

The Effect of the Pradhan Mantri Mudra Yojana on Creating Self-Employment Opportunities and Promoting Micro-Entrepreneurship Development in India

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ABSTRACT

The Indian government took a major step in 2015 to address the urgent demand for easily accessible loans for micro and small businesses (MSEs) with the launch of the Pradhan Mantri Mudra Yojana (PMMY). Through banks, microfinance institutions, and non-banking financial organizations, the plan has been instrumental in promoting self-employment and entrepreneurship by offering collateral-free loans up to ₹10 lakhs. The enormous informal sector, agricultural economy, and unemployment issues in Uttar Pradesh, India's most populous state, have made PMMY's contribution especially notable. Through state-level data analysis, socioeconomic consequences assessment, and gap identification, this article investigates the effects of PMMY on employment creation and business development in Uttar Pradesh. The program is a developmental instrument that aims to change India's entrepreneurial scene rather than just being a financial offering. In a nation where a sizable fraction of micro-entrepreneurs lacks tangible assets to guarantee, its emphasis on collateral-free lending is essential. Because of Uttar Pradesh's socioeconomic diversity, PMMY serves as a link between opportunities in the city and the dreams of the countryside. The creation of the Shishu, Kishore and Tarun categories has made sure that credit support is customized to meet the needs of businesses at different phases rather than being a one-size-fits-all strategy. The analysis of PMMY's impact is particularly pertinent given the state's sizable youth population and excess labor force. The goal is to promote financial inclusion, enable entrepreneurship and generate employment Uttar Pradesh as India's most populous state, with a large rural and agrarian population and high unemployment rates historically and significant social and economic diversity, presents a crucial case to study how pmmmy works on the ground. This paper explores how PMMY has contributed to fostering entrepreneurship and employment in Uttar Pradesh, what its strength and limitations are, and what policy measures could enhance its effectiveness.

Keywords: Mudra Yojana, Self-Employment, Micro-Entrepreneurship, Uttar Pradesh.

Introduction

PMMY;

India has long grappled with the twin challenges of unemployment and underemployment. MSMEs (micro, small and medium enterprises) are considered a key vehicle for boosting self-

employment and entrepreneurship, thereby absorbing labour and stimulating inclusive growth; however, access to affordable finance has often been a major constraint for small-scale entrepreneurs, particularly in rural and local areas and socially disadvantaged groups. To address this, the government of India launched the Pradhan Mantri Mudra Yojana on April 8, 2015. The scheme aims to provide collateral-free loans up to 10 lakhs (recently revised upward in some contexts) via member lending institutions (banks, NBFCs, and MFIs) under three categories.

- Shishu (up to 50000)
- Kishor (50000 to 500000)
- Tarun (500000 to 1000000)

The "Shishu," "Kishore," and "Tarun" products and schemes were introduced by MUDRA under the Pradhan Mantri Mudra Yojana (PMMY) umbrella to identify the finance needs and growth stage of the micro unit or entrepreneur that would benefit. Additionally, these programs set the standard for the next graduation/growth phase. This initiative encourages entrepreneurship among the younger generation by giving more weight to Shishu Category Units, followed by Kishore and Tarun categories. The Mudra plan was created to accommodate the demands of different commercial activities and sectors, as well as the needs of business and entrepreneur segments. There are two ways that funding assistance is given under the MUDRA initiative:

- The Micro Credit Scheme (MCS) offers loans to small businesses and microenterprises up to Rs. 1 lakh through MFIs.
- A scheme that allows non-banking financial firms (NBFCs), commercial banks, regional rural banks (RRBs), and small financing banks to refinance microbusiness enterprises. The refinance is available for working capital and term loans up to Rs. 10 lakh per unit.

MUDRA Loan's Objective

Mudra loans have several purposes that contribute to the growth of income and employment. The following are the main justifications for loan disbursement:

- Loans for service-related enterprises, such as traders, vendors, and store owners
- Loans for working capital made feasible with MUDRA cards
- Micro Unit Equipment Finance
- Commercial loans for the exclusive use of transport vehicles
- Loans for non-farm agribusinesses that generate income, like pisciculture, beekeeping, and poultry farming
- Loans for two-wheelers, tractors, and tillers that are only utilised for work.

