



Impact of PMMY on Self Employment

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Abstract

The Pradhan Mantri Mudra Yojana (PMMY), launched in 2015, has played a crucial role in facilitating self-employment opportunities by providing collateral-free loans to micro and small entrepreneurs across India. This scheme primarily supports non-corporate, non-farm small and micro enterprises through three categories—Shishu, Kishor, and Tarun—enabling individuals to start or expand their ventures. The paper evaluates the role of PMMY in enhancing self-employment, reducing financial exclusion, and fostering entrepreneurship at the grassroots level. By analyzing available data and reviewing existing literature, this study highlights the positive outcomes as well as the challenges faced in the effective implementation of PMMY. The scheme has also significantly contributed to financial inclusion by connecting first-time borrowers with institutional credit. Furthermore, it has opened new avenues for rural and urban employment generation, especially among women and marginalized communities. Lastly, this paper suggests that strengthening business training and repayment monitoring could improve the sustainability of PMMY outcomes.

Keywords: PMMY, Self-employment, Entrepreneurship, Microfinance, Financial inclusion

1. Introduction

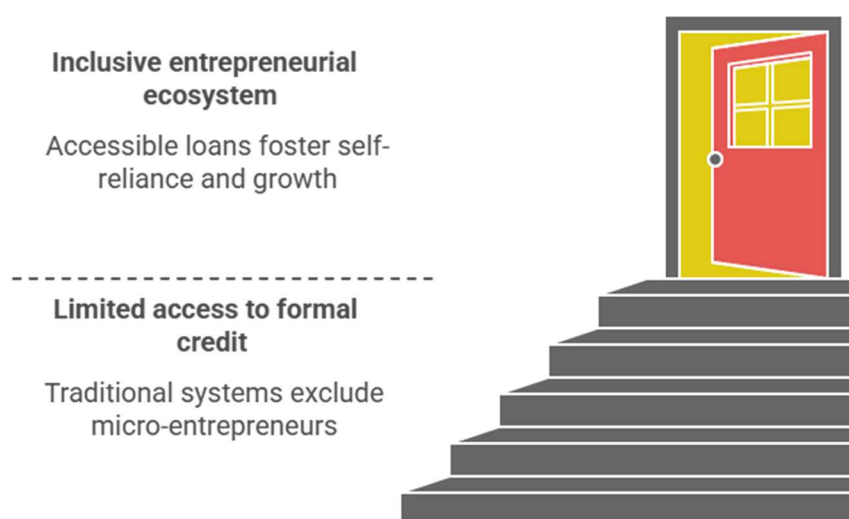
India has long faced the challenge of generating sustainable self-employment opportunities, particularly for youth, women, and marginalized groups. A large proportion of India's workforce is engaged in informal and unorganized sectors where access to financial resources is limited. Traditional banking systems often exclude micro-entrepreneurs due to the lack of collateral, credit history, and bureaucratic hurdles, thereby restricting their access to capital. To overcome these barriers, the Government of India launched the Pradhan Mantri Mudra Yojana (PMMY) in April 2015 under the Micro Units Development and Refinance Agency



(MUDRA). The scheme aims to promote entrepreneurship by providing collateral-free loans up to ₹10 lakhs.

PMMY loans are categorized into three groups based on the financial needs of entrepreneurs: Shishu (loans up to ₹50,000), Kishor (₹50,001 to ₹5 lakhs), and Tarun (₹5 lakhs to ₹10 lakhs). This classification ensures that both start-ups with small requirements and expanding enterprises with higher capital needs are supported. The scheme has played a transformative role in encouraging grassroots entrepreneurship. Small shopkeepers, street vendors, artisans, self-employed professionals, and service providers have benefited from easy access to loans. Unlike earlier credit programs, PMMY integrates financial inclusion with enterprise development by directly addressing credit constraints. Another striking feature of the scheme is its focus on inclusivity. A large proportion of loans have been sanctioned to women entrepreneurs, as well as Scheduled Castes, Scheduled Tribes, and Other Backward Classes. This has empowered disadvantaged groups to start their businesses and contribute to family income. Over the years, the scheme has not only supported new ventures but also enabled existing businesses to expand their operations. Data shows that lakhs of beneficiaries are first-time borrowers who have been introduced to the formal credit system. By linking them to banks, PMMY has reduced reliance on local moneylenders who charge exploitative interest rates.

