

Effectiveness of Pradhan Mantri Mudra Yojana (PMMY) in Promoting Entrepreneurial Finance in Uttar Pradesh

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Abstract

Entrepreneurial finance plays a crucial role in fostering inclusive economic growth, particularly in developing economies where micro and small enterprises form the backbone of employment generation. In India, limited access to institutional credit has historically constrained the growth of first-generation and informal entrepreneurs. To address this challenge, the Government of India launched the Pradhan Mantri Mudra Yojana (PMMY) in 2015 with the objective of providing collateral-free credit to micro and small business units.

Uttar Pradesh, being the most populous state and home to a large number of micro-enterprises, has emerged as a major beneficiary of the scheme. This paper evaluates the effectiveness of PMMY in promoting entrepreneurial finance in Uttar Pradesh using secondary data for the period 2015–2023. The analysis focuses on loan disbursement trends, category-wise distribution, gender participation, and district-level disparities. The findings indicate that PMMY has significantly enhanced access to formal credit, particularly for women and first-time entrepreneurs. However, the dominance of small-ticket loans, limited enterprise graduation, and regional imbalances restrict its long-term entrepreneurial impact. The paper concludes with policy recommendations to strengthen PMMY as a sustainable entrepreneurial finance instrument.

Keywords: PMMY, Entrepreneurial Finance, MSMEs, Financial Inclusion, Uttar Pradesh

1. Introduction

Entrepreneurship is widely recognized as a key driver of economic development, employment generation, and income diversification. In India, micro, small, and medium enterprises (MSMEs) contribute significantly to gross domestic product and serve as an important source of livelihood, particularly in rural and semi-urban regions. Despite their importance, access to institutional finance remains a major constraint for small entrepreneurs, as conventional banking systems rely heavily on collateral requirements and formal credit histories.

To overcome these barriers, the Government of India introduced the Pradhan Mantri Mudra Yojana (PMMY) in April 2015. The scheme aims to provide collateral-free loans to non-corporate, non-farm enterprises through

banks, NBFCs, and microfinance institutions. Loans are categorized into Shishu, Kishor, and Tarun segments based on the stage of enterprise development.

Uttar Pradesh presents a suitable case for evaluating the scheme due to its large population, diverse economic activities, and high concentration of informal enterprises. While the state has recorded substantial Mudra loan disbursement, it is necessary to examine whether this expansion of credit has effectively supported entrepreneurial development. This study undertakes a systematic evaluation of PMMY's performance in Uttar Pradesh.

2. Review of Literature

Access to finance has been consistently identified as a critical determinant of entrepreneurial success. Beck and Demirgüç-Kunt (2006) highlighted that credit constraints significantly impede the growth of small enterprises in developing economies. Allen et al. (2012) emphasized that financial inclusion enhances firm entry and productivity.

Several studies have examined PMMY in the Indian context. Kumar (2019) observed that PMMY improved access to institutional credit for first-time entrepreneurs but raised concerns regarding repayment capacity. Sharma and Tandon (2020) noted that a large proportion of Mudra loans are concentrated in the Shishu category, limiting enterprise scaling. Verma (2020) highlighted regional disparities in loan distribution across districts of Uttar Pradesh.

International studies on microfinance suggest similar outcomes. Morduch (1999) argued that while microcredit expands self-employment opportunities, its impact on long-term enterprise growth is limited without complementary support. Banerjee et al. (2015) found that microcredit improves household stability but does not necessarily lead to substantial business expansion.

The literature indicates that while PMMY has enhanced financial inclusion, its effectiveness in promoting sustainable entrepreneurship requires careful evaluation at the regional level.

3. Objectives of the Study

1. To analyze trends in Mudra loan disbursement in Uttar Pradesh from 2015 to 2023.
2. To examine the category-wise distribution of Mudra loans.
3. To assess gender participation under PMMY.
4. To identify district-level disparities in loan disbursement.
5. To suggest policy measures to improve the effectiveness of PMMY.

4. Research Methodology

The study adopts an evaluative and analytical research design focusing on the assessment of a government-led financial inclusion scheme. It does not aim to test causal hypotheses; rather, it evaluates trends, patterns, and effectiveness of PMMY in promoting entrepreneurial finance in Uttar Pradesh.

The analysis is based on secondary data collected from Mudra Annual Reports, Reserve Bank of India publications, Ministry of MSME reports, NITI Aayog documents, and Government of Uttar Pradesh statistics for the period 2015–2023. Tools such as trend analysis, percentage analysis, and district-wise comparison are used.

5. Data Analysis and Findings

5.1 Trend in Mudra Loan Disbursement

Mudra loan disbursement in Uttar Pradesh has increased substantially since the launch of PMMY. After steady growth during the initial years, a temporary decline was observed in 2020 due to the COVID-19 pandemic. However, loan disbursement recovered strongly in subsequent years.

