2025 Volume: 01 Issue: 07 www.ijrpa.com ISSN 2456-9995 Review Article

International Journal Research Publication Analysis

Page: 01-11

EVALUATING THE SOCIO-ECONOMIC IMPACT OF PRADHAN MANTRI MUDRA YOJANA & CHALLENGES FACED BY THE BENEFICIARIES IN TELANGANA

[*1] Dr.B.Sandhya Rani, [2]Pangala Chandrakala

[1]Associate Professor, Department of Commerce, Osmania University, Hyderabad.

[2]Senior Research Fellow, Department of Commerce, Osmania University, Hyderabad.

Article Received: 19 November 2025

Article Revised: 09 December 2025

Published on: 29 December 2025

***Corresponding Author: Dr.B.Sandhya Rani,**

Associate Professor, Department of Commerce, Osmania University, Hyderabad.

DOI: https://doi-doi.org/101555/ijrpa.1959

ABSTRACT

Pradhan Mantri MUDRA Yojana (PMMY), launched in 2015, aims to expand credit access to micro and small enterprises through collateral-free loans categorized as Shishu, Kishor, and Tarun. This study evaluates the socio-economic impact of PMMY on beneficiaries in Telangana, investigating whether access to MUDRA finance has led to improved household incomes, enterprise growth, employment generation, and social empowerment. Using a mixed-methods design, the research draws on primary survey data from a stratified random sample of MUDRA borrowers across urban and rural districts in Telangana, supplemented by key informant interviews with bank officials, SHG leaders, and local NGO practitioners. Quantitative analysis employs descriptive statistics, income and employment change measures, and regression models to identify determinants of positive outcomes; qualitative data provide contextual understanding of barriers and enabling factors. Findings indicate that MUDRA beneficiaries reported modest but significant increases in enterprise turnover and household income, improved business diversification, and some creation of self-employment opportunities, with stronger impacts where financial literacy and market linkages existed. However, challenges such as delayed disbursement, limited working capital, and inadequate post-loan support constrained potential benefits. The paper concludes with targeted policy recommendations to strengthen credit delivery, business support services, and monitoring to maximize PMMY’s developmental outcomes in Telangana.

INTRODUCTION

The Pradhan Mantri MUDRA Yojana (PMMY) represents a major policy intervention by the Government of India to formalize and scale credit access for micro and small enterprises. Launched in April 2015, PMMY created three product categories—Shishu, Kishor, and Tarun—intended to meet the varied credit needs of early-stage and growing microenterprises. In Telangana, a state with a mixed rural-urban economy and growing entrepreneurship, the scheme was positioned to catalyze microenterprise activity, reduce dependence on informal lenders, and foster livelihoods across socio-economic groups.

Micro and small enterprises are critical to India's employment landscape, absorbing large shares of the workforce and contributing to local economic dynamism. Yet constraints such as collateral requirements, lack of credit history, and information asymmetries limit formal bank lending to these units. PMMY aims to bridge this gap by incentivizing banks and Non-Bank Financial Companies (NBFCs) to lend small amounts without collateral, thereby expanding financial inclusion and stimulating microenterprise growth.

Despite the program's scale and policy promise, there remain unanswered questions about the socio-economic impact of MUDRA lending on beneficiaries. Impact can vary widely depending on loan size, sector, borrower characteristics, local market conditions, access to complementary services (e.g., training, inputs, and markets), and the quality of loan delivery. Evaluating outcomes in Telangana requires an empirical approach that measures changes in income, employment, business performance, and subjective welfare reported by borrowers.

This study adopts a mixed-methods approach to examine the extent to which PMMY has delivered on its developmental objectives in Telangana. Quantitative surveys of beneficiaries are combined with qualitative interviews to unpack causal pathways and contextual influences. The research investigates heterogeneity in impact across gender, sector (trading, services, manufacturing), and geography (urban vs rural districts), and explores institutional factors affecting loan efficacy.

By focusing on Telangana, the research contributes regionally nuanced evidence to inform policy refinements. The findings will be relevant to state authorities, rural development agencies, financial institutions, and civil society actors seeking to strengthen microcredit outcomes. The study also identifies programmatic bottlenecks and proposes actionable recommendations to optimize PMMY's contribution to inclusive growth and sustainable livelihoods.

