

A Comprehensive Review of MUDRA Loan Scheme: Implications for MSME Development

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Abstract: *The Pradhan Mantri MUDRA Yojana, PMMY aims to provide collateral-free loans to the level of ₹10 lakh for micro and small enterprises that may contribute to income generation, employment, and economic growth. The paper analyses the effectiveness of the scheme bearing an emphasis on its MSME sector and allied agricultural activities. On this basis, secondary data gathered from government reports and other financial databases has used a qualitative as well as a quantitative analysis method. It could be realized from the study that MUDRA loans had acted as a crucial factor in revving up entrepreneurship activities, especially among women and in rural entrepreneurial level, yet it was constrained by high repayment pressure and the need for constant financial education. The outcome was such that MUDRA loans were supporting expansion in businesses and employment but needed further enhancement in financial terms and clarity about the process followed in disbursing the loan. This research feeds into the policy discourse in improving the credit facilities for MSMEs and ensuring their contribution toward the economic expansion of India.*

Keywords: PMMY, MSME, MUDRA Loans, Financial Inclusion, Entrepreneurship

I. INTRODUCTION

One of the most vital aspects for enhancing the growth of the nation's economy is through the growth of small businesses. Small businesses have the potential to significantly increase job opportunities besides adding to the GDP. The role of small businesses becomes very crucial in emerging nations like India, where the population is relatively high and unemployment poses a significant socioeconomic problem. Lack of entrepreneurship skill and lack of fund are the major drawbacks in initiating a small business [1]. Pradhan Manthri MUDRA Yojana, which is an initiative of the Central government, was launched on 8th April 2015, focusing on non-corporate, non-farm micro, and small enterprises in India to provide loans up to Rs. 10 lakhs. For the implementation of the scheme, the government enacted the statute to establish the Micro Units Development and Refinancing Agency (MUDRA) Bank. The Mission of

MUDRA is "To create an inclusive, sustainable and value-based entrepreneurial culture, in collaboration with our partner institution in achieving economic Success and financial security" [2].

The concept of a small business will motivate someone to create a new industry or business if they want to work for themselves and launch their own company. These MSMEs play a major role in providing employment opportunities for local or rural communities. The GDP and per capita income will increase as more people decide to work for themselves. According to recent data, MSMEs account for 49% of India's total exports, indicating that their market is growing. Examining the growth and performance of micro, small, and medium-sized enterprises in industrial parks is the aim of this article. To support the growth of MSMEs, the government is supporting and providing a variety of strategies and initiatives [3].

According to National Sample Survey Organisation (NSSO), this sector employs around 120 million people and contributes to around 45% of the overall exports from India. There were 58.5 million establishments found to be in operation, out of which, 34.8 million establishments (59.48%) were found in rural areas and nearly 23.7 million establishments (40.52%) were found to be located in urban areas. However, banks were reluctant to finance the unregistered units of MSMEs and there was a lack of data regarding the demand for credit from the MSMEs and the credit gap. Thus, many micro and small units had to shut down because of a lack of access to the formal financing system. Around 60% of the MSMEs were run by the backward castes [4].

The MUDRA Yojana under PMMY provides various advantages and benefits for the support of MSME activities, or micro, small, and medium enterprises. One advantage is that credit support for MSMEs is available without security in the form of collateral [5]. Also, the interest rates provided under the MUDRA scheme vary in all banks. Loan borrowers can be quite flexible with the financial institution that fits their requirements the most. The MUDRA scheme is specifically for the non-agricultural sectors. The financial support made these

businesses grow and develop further. Furthermore, the MUDRA card is also launched for loan borrowers that helps them to manage working capital efficiently for their small ventures [6].

The scheme in turn benefits the economy at large and also the banking sector. It is highly relevant in expanding business, which in turn positively contributes to the growth of GDP and employment across the country. The MUDRA agency sets a target for both private and public banks; thereby they assess their performance based on that only and hold them accountable to meet the credit demands from the MSME sector. The scheme also adds to infrastructure facilities developments in India, supporting economic growth further [7]. Accessibility of MUDRA Loans: MUDRA loans are very accessible as they can be borrowed from a number of financial institutions, including public as well as private banks, small finance banks, cooperative societies, regional rural banks (RRBs), and other financial entities in both rural and urban areas, thus casting the net of the scheme over the vast spectrum of businesses across the country [8].