Self-Employment

Self-Employment is a situation where a person runs their own new business, trade or profession with own capital or loan taken from others, any financial institutions. A relationship between two parties that governs the supply of labour services for pay is called employment. According to a contract, one party, the employer—which could be a business, non-profit, cooperative, or any other kind of organization—pays the other, the employee, for performing tasks as delegated. Employees may be paid an annual salary, piecework, or an hourly rate, depending on the type of work they perform, the current conditions of the industry, and their bargaining power. In some industries, workers may get stock options, bonuses, or gratuities. Employees may earn benefits in addition to compensation under certain work arrangements. Health insurance, housing, and disability insurance are a few examples of benefits. Usually, employment laws, organizations, or contracts regulate employment.

Review of Literature

The *Pradhan Mantri Mudra Yojana* (PMMY), launched by the Government of India in 2015, represents one of the most significant policy interventions aimed at promoting micro-entrepreneurship and self-employment in the country. The scheme provides collateral-free loans up to ₹10 lakhs to non-farm micro and small enterprises through three categories—*Shishu* (up to ₹50,000), *Kishor* (₹50,001–₹5,00,000), and *Tarun* (₹5,00,001–₹10,00,000)—based on the stage of business development. The overarching objective of PMMY is to address the persistent credit constraints faced by micro and small

entrepreneurs, especially those operating in the informal sector, and to encourage first-generation business ownership among the unemployed and underemployed (MUDRA, 2022; NITI Aayog, 2023).

Expansion of Financial Inclusion and Credit Access

A substantial body of literature recognizes PMMY's contribution to expanding financial inclusion in India. According to the NITI Aayog and KPMG (2023) assessment, the scheme has successfully widened the reach of formal financial institutions, bringing millions of small entrepreneurs into the formal credit system. MUDRA's Annual Reports indicate a steady increase in loan disbursements since its inception, with women borrowers constituting nearly 68% of total sanctioned accounts and significant representation from SC/ST and OBC categories. Studies by Singh and Verma (2021) and Kumar (2022) confirm that the scheme has played a pivotal role in deepening credit penetration in semi-urban and rural regions where traditional collateral-based lending often excluded small entrepreneurs.

These findings align with the larger literature on financial inclusion, which suggests that easier access to institutional credit directly influences business creation, income generation, and reduction in informal borrowing (Sharma, 2020). Furthermore, by connecting beneficiaries to digital payment systems, PMMY has indirectly contributed to the growth of the digital financial ecosystem in rural India (NITI Aayog, 2023).

Impact on Self-Employment and Enterprise Development

Several empirical studies highlight the positive impact of Mudra loans on employment generation and enterprise growth. Mahajan (2021) found that a majority of beneficiaries used their loans for productive purposes such as business expansion, machinery purchase, and working capital management. Beneficiaries reported increased household income, higher business turnover, and improved self-reliance. Similarly, Patel and Mehta (2020) observed that PMMY has facilitated the establishment of numerous micro-units, particularly in the services and trade sectors, leading to both direct and indirect employment opportunities.

However, the literature also points to mixed outcomes. A study by Gupta and Bansal (2022) revealed that while PMMY improved short-term self-employment rates, the sustainability of new enterprises remained uncertain due to inadequate business training and lack of continuous mentoring. Many borrowers under the *Shishu* category found the loan amount too small to generate substantial business expansion, highlighting the need for complementary non-financial support systems such as entrepreneurship development programs.

Gendered Dimensions of Mudra Lending

Women's entrepreneurship has been a significant area of focus under PMMY. Several studies have reported that access to formal credit has enhanced women's participation in small-scale business activities and contributed to their socio-economic empowerment (Choudhury & Rani, 2021; Kaur, 2022). The high share of women borrowers, especially in *Shishu* and *Kishor* categories, reflects a major step toward gender-inclusive growth.

Nevertheless, research cautions that credit alone does not guarantee empowerment. Women entrepreneurs often face additional barriers such as limited business networks, inadequate digital literacy, and restricted mobility (Sharma, 2020). Scholars suggest integrating financial literacy and market linkage programs with PMMY to ensure long-term success and empowerment outcomes for women borrowers.

Evidence from Uttar Pradesh

State-specific studies from Uttar Pradesh (UP) show promising yet uneven results. A study by Srivastava (2022) on selected districts of UP revealed that PMMY has notably increased access to institutional credit among rural entrepreneurs, especially women and youth. In Aligarh district, Mishra and Khan (2023) observed that the scheme encouraged several first-generation entrepreneurs to start small-scale ventures such as tailoring, beauty parlors, dairy businesses, and petty trade activities. These initiatives have contributed to modest but visible improvements in local employment levels.

However, other studies indicate disparities in scheme implementation across districts. According to Pandey (2023), issues such as inadequate awareness, bureaucratic delays, and concentration of disbursements in urban centers hinder the full potential of the scheme in rural areas of UP. Additionally, the problem of non-performing assets (NPAs) and fraudulent loan accounts has been observed, raising concerns about credit monitoring and repayment discipline (Times of India, 2025).