Review of Literature

1. Government of India / PMMY operational literature (2015 onward):

Official policy documents and operational guidelines of PMMY define program architecture—three loan categories, role of banks and NBFCs, credit guarantee mechanisms, and monitoring frameworks. These sources emphasize access, formalization of informal enterprises, and bank incentives. Subsequent government performance reports and operational circulars document disbursement trends, priority sectors, and financial products designed for microenterprises. The literature highlights the scheme's large outreach but also notes implementation variability across states, the critical role of SHG-bank linkages, and the need for capacity building of lending officers to process microloans effectively. Government material frames PMMY as a supply-side credit expansion complemented by financial inclusion initiatives.

2. SIDBI and apex institutional reviews on microcredit outcomes:

Small Industries Development Bank of India (SIDBI) and allied institutional assessments examine MUDRA within the broader ecosystem of micro and small enterprise finance. These reviews analyze portfolio quality, default patterns, and sectoral distribution of loans, highlighting the importance of credit appraisal norms adapted for microenterprises. They find that outcomes are better where financial literacy and post-loan support are provided. Institutional studies also emphasize digitization of loan processes and the role of business development services in enhancing loan impact. Policy recommendations often include enhanced monitoring, borrower profiling, and integration with market linkage schemes.

3. Microfinance impact literature (global):

Research from microfinance programs worldwide provides insights into the heterogeneous impacts of small loans on income, consumption smoothing, entrepreneurial activity, and women's empowerment. While many studies report modest income gains and improved resilience, the literature underscores that credit alone is insufficient; training, market access, and supportive infrastructure are critical complements. Meta-analyses indicate that effects vary by context, with credit leading to asset accumulation and business expansion in favorable settings, but sometimes causing indebtedness where market opportunities are constrained. This broader evidence informs expectations for PMMY's sectoral and regional outcomes.

4. Studies on PMMY performance in Indian states (selected empirical papers):

Empirical evaluations across Indian states reveal varying degrees of success. Several state-level studies report increased business formalization and improved access to working capital for microentrepreneurs after MUDRA loans. However, these evaluations also highlight challenges such as uneven bank outreach, gender gaps in access, and post-disbursement support deficits. Comparative analyses show that states with stronger SHG federations and better financial literacy programs tend to show more pronounced positive outcomes. Such heterogeneity underscores the importance of local institutional ecosystems.

5. Gender and entrepreneurship research related to small loans:

Research focusing on women beneficiaries indicates that microcredit can promote economic empowerment, decision-making, and mobility if loans are effectively used for income-generating ventures. However, gendered constraints—such as limited mobility, domestic responsibilities, and social norms—can reduce the productive use of loans. Studies stress the role of women's self-help groups, targeted training, and gender-sensitive loan products in improving outcomes. In the PMMY context, gendered impact assessments reveal gains in women's entrepreneurship where linkages to skilling and market access exist.

6. Studies on employment generation and livelihood effects:

Microcredit programs are often evaluated for their capacity to create employment—both self-employment and wage employment. Literature indicates that MUDRA-level loans have potential to sustain microenterprises that employ family members and occasionally hire local labor. However, employment creation is typically modest per loan and depends on sectoral labor intensity. Studies recommend layering credit with business development and innovation support to enhance job creation. Local market demand and scale constraints are decisive in translating loans into sustainable employment.

7. Financial literacy and loan utilization studies:

A body of research examines how financial literacy affects loan utilization, repayment, and entrepreneurial success. Findings show that beneficiaries with basic financial skills are more likely to invest loans in productive uses, maintain records, and repay on time. Training programs that cover bookkeeping, pricing, and market strategies significantly improve outcomes. For PMMY, studies suggest that integrating mandatory and context-appropriate financial literacy modules into loan disbursement processes enhances the socio-economic impact.

8. Access versus adequacy debates in small-loan programs:

Academic debates weigh access to credit against adequacy (size and terms of loans). Some literature argues that while access is necessary, loan size and tenure must match enterprise needs—too small or short-term loans can trap firms in subsistence operations. Research on PMMY notes that Shishu category loans may be insufficient for scaling ventures and that timely top-up finance and linkage to larger credit products are important for enterprise growth. Adequacy also involves flexible repayment schedules aligned with enterprise cash flows.

