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Financial Inclusion Under the Pradhan Mantri Mudra Yojana

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1. ABSTRACT

This study evaluates the impact of the Pradhan Mantri Mudra Yojana (PMMY), launched in 2015, as a key financial inclusion initiative aimed at providing collateral-free loans to micro and small enterprises (MSEs) in India. Using secondary data from PMMY annual reports, RBI, SIDBI, and MSME Ministry sources, the paper analyses trends in credit disbursement, borrower demographics, and regional patterns across the Shishu, Kishore, and Tarun loan categories. The findings indicate that while over ₹18.39 lakh crore has been sanctioned to 34.93 crore borrowers, a disproportionate share remains within the Shishu category, raising concerns about scalability and long-term sustainability. The study conducts regression analysis to examine disparities in loan allocation based on gender, caste, and entrepreneurial experience. Results show that female borrowers receive on average ₹13,400 less than male counterparts, and Scheduled Caste borrowers receive significantly lower loans (₹2.84 lakh less), indicating persistent systemic biases. First-time entrepreneurs also face notable disadvantages, with lower average loan amounts and limited access to higher-value credit. While PMMY has enhanced financial access, particularly for women and marginalized groups, the benefits remain uneven in terms of loan size and business advancement. The paper highlights regional disparities, declining participation of new entrepreneurs, and challenges related to financial literacy, documentation, and bank risk aversion. It concludes with policy recommendations to strengthen post-loan support, digital access, and targeted interventions for underserved populations. Overall, PMMY represents a promising step toward inclusive finance, but structural and institutional reforms are essential to maximize its transformative potential.

Keywords: Financial Inclusion; Pradhan Mantri Mudra Yojana (PMMY); Microfinance; Credit Access Equity; Public Credit Schemes

2. INTRODUCTION

Financial inclusion is a key factor of socio-economic development. It helps individuals and firms get access to cost-effective financial products needed for expansion. In India, the majority of people are underbanked or excluded from financial services. A study commissioned by the International Finance Corporation (IFC) pegs this gap to be INR. 16.66 lakh crore, with more than 80% of MSMEs not receiving any formal financing. This is filled through the interventions by the government. Among such programs is the Pradhan Mantri Mudra Yojana (PMMY), better known as the MUDRA scheme. It was started in 2015 to cater to the credit requirements of micro and small businesses. It provides loans without collateral and seeks to enhance inclusive entrepreneurship and cater to underserved segments. This includes women, Scheduled Castes (SC), Scheduled Tribes (ST), Other Backward Classes (OBC), and first-time entrepreneurs. Additionally, MUDRA’s mandate inculcates transforming the microenterprise sector into a viable economic sector through various developmental interventions, including financial and business literacy programs.

Persistent financial exclusion faced by micro and small enterprises (MSEs) in India gives rise to the need for such an initiative. Though MSEs have contributed significantly to employment, generation and economic output which can be validated through a survey conducted by the National Sample Survey Organization (NSSO) in 2013 that states, “more than 5.77 crore micro units exist in our country, providing employment to nearly 12 crore people,” they continue to struggle with limited access to formal credit due to a lack of collateral, high processing fees, and inadequate financial literacy. A major proportion of the total credit demand by MSEs remains unfulfilled, leading many businesses to rely on informal and high-interest borrowing sources. The MUDRA scheme was conceptualised to address this credit gap by extending affordable loans and integrating marginalised entrepreneurs into the formal banking system.The scheme's inclusiveness is reflected in its three-tiered loan structure for businesses at various stages of development. The Shishu category offers loans of up to INR 50,000 for new ventures and new companies, Kishore offers loans from INR 50,001 to INR 5,00,000 to expanding businesses, and Tarun offers up to INR 10,00,000 for established companies that need to expand. By removing the need for collateral and simplifying the process of loan application, PMMY has promoted enhanced participation by women entrepreneurs and weaker 2 sections of society who otherwise find it difficult to avail financial support. Loans worth more than 18.39 lakh crore have been sanctioned under the MUDRA scheme (by FY 2022) that has and is benefiting more than 34.93 crore borrowers.

One of the remarkable features of its success is the very high women entrepreneur participation, with 71.4% of total accounts under the scheme. Likewise, SC, ST, and OBC participants have also shown significant benefits. New entrepreneur participation, however, has fallen from 36% in FY 2016 to a mere 12% in FY 2022, reflecting possible weaknesses in outreach efforts and long-term financial inclusion.

This study attempts to investigate how the MUDRA scheme has contributed towards financial inclusivity, especially in gender, caste-based equality, and first-time entrepreneurship. Based on quantitative data analysis, this study endeavours to assess the performance of PMMY in curbing financial inequalities and uncovering the prevailing challenges. By analysing both the success and weaknesses of the scheme, it benefits the larger discourse on financial empowerment and sustainable Indian economic growth.

3. LITERATURE REVIEW

Financial inclusion is comprehensively recognised as a critical driver of economic empowerment, particularly in developing countries. The World Bank (2021) has defined it as "the availability and accessibility of affordable financial services to individuals and businesses, with a greater focus on those who were historically excluded from the formalised system. Since its inception in 2015, PMMY has been widely studied for its impact on expanding access to credit.

According to its Annual Reports (2022), the scheme has disbursed over INR 4,03,153 crores, making it one of the largest microfinance initiatives globally and has been particularly successful in promoting first-time borrowers, women entrepreneurs, and small business owners from marginalized communities. Yet, some critical evaluations have highlighted challenges. Even though the scheme has significantly increased financial outreach, a majority of loans remain in the "Shishu" category (below INR 50,000), limiting scalability for micro- enterprises. In addition to which, the Small Industries Development Bank of India (SIDBI, 2022) also noted that regional disparities exist, with lower disbursement rates in Northeastern and tribal areas compared to urban centers.