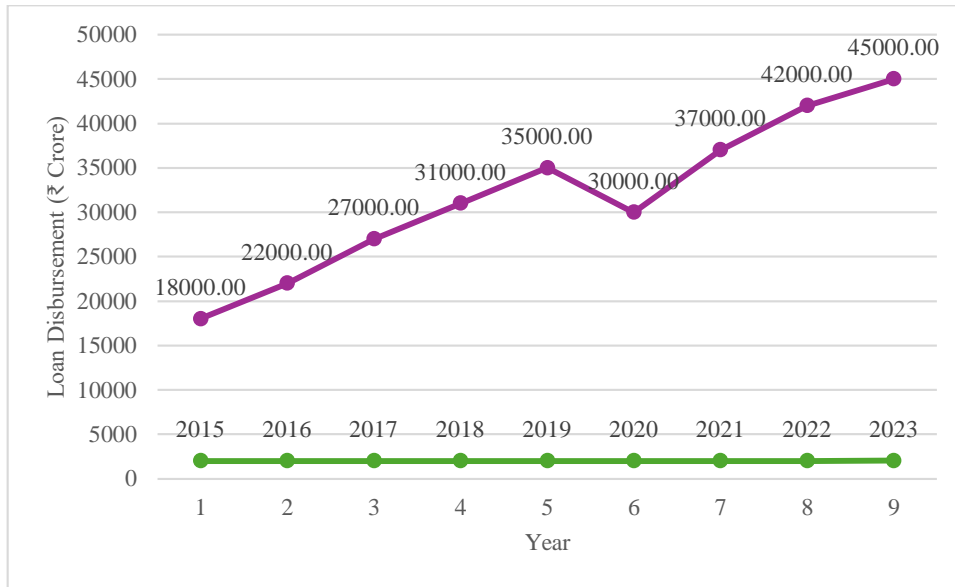


Figure 1: Trend in Mudra Loan Disbursement in Uttar Pradesh (2015–2023)

Source: Compiled by the author from Mudra Annual Reports (2015–2023)

As shown in Figure 1, Mudra loan disbursement in Uttar Pradesh exhibits a generally upward trend, indicating increasing outreach of the scheme. The decline during 2020 reflects pandemic-induced disruptions, followed by a strong recovery due to policy support and revival of entrepreneurial activity.

5.2 Category-Wise Distribution of Loans

The distribution of loans across categories reveals a strong concentration in the Shishu segment, which accounts for the majority of Mudra loans.

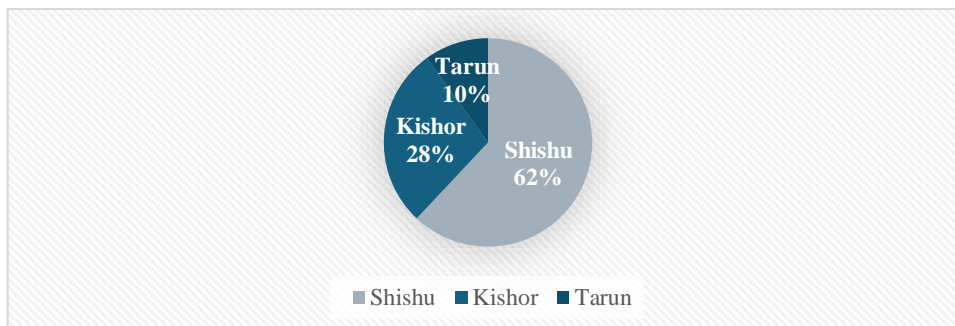


Figure 2: Category-wise Distribution of Mudra Loans in Uttar Pradesh

Source: Compiled by the author from Mudra Annual Reports

Figure 2 highlights the dominance of Shishu loans, suggesting that PMMY has primarily supported micro-level and start-up enterprises. The relatively lower share of Kishor and Tarun loans indicates limited graduation of enterprises to higher investment levels.

5.3 Gender Participation

PMMY has made notable progress in promoting women’s access to institutional finance in Uttar Pradesh.

