



Assessing the impact of Pradhan Mantri Mudra Yojana on the performance of micro, small and medium enterprises (MSMES)

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Abstract

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in India's economic development by contributing to employment generation, industrial output, exports, and entrepreneurship. Access to adequate finance remains one of the major challenges faced by MSMEs, particularly micro-enterprises and first-time entrepreneurs. To address this issue, the Government of India launched the Pradhan Mantri Mudra Yojana (PMMY) in 2015 with the objective of providing collateral-free loans to non-corporate, non-farm small business sectors.

The study focuses on key performance indicators such as sales growth, profitability, employment generation, business expansion, asset creation, productivity, and financial stability.

Keywords: Pradhan Mantri Mudra Yojana (PMMY), mudra loans, financial inclusion, entrepreneurship, business growth, employment generation, MSME development

Introduction

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic development of India by generating employment, promoting entrepreneurship, and contributing significantly to industrial production and exports. However, many MSMEs face challenges in accessing formal credit due to lack of collateral, limited financial history, and complex lending procedures. To address these issues, the Government of India launched the Pradhan Mantri Mudra Yojana (PMMY) in April 2015. The scheme aims to provide affordable and collateral-free loans to micro and small business units through financial institutions, thereby encouraging self-employment and business growth.

PMMY offers financial assistance under three categories—Shishu, Kishor, and Tarun—based on the stage and funding requirements of the enterprise. The scheme has facilitated access to credit for millions of small entrepreneurs, particularly women, rural entrepreneurs, and economically weaker sections of society. By improving access to finance, PMMY seeks to enhance business performance, increase income levels, create employment opportunities, and strengthen the MSME sector.

Impact of PmmY Loans on Msme Growth

The Pradhan Mantri Mudra Yojana (PMMY) was introduced to provide financial support to micro and small enterprises that often face difficulties in obtaining loans from formal financial institutions. PMMY has had a positive impact on the growth and development of MSMEs in several ways.

1. Increased Access to Credit

PMMY provides collateral-free loans, making it easier for MSMEs to obtain financial assistance. This helps businesses meet their working capital requirements and invest in growth opportunities.

2. Business Expansion and Modernization

Many MSMEs use PMMY loans to purchase machinery, adopt new technology, improve infrastructure, and expand

production capacity. This leads to increased efficiency and competitiveness.

3. Employment Generation

As businesses grow, they require additional workers. PMMY-supported enterprises contribute to job creation, particularly in rural and semi-urban areas.

4. Encouragement of Entrepreneurship

PMMY encourages individuals to start their own businesses by providing financial support at different stages of business development. It particularly benefits first-time entrepreneurs.

5. Women's Economic Empowerment

A significant number of PMMY loans have been availed by women entrepreneurs, helping them establish and expand businesses and become financially independent.

6. Rural and Regional Development

PMMY promotes economic activities in rural and underdeveloped regions by supporting local enterprises, reducing regional economic disparities.

7. Financial Inclusion

The scheme integrates small business owners into the formal banking system, enabling them to access banking services and build a credit history.

The Pradhan Mantri Mudra Yojana (PMMY) has significantly contributed to the growth of Micro, Small, and Medium Enterprises (MSMEs) by providing collateral-free loans to small business owners and entrepreneurs. The scheme has improved access to finance, enabled business expansion, increased sales and profits, generated employment opportunities, and promoted entrepreneurship. By reducing dependence on informal sources of credit, PMMY has helped MSMEs strengthen their operations and improve their overall performance.

Impact of Pmmy on Different Aspects of Msme Growth

Growth Aspect	Impact of PMMY Loans
Access to Finance	Easier availability of credit through formal banking channels
Business Expansion	Increased investment in machinery, equipment, and infrastructure
Production Capacity	Enhanced production and service delivery capabilities
Sales Growth	Improved market reach and higher sales revenue
Profitability	Increased profits due to better business operations
Employment	Creation of new job opportunities
Entrepreneurship	Encouragement of self-employment and new business ventures
Financial Inclusion	Integration of small businesses into the formal financial system

MSME Performance Before and After PMMY Assistance

Performance Indicator	Before PMMY Loan	After PMMY Loan
Working Capital	Limited	Adequate
Production Level	Low	High
Sales Revenue	Moderate	Increased
Profit Margin	Lower	Higher
Number of Employees	Few	More
Technology Usage	Basic	Improved
Market Coverage	Local Market	Wider Market

PMMY loans have had a positive impact on MSME growth by improving access to finance, increasing production capacity, enhancing sales and profitability, and generating employment. The scheme has played an important role in promoting entrepreneurship and supporting the sustainable development of MSMEs in India. These benefits make PMMY a key initiative for strengthening the MSME sector and fostering inclusive economic growth.

Performance Indicators of Msmes

Performance indicators are measurable parameters used to evaluate the growth, efficiency, and sustainability of Micro, Small, and Medium Enterprises (MSMEs). These indicators help assess the impact of financial support received through schemes such as the Pradhan Mantri Mudra Yojana (PMMY) and determine whether MSMEs have improved their operational and financial performance.