Singh, R. (2023), in his research, critically inspected the gaps in the implementation of PMMY. The study found that while public sector banks played a dominant role in disbursing MUDRA loans, the penetration of private sector banks in financial inclusion remained significantly low. Additionally, high processing time and bureaucratic hurdles in public sector banks discouraged small entrepreneurs from availing loans as a consequence of which increased digitization and streamlined processing to improve accessibility were recommended as measures to be implemented.

Choudhary, V., & Mehta, S. (2023) studied the financial performance of businesses that availed MUDRA loans. Their research established that while PMMY contributed to the formalization of MSMEs, many small businesses struggled to scale beyond initial funding stages due to a lack of secondary credit options and working capital management issues and concluded that the scheme alone is insufficient for long-term financial sustainability and must be complemented with skill development initiatives.

Rama Krishan (1962) highlighted the problem of finance of small-scale industries. He visualized the vicious circle of capital deficiency and resources in small scale industries. According to him, credit comes only when capital is there. In other words, capital is the basis of borrowings. He also observed that, the commercial banks and financial institutions are hesitant in granting loans to these industries, because of the weak capital base of the small- scale industries.

Balu (1991) examined the various sources of finance available to entrepreneurs for initial capital, term loans and working capital and the various problems faced by them on the financial front. He observed that the majority of the entrepreneurs felt that though banks and financial institutions lend money they also generate various problems like delay in sanction and disbursement, inadequacies of loan, impersonal and target attitudes of the officials on blocking the way of development. Thus, his study recommended the establishment of a single lending agency which can provide quick and timely services to the entrepreneurs.

4. RESEARCH GAP

Although previous research on Pradhan Mantri Mudra Yojana (PMMY) emphasizes its contribution to increasing credit availability, there are still gaps in the distributional impact of PMMY on different borrower segments. Aggregate loan disbursement data form the basis of most research, but hardly any scrutiny has been made regarding how effectively PMMY has tackled financial disparities amongst women, SC/ST/OBC classes, and novice entrepreneurs.

One such missing piece is the slipping percentage of fresh entrepreneurs taking advantage of MUDRA loans, from 36% in FY 2016 to 12% in FY 2022. The motivations behind this shrinkage are relatively unexamined, with some concern being expressed regarding access challenges to first-time borrower enrolment amidst outreach efforts through the scheme. Furthermore, though large numbers of women and marginalized populations have been enrolled, research has not comprehensively explored the variation in loan sizes approved to the various groups and if there exist segments that continue to be discriminated against while receiving higher amounts of credit.

Additionally, although government reports include descriptive statistics of loan approvals, little research has been undertaken to apply comparative trend analysis in monitoring the shifting patterns of credit disbursement over time. Few targeted studies on credit demand gaps versus loan disbursements by marginalized borrowers also limit a comprehensive assessment of PMMY effectiveness.

This research seeks to fill these gaps by providing a quantitative analysis of PMMY's effect on financial inclusion in terms of loan disbursement patterns, borrower participation by gender and caste groups, and changes in new entrepreneur engagement. Through empirical evidence, this study will make a more informed assessment of PMMY's contribution to narrowing financial inequalities in India.

5. DATA AND METHODOLOGY

This study employs quantitative data analysis to estimate the impact of the Pradhan Mantri Mudra Yojana (PMMY) on financial inclusion in India, particularly among marginalized sections of society. The analysis primarily draws data from four key sources: MUDRA Ltd. Annual Reports, RBI Financial Inclusion Reports, MSME Ministry Reports, and publications from NITI Aayog and SIDBI.

The MUDRA Ltd. Annual Reports provide extensive data on loan disbursement trends segmented by borrower category, such as gender, caste, and sector. These reports are crucial in understanding the volume of credit disbursed and the inclusivity of the scheme. Additionally, the Reserve Bank of India (RBI) Financial Inclusion Reports offer insights into credit access trends and loan size distribution across different socio-economic groups. The study also relies on reports from the Ministry of Micro, Small, and Medium Enterprises (MSME), NITI Aayog, and Small Industries Development Bank of India (SIDBI) to assess the credit demand gaps, the level of new entrepreneur participation, and the extent of lending to marginalized sections, particularly women, Scheduled Castes (SC), Scheduled Tribes (ST), Other Backward Classes (OBC), and first-time entrepreneurs.

Methodology involves the use of descriptive statistical analysis to investigate trends of loan disbursement over a period of more than a year, allowing a comprehensive assessment of the credit flow among various borrower segments. Comparative analysis is used to identify the difference in credit access before and after the implementation of PMMY. This method helps in understanding whether the outreach efforts of the scheme have significantly reduced financial exclusion or if gaps still persist. Furthermore, trend analysis is employed to track changes or rise in the involvement of new entrepreneurs as well as variation in loan size by borrower category. Both of these methods help in understanding whether the outreach efforts of the scheme have significantly reduced financial exclusion or if gaps still persist.

Through the utilization of quantitative indicators, the study offers a data-driven, objective evaluation of PMMY's role in promoting financial inclusion, emphasizing whether the scheme has successfully bridged the credit accessibility gap or if disparities in loan disbursement persist. By assessing changes in credit access, loan size, and borrower participation, this research attempts to uncover the ground-level impact of PMMY while identifying persevering gaps that need targeted policy interventions. It also contributes to the broader discourse of sustainable economic growth by exploring the role of inclusive finance in empowering marginalized communities and fostering first-time entrepreneurship in India.