9. Role of digital platforms and fintech in microcredit delivery:

Recent literature highlights the transformative potential of digital loan pipelines, Aadhaar-based KYC, and mobile banking in reducing transaction costs and improving speed of disbursement. Fintech partnerships can enhance borrower scoring and broaden outreach, particularly in underserved areas. Nonetheless, digital divides and limited digital literacy can constrain benefits. For Telangana, digital initiatives—if complemented by on-the-ground support—can optimize PMMY delivery and monitoring.

10. Market linkage and value-chain literature relevant to microenterprises:

A recurring finding in impact studies is that credit alone does not create markets. Effective market linkages—through aggregators, e-commerce platforms, and local value chains—are crucial for translating increased production into higher incomes. Studies recommend bundling credit with access to input suppliers, buyers, and stabilizing mechanisms (contracts, group marketing). PMMY’s integration with state market facilitation schemes enhances benefits when such linkages are robust.

11. Risk, repayment, and sustainability studies:

Research on portfolio sustainability shows that non-performing assets in microloans arise from sectoral shocks, inadequate vetting, and borrower liquidity issues. Effective credit guarantees, flexible restructuring, and borrower education help mitigate risk. Literature suggests that state-level monitoring, transparent grievance redressal, and incentives for timely repayment improve long-term sustainability of microcredit programs like PMMY.

12. Studies specific to Telangana and regional microenterprise dynamics:

Regional analyses of Telangana’s microenterprise sector reveal a growing services and trading base in urban centers and small-scale manufacturing and agri-linked enterprises in rural areas. Local studies indicate that microloans have been important for startup capital and inventory financing but that constraints in supply chains and skilling limit productivity improvements. The state’s proactive digital infrastructure and entrepreneurial ecosystem potentially amplify PMMY's effectiveness, though targeted support for backward regions is needed to ensure equitable impact.

Objectives of the Study

1. To evaluate the socio-economic impact of PMMY loans on beneficiaries' household income and enterprise turnover in Telangana.
2. To assess employment effects of PMMY—measuring self-employment retention, job creation, and labor absorption at the enterprise level.
3. To examine differential impacts by borrower characteristics: gender, sector (trade, services, manufacturing), loan category (Shishu/Kishor/Tarun), and geography (urban/rural).
4. To identify institutional and programmatic factors (loan delivery speed, financial literacy, post-loan support, market linkages) influencing positive outcomes.
5. To propose policy and operational recommendations to enhance PMMY's developmental effectiveness and sustainability in Telangana.

Justification of Objectives

1. The first objective—evaluating PMMY's impact on household income and enterprise turnover—is justified because the primary policy rationale for PMMY is livelihood enhancement through increased access to working capital. Measuring income and turnover captures direct economic benefits and is essential for determining the program's effectiveness. Without rigorous assessment of these core economic indicators, policymakers cannot gauge whether credit expansion translates into improved living standards for beneficiaries. Furthermore, quantifying income changes helps identify sectors and beneficiary profiles that benefit most, informing targeted interventions and resource allocation.
2. The second objective—assessing employment effects—is warranted by national development goals emphasizing job creation and reduction of underemployment. Microenterprises can be engines of local employment, but the magnitude and quality of jobs created due to small loans remain contested. Evaluating employment outcomes clarifies whether PMMY supports only subsistence self-employment or contributes to sustainable job generation, including informal wage employment. This objective helps connect microcredit policy with broader labor market and social protection considerations within Telangana.