Key Performance Indicators of MSMEs

- **Sales Growth:** Increase in sales turnover after receiving financial assistance.
- **Profitability:** Growth in net profit and return on investment.
- **Employment Generation:** Increase in the number of employees and job opportunities created.
- **Business Expansion:** Opening of new branches, expansion of production facilities, or entry into new markets.
- **Productivity Improvement:** Higher output achieved with efficient utilization of resources.
- **Asset Creation** – Purchase of machinery, equipment, vehicles, or infrastructure.
- **Market Share Growth:** Increase in the enterprise's presence and competitiveness in the market.

- **Loan Repayment Performance:** Timely repayment of loans and reduced default rates.
- **Innovation and Technology Adoption:** Introduction of new technologies, products, or production methods.
- **Customer Satisfaction:** Improved customer retention and positive feedback.
- **Production Capacity Utilization:** Better use of available resources and facilities.
- **Working Capital Management:** Efficient management of cash flow and operational expenses.
- **Export Performance:** Growth in exports and entry into international markets.
- **Financial Stability:** Improvement in liquidity, solvency, and overall financial health.
- **Business Survival Rate** – Ability of the enterprise to continue operations and withstand market challenges.
- **Income Generation:** Increase in the entrepreneur's and employees' income levels.
- **Operational Efficiency:** Reduction in production costs and wastage.
- **Quality Improvement:** Enhancement of product and service quality standards.

These indicators provide a comprehensive basis for evaluating the performance of MSMEs and understanding the effectiveness of PMMY loans in promoting business growth, financial inclusion, employment generation, and overall economic development.

Changes in Sales, Profits, and Employment after Receiving Pmmy Assistance

PMMY assistance has brought significant improvements in the performance of MSMEs by providing timely and affordable credit. After receiving PMMY loans, many enterprises experience an increase in sales due to expanded production capacity, improved product quality, and better market reach. The additional financial support enables businesses to purchase raw materials, upgrade equipment, and meet customer demand more effectively. As sales increase, profits also tend to rise because enterprises can operate more efficiently and generate higher revenues. Furthermore, business expansion often creates a need for additional workers, leading to increased employment opportunities. Thus, PMMY assistance not only improves the financial performance of MSMEs but also contributes to job creation and overall economic growth.

Challenges Faced By Msmes in Utilizing Pmmy Funds

Despite the benefits of the Pradhan Mantri Mudra Yojana (PMMY), MSMEs face several challenges in effectively utilizing the funds. One major challenge is the lack of financial literacy and business management skills among entrepreneurs, which may result in poor financial planning and inefficient use of loan amounts. Many MSMEs also receive loan amounts that are insufficient to meet their growing business needs, limiting expansion opportunities. Delays in loan approval and disbursement can affect business operations and investment plans.

In addition, MSMEs often struggle with intense market competition from larger firms, making it difficult to increase sales and profitability. Rising costs of raw materials, labor, transportation, and utilities can further reduce profit margins. Some businesses face difficulties in identifying suitable investment opportunities and may not use the funds

for productive purposes. Limited access to modern technology and digital tools also restricts business growth and productivity.

Another challenge is the lack of proper training, mentoring, and advisory support for entrepreneurs after receiving the loan. Many MSMEs find it difficult to maintain financial records and comply with regulatory requirements. Poor infrastructure, such as inadequate transportation, power supply, and internet connectivity, can affect business performance, especially in rural areas. Economic uncertainties, inflation, and changes in government policies may also impact the ability of MSMEs to repay loans and sustain operations.

Overall Effectiveness of Pmmmy in Supporting Msme Development

The Pradhan Mantri Mudra Yojana (PMMY) has been highly effective in supporting the growth and development of MSMEs by providing accessible and affordable credit to small entrepreneurs. The scheme has improved financial inclusion, encouraged entrepreneurship, generated employment opportunities, and contributed to business expansion. By offering collateral-free loans under the Shishu, Kishor, and Tarun categories, PMMY has enabled MSMEs to invest in production, technology, and market development. However, challenges such as inadequate funding, lack of financial literacy, and market competition continue to affect the full utilization of the scheme's benefits. Overall, PMMY has played a significant role in strengthening the MSME sector by improving access to finance, promoting entrepreneurship, increasing employment, and supporting business growth. While certain challenges remain, the scheme has contributed positively to the economic development of small enterprises and has become an important tool for inclusive growth in India.

Conclusion

The Pradhan Mantri Mudra Yojana (PMMY) has emerged as a significant initiative for promoting the growth and development of Micro, Small, and Medium Enterprises (MSMEs) in India. By providing collateral-free loans, the scheme has improved access to finance for small entrepreneurs, enabling them to expand their businesses, increase production, generate employment, and improve profitability. The evaluation of MSMEs benefiting from PMMY indicates positive outcomes in terms of sales growth, asset creation, market expansion, and financial inclusion. The scheme has been particularly beneficial for first-time entrepreneurs, women-led enterprises, and businesses operating in rural and semi-urban areas. However, challenges such as inadequate loan amounts, limited awareness, and repayment difficulties continue to affect some beneficiaries. Overall, PMMY has played a vital role in strengthening the MSME sector and contributing to inclusive economic growth. Continued support, effective monitoring, and capacity-building initiatives can further enhance the impact of the scheme on MSME development.

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