6. FINDINGS AND DISCUSSION

Loan Disbursement Trends

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The Pradhan Mantri Mudra Yojana (PMMY) has played a significant role in enhancing financial inclusion by extending credit to micro and small enterprises across India. Since its inception in 2015, the scheme has sanctioned a total of ₹18.39 lakh crore to 34.93 crore borrowers (Table 1). The scheme has exhibited an average growth of 16% per annum in the number of accounts and 18% growth in total sanctioned loans over the years, though a 5% decline was observed in FY 2021 due to the COVID-19 pandemic (Table 1).

The disbursement of loans under PMMY has been structured to cater to businesses at different growth stages. The scheme classifies loans into three categories: Shishu (up to ₹50,000), Kishore (₹50,001 to ₹5 lakh), and Tarun (₹5 lakh to ₹10 lakh). Over the years, there has been a shift in the loan disbursement pattern, reflecting changes in borrower demand and financial sector participation.

Table 1: Total Loan Disbursement Under PMMY (2017-2024)

Financial Year	Total Sanctioned Loans (₹ Lakh Crore)	Total Borrowers (Crore)	YoY Growth (%)
2017-18	2.53	4.81	40.6
2018-19	3.21	5.98	26.9
2019-20	3.37	6.22	4.9
2020-21	3.21	5.07	-4.7
2021-22	3.39	5.37	5.4
2022-23	4.50	6.23	32.7
2023-24	5.41	6.67	59.5
Total	18.39	34.93	-

Source: PMMY Annual Reports

A deeper analysis of the loan distribution by category provides insight into how businesses are accessing credit under PMMY.

Table 2: Loan Category-Wise Disbursement Under PMMY (2015-2022)

Financial Year	Shishu (₹ Lakh Crore)	Kishore (₹ Lakh Crore)	Tarun (₹ Lakh Crore)	Share-Shishu (%)	Share-Kishore (%)		Share-Tarun (%)
2015-16	0.62	0.41	0.29	47	31		22
2016-17	0.83	0.51	0.40	48	29		23
2017-18	1.04	0.83	0.59	42	24		24
2018-19	1.39	0.99	0.72	45	32		23
2019-20	1.62	0.91	0.75	49	28		23
2020-21	1.08	1.27	0.75	35	41		24
2021-22	1.23	1.33	0.74	37	41		22
Total	7.85	4.30	4.26				

Source: PMMY Annual Reports

Over the years, the Shishu loan category, which primarily caters to first-time entrepreneurs and small-scale businesses with credit needs of up to ₹50,000, has seen a notable decline in its share of total disbursements. In FY 2015-16, Shishu loans accounted for 47% of all PMMY disbursements, but this figure declined to 37% by FY 2021-22. This trend suggests that while the scheme initially focused on providing micro-loans to new and small businesses, more borrowers are now seeking higher-value loans under the Kishore and Tarun categories.

The declining share of Shishu loans may indicate that a portion of businesses has progressed beyond the need for small-ticket financing, shifting towards larger credit requirements for expansion and sustainability. However, it also raises concerns about whether new entrepreneurs continue to face barriers in accessing credit at the entry level.

Simultaneously, the Kishore loan category has witnessed substantial growth, reflecting an increasing demand for business expansion capital. In FY 2015-16, Kishore loans made up 31% of total sanctioned loans, and this share rose to 41% by FY 2021-22. The consistent upward trend in Kishore loans suggests that businesses that initially availed Shishu loans have expanded their operations and now require mid-level funding between ₹50,001 and ₹5 lakh. This growth also indicates a maturing entrepreneurial ecosystem, where small enterprises are progressing beyond the microfinance stage into more structured and scalable business models. The shift from Shishu to Kishore loans underscores the effectiveness of PMMY in facilitating business growth, as enterprises move beyond subsistence-level financing and seek higher working capital support.

Over the years, the Shishu loan category, which primarily caters to first-time entrepreneurs and small-scale businesses with credit needs of up to ₹50,000, has seen a notable decline in its share of total disbursements. In FY 2015-16, Shishu loans accounted for 47% of all PMMY disbursements, but this figure declined to 37% by FY 2021-22. This trend suggests that while the scheme initially focused on providing micro-loans to new and small businesses, more borrowers are now seeking higher-value loans under the Kishore and Tarun categories.

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Unlike the notable shifts in Shishu and Kishore loan distributions, the Tarun loan category has remained relatively stable over the years. Tarun loans, which range from ₹5 lakh to ₹10 lakh, represented 22% of total disbursements in FY 2015-16 and maintained a similar level at 22% in FY 2021-22. This consistency suggests that while some businesses do scale up to require larger credit amounts, the transition from Kishore to Tarun remains challenging for many enterprises. Factors such as stricter eligibility criteria, higher repayment obligations, and limited financial literacy among small business owners may contribute to the slower movement into the Tarun category. The stability of Tarun loans highlights the need for additional policy measures to support enterprises that have outgrown Kishore loans but struggle to access the next level of funding.

The COVID-19 pandemic had a significant impact on PMMY loan disbursements, leading to a 4.2% decline in total loans in FY 2020-21 compared to the previous year. The Shishu loan category was the most affected, with its share dropping sharply from 49% in FY 2019-20 to 35% in FY 2020-21. This decline suggests that many small businesses and first-time entrepreneurs faced operational disruptions, financial instability, and reduced borrowing capacity due to the economic slowdown. However, during the same period, Kishore loans surged to 41% of total disbursements, possibly due to government relief measures and businesses seeking additional funds to sustain operations during the crisis. Although the economy rebounded in FY 2021-22, PMMY disbursement patterns indicate a shift in borrower priorities, with a growing preference for mid-sized loans over entry-level Shishu loans. The pandemic reinforced the importance of financial resilience, highlighting the need for targeted credit support, improved loan restructuring options, and financial education to help micro-entrepreneurs recover and sustain their businesses.

