



DAILY EDITORIAL ANALYSIS

TOPIC

**MUDRA SCHEME: BOON FOR MICRO
ENTERPRISES IN INDIA**

www.nextias.com

MUDRA SCHEME: BOON FOR MICRO ENTERPRISES IN INDIA

Context

- Micro Units Development and Refinance Agency (MUDRA) Ltd and Pradhan Mantri Mudra Yojana (PMMY) completed 10 years on April 8, 2025.

Genesis of MUDRA

- **NSSO Report (2013):**
 - ♦ About 57.7 million micro units in the country.
 - ♦ More than 90% enterprises or proprietary concerns (mostly by the weaker sections of the society).
 - ♦ Only about 5-6% of these enterprises had formal credit support.
- **Union Budget 2015-16:** Formation of a MUDRA Bank to extend refinance and regulate the microfinance sector.

About PM Mudra Yojana

- **Mudra Vision:** PMMY was initiated with the vision to '**Fund the Unfunded**' – aiming to empower micro and small enterprises (MSEs) by facilitating access to collateral-free institutional credit of up to ₹10 lakh.
- The loans are disbursed through three products:
 - ♦ **Shishu:** Loans up to ₹50,000 for budding entrepreneurs.
 - ♦ **Kishore:** Loans between ₹50,000 and ₹5 lakh for growing businesses.
 - ♦ **Tarun:** Loans between ₹5 lakh and ₹10 lakh for established enterprises.
- **Target:** Small businesses in manufacturing, trading, processing, and services—a major employment segment after agriculture.
 - ♦ Collateral-free credit up to ₹20 lakh is provided by Member Lending Institutions (MLIs) i.e. Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Non-Banking Financial Companies (NBFCs) and Micro Finance Institutions (MFIs).

Budget 2025-26

- A new category of **Tarun-plus loan**, up to ₹20 lakh, has been introduced.

MUDRA Scheme: Decade of Impacts

- **Credit Flow:** Around ₹57,000 crore in 2013 (Before MUDRA)
 - ♦ ₹1.32 lakh crore in 2014-15 and ₹5.41 lakh crore in the last nine years.
- **Financial Inclusion:** Over 52 crore loans worth ₹32.61 lakh crore have been sanctioned since its inception.
 - ♦ Around 30% of units financed under MUDRA were new or fresh to financing.
- **Focus on Women and Marginalized Groups:** Approximately 68% of loan accounts under the scheme belong to women, and 50% are loans to SC/ST and OBC entrepreneurs.
 - ♦ About 70% of the borrowers were women in the first year.
- **Wide Accessibility:** Loans are provided through a network of banks, NBFCs, MFIs, and other financial institutions, ensuring broad coverage across urban and rural areas.
- **Economic Empowerment:** The scheme has supported small businesses across sectors like retail, food processing, and services, fostering self-employment and job creation.
 - ♦ States like Tamil Nadu, Uttar Pradesh, and Karnataka have seen significant disbursements, contributing to regional economic growth.
- **Some Major Achievements:**
 - ♦ **Empowerment of Nano Entrepreneurs:** A significant chunk of beneficiaries are street vendors, artisans, and small service providers.
 - ♦ **Women-Led Enterprises:** More than 29 crore loans have been granted to women, boosting female entrepreneurship.
 - ♦ **Digital Integration:** PMMY integrated with platforms like **Jan Dhan accounts and Aadhaar**, ensuring transparency and efficiency in credit delivery.

Case Studies of Transformation

- Renu Devi from Bihar, who started a tailoring business with a ₹40,000 Shishu loan, now employs 3 others and runs a boutique.
- Naveen from Karnataka used a Tarun loan to set up a vehicle repair shop and expanded into auto parts retail.

Challenges

- **Rising NPAs:** Public Sector Banks have reported rising Non-Performing Assets (NPAs) under Mudra loans (NPA in these loans are **around 2.2%**).
- **Lack of Impact Evaluation:** There is insufficient **third-party auditing or impact assessment** of PMMY at scale.
 - ♦ Success claims are mostly based on disbursement volumes rather than actual outcomes.
- **Over-leveraging and Misutilization:** Instances of borrowers using loans for consumption rather than productive use have raised concerns about loan effectiveness.
- **Limited Tarun Loans:** While most disbursements are under the Shishu category (low-ticket), Tarun loans have remained relatively underutilized—undermining high-growth potential entrepreneurs.

Future Roadmap

- **Deepen Credit + Capability Linkages:** Integrate MUDRA with Skill India, Start-Up India, and Livelihood Missions to offer a comprehensive entrepreneurial ecosystem.
- **Promote Financial Literacy:** Embed credit counselling and digital literacy modules during loan disbursal to reduce defaults and enhance productive utilization.
- **Encourage Tarun Category Lending:** Design interest subvention, risk-sharing frameworks, or credit guarantee mechanisms to incentivize higher-value lending.
- **Digitize Microcredit Processes:** Expand UPI-linked MUDRA cards, mobile-based applications, and e-verification for faster processing, real-time tracking, and reduced transaction costs.
- **Institutionalize Mentorship Networks:** Facilitate local mentorship cells under the aegis of District Industries Centres (DICs) or MSME clusters for handholding new entrepreneurs.

Conclusion

- The **PM Mudra Yojana** has emerged as a silent revolution — empowering millions to dream big, act bold, and build their livelihoods.
- As India strides towards a **\$5 trillion economy**, the scheme remains crucial in democratising capital, energising local enterprise, and scripting grassroots success stories across its villages and cities.

Source: BL

Mains Practice Question

[Q] How has the MUDRA scheme transformed the lives of micro-entrepreneurs in India over the past decade, and what more can be done to ensure its sustainability and inclusivity in the future?

