

An Economic Evaluation of the Pradhan Mantri Mudra Yojana and Its Impact on MSMEs in Karnataka: A District-Level Study of Mandya

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ABSTRACT

The Pradhan Mantri Mudra Yojana (PMMY), launched in April 2015, is a transformative financial inclusion initiative designed to empower India's vast informal enterprise sector by providing collateral-free institutional credit. This study conducts a comprehensive economic evaluation of PMMY's impact on Micro, Small, and Medium Enterprises (MSMEs) in Karnataka, with an in-depth empirical focus on Mandya District. Utilizing a mixed-method research design that synthesizes primary field data from 60 MSME beneficiaries with secondary sources, the analysis assesses changes in key performance indicators: capital formation, turnover, employment, income levels, and financial integration. The findings demonstrate that PMMY has been instrumental in driving enterprise growth, facilitating job creation, enhancing incomes, and reducing reliance on informal credit. However, the study also identifies persistent structural challenges, including procedural inefficiencies, limited financial literacy, and insufficient post-loan support mechanisms, which constrain the scheme's full developmental potential. The paper concludes that while PMMY stands as a critical pillar for inclusive and regional economic growth, its long-term success necessitates institutional strengthening and integrated entrepreneurial ecosystem support.

Keywords: Pradhan Mantri Mudra Yojana (PMMY), MSMEs, Financial Inclusion, Entrepreneurship, Regional Development, Karnataka, Mandya District, Collateral-free Credit

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) form the backbone of the Indian economy, accounting for approximately 30% of the GDP and employing over 110 million people. They are pivotal engines of industrial output, export promotion, and, most critically, regional and socio-economic development. In rural and semi-urban landscapes like Mandya District in Karnataka, MSMEs are often the primary drivers of non-farm employment, entrepreneurship, and upward mobility for marginalized communities, women, and first-generation business owners.

Despite their strategic importance, MSMEs have historically been plagued by a chronic "missing middle" syndrome in finance. Traditional banking institutions, with their requirements for collateral, extensive documentation, and established credit histories, systematically exclude a vast majority of micro-entrepreneurs. This credit gap forces enterprises into the clutches of informal moneylenders who charge usurious interest rates, perpetuating a cycle of financial vulnerability and stunting sustainable growth.

To bridge this gap and formalize the informal, the Government of India instituted the Pradhan Mantri Mudra Yojana (PMMY) under the Micro Units Development and Refinance Agency (MUDRA). The scheme categorizes collateral-free loans into three tiers: Shishu (up to ₹50,000) for seed-stage ventures, Kishor (₹50,001 to ₹5 lakh) for established enterprises, and Tarun (₹5 lakh to ₹10 lakh) for expanding businesses. By targeting

non-corporate, non-farm micro-enterprises, PMMY aims to catalyze entrepreneurship, job creation, and comprehensive financial inclusion.

Karnataka, with its diversified industrial base and proactive policy environment, presents a fertile ground for examining PMMY's impact. Mandya District, traditionally agrarian but witnessing a steady diversification into manufacturing, trade, and services, serves as an ideal microcosm for a localized, district-level study. This research investigates the tangible effects of MUDRA financing on the economic trajectory of MSMEs in this region.

Objectives of the Study

This study is guided by the following specific objectives:

- To examine the conceptual framework and operational mechanics of the Pradhan Mantri Mudra Yojana.
- To analyze the developmental trends and significance of the MSME sector in Karnataka, with a spotlight on Mandya District.
- To assess the improvement in access to formal institutional finance for micro-entrepreneurs post-PMMY.
- To evaluate the impact of MUDRA loans on key business performance metrics: capital investment, annual turnover, and operational productivity.
- To examine the employment generation outcomes attributable to the scheme.

REVIEW OF LITERATURE

Academic and policy literature unequivocally positions MSMEs as catalysts for inclusive growth. Studies consistently identify access to affordable, timely credit as the most critical determinant of MSME survival and expansion. Research on PMMY highlights its success in reducing financial exclusion, with scholars noting positive impacts on enterprise formation, asset acquisition, and working capital management across sectors.