The regional distribution of PMMY loan disbursements reveals a strong concentration of credit in economically active states, with Tamil Nadu, Karnataka, and Uttar Pradesh emerging as the top-performing states in FY 2021-22. Tamil Nadu leads with a total sanctioned loan amount of ₹189,953 crores, reflecting its well-established micro, small, and medium enterprises (MSME) ecosystem, strong industrial corridors, and higher credit absorption capacity. Similarly, Karnataka and Maharashtra, which are home to robust service and manufacturing sectors, received ₹176,951 crores and ₹159,192 crores, respectively. The high loan disbursements in these states indicate greater financial penetration, efficient credit intermediation, and a higher entrepreneurial base, which have facilitated greater access to institutional credit.

On the other hand, states like Bihar, Madhya Pradesh, and Odisha, despite ranking in the top ten, received significantly lower loan amounts relative to the leading states. Bihar, for instance, had ₹145,199 crore sanctioned, which is notably lower than Tamil Nadu and Karnataka, despite having comparable borrower numbers. This suggests that while financial inclusion has expanded, the average loan size per borrower remains smaller in these states, potentially reflecting lower business capital intensity, weaker credit demand, or risk-averse lending behaviour by financial institutions. Additionally, structural constraints, such as limited financial literacy, lack of formalized MSMEs, and lower per capita incomes, may restrict the ability of enterprises in these states to secure and utilize larger loan amounts effectively.

The geographic disparity in loan distribution underscores the broader issue of credit concentration in industrialized states, leaving economically weaker regions with lower financial deepening and restricted capital flow. While PMMY has enhanced financial accessibility, states with weaker banking infrastructure, lower entrepreneurial activity, and higher informal sector dominance continue to lag in credit absorption. To address these disparities, policy interventions must focus on strengthening credit outreach programs, enhancing borrower education, and incentivizing financial institutions to increase disbursements in underserved regions. Encouraging digital credit mechanisms, collateral-free financing innovations, and region-specific financial literacy programs could also help bridge the credit divide and ensure a more equitable distribution of financial resources across states.

Table 3: Top Performing States in PMMY Loan Disbursement (2023-24)

Sr. No.	State	No. of Borrowers	Total Loans (₹ Crore)
1	Uttar Pradesh	7679518	59506.73
2	Bihar	9631277	58722.25
3	Tamil Nadu	7204001	57616.6
4	Karnataka	6458940	49684.3
5	West Bengal	6181872	47124.58
6	Maharashtra	5279979	43075.16
7	Rajasthan	2693556	26955.25
8	Madhya Pradesh	3445475	26146.21
9	Odisha	3761546	23539.15
10	Gujarat	1960464	19870.65

Source: PMMY Regional Disbursement Report

Participation of Marginalized Groups

The Pradhan Mantri Mudra Yojana (PMMY) was designed to enhance financial inclusion by extending collateral free credit to underserved sections of society, including women, Scheduled Castes (SC), Scheduled Tribes (ST), and Other Backward Classes (OBC). A key objective of the scheme is to address structural inequalities in credit access and empower marginalized communities through entrepreneurial opportunities. This section examines the trends in PMMY loan disbursements to these groups, highlighting their participation levels and the challenges they face in securing formal credit.

Women Beneficiaries

Women entrepreneurs have played a significant role in PMMY, constituting a majority of the loan accounts sanctioned. As of FY 2021-22, women accounted for 71.4% of total Mudra loan accounts, reflecting a strong push toward gender-inclusive financial participation. Over the years, PMMY has witnessed a gradual yet meaningful shift in loan size distribution among women borrowers. Initially, a vast majority of women availed Shishu loans (up to ₹50,000), which accounted for 98% of their loan share in FY 2015-16. However, with time, more women have transitioned to Kishore loans (₹50,001 to ₹5 lakh), with their share in this category increasing from 2% in FY 2015-16 to 21% in FY 2021-22.

This transition reflects an evolution in women's entrepreneurship, as more female-led enterprises move beyond subsistence-level financing to higher capital requirements for business expansion. The post-pandemic period (FY 2020-22) further accelerated this shift, likely driven by the need for additional working capital and government stimulus measures supporting women entrepreneurs. However, Tarun loans (₹5 lakh to ₹10 lakh) remain significantly underutilized, with women accounting for only 4% of the sanctioned amount in FY 2021-22, indicating a persistent gap in access to high-value credit. This suggests structural challenges, such as higher collateral requirements, risk-averse lending by financial institutions, and limited financial literacy among women borrowers, which hinder their ability to scale beyond microfinance.

Table 4: Women's Participation in PMMY (2017-2024)

Financial Year	Total Loan Accounts (Crore)	Women Beneficiary Accounts (Crore)	Share of Women Beneficiaries (%)
2017-18	4.81	3.35	69.72%
2018-19	5.97	3.70	61.90%
2019-20	0.12	0.03	30.96%
2020-21	5.07	3.33	65.64%
2021-22	5.37	3.84	71.44%
2022-23	6.23	4.42	71.03%
2023-24	6.67	4.24	63.63%

Source: PMMY Annual Reports

The regression analysis examining the impact of gender on loan amount revealed a moderate relationship, with an R^2 value of 0.375. This indicates that gender alone explains 37.5% of the variation in loan amounts, meaning other factors likely play a more significant role in loan allocation. The regression output revealed that female borrowers receive, on average, ₹13,400 less than their male counterparts (coefficient: -₹13,400, $p = 0.0792$). Although the p-value is slightly above 0.05, it suggests that gender does play a role, but the effect is not strongly significant.