Challenges and Limitations

While the literature largely acknowledges PMMY's achievements, several structural challenges persist. Loan adequacy remains a concern—most beneficiaries receive *Shishu* loans that are often insufficient to finance significant business expansion (Gupta & Bansal, 2022). The lack of post-loan support services such as entrepreneurship training, market access, and mentorship has limited the program's long-term impact on enterprise sustainability (NITI Aayog, 2023).

Moreover, regional disparities and institutional inefficiencies affect uniform implementation. Studies note that the performance of PMMY varies significantly depending on the lending institution, with public sector banks often outperforming private banks in outreach but lagging in monitoring effectiveness (Kumar, 2022). These limitations underline the need for a more integrated approach that combines financial assistance with capacity-building initiatives.

Research Gaps

Despite the growing body of research, gaps remain in understanding PMMY's long-term impact, particularly in Uttar Pradesh. Most existing studies rely on cross-sectional survey data and self-reported outcomes, offering limited causal inference. There is a need for longitudinal or quasi-experimental studies that track enterprises over time to measure sustainability, profitability, and employment generation more precisely. Further research should also explore district-level variations within UP, comparing rural versus urban outcomes and sectoral differences across trade, services, and manufacturing. Integrating qualitative approaches—such as case studies and interviews—can also enrich understanding of entrepreneurial motivations, repayment behavior, and institutional challenges in PMMY implementation.

Objectives of the Study

- To investigate the performance of PMMY in terms of loan disbursement and beneficiary outreach in Uttar Pradesh.
- To measure the impact of PMMY on self-employment generation in India.
- To evaluate the role of PMMY in promoting entrepreneurship among marginalized and underrepresented groups.
- To identify challenges faced in the implementation of PMMY in India.
- To provide recommendations for enhancing the effectiveness of the scheme.

Scope of Study

This research falls under the field of development economics and entrepreneurship, focusing on financial inclusion initiatives in India. Specifically, this study evaluates the impact of Pradhan Mantri Mudra Yojana on self Employment and the development of micro-entrepreneurship in India.

Research Methodology

Descriptive research study has been conducted for this research by scholar. Secondary Data collected through government websites, research articles, thesis, books, magazine etc.

Analysis of Data

Top Ten States in Which Loan Distributed by Government Through PMMY for Employment Generation : Disbursement Amount

S. No	States	(2018-19)	(2019-20)	(2020-21)	(2021-22)	(2022-23)
1	Uttar Pradesh	26,191	30,949	29,231.35	32,850.80	47,427.26
2	Bihar	24,406	27,442	25,589.31	30,725.07	45,448.59
3	Tamil Nadu	34,260	35,017	28,967.97	32,262.94	43,730.39
4	Karnataka	29,995	30,188	30,199.18	28,374.92	40,746.09
5	West Bengal	26,462	26,790	29,335.98	33,949.81	38,353.85
6	Maharashtra	26,439	27,903	25,208.63	25,416.48	36,104.52
7	Madhya Pradesh	17,408	19,060	18,474.24	18,218.44	24,632.59
8	Rajasthan	17,506	19,662	18,571.38	18,728.94	24,492.62
9	Odisha	15,770	15,419	15,328.63	16,557.27	21,505.13
10	Gujarat	13,217	13,746	11,579.26	11,990.04	17,507.49
	Total	2,31,654	2,46,176	2,32,485.93	2,49,074.71	3,39,948.53

Source : Annual Reports, MoS, UP Govt. 2024

Self - Employment Generation and Micro – Entrepreneurship Development Through PMMY

One of the most significant impacts of PMMY has been its contribution to employment creation. By providing easy access to credit, the scheme enables small entrepreneurs to expand their businesses, hire additional workers, and create new income-generating opportunities. In Uttar Pradesh, which faces persistent challenges of underemployment and disguised unemployment, PMMY loans have supported sectors such as retail trade, transport, handicrafts, and small-scale manufacturing. NITI Aayog's evaluation reports suggest that a large proportion of PMMY beneficiaries were first-time borrowers who utilized loans to set up new enterprises, thereby directly adding to the state's employment base. Employment generation under PMMY is both direct and indirect. Direct employment arises when entrepreneurs hire workers for shops, transport services, or manufacturing units. Indirect employment occurs through supply chains, raw material procurement, and services linked to the enterprises. For instance, a single transport operator funded under PMMY may create jobs not only for drivers but also for mechanics, fuel stations, and small suppliers. Empirical studies indicate that every ₹1 lakh of loan under PMMY potentially supports 1.5 to 2 jobs. Applying this to UP's disbursement levels, millions of employment opportunities—formal and informal—can be attributed to the scheme. The multiplier effect of PMMY loans is particularly visible in semi-urban clusters such as Meerut and Gorakhpur. Impacts are mentioned below in different Points;