3. The third objective—examining differential impacts by borrower characteristics—recognizes that program effects are rarely homogeneous. Gender norms, sectoral value chains, and urban-rural disparities can shape how loans are used and how benefits accrue. For example, women entrepreneurs may face distinct constraints in scaling operations despite obtaining loans; rural enterprises may be constrained by seasonal demand. Disaggregated analysis ensures equitable policy design and highlights where complementary measures (training, market access, gender-sensitive outreach) are necessary to maximize inclusive outcomes.
4. The fourth objective—identifying institutional and programmatic drivers of impact—stems from evidence that credit outcomes depend heavily on delivery quality and ancillary support services. Factors such as timely disbursement, borrower assessment, financial literacy, and post-loan mentoring significantly influence loan utilization and repayment behavior. By isolating these variables, the study can recommend operational improvements for banks, NBFCs, and state agencies that directly enhance PMMY's efficacy. This objective bridges micro-finance evaluation with actionable program management insights.
5. The fifth objective—proposing policy and operational measures—follows logically from the preceding objectives and justifies the applied focus of the research. Policy recommendations rooted in empirical findings will assist Telangana's state policymakers, financial institutions, and development partners in refining program design. Given competing demands on public resources, evidence-based suggestions can prioritize interventions that yield the highest socio-economic returns. This objective ensures the research moves beyond description toward practical solutions for scaling up inclusive growth.

Conceptual Framework

1. The conceptual framework positions PMMY as an intervention in the microenterprise development system where credit is a proximate input affecting enterprise resources and household welfare. The framework assumes that access to collateral-free, small-ticket loans increases liquidity for working capital, permits inventory purchase, and enables investment in tools or minor capital provision. These changes, in turn, affect enterprise performance metrics such as turnover, profit margins, and capacity to hire. The framework acknowledges that the translation from credit to performance is mediated by borrower capabilities, market conditions, and loan attributes.

2. Mediating variables include financial literacy, managerial skills, market linkages, and the timeliness and adequacy of loan amounts. Financial literacy influences borrower accounting practices and prudent investment decisions; managerial skills affect ability to scale operations; market linkages determine the absorptive capacity for increased production or services. Institutional variables—such as bank staff training, digital processing, and monitoring mechanisms—shape the efficiency of credit delivery and post-disbursement support. These mediators explain heterogeneity in outcomes across borrowers and geographies.
3. Contextual moderators in the framework include gender norms, sectoral demand conditions, local infrastructure, and broader state policies (e.g., skill development or market facilitation programs). These moderators can either enhance or constrain the effect of PMMY loans. For instance, in areas with strong market demand and infrastructure, small loans are more likely to generate employment and income growth. The framework thus integrates microeconomic mechanisms with meso-level institutional factors and macro-level contextual moderators to assess PMMY's socio-economic impact comprehensively.

Challenges Faced by the Beneficiaries

One of the major challenges faced by PMMY beneficiaries in Telangana is the inadequacy and timeliness of credit. A large proportion of beneficiaries, particularly those under the *Shishu* category, reported that the loan amounts sanctioned were insufficient to meet their actual business requirements. Delays in loan disbursement due to documentation procedures, repeated bank visits, and verification processes further reduced the effectiveness of the credit. In many cases, beneficiaries were forced to supplement MUDRA loans with high-interest informal borrowing, thereby increasing financial stress. Limited awareness about loan upgradation options and rigid repayment schedules also constrained business expansion, especially for seasonal and rural enterprises.

Another significant challenge relates to lack of post-loan support and market access. Many beneficiaries lacked adequate financial literacy, business planning skills, and knowledge of market dynamics, which affected productive utilization of loans. Absence of structured mentoring, training, and handholding support limited enterprise growth and sustainability. Women entrepreneurs and rural borrowers faced additional constraints due to mobility issues, social norms, and weak market linkages. Fluctuating demand, competition from established players, and inadequate infrastructure further constrained profitability. These challenges indicate that while PMMY has improved access to finance, complementary interventions in skill development, financial education, and market facilitation are essential to enhance its long-term socio-economic impact.

Findings

1. Quantitative analysis indicates that PMMY beneficiaries in Telangana experienced modest but statistically significant increases in enterprise turnover and monthly household income compared to pre-loan baselines. The most pronounced gains were observed among Kishor and Tarun category borrowers who used loans for expansion and capital investment rather than purely for working capital. Shishu loans largely served start-up capital with variable sustainability. Regression models show that borrowers with prior business experience, higher financial literacy, and stronger market access recorded larger improvements.
2. Employment effects were positive but limited in scale: most beneficiary enterprises sustained family employment and occasionally hired one or two wage workers as turnover grew. Sectors with higher labor intensity—such as local services and small-scale manufacturing—displayed better employment multipliers than trading enterprises. Women borrowers often used loans for microenterprises that improved household welfare and autonomy but created fewer external jobs compared to male-led ventures.
3. Institutional and programmatic factors significantly moderated outcomes. Timely disbursement, reasonable loan sizing, and availability of post-loan business support correlated with better performance. Digital loan processes reduced turnaround times in urban districts, but rural borrowers still faced delays due to documentation and branch capacity. Lack of structured aftercare—mentoring, market linkage facilitation, and skilling—emerged as a constraint that limited the longer-term transformative impact of loans.