The slightly lower loan amounts for female borrowers could be attributed to historical credit biases, differences in business types, or collateral availability. However, since the statistical significance is weak, it is crucial to analyse additional factors such as business sector, repayment history, and loan tenure to determine whether gender-based discrimination in lending truly exists.

Table 5: Regression Statistics for Gender-Based Loan Disbursement

Metric	Value
Multiple R	0.6129
R Square	0.3757
Adjusted R Square	0.2865
Standard Error	105,726.20
Observations	9

Table 6: Coefficient Estimates for Gender-Based Loan Disbursement

Variable	Coefficient	Standard Error	t-Statistic	P-Value	Lower 95%	Upper 95%

Intercept	1,242,378.28	450,294.60	2.76	0.028	177,600.76	2,307,155.81
Female	-13,399.98	6,528.94	-2.05	0.079	-28,838.47	2,038.50

PMMY has played a pivotal role in expanding financial access to SC, ST, and OBC entrepreneurs, who historically face barriers in securing institutional credit. Government policies have emphasized targeted lending to these groups, ensuring a more equitable distribution of financial resources. Despite the scheme's success in increasing the absolute number of loans disbursed to marginalized communities, disparities persist in loan size distribution. While SC, ST, and OBC borrowers collectively received 35.51% of the total loan accounts, their share in total loan disbursement remained relatively lower at 35.51%, indicating that these groups predominantly receive smaller-sized loans compared to General category borrowers.

Table 7: Caste-Wise Loan Distribution Under PMMY (2023-24)

Category	Loan Accounts (Crore)	Total Loan Amount (₹ Crore)	Share in Total Disbursement (%)
SC	1.03	58051.59	10.73%
ST	0.33	20189.04	3.73%
OBC	1.75	113901.28	21.05%
General	3.54	348870.95	64.48%

Source: PMMY Annual Reports

The data highlights a concentration of high-value loans among General category borrowers, while SC, ST, and OBC entrepreneurs largely receive smaller credit amounts under Shishu loans. This reflects ongoing institutional credit biases, higher risk perception, and inadequate collateral among marginalized groups, which restrict their access to larger loan categories like Kishore and Tarun. Additionally, regional variations further impact caste-based loan accessibility, with economically backward states reporting lower participation of SC/ST borrowers in PMMY compared to more industrialized states.

The impact of caste categories on loan amount was also analyzed, and the results showed a strong relationship, with an R^2 value of 0.764. This suggests that caste accounts for 76.4% of the variation in loan amounts, indicating its significant influence on loan allocation. Among the different caste categories, Scheduled Caste (SC) borrowers were found to receive significantly lower loan amounts, with a coefficient of -₹284,452 ($p = 0.0419$). The negative coefficient implies that SC borrowers, on average, receive loans that are ₹284,452 lower than those of borrowers in the general category. Since the p-value is below 0.05, this effect is statistically significant, meaning it is unlikely to have occurred by chance.

On the other hand, the coefficients for Scheduled Tribe (ST) and Other Backward Classes (OBC) borrowers were positive, indicating slightly higher loan amounts compared to the general category. However, these effects were not statistically significant ($p = 0.1139$ for ST and $p = 0.1350$ for OBC, suggesting that while these groups may receive slightly higher loans, there is no strong evidence that caste alone drives this difference. These findings suggest a potential systemic disparity in loan allocation for SC borrowers, possibly due to perceived financial risk or institutional biases.

Table 8: Regression Statistics for Caste-Based Loan Disbursement Under PMMY

Metric	Value

Multiple R	0.8742
R Square	0.7643
Adjusted R Square	0.6228
General	35429789
Standard Error	76,870.56
Observations	9

Table 9: Coefficient Estimates for Caste-Based Loan Disbursement

Variable	Coefficient	Standard Error	t- Statistic	P-Value	Lower 95%	Upper 95%
Intercept	2,121,780.67	654,902.16	3.24	0.023	438,301.06	3,805,260.27
SC	-284,452.34	104,678.53	-2.72	0.042	- 553,537.06	-15,367.61
ST	186,652.87	97,548.40	1.91	0.114	-64,103.27	437,409.02
OBC	68,955.04	38,718.29	1.78	0.135	-30,573.50	168,483.59

To enhance the impact of PMMY on marginalized groups, the following measures should be considered:

- Enhancing Financial Literacy Programs: Implement region-specific initiatives to educate borrowers on credit management and business expansion.
- Strengthening Credit Linkage Programs: Encourage partnerships between banks, NBFCs, and microfinance institutions to increase higher-value loans to marginalized entrepreneurs.
- Monitoring and Targeted Interventions: Use real-time data analytics to track the participation of SC/ST/OBC groups and identify regions where additional outreach is required.
- Encouraging Digital Lending Platforms: Promoting fintech solutions to simplify loan applications and reduce dependency on traditional bank branches.

Declining Participation of New Entrepreneurs

The Pradhan Mantri Mudra Yojana (PMMY) was introduced to promote financial inclusion by providing access to credit for small and micro-enterprises, particularly first-time entrepreneurs. Initially, the scheme witnessed strong participation from new borrowers, with 36% of total loans granted to first-time entrepreneurs in FY 2015-16. However, this share

steadily declined, reaching only 12% in FY 2021-22, raising concerns about the ability of the scheme to sustain entrepreneurial growth.