State-specific studies in Karnataka underscore PMMY's role in enhancing women's entrepreneurship and business continuity. However, a critical thread in the literature points to unresolved challenges: bureaucratic delays, information asymmetry between banks and borrowers, risk aversion among lending institutions, and a glaring lack of structured post-disbursement support.

A significant gap exists in micro-level, district-focused analyses, particularly in regions with strong agrarian foundations transitioning towards enterprise diversity. This study aims to fill this gap by providing a granular, empirical assessment of PMMY's impact in Mandya District.

RESEARCH METHODOLOGY

Research Design: A descriptive and analytical framework was employed, integrating quantitative data for statistical robustness with qualitative insights for contextual depth.

Data Sources: Primary Data: Collected through structured questionnaires administered to 60 MSME owners in Mandya District, purposively selected across manufacturing, trading, and service sectors to ensure representativeness.

Secondary Data: Sourced from MUDRA annual reports, RBI publications, Ministry of MSME reports, government statistical abstracts, and relevant academic journals.

Sampling Technique: A random sampling method was used to select beneficiary enterprises from various geographical blocks within Mandya District, covering a spectrum of business sizes and types.

Analytical Tools: Data analysis employed percentage and ratio analysis, comparative assessment of pre- and post-loan business conditions, and descriptive statistical interpretation.

Profile of the Enterprises

The respondent enterprises comprised: Manufacturing (35%) Engaged in food processing, garment making, and small-scale fabrication. Trading (40%) Including retail shops, agricultural input dealers, and wholesale distributors. Services (25%) Covering repair workshops, transport services, catering, and hospitality. Prior to accessing PMMY, the overwhelming majority were micro-enterprises, operating with fewer than five employees.

Impact on Business Performance: Capital Formation Approximately 60% of beneficiaries directed loan funds towards productive capital expenditure procuring machinery, upgrading tools, and purchasing inventory and raw materials. This investment directly enhanced production capacity and operational efficiency.

Turnover Growth: A significant 68% of respondents reported a marked increase in annual sales turnover. This growth is attributed to improved working capital management, allowing for larger inventory holdings and better fulfilment of market demand.

Enterprise Expansion: Around 72% of enterprises expanded their operational scope post-financing. This expansion manifested as diversification of product lines, introduction of new services, or the establishment of additional sales outlets.

Employment Generation: The study recorded a substantial increase in average employment per enterprise, from 2.1 workers before PMMY to 4.3 workers after loan utilization. This doubling effect signifies meaningful local job creation, with significant uptake among youth and women, contributing to regional socio-economic stability.

Income Enhancement: Beneficiaries experienced greater income stability and improved profit margins. The resultant increase in disposable income enabled higher household consumption, investment in children's education, better healthcare access, and gradual asset accumulation, thereby elevating overall standards of living.

Financial Inclusion Outcomes: PMMY served as a gateway to formal finance for 75% of respondents, who were first-time borrowers from institutional sources. The scheme fostered banking habits, encouraged the use of digital payment systems, and instilled basic practices of financial record-keeping. Concurrently, dependence on informal credit sources saw a dramatic decline, reducing financial vulnerability.

Identified Implementation Challenges

Despite its successes, the study uncovered several constraints:

Awareness & Design: Limited awareness of Kishor and Tarun loan categories, leading to a concentration in Shishu loans.

Procedural Hurdles: Documentation complexity and delays in loan sanctioning and disbursement.

Capacity Gaps: Low financial literacy among entrepreneurs and cash flow management difficulties.

Systemic Issues: Risk-averse behavior by bank officials, absence of post-loan mentoring, and challenges in "graduating" enterprises to higher loan categories and formal business structures.

External Factors: Market volatility and intense competition.