Empowering micro-entrepreneurs through accessible financial support.





The introduction of PMMY has also aligned with broader government policies such as Digital India, Make in India, and Start-up India, which together aim to strengthen the entrepreneurial ecosystem. Despite its success, the scheme faces challenges such as loan defaults, lack of financial literacy, and uneven distribution across regions. Therefore, it is important to analyze its overall impact on self-employment, highlight achievements, and identify shortcomings. This paper explores the effectiveness of PMMY in promoting self-employment, focusing on entrepreneurship development, financial inclusion, and implementation challenges.

2. Review of Literature

- 2.1. **Nair (2001)** highlighted that microfinance initiatives in India have been critical in empowering rural households and creating sustainable self-employment opportunities. The study argued that targeted credit schemes significantly reduce income inequalities in underprivileged groups.
- 2.2. **Kumar (2013)** emphasized that access to institutional credit directly impacts entrepreneurial growth. The paper suggested that small-scale businesses can thrive if supported with easy and collateral-free financial instruments, a factor that became relevant in schemes like PMMY. Furthermore, the study stressed the role of credit as a catalyst for skill development and innovation in microenterprises.
- 2.3. **Rao and Bansal (2016)** studied the initial phase of PMMY and found that the majority of beneficiaries belonged to marginalized communities and women entrepreneurs. They concluded that PMMY had the potential to increase self-employment and reduce dependence on informal moneylenders.
- 2.4. **Gupta (2019)** analyzed the effectiveness of PMMY in fostering entrepreneurship and noted that while loan disbursement was significant, challenges such as repayment delays, lack of entrepreneurial training, and regional disparities limited the program's full potential. The study added that long-term sustainability would require combining loans with mentorship and business development services.



3. Objective of the Paper

The objective of the paper is to analyze the impact of the Pradhan Mantri Mudra Yojana on self-employment generation in India. It seeks to evaluate how far the scheme has succeeded in creating entrepreneurial opportunities for individuals, particularly those in marginalized and financially excluded groups. Furthermore, the paper aims to identify the challenges in implementation and to provide insights into improving the scheme's effectiveness in promoting sustainable self-employment.

4. PMMY and Entrepreneurship Development

- PMMY has contributed significantly to nurturing entrepreneurship among small and micro-business owners. By providing access to institutional credit, it enables individuals to either start new ventures or expand existing ones. Women entrepreneurs, in particular, have benefited from this scheme, accounting for over 70 percent of sanctioned loans in certain years³. This indicates that PMMY has not only addressed credit gaps but also encouraged gender-inclusive entrepreneurship.
- The scheme has created opportunities in areas such as food stalls, tailoring units, retail shops, handicrafts, transport services, and repair workshops. Many beneficiaries have reported improved income stability, enhanced household savings, and greater confidence to invest in business expansion.
- Beyond direct income generation, PMMY has indirectly boosted local employment by enabling entrepreneurs to hire assistants and helpers. In rural regions, PMMY has played a role in curbing migration to cities by providing self-employment options locally.
- Despite these achievements, critics argue that the absence of structured training in entrepreneurship and financial management limits the scheme's effectiveness. Beneficiaries often face difficulties in managing accounts, understanding markets, and sustaining profits. Thus, while PMMY has promoted entrepreneurship development, it needs to be integrated with skill development programs for long-term impact.

5. PMMY and Financial Inclusion

One of the core achievements of PMMY is its contribution to financial inclusion. Many beneficiaries are first-time borrowers with no prior credit history. By linking entrepreneurs to



the formal financial system, PMMY has reduced dependence on moneylenders who charge exorbitant interest rates⁴. The scheme has also strengthened the relationship between small entrepreneurs and banks. Borrowers who successfully repay their first Mudra loan become eligible for higher loan categories (Kishor and Tarun), creating a pathway for progressive financial growth.