II. LITERATURE REVIEW

[9] studied the impact of mudra on small and micro enterprises in terms of income generation, business expansion, standard of living, and employment generation in the process. The research is socio-economic research. The project applied mean difference method for quantitative data analysis and relative importance index method to analyse qualitative data. Paper used Schedule to conduct personal interviews to collect data from 384 respondents using convenience sampling. It was found that to some extent, the schemes have been successful in providing loans to MSME sector. The enterprises are benefitted due to collateral free mudra loan in terms of income generation and business expansion. But there was no significant impact on employment generation and standard of living as proved from the data collected from the respondents due to mudra loan. Also, no significant improvement in human development index was found among the respondents. No significant improvements in quality of food and nutrition were found as informed by the respondents. Financial independence has not been achieved for the women entrepreneurs. Policy implications for government and bank has been discussed at the end of paper. The paper is based on the project funded by Indian Council of Social Science Research, New Delhi. This is a first kind of study conducted to study the impact of mudra loans on small and micro enterprises in India.

[10] observed that there is a substantial rise in the disbursement amount since its establishment. The result also indicated that there is a just a nominal difference in the amount of loan sanctioned and disbursement. This paper also emphasize on the overview of Pradhan Mantri

MUDRA Yojana in different states and overall performance by all the institutions. On the basis of sanctioned amount in the past three financial years, a comparative performance of top 10 states revealed that state Tamil Nadu topped the list closely followed by Karnataka. Further, in terms of percentage change in the disbursement amount from financial year 2017-18 to 2018-19, the results revealed that among these states, Bihar has displayed highest percentage growth followed by Odisha. Furthermore, public sector banks stood topper, in terms of the sanctioned amount for the financial year 2018-19, followed by private sector banks. However, in terms of target achievements, Non-Banking Finance Companies over-achieved their targets with 147% followed by Small Finance Banks with 119%.

[11] aimed to analyze the significance and function of MUDRA bank as a means of providing financial support to the micro, small, and medium-sized enterprise (MSME) sector. The study relies on secondary data sources, including the official website of MUDRA.org, the PMMY report, newspapers, periodicals, and other public materials. The micro, small, and medium-sized enterprise (MSME) sector significantly contributes to the growth and advancement of the Indian economy. The advancement of this sector is of utmost importance in order to fulfill the national objectives of promoting participation in the financial system and the creation of substantial numbers of jobs in both urban and rural areas. The actualization of the Pradhan Mantri MUDRA Yojana (PMMY) Scheme and the establishment of a specialized bank for the micro, small, and medium-sized enterprise (MSME) sector, known as MUDRA Bank, have provided a substantial impetus to the expansion of the Indian MSME sector. These initiatives aim to enhance the economic impact of the industry on India's Gross Domestic Product (GDP). Which now stands at 38%. This financial institution significantly enhances the self-assurance of young, educated, and talented individuals, enabling them to strive to become entrepreneurs as first-generation participants. Additionally, it facilitates the expansion of existing small firms by providing them with opportunities to broaden their operations. The primary goals of MUDRA Bank encompass the promotion of entrepreneurial endeavors and the expansion of capacities and operations for small business units. Additionally, it aims to mitigate the issue of excessive indebtedness while establishing a structured credit system.

[12] determined how Mudra Loan significantly affected Micro, Small, and Medium-Sized Enterprises (MSME). The vast majority of small business owners were uneducated, kept inaccurate books of accounts, and disregarded other legal obligations. As a result, it was difficult for the banks to give these people loans for business expansion and other development initiatives. As a result, these individuals sought credit loans and other credit facilities from the unorganized banking sector, which had high interest rates and stringent terms and conditions. To

bridge this gap, MUDRA seems to be the best choice for small borrowers who struggle to obtain loans from other commercial organizations. The concept of a small business will motivate someone to create a new industry or business if they want to work for themselves and launch their own company. These MSMEs play a major role in providing employment opportunities for local or rural communities. The GDP and per capita income will increase as more people decide to work for themselves. According to recent data, MSMEs account for 49% of India's total exports, indicating that their market is growing. Examining the growth and performance of micro, small, and medium-sized enterprises in industrial parks is the aim of this article. To support the growth of MSMEs, the government is supporting and providing a variety of strategies and initiatives. The different issues that these MSMEs confront when carrying out their activities have also been explored in this study. The research paper is based on secondary sources that was gathered from several websites journal and articles. After conducting a review of the literature, it is possible to analyse the role played by MUDRA in promoting financial requirements for the agricultural and related sectors, SMEs/MSE, and MSME in order to build a \$5 trillion economy.