Interestingly, in FY 2022-23 and FY 2023-24, the share of new entrepreneurs rose again to 16% and 19%, respectively, indicating a possible shift in lending patterns. This increase suggests that recent policy interventions, improved economic conditions, and evolving market dynamics may have positively influenced new entrepreneur participation. However, despite this rebound, the current share remains significantly lower than the early years of PMMY, highlighting the need to address the structural and operational challenges that impact credit accessibility for first-time entrepreneurs.

Table 10: Decline in New Entrepreneur Participation (2017-2024)

Financial Year	Share of New Entrepreneurs (%)	Total Loans to New Entrepreneurs (₹ Lakh Crore)

2017-18	26	97448.7
2018-19	22	106033.1
2019-20	18	99262.98
2020-21	15	83336.79
2021-22	12	72685.18
2022-23	16	72,685.18
2023-24	19	162030.4

Source: PMMY Annual Reports

The fluctuations in new entrepreneur participation in PMMY are influenced by several economic and policy-related factors. While lender caution, procedural barriers, and market conditions contributed to the earlier decline, recent growth in participation suggests a shift in risk perception, evolving lending strategies, and broader economic recovery.

One of the primary reasons for the earlier decline was the increased risk perception among lenders. Rising Non-Performing Assets (NPAs) in the Shishu category, where most first-time entrepreneurs secure loans, led financial institutions to prioritize existing businesses with a credit history over new borrowers. However, in the past two years, banks and NBFCs have expanded risk-sharing mechanisms, including credit guarantee schemes, which have encouraged greater lending to new entrepreneurs.

Another critical factor is credit evaluation and documentation requirements. In the initial years of PMMY, loans were sanctioned with minimal documentation, but as default rates increased, stricter eligibility criteria were implemented. These requirements, including higher credit scores and more structured financial statements, made it difficult for many new businesses to access formal credit. However, digital lending platforms and alternative credit assessment models have recently helped reduce these procedural bottlenecks, making it easier for new entrepreneurs to qualify for loans.

Financial literacy and business planning skills also play a crucial role in loan accessibility and utilization. Many first-time borrowers lack structured financial knowledge, leading to inefficient loan utilization and repayment issues. Without adequate business planning, many startups fail to scale beyond the microfinance stage, limiting their ability to transition to higher loan categories like Kishore and Tarun. In response, government-backed financial education programs and MSME mentorship initiatives have expanded, potentially contributing to the recent rise in new entrepreneur participation.

The rise of alternative financing avenues such as venture capital, digital lending platforms, and peer-to-peer lending has also impacted PMMY loan demand. Many startups in technology and service sectors prefer private funding sources, which offer greater flexibility and higher ticket sizes compared to PMMY loans. However, the recent upturn in PMMY's new entrepreneur share suggests that traditional bank credit remains a critical funding source, especially for micro and small enterprises in rural and semi-urban areas.

Lastly, the COVID-19 pandemic significantly affected new business formation. The economic downturn led to higher business failures and a slowdown in entrepreneurial activity, discouraging new borrowers. However, the post-pandemic period has seen a gradual resurgence in MSME activity, backed by government stimulus programs and increased consumer demand, which may explain the rebound in new entrepreneur participation in the last two years.

The regression results too, indicate that first-time entrepreneurs receive significantly lower loans, with a coefficient of -₹11,961 ($p = 0.0446$). This means that, on average, individuals who are applying for a business loan for the first time receive ₹11,961 less than those with prior entrepreneurial experience. Since the p-value is below 0.05, this relationship is statistically significant, confirming that first-time entrepreneurs face greater challenges in securing funding.

The R^2 value for this model is 0.46, meaning that 46% of the variation in loan amounts can be explained by whether the borrower is a first-time entrepreneur. This is a substantial proportion, suggesting that financial institutions likely consider prior entrepreneurial experience as a key factor when determining loan amounts. One possible reason for this disparity is the perception of higher risk among first-time entrepreneurs due to a lack of prior business success or insufficient credit history.

Table 11: Regression Statistics for First-Time Entrepreneurs in PMMY

Metric	Value
Multiple R	0.6783
R Square	0.4601
Adjusted R Square	0.3830
Standard Error	98,315.60
Observations	9

Table 12: Coefficient Estimates for Loan Allocation to First-Time Entrepreneurs

Variable	Coefficient	Standard Error	t- Statistic	P-Value	Lower 95%	Upper 95%
Intercept	575,634.92	109,265.73	5.27	0.001	317,262.52	834,007.32
First-Time Entrepreneurs	-11,961.29	4,896.94	-2.44	0.045	-23,540.71	-381.86

To address the decline in new entrepreneur participation, targeted policy interventions are required. The following measures can help reintegrate first-time entrepreneurs into the formal credit system:

- Expand risk-sharing mechanisms to encourage lending to first-time borrowers.
- Increase coverage of the Credit Guarantee Fund for Micro Units (CGFMU) for new entrepreneur loans.
- Use AI-driven credit assessment tools for applicants with no financial history.
- Reduce procedural bottlenecks to improve loan accessibility.
- Implement structured financial education programs for entrepreneurs.
- Partner with industry bodies, accelerators, and startup incubators for mentorship.
- Develop digital lending platforms to streamline applications and disbursements.
- Use AI and blockchain-based credit tracking to improve creditworthiness assessment.

The decline in new entrepreneur participation in PMMY highlights the need for improved credit access strategies that balance risk mitigation with financial inclusion goals. While lender caution, credit screening barriers, and alternative financing options contribute to this trend, proactive policy measures such as expanding credit guarantees, financial education, and digital lending adoption can help reverse this decline. Strengthening support for first-time entrepreneurs is essential to sustaining long-term MSME growth and economic resilience.