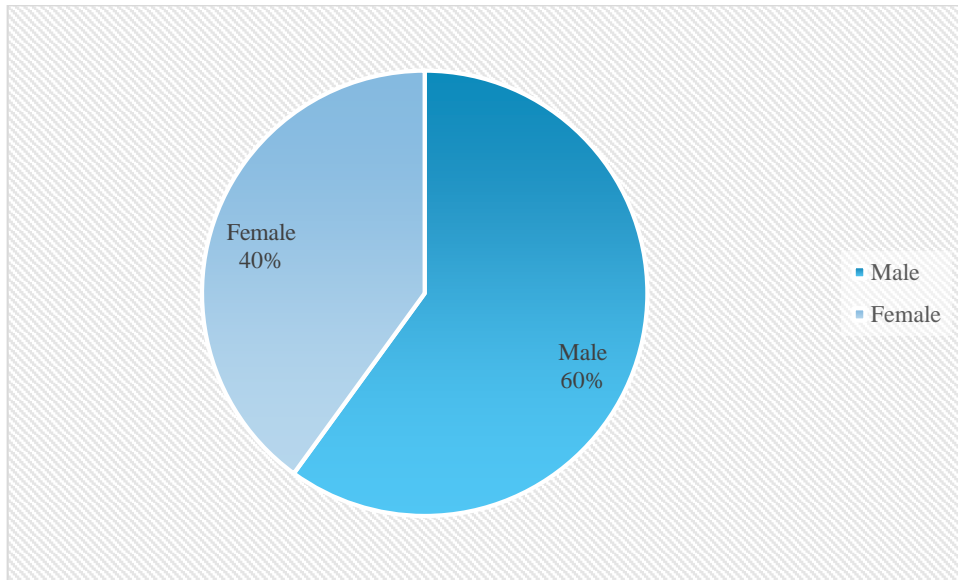


Figure 3: Gender-wise Distribution of Mudra Beneficiaries in Uttar Pradesh

Source: Compiled by the author from Ministry of Finance data

Figure 3 shows that women constitute a substantial proportion of Mudra beneficiaries, reflecting the scheme’s inclusive design. However, women borrowers are largely concentrated in the Shishu category, indicating smaller enterprise size.

5.4 District-Level Disparities

Significant variation exists in Mudra loan disbursement across districts of Uttar Pradesh.

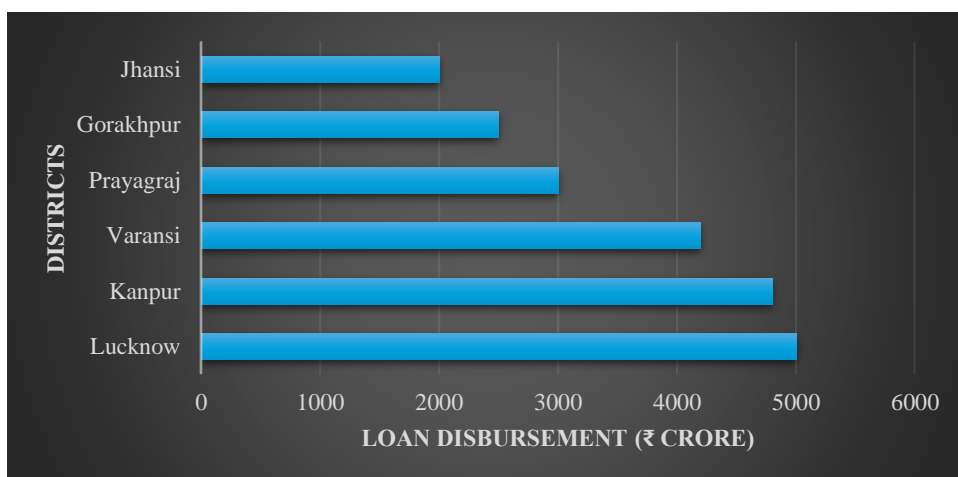


Figure 4: District-wise Mudra Loan Disbursement in Uttar Pradesh

Source: Compiled by the author from state-level Mudra data

Figure 4 reveals pronounced inter-district disparities, with urban and economically advanced districts receiving a larger share of Mudra credit. This reflects differences in banking infrastructure, awareness levels, and entrepreneurial ecosystems.

5.5 Key Challenges

Despite its achievements, PMMY faces challenges such as excessive reliance on small-ticket loans, rising NPAs in higher categories, uneven regional outreach, limited financial literacy, and inadequate monitoring of loan utilization.

6. Discussion

The findings indicate that PMMY has been effective in expanding access to institutional finance in Uttar Pradesh. However, its role in promoting sustainable entrepreneurial growth remains uneven. The dominance of Shishu loans and persistent regional disparities suggest that while entry-level financial inclusion has improved, enterprise scaling requires additional institutional support. Integrating credit provision with training, mentoring, and market linkages is essential for enhancing long-term outcomes.

7. Conclusion and Policy Recommendations

The Pradhan Mantri Mudra Yojana has played a significant role in improving access to formal credit for micro-entrepreneurs in Uttar Pradesh, particularly women and first-generation entrepreneurs. However, its effectiveness as a tool for sustainable entrepreneurial development is constrained by structural and operational challenges.

- Promote graduation from Shishu to Kishor and Tarun categories through targeted incentives.
- Strengthen financial literacy and entrepreneurship training programs.
- Improve monitoring mechanisms to ensure productive use of loans.
- Integrate PMMY with skill development and incubation initiatives.
- Adopt district-specific strategies to reduce regional disparities.

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