Theme	Sub-Themes / Key Issues	Description and Analytical Interpretation
Awareness and Scheme Design Limitations	<ul style="list-style-type: none"> • Limited knowledge of Kishor and Tarun loan categories • Overdependence on Shishu loans • Inadequate outreach programs 	Beneficiaries largely remained unaware of higher-value loan options intended for business expansion. This resulted in disproportionate utilization of Shishu loans, restricting enterprise growth and preventing upward mobility within the credit framework. Weak financial awareness campaigns contributed to suboptimal scheme outcomes.
Administrative and Procedural Barriers	<ul style="list-style-type: none"> • Complex documentation requirements • Delayed approval and disbursement • Bureaucratic inefficiencies 	Lengthy procedures and strict documentation norms discouraged applicants and disrupted business planning. Delays particularly affected micro-entrepreneurs who rely on timely capital, thereby reducing the practical effectiveness of institutional credit mechanisms.
Entrepreneurial Capacity Constraints	<ul style="list-style-type: none"> • Low financial literacy • Poor cash flow management • Limited business planning skills 	Many entrepreneurs lacked essential financial management capabilities, affecting efficient loan utilization and repayment capacity. The absence of structured training limited the translation of credit access into sustainable business development.
Institutional and Systemic Challenges	<ul style="list-style-type: none"> • Risk-averse banking behavior • Limited access to higher loan categories • Absence of post-loan mentoring • Weak enterprise graduation pathways 	Conservative lending practices restricted credit expansion beyond micro-level loans. Additionally, the lack of institutional support services prevented enterprise scaling and formalization, thereby constraining long-term economic transformation.
External Market Constraints	<ul style="list-style-type: none"> • Market volatility • Rising input costs • Intense competition • Economic uncertainty 	Fluctuating market conditions reduced profit margins and increased business vulnerability. These external pressures often counteracted the benefits of credit access and heightened repayment risks.

DISCUSSION

The empirical evidence strongly aligns with development finance theory, affirming that access to credit is a powerful catalyst for micro-enterprise growth. PMMY has successfully addressed the initial capital constraint, triggering a virtuous cycle of investment, expansion, and employment.

The predominance of Shishu loans confirms the scheme's effectiveness in supporting startups and subsistence-level enterprises. However, the limited progression to Kishor and Tarun stages suggests the existence of a "growth ceiling," where enterprises struggle to scale beyond a certain point without complementary non-financial support.

The remarkable financial inclusion achieved underscores PMMY's transformative potential. Yet, for sustainable, scalable development, credit access must be integrated with a holistic support ecosystem.

CONCLUSION AND POLICY IMPLICATIONS

The Pradhan Mantri Mudra Yojana has unequivocally emerged as a cornerstone policy for fostering inclusive and regionally balanced economic growth in India, as evidenced by its positive impact in Mandya District, Karnataka. It has empowered micro-entrepreneurs, generated employment, and accelerated financial integration.

To amplify its impact and ensure long-term sustainability, the study recommends the following policy interventions:

Enhanced Outreach & Awareness: Launch targeted grassroots campaigns to educate entrepreneurs about all three loan categories and their purposes.

Process Streamlining: Digitize and simplify application and documentation procedures, with strict adherence to defined processing timelines.

Capacity Building Integration: Mandate and fund financial literacy and basic business management training as a core component of the scheme.

Strengthened Post-Loan Ecosystem: Establish a structured network of mentoring and advisory services to guide entrepreneurs in marketing, technology adoption, and business planning.

Incentivize Graduation: Develop clear pathways and incentives (like interest subventions) for successful Shishu borrowers to graduate to higher loan categories, fostering scaling.

Focus on Vulnerable Groups: Continue and strengthen targeted support for women and youth entrepreneurs through dedicated counselling and potentially faster processing channels.

Sensitization of Banking Personnel: Train bank officials to adopt a more entrepreneurial and supportive approach towards micro-enterprise lending.

By evolving from a pure credit-distribution scheme to a comprehensive enterprise support system, PMMY can fully realize its potential as a engine of sustainable and equitable economic development.

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