The Pradhan Mantri Mudra Yojna (PMMY) was introduced in 2015 with an aim to provide collateral-free credit to micro and small enterprises (MSEs) in India, thereby promoting entrepreneurship and financial inclusion. While the scheme has made significant progress in extending credit to underserved communities, it continues to face several constraints.

7. CHALLENGES

Lack of Awareness among Beneficiaries

Despite the extensive promotional campaigns launched by the government, there remains a widespread lack of awareness about the Mudra scheme, particularly in rural and semi-urban areas. Prospective entrepreneurs often remain unaware of the loan's existence, its eligibility criteria, application process, and the different loan categories — Shishu (up to ₹50,000), Kishore (₹50,001 to ₹5 lakh), and Tarun (₹5 lakh to ₹10 lakh).

This significantly limits the reach of the scheme, especially among women, SC/ST/OBC communities, and first-time entrepreneurs who stand to benefit the most from these loans. Additionally, even those who have heard about the scheme often lack clarity on documentation, utilization methods, and repayment processes, further discouraging loan applications.

Banker's Risk Appetite

Another key challenge faced, is the low-risk appetite of banking institutions when it comes to disbursing Mudra loans, especially to applicants without an established credit history. Banks and financial institutions are often hesitant to extend loans to individuals with no previous borrowing records, perceiving them as high-risk borrowers. The absence of collateral further heightens the banks' concern about potential non-performing assets (NPAs) — loans that borrowers fail to repay, leading to financial losses.

This reluctance is particularly visible in rural and semi-urban regions, where a large section of small entrepreneurs lacks formal financial footprints or credit history. Banks often delay loan processing or reject applications entirely due to these perceived risks, ultimately defeating the objective of financial inclusivity for first-time entrepreneurs.

Stringent Documentation Requirements

Although the Mudra scheme was designed to be inclusive and accessible, the documentation requirements still pose a major hurdle for many applicants, especially for those who are from the informal sectors. Entrepreneurs who lack formal business registration documents, proper tax filings, address proof, or valid identification often struggle to meet the mandatory documentation criteria.

Additionally, many small business owners operating in the unorganized sector, such as street vendors, micro-traders, and artisans, lack clear business records or proof of income, making it arduous for them to secure loans.

Bank Infrastructure and Processing Delays

Many bank branches lack the technical infrastructure, trained personnel, and digital banking systems required to process a high volume of Mudra applications. This leads to considerable delays in loan approvals and disbursements, with applicants often waiting several weeks or months to receive their sanctioned loans.

For small entrepreneurs who require urgent working capital to start or expand their businesses, these delays can result in missed business opportunities, forcing them to resort to informal lending channels or high-interest private loans. Strengthening banking infrastructure and streamlining the loan processing system is essential to facilitate quicker loan disbursals under the Mudra scheme.

Complexity of Repayment Terms

The repayment structure of Mudra loans, especially for first-time borrowers, is often complex and difficult to understand. Many entrepreneurs struggle to comprehend repayment schedules, interest calculations, or penalties for delayed payments. This lack of clear communication leads to poor financial planning, missed EMI payments, and potential loan defaults.

Moreover, the absence of flexible repayment options — such as moratorium periods, fluid EMI structures, or seasonal repayment methods — makes it harder for small business owners to manage their cash flows. Simplifying repayment structures and improving financial literacy can significantly reduce default rates under the Mudra scheme.

Challenges in Monitoring and Utilisation of Funds

A persistent challenge in the Mudra scheme is ensuring that the loans disbursed are utilized for their intended business purposes. In many cases, borrowers divert the loan amount for personal consumption or non-business-related expenses, undermining the core purpose of the loan. This often happens due to a lack of financial discipline, poor business management skills, or inadequate monitoring mechanisms.

The absence of a robust loan utilization tracking system makes it difficult for banks to assess whether the funds have generated any business impact, thus, strengthening the monitoring and evaluation system is essential to ensure optimal utilization of Mudra loans.

Inadequate Skill Development and Support

Providing financial assistance alone is not sufficient for the success of micro and small enterprises. Entrepreneurs also require adequate business management skills, financial literacy, and operational knowledge to effectively utilize the loan for business growth. However, the Mudra scheme does not offer any formal capacity-building programs or training for loan recipients.

While the Pradhan Mantri Mudra Yojana (PMMY) has made significant strides in promoting entrepreneurship and financial inclusion in India, several inherent limitations continue to restrict its overall impact. Challenges such as lack of borrower awareness, low banker risk appetite, poor banking infrastructure, and complexity of repayment terms hinder the full potential of the scheme. Addressing these limitations through increased financial literacy, better infrastructure and streamlined loan processing systems can significantly improve the outreach and success of PMMY.

8. IMPLICATIONS

The Pradhan Mantri Mudra Yojana (PMMY) has significantly influenced financial inclusion and entrepreneurial growth in India since its inception in 2015. Designed to provide collateral-free credit to micro and small enterprises, the scheme has played a crucial role in addressing structural credit gaps, particularly among first-time entrepreneurs and marginalized groups. However, over time, the program has faced challenges such as declining participation of new entrepreneurs, disparities in loan distribution, and regional imbalances. Understanding these implications is critical for refining policy interventions and ensuring sustained financial empowerment.

One of the key concerns surrounding PMMY is the declining participation of new entrepreneurs. In the initial years, a substantial share of PMMY loans was granted to first- time borrowers, with 36% of total loans in FY 2015-16 going to new entrepreneurs. However, this figure dropped to just 12% in FY 2021-22, raising questions about the accessibility of credit for emerging businesses. While participation rebounded slightly in FY 2022-23 (16%) and FY 2023-24 (19%), the overall trend indicates that systemic barriers still hinder first-time borrowers from securing necessary funding.

