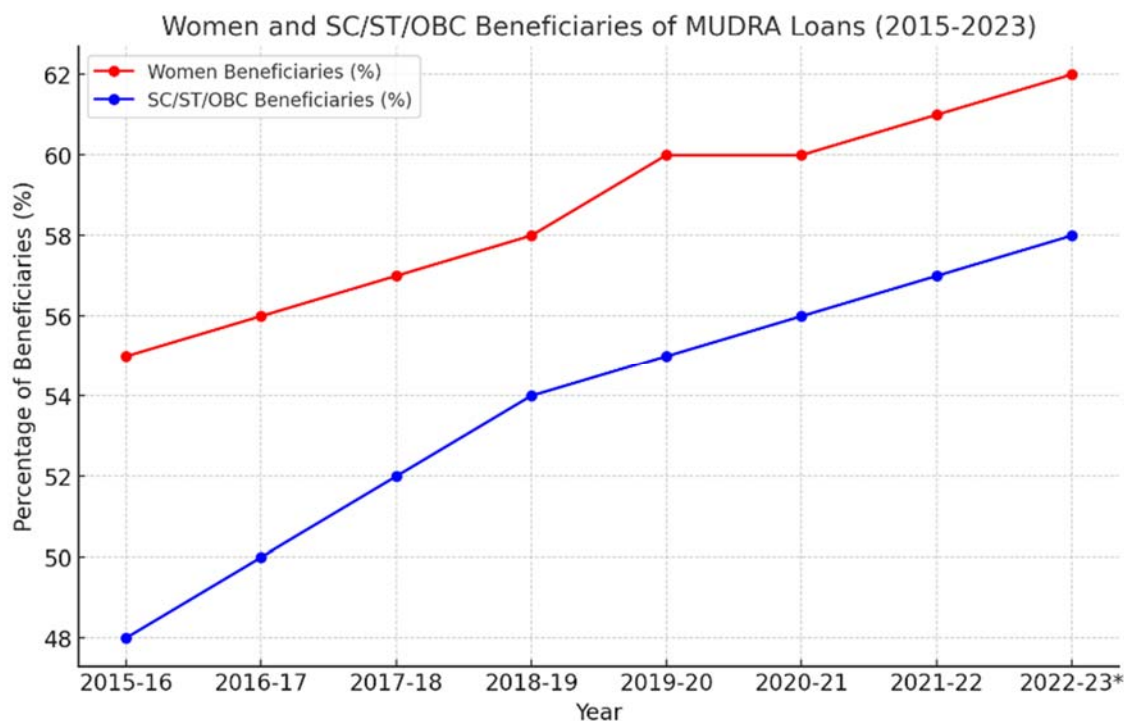


Figure 2. Women & SC/ST/OBC Beneficiaries of MUDRA Loans

Figure 2 above depicts the gradual increase in the number of women and other SC/ST/OBC beneficiaries of the MUDRA loan. This development further cements the above scheme as the best solution to increased inclusiveness and supporting minority groups to embrace entrepreneurship.

#### 4.4 Fiscal Sustainability and Challenges:

The successful implementation of the MUDRA scheme has its advantages in terms of financial inclusion and in fostering entrepreneurship; however, it has raised some fiscal issues. Some of the criticisms include the sustainability of the scheme through allocation of funds for collateral-free loans especially in the Shishu category. Furthermore, the increasing cases of NPAs have led to criticisms over the sustainability of the program.

Table 3: Government Expenditure on MUDRA Scheme (2015-2023)

Year	Government Allocation (INR Crore)	NPA (%)
2015-2016	2,000	2.5
2016-2017	3,000	2.8
2017-2018	5,000	3.1







Year	Government Allocation (INR Crore)	NPA (%)
2018-2019	6,500	3.4
2019-2020	8,000	4.2
2020-2021	9,000	4.5
2021-2022	10,000	4.7
2022-2023*	10,500 (approx.)	5.0 (approx.)

This is evident from the table 3 which shows an increase in both the government funding on the scheme and the NPA over the years. One of the issues which have emerged is the rise in NPAs, particularly in the Shishu category. Although many borrowers who receive loans under this scheme did not offer any form of security, such a style of lending increases the probability of default of loans thereby undermining the scheme.

### 5. Challenges and Criticisms:

Despite the noble efforts of the MUDRA scheme to increase the credit demand of micro-entrepreneurs, the scheme is not without some challenges that affect its effectiveness.

- 1) The first criticism that can be made about the MUDRA Scheme is that NPAs have increased with the development of the Scheme. Since the loans do not have collateral, the default rate is high, especially in the Shishu category whereby borrowers are still establishing their business. The elimination of collateral significantly improves financial accessibility but has led to increased default incidence, thereby questioning the plan's viability.
- 2) While it has been effective in creating employment through loans the long-term success of the scheme has been a matter of debate. Although job creation has improved in terms of the number of jobs that have been created recently, especially in the rural and semi-urban areas, the issue that arises is the sustainability of the created jobs. The emphasis, therefore, on the provision of capital without complementing measures to raise the capacities of the borrowing entities and improve the services that will support business growth can hamper innovative job creation in the long run.
- 3) The threat faced by the MUDRA scheme is that there are no effective systems put in place for monitoring the progress of the scheme. Efficient monitoring systems that would allow for the evaluation of the loan utilization and the efficiency of the business financed by the scheme are





missing hence the government lacks adequate measures in determining the effectiveness of the scheme. Improved supervision and enhanced assessment frameworks are required to provide evidence that loans are utilised relevantly and corporations operate with a sustainable growth strategy.

## 6. Conclusion

The MUDRA scheme stands as a prime example of an appropriate government plan to encourage individual access to credit and empower micro and small business ventures in India. The Kishore and Tarun sub-schemes serve as collateral-free loans, helping millions of businesses across the country, especially small-scale and rural enterprises. This has been crucial in the opening up of credit for the disadvantaged groups like the women and those from SC/ST/OBC backgrounds.

Although the scheme helped in employment generation and financial inclusion, it has some issues that pose threats to its future sustainability. Higher NPAs, especially in the Shishu segment, threaten the financial sustainability of the scheme. Furthermore, inadequate supervision of loan realization and poor financial management acumen among beneficiaries foster inefficiency in the use of funds.

To sustain and build upon the MUDRA scheme, it is important for the government to work on furthering risk mitigation solutions, refining credit appraisal mechanisms, and increasing the level of financial awareness among the mass populace of beneficiaries. Further, the enhancement of technology tools to determine credit eligibility and overseeing the use of these loans could also reduce possible defaults. If these challenges are well managed, the MUDRA scheme shall continue to be an essential solution to supporting the inclusive economic growth of India.

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