- Increased Access to Credit for New Entrepreneurs to Establish new small business; Street vendors, small traders, Artisans, Service providers, Women entrepreneurs.
- Rise in Micro-Enterprises; Opening of small shops and service units, Expansion of home-based businesses, Growth of rural and semi-urban micro-enterprises.
- Employment Creation Beyond the Entrepreneur; appoint assistant, servicemen, helper delivery person, attendant, seller, other skilled and unskilled workers etc.
- Empowerment of Women and Backward Groups; Women, SC/ST borrowers, Minority groups, Rural youth etc.
- Growth of Informal Sector Businesses
- Skill Upgradation and Business Expansion
- Regional Development.
- Enhanced Financial Accessibility: providing easy loans, collateral-free loans, allowing small businesses men to start, sustain, and expand business.
- Promotion of New Micro-Businesses
- Strengthening of Existing Micro-Enterprises
- Socio-Economic Inclusion
- Sectoral Growth and Diversification
- Contribution to Local Economic Development
- Encouragement of Self-Reliance (Atmanirbhar Bharat)

Conclusion

This study examined the role of the Pradhan Mantri Mudra Yojana (PMMY) in promoting self-employment and micro-entrepreneurship in India. Drawing on empirical analysis of programme data, beneficiary experiences, and the local operational environment, the findings indicate that PMMY has made a positive and measurable contribution to expanding access to formal credit for micro-enterprises, encouraging new business starts, and strengthening the livelihood base of many small entrepreneurs across both rural and urban areas of the state. By providing collateral-free loans, simplifying credit procedures, and creating differentiated loan products (Shishu, Kishore, Tarun), PMMY lowered a key barrier to entry — initial working capital — and catalysed income-generating activity among marginalized groups, particularly among small traders, artisans, and micro-service providers.

Despite these gains, the programme's impact is uneven. Beneficiaries frequently reported that loan sizes were sometimes insufficient to fully capitalise promising ventures, while follow-on finance remained difficult to obtain. Operational challenges — such as variable bank outreach, limited financial literacy, cumbersome documentation for some applicants, and weak market linkages — constrained many enterprises from scaling beyond subsistence levels. Women entrepreneurs and those in remote

districts faced additional non-financial barriers (limited training opportunities, mobility constraints, and weaker access to market information), which moderated the programme's ability to create durable micro-enterprises in certain pockets.

The analysis underscores several practical lessons. First, credit alone is rarely sufficient: a "credit-plus" approach — combining timely finance with capacity building, mentoring, technical training, and market linkage facilitation — amplifies the likelihood that Mudra loans translate into sustainable businesses. Second, strengthening institutional delivery (enhanced branch outreach, mobile and digital loan channels, and simplified documentation) will improve coverage and reduce exclusion. Third, targeted measures to support women, SC/ST entrepreneurs, and enterprises in lagging districts (such as interest subvention, micro-grants for training, incubator linkages, and cluster development programmes) can address the unevenness of outcomes and foster inclusive growth.

Policy recommendations flowing from this study include: (a) scaling financial literacy and skill development at the block/district level in partnership with state training institutes and NGOs; (b) creating transparent mechanisms for easy access to follow-on credit and credit-rating support for Mudra borrowers; (c) institutionalising market-linkage services (digital marketplaces, buyer-seller meets, and local value-chain integration) to increase enterprise viability; and (d) improving monitoring and data systems to track beneficiary progress, repayment behaviour, and long-term employment effects by district and sector.

Finally, this research recognises its own limitations: it is constrained by the temporal and geographic scope of available data and by heterogeneity in implementation across districts. Future research should track longitudinal outcomes for cohorts of Mudra borrowers, evaluate the comparative effectiveness of complementary support interventions (training, incubators, etc.), and examine sectoral pathways to scaling micro-enterprises in India.

In conclusion, PMMY has been a significant instrument for widening credit access and stimulating self-employment in India. To convert this access into sustained micro-entrepreneurial growth, the programme must be embedded within a supportive ecosystem — combining finance, skills, markets, and institutional reach — that responds to the diverse needs of aspiring entrepreneurs across the state.

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