Fluctuations in new entrepreneur participation also highlight broader challenges in credit evaluation. During the initial years of inception of PMMY, loans were granted with minimal documentation, which led to a rise in Non-Performing Assets (NPAs), particularly in the Shishu category (loans up to ₹50,000). In response, banks and NBFCs tightened credit assessment criteria, making it more difficult for new businesses to qualify for loans. While digital lending platforms and alternative credit assessment models have emerged to address these issues, many aspiring entrepreneurs still struggle with formal financial procedures. Moreover, financial literacy gaps further exacerbate the problem, as many first-time borrowers lack the necessary business planning skills to manage and scale their ventures effectively.

Another crucial implication of PMMY is its impact on marginalized groups, including women, Scheduled Castes (SC), Scheduled Tribes (ST), and Other Backward Classes (OBC). Women entrepreneurs, in particular, have played a significant role in PMMY, accounting for 71.4% of total loan accounts sanctioned as of FY 2021-22. While this reflects a positive trend in gender-inclusive financial participation, there are still notable disparities in loan distribution. Most women beneficiaries continue to rely on Shishu loans, which made up 98% of their share in FY 2015-16. Although the proportion of women availing Kishore loans (₹50,001 to ₹5 lakh) increased to 21% in FY 2021-22, their access to higher-value Tarun loans (₹5 lakh to ₹10 lakh) remains minimal at just 4%. This suggests that while more women are entering entrepreneurship, they face significant barriers in scaling their businesses beyond the microfinance stage. Factors such as collateral requirements, risk-averse lending policies, and limited access to financial literacy programs continue to hinder their growth prospects. Similarly, caste-based disparities persist within PMMY, despite efforts to promote financial inclusion. SC, ST, and OBC entrepreneurs collectively accounted for 35.51% of total loan accounts in FY 2023-24. However, their share in total loan disbursement remained lower, indicating that they predominantly receive smaller loans compared to General category borrowers.

Regional variances in loan disbursement also present significant implications for PMMY's effectiveness. The scheme has seen a concentration of credit in economically developed states, with Tamil Nadu, Karnataka, and Uttar Pradesh emerging as top recipients. Tamil Nadu, for example, received ₹189,953 crore in sanctioned loans in FY 2021-22, followed closely by Karnataka (₹176,951 crore) and Maharashtra (₹159,192 crore). In contrast, states like Bihar, Madhya Pradesh, and Odisha, despite ranking among the top ten in terms of borrower numbers, received significantly lower loan amounts. This suggests that while financial inclusion has expanded, the average loan size per borrower remains smaller in less industrialized states, potentially due to weaker credit demand, lower financial literacy, or risk-averse lending behaviours by financial institutions.

The COVID-19 pandemic too had a significant impact on PMMY loan disbursements, leading to a 5% decline in sanctioned loans in FY 2020-21. The Shishu loan category was the most affected, as small businesses faced operational disruptions and financial instability. However, Kishore loans witnessed a surge, possibly due to businesses seeking additional capital to sustain operations during the crisis. While the economy has since rebounded, the pandemic highlighted the importance of financial resilience and the need for flexible credit support mechanisms, including loan restructuring options and enhanced risk mitigation strategies for micro-entrepreneurs.

To address these challenges and maximize PMMY's impact, several policy recommendations can be considered. Strengthening credit guarantee schemes could encourage banks and NBFCs to lend more confidently to first-time borrowers. Expanding the Credit Guarantee Fund for Micro Units (CGFMU) to cover a larger share of new entrepreneur loans could mitigate lender concerns about defaults. Additionally, simplifying loan application and documentation processes through AI-driven credit assessment tools could improve accessibility for applicants without formal financial histories. Expanding financial literacy and mentorship programs, particularly for marginalized groups, would also be crucial in ensuring effective loan utilization and business sustainability. Finally, encouraging digital lending and fintech solutions could streamline loan disbursements and enhance credit tracking mechanisms, making it easier for entrepreneurs to build creditworthiness and access higher-value loans.

9. FUTURE SCOPE OF RESEARCH

While PMMY has significantly contributed to financial inclusion, several areas warrant further research to enhance its effectiveness. One key area of study is the long-term sustainability of businesses that receive PMMY funding. It is imperative to examine whether these enterprises successfully expand into larger, stable businesses or struggle with repayment challenges.

Identifying determinants of business survival and growth can inform policy adjustments and lead to more comprehensive support mechanisms beyond credit disbursement.

Another significant research avenue is the role of digital lending platforms in improving credit accessibility. As financial technology continues to reshape the microfinance sector, assessing its impact on loan accessibility, repayment behaviors, and borrower satisfaction is crucial. Additionally, exploring the potential applications of AI-driven credit scoring and blockchain-based credit assessment models can further enhance financial efficacy.

Furthermore, an in-depth socio-economic analysis of PMMY’s impact on marginalized groups is warranted. While the scheme has improved financial access, it is essential to investigate whether this has led to substantive economic mobility and wealth creation for SC, ST, OBC, and women entrepreneurs. Understanding the barriers that prevent these groups from advancing beyond microfinance can facilitate the development of targeted financial interventions and policy refinements.

Lastly, a comparative regional study could provide insights into disparities in PMMY loan disbursements across different states. By analysing variations in economic policies, financial infrastructure, and borrower behaviour, policymakers can formulate region-specific strategies to enhance credit uptake in underdeveloped areas. Such research would enable more equitable distribution of financial resources and ensure that PMMY fulfils its mandate of fostering inclusive economic growth

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