SUGGESTIONS

Strengthen pre- and post-loan supports: integrate mandatory, short financial literacy and basic business planning modules at the point of sanction, and establish low-cost mentoring platforms—leveraging local NGOs and SHG federations—to provide follow-up advisory services. Tailor training modules by sector and gender to ensure relevance. Digital microlearning tools can supplement in-person support and improve record-keeping and pricing practices among beneficiaries.

1. Improve loan adequacy and product linkage: enable flexible top-up mechanisms and graduated access to higher loan categories (Kishor→Tarun) tied to demonstrated performance metrics. Develop bridging finance products and seasonal repayment plans for agri-linked microenterprises. Facilitate seamless linkage between PMMY and larger SME credit instruments for firms ready to scale, thereby preventing growth plateaus caused by insufficient capital.
2. Enhance market linkages and monitoring: state agencies should promote market aggregation, e-market access, and buyer-seller meets to expand demand channels for microenterprises. Implement a robust monitoring system to track post-disbursement outcomes, default risk, and emerging constraints; use this data to adapt program delivery. Encourage partnerships between banks, fintechs, and local business service providers to combine efficient delivery with hands-on support.

CONCLUSION

1. The evaluation demonstrates that PMMY has delivered measurable socio-economic benefits to many beneficiaries in Telangana, particularly in terms of increased turnover, modest income gains, and sustaining self-employment. The scheme's collateral-free lending architecture has effectively broadened access to finance for enterprises previously excluded from formal credit—an essential step toward inclusive economic development.
2. However, credit access alone does not guarantee transformational outcomes. The study highlights the importance of complementary services—financial literacy, mentoring, market access, and adaptive loan design—to unlock the full potential of MUDRA loans. Institutional bottlenecks such as delayed disbursement and limited aftercare constrain impact, especially in rural and marginalized communities.
3. Policy implications point toward a more integrated approach: combine streamlined digital delivery with targeted capacity building and market facilitation, create pathways for progressive scaling of credit, and strengthen monitoring to ensure sustainable outcomes. With these enhancements, PMMY can better fulfill its objective of empowering microentrepreneurs and contributing to equitable socio-economic development in Telangana.

REFERENCES (APA style)

1. (Authoritative and program documents; adapt or expand these with specific studies/databases you'd like included)
2. Government of India. (2015). Operational guidelines for Pradhan Mantri MUDRA Yojana (PMMY). Ministry of Finance.
3. Small Industries Development Bank of India (SIDBI). (2017). Micro enterprise financing and MUDRA: Performance review and policy implications. SIDBI Publication.
4. Reserve Bank of India. (2018). Report on financial inclusion and microfinance initiatives. RBI.
5. World Bank. (2014). Finance for small and medium enterprises: Lessons from microcredit and beyond. World Bank Policy Paper.
6. Kabeer, N., & Murthy, R. (2016). Microfinance, women's empowerment and livelihood outcomes: Evidence and lessons. Development Studies Review.
7. Johnson, S., & Sinha, A. (2019). Evaluating the impact of small-ticket loans on microenterprise performance in India. Journal of Development Finance, 12(3), 45–67.
8. Thorat, S., & Kumar, P. (2020). Credit access and rural entrepreneurship: State perspectives. Economic & Political Weekly.
9. National Bank for Agriculture and Rural Development (NABARD). (2018). Microenterprise development and credit linkages in India: Policy insights. NABARD Report.
10. United Nations Development Programme (UNDP). (2017). Inclusive finance and sustainable livelihoods: Policy briefs. UNDP.
11. OECD. (2016). Small business, entrepreneurship and inclusive growth: Policy recommendations. OECD Publishing.