Women entrepreneurs and marginalized groups such as SC, ST, and OBC communities have been among the largest beneficiaries, proving that PMMY has reached its intended targets. The disbursement of loans has contributed to building credit histories for individuals who were previously excluded from the banking system. PMMY has therefore contributed to improving financial literacy and awareness. Many borrowers, for the first time, learned about digital transactions, banking procedures, and repayment systems. This integration into formal finance has empowered individuals and families to take better financial decisions. Another significant contribution is the alignment of PMMY with other welfare schemes such as Jan Dhan Yojana and Stand-Up India. Together, these initiatives have created an ecosystem for financial empowerment and entrepreneurship development. However, the progress of financial inclusion is not uniform. Regional disparities persist, with some states reporting high disbursement levels while others lag behind. Rural areas, especially in remote regions, still face challenges in accessing Mudra loans due to inadequate banking infrastructure.

6. Challenges in Implementation of PMMY

While the scheme has shown promise, several challenges persist. Many beneficiaries lack financial literacy and business management skills, which leads to inefficient utilization of loans. There are also concerns about repayment defaults, particularly in the Kishor and Tarun categories where loan amounts are higher⁵. Strengthening monitoring mechanisms, providing entrepreneurship training, and ensuring equitable regional distribution remain key challenges.

The challenges can be categorized as follows:

- **Repayment Defaults:** A growing number of defaults are reported, especially where loans are taken without proper business plans. This creates risks for both banks and borrowers.
- **Lack of Skill Development:** Beneficiaries often lack the training needed to manage businesses effectively, resulting in poor loan utilization.



- **Regional Disparities:** Urban and semi-urban areas report higher disbursements compared to rural regions.
- **Over-reliance on Credit:** In some cases, loans have been used for consumption rather than productive purposes, defeating the purpose of self-employment.
- **Monitoring Gaps:** There is insufficient follow-up by banks and agencies to ensure loan repayment and business sustainability.
- **Awareness Issues:** In remote rural areas, many eligible individuals are unaware of PMMY or face difficulties in the application process.

To address these challenges, the government must integrate PMMY with financial literacy workshops, skill training, and market linkages.

7. Research Methodology

7.1. Type of Data: Secondary data collected from government reports, RBI publications, and PMMY annual reports.

7.2. Type of Research: Descriptive and analytical in nature.

7.3. Period of Research: The study covers data from the inception of PMMY in 2015 to 2019.

Table: Year-wise PMMY Loan Disbursement (2015–2019)

Year	No. of Loans Sanctioned (in crore)	Amount Sanctioned (₹ crore)	Amount Disbursed (₹ crore)
2015-16	3.48	1,37,449	1,32,954
2016-17	3.97	1,80,529	1,75,312
2017-18	4.81	2,53,677	2,46,437
2018-19	5.98	3,21,722	3,11,811

Source: PMMY Annual Reports (2016–2019).

8. Conclusion

The Pradhan Mantri Mudra Yojana has emerged as a powerful instrument in promoting self-employment by providing collateral-free credit to small entrepreneurs. It has facilitated financial inclusion, particularly among women and marginalized communities, and contributed to strengthening the microenterprise sector. The scheme has played a key role in



creating first-generation entrepreneurs and integrating them into the formal financial system. However, the challenges of repayment defaults, lack of business training, and regional imbalances need to be addressed to enhance its long-term sustainability. Strengthening entrepreneurial ecosystems, integrating financial literacy programs, and improving monitoring mechanisms will ensure that PMMY becomes a cornerstone of inclusive economic growth in India. Going forward, the success of PMMY will depend not only on expanding loan disbursement but also on ensuring that beneficiaries acquire skills, access markets, and sustain their businesses profitably. This requires coordinated efforts between banks, government agencies, and local communities. Thus, while PMMY has provided a strong foundation for entrepreneurship-led growth, its long-term effectiveness will be determined by how well it integrates credit with capacity building and institutional support.

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