[13] studied the Mudra Yojana, a government microcredit program that offers loans without collateral to help people launch new businesses or grow already-existing ones. Additionally, it incentivizes female participants by offering reduced interest rates. Based on 417 female recipients from West Bengal's tribal districts, the current study examines the ways in which financial assistance has aided women's socioeconomic development. It assesses the program's impact according to the degree of empowerment and employability of women. The study uses methods such as effect size, Wilcoxon Sign test, and ordered logistic regression to examine the data. According to the findings, microcredit under Mudra Yojana promotes female entrepreneurship, increases wages and employability, and empowers women in the political, social, psychological, and financial spheres. The findings of these studies reinforce the fact women could be "active agents of change" and play an important role in both the family and society.

[14] assessed the impact of Pradhan Mantri Mudra Yojana (PMMY) on employment generation and livelihood transformation amidst micro-entrepreneurs in Karnataka. Mudra Yojana, introduced in 2015, envisions enabling easy access to microcredit to small and micro-enterprises with the motive of improving their businesses. This study employs a mixed methods approach by integrating quantitative and qualitative information gathered from the beneficiaries of diverse sectors. Based on empirical data, results are interpreted in the context of employment, income, and business extension change variables, with qualitative interviews shedding light on personal and professional changes affecting the entrepreneurs. Positive significant correlation between access to Mudra loans and expansion in employment opportunities was reported;

indeed, the study recorded a large number of enterprises that stated expansion in workforce. Operations of the businesses, financial soundness, and general quality of life were found to have improved for the beneficiaries. Although these are some of the achievements, there were other challenges as repayment pressure and continuous need for financial education. The study proves that microcredit is helpful in attaining economic development and marks the opportunities through which policy can be improved to enhance the benefits of micro entrepreneurs.

Table 1: Comparative Analysis of Past Studies

Study	Focus Area	Methodology	Key Findings
[9]	Impact on MSMEs in terms of income generation, business expansion, and employment generation	Mean difference method, relative importance index, convenience sampling	Schemes provide income generation but limited impact on employment and quality of life
[10]	Overview and performance of PMMY across states and financial institutions	Comparative performance analysis across states using disbursement data	Significant rise in loan disbursement, high performance in Tamil Nadu and Karnataka
[11]	Significance and function of MUDRA bank in supporting MSME sector growth	Secondary data analysis from official reports, periodicals, and other materials	MUDRA Bank supports MSMEs significantly in GDP growth and entrepreneurship promotion
[12]	Effects of Mudra Loan on MSMEs and challenges faced by small businesses	Analysis of secondary data sources from websites, journals, and articles	MUDRA is beneficial for small borrowers; MSMEs contribute significantly to exports
[13]	Impact of Mudra Yojana on female entrepreneurship and empowerment in West Bengal	Ordered logistic regression, Wilcoxon Sign test, effect size analysis	Encourages female entrepreneurship; improves employability and socio-economic empowerment
[14]	Effect of PMMY on	Mixed methods	Positive impact on employment

	employment generation and livelihood transformation in Karnataka	approach with quantitative and qualitative data analysis	and livelihood; challenges include repayment pressure and financial education needs

III. OBJECTIVES

- To analyze how borrowers' age, education level, and occupation impact their loan utilization and management, and the success of their business ventures.
- To evaluate the impact of socio-economic factors and external factors (such as raw material shortages, price escalation, power shortages, and natural calamities) on borrowers' ability to manage their businesses and repay their loans.
- To determine the common reasons for Mudra loan defaults and assess the effectiveness of bank follow-up mechanisms in reducing loan defaults.
- To examine the significance of internal bank policies, government regulations, and external market conditions on the rise of Non-Performing Assets (NPAs) in Mudra loans.

IV. RESEARCH METHODOLOGY

This study's methodology is designed to evaluate the overall impact of PMMY on the MSMEs, which would help them in earning, enhance business, and boost economic growth. A mixed-methods approach is used to ensure that both quantitative and qualitative methods have been deployed so that the analysis captures a broad spectrum of information. A secondary source of data is pursued from various sources, which includes official reports and government databases. It is also collected from published articles and even through the official portal of MUDRA. Literature from peer-reviewed journals and credible online sources is reviewed to get hold of the existing body of work and identify gaps in knowledge.

Quantitative information is gathered about Mudra loan recipients using numerical measures like the disbursement amount, repayment rate, employment generation, and business growth indicators. In data analysis, statistical tools include chi-square tests, mean difference methods, and the relative importance index. It would then say something about the patterns or relationships between

those demographic variables-age, education, and income-and the factors that determine success in the use of loans. The comparative performance analysis is also carried out for evaluating the dispersal and usage of loans under MUDRA across different states, financial institutions, and demographic segments.

Qualitative analysis entails conducting personal interviews and surveys with beneficiaries in order to acquire their personal experiences and insights regarding the use of Mudra loans. These personal interviews are conducted using structured schedules. These entail issues such as business problems, effectiveness of loan assistance, and changes in socio-economic status realized after acquiring the loans. Convenience sampling is employed in order to obtain 250 respondents whose detailed data collection ensures that the sample is spread across different sectors as well as the demographic groups. These qualitative insights are then compared to quantitative data to give an overarching understanding of how the scheme affected these groups.

Further, the study goes to analyze the broad economic implications of MUDRA loans by focusing on their impact in promoting women entrepreneurship, expanding employment opportunities, and improving socio-economic conditions in the rural and urban sectors. In doing this, the assessment used regression analysis, effect size calculation, and other statistical tools to determine the influence of Mudra loans on MSMEs and women entrepreneurs. These are important methods in demonstrating the effectiveness of the loan program and pointing to challenges different demographic groups may face in accessing and making use of available financial resources.

V. DATA ANALYSIS AND RESULT

Objective 1

The aim of this objective is to measure the demographic factors affecting loan utilization and management outcomes in terms of age, gender, education, occupation, marital status, monthly income, and dependents. Significant results are seen by p-values below the threshold 0.05 for demographic factors affecting age, education, occupation, marital status, and monthly income, suggesting that such factors play significant roles in deciding how loans are being managed. Particularly, loan offer effectiveness will rely on education levels, different occupations, and stable monthly incomes. However, marital status and age also play a significant role in managing loans, which implies that personal circumstances and life stages influence financial decisions and loan utilization strategies.

Table 2: Comparative Analysis of Impact of Demographic Variables on Loan Utilization and Management Success

Demographic Variable	P-Value	Significance
Age	0.01	Significant
Gender	0.06	Not Significant
Education	0.03	Significant
Occupation	0.02	Significant
Marital Status	0.04	Significant
Monthly Income	0.02	Significant
Number of Dependents	0.05	Not Significant

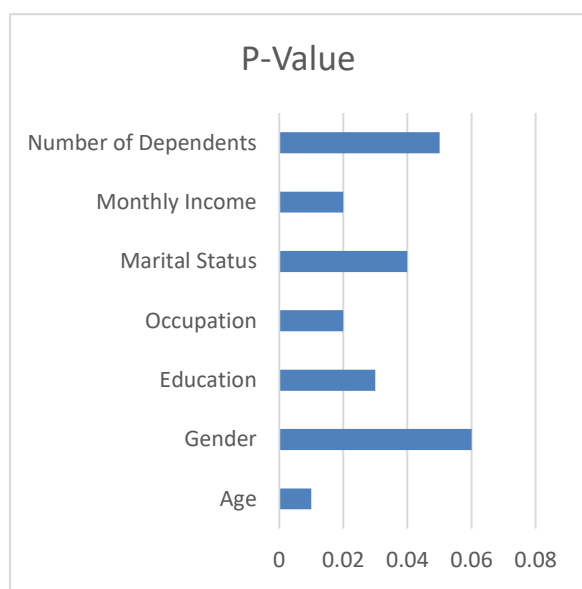


Figure 1: P-Values of Demographic Variables Influencing Loan Utilization and Management Success

From the analysis, it can be seen that gender and dependents are not at all significant with p-values greater than 0.05. This means that the practice of loan utilization is normally identical between genders, and having dependents does not change much for the borrowers in the way of managing loans. These findings indicate that some demographic factors can determine performance significantly, while others play much less significant roles; this leaves room for policymakers and financial institutions to target more salient ones, such as education and occupation, in designing support services or products of loans that are tailored to varied borrower demographics.

Objective 2

The objective presents P-Values in relation to a range of socio-economic and external drivers affecting the business management and loan repayment. Of these, Raw Material Shortages, Price Escalation, Power Shortages, and Natural Calamities have been significant with P-Values below 0.05 indicating significant effects on business operations and loan repayment. Whereas, Socio-Economic Status Income Level and Business Type Agricultural/Non-Agricultural are not significant as their P-Values are more than 0.05.

Instead, level of education also found significant for the management of businesses.

Table 3: Comparative result for significance of Socio-Economic and External Factors on Business Management and Loan Repayment

Socio-Economic/External Factor	P-Value	Significance
Raw Material Shortages	0.03	Significant
Price Escalation	0.01	Significant
Power Shortages	0.05	Significant
Natural Calamities	0.04	Significant
Socio-Economic Status (Income Level)	0.07	Not Significant
Educational Level	0.02	Significant
Business Type (Agricultural/Non-Agricultural)	0.06	Not Significant

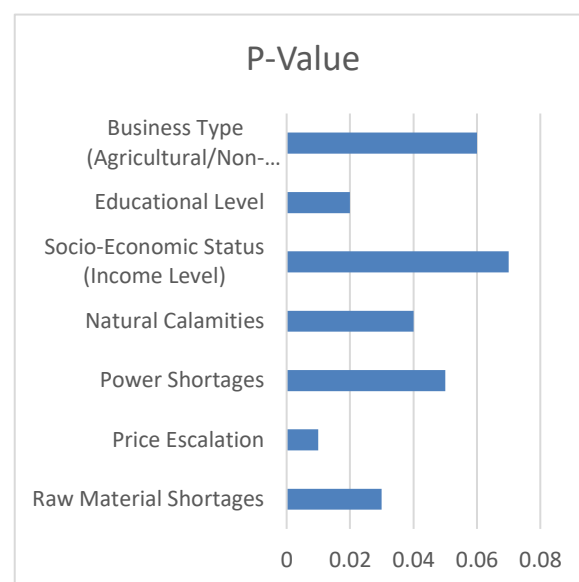


Figure 2: Comparison of P-Values for Socio-Economic and External Factors Influencing Business Management and Loan Repayment

The bar graph depicts the P-Values of every socio-economic and exogenous factor, and thus one can have a look at the significance of all of these, comparatively. The bars distinctly depict those factors that have the lowest P-Values, like Price Escalation and Raw Material Shortages, which in turn show the highest impact while, on the other hand, Socio-Economic Status (Income Level) and Business Type (Agricultural/Non-Agricultural) could have higher P-values and thus indicate that no apparent impact exists in this sphere. A graphical model will thus provide an

immediate insight into which factors are driving in business management and loan repayment.

VI. CONCLUSION

The PMMY, being extended throughout the whole country, has indeed impacted India's MSME sector in a major way by demonstrating its potential as a very powerful tool for economic growth and development. The analysis shows MUDRA loans play a crucial role in providing credit support to micro and small enterprise units; indeed, it supports units in rural areas, thus showing employment generation and business expansion. The scheme has especially empowered women entrepreneurs and enhanced their socio-economic status and entrepreneurial skills. Because of the collateral-free nature of these loans and flexibility in terms of repayment, it has been accessible to a considerable number of beneficiaries, including marginalized communities and first-time entrepreneurs. Although the scheme has registered significant success in loan disbursement and reach, the following challenges persist: The data shows that MUDRA loans support income generation and the expansion of business activities but fail to improve standard living and create employment facilities. Some issues are also in practice, like financial education gaps for proper repayment process and high-interest rates from a few financial institutions opposing the borrowers, which would be faced more by women entrepreneurs on the pathway toward financial independence. Further, the effectiveness of MUDRA in non-urban areas varies. In some regions, several are slower-growing due to unawareness and lack of accessibility. Above all, social and economic factors including those of price rises, scarcity of raw materials, and natural catastrophes have yet affected business undertakings and repayment of loans. Thus, the support mechanism needs to be strengthened further. Digitization literacy must be promoted more by the government and the financial institutions and continuous education of the borrower must also be ensured so that he can avail maximum benefit from MUDRA loans.

Conflict of Interest: The corresponding author, on behalf of second author, confirms that there are no conflicts of interest to disclose.

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