

An Analysis of Effectiveness of Financial Inclusion in India under PMMY

Vishal Keshari¹, Dr. Niyati Padhi²

¹ Research Scholar (PHD202200001031), Department of Economics, Chhatrapati Shahu Ji Maharaj University, Kalyanpur, Kanpur, 208084, U.P., India, vishalkeshari54321@gmail.com

² Assistant Professor, Department of Economics, Chhatrapati Shahu Ji Maharaj University, Kalyanpur, Kanpur, 208084, U.P., India, niyatilal@gmail.com

Abstract

Financial inclusion refers to the easy and affordable availability to financial products and services to all segments of the population, including the poorest of the poor. It guarantees equitable possibilities to acquire financial services and products. This research paper will concentrate on the theoretical aspects of the financial inclusion plans in India. Our focus will be on the financial impact of the Pradhan Mantri MUDRA Yojana (PMMY) on the rural population of India. We will examine PMMY performance by social category and highlight the PMMY's gender-specific performance. This will shed some light on how well the program is doing both for New and Old Entrepreneurs on the basis of number of accounts opened as well as their effectiveness. Since PMMY is based on loan disbursement, it will analyse PMMY's performance as a Financial Institution and shed light at the State level.

The effort will be to find out in the PMMY sample whether there is a significant correlation between the level of satisfaction and age, gender, social category, educational attainment, annual income, and occupation of the beneficiaries. It will investigate whether there is a noteworthy correlation between the issues encountered by MUDRA loan applicants and the motivation behind the application. This paper intends to provide appropriate methods for creating a system to improve India's financial inclusion more successfully.

Keywords: Financial Inclusion, Inequality, Social Categories

1. Introduction

The concept of financial inclusion gained formal recognition in India when the Reserve Bank of India (RBI), in its Annual Policy Statement of 2005, explicitly emphasized its significance. The primary objective of financial inclusion is to bring the economically marginalized sections of society within the fold of the formal banking system. This initiative aims to safeguard the poorest individuals, who are often victims of exploitation by informal moneylenders and wealthy landlords due to their financial vulnerability.

Financial inclusion contributes to the development of a robust financial system by ensuring that access to financial resources is equitable and widespread. It plays a pivotal role in fostering financial literacy and promoting saving habits among both rural and urban populations. A

nation's ability to manage its financial system effectively is vital for the smooth and efficient functioning of its economy, and financial inclusion is instrumental in achieving sustainable economic growth.

While the opening of a bank account represents the first step in the financial inclusion process, the scope extends far beyond this. As Dr. C. Rangarajan (2008) noted, financial inclusion is the process of ensuring timely and adequate access to financial services for all segments of society—particularly the disadvantaged and low-income groups—at an affordable cost. Therefore, financial inclusion is not truly achieved unless these accounts are not only opened but are also active and regularly used.

This study focuses on this often-overlooked dimension: the operational status of bank accounts and the extent to which low-income individuals utilize the financial services made available to them.

2. Review of Literature

Financial exclusion, as defined by the European Commission (2008), refers to the difficulties individuals face in accessing or using financial services and products that meet their needs within the mainstream market. Such exclusion prevents them from participating fully in economic life, thereby hindering their ability to function normally within their communities and maintain a stable social life.

In response to these challenges, the Reserve Bank of India (RBI) introduced the **Financial Inclusion Index** in 2021, with updates released annually. The Index for 2022 was designed to assess the ease with which the general public can access financial products and services across the country. It evaluates three key dimensions: **availability, affordability, and accessibility** of a wide range of financial services offered to both individuals and businesses. The Index serves as a comprehensive tool to monitor how efficiently financial services are being extended to India's previously unbanked population.

The Financial Inclusion Index operates on a scale from 0 to 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion. It is based on 97 indicators grouped into three sub-indices: **Access (35% weightage), Usage (45%), and Equality (20%)**. These indicators span various sectors, including banking, insurance, investment, postal, and pension services, and track delivery and utilization across the population.

In 2022, the Index recorded a value of **56.4**, an increase from **53.9** in 2021, reflecting incremental progress in expanding financial services to underserved populations. Notably, the Index does not specify a base year—unlike the Consumer Price Index or Cost Inflation Index—and is released every July. Through this initiative, the RBI aims to provide a comprehensive and data-driven picture of the financial inclusion landscape in India.

3. Objectives of the Study

Building on the discussion above, the present study aims to analyze the extent and effectiveness of financial inclusion among vulnerable sections of society across all Indian states and union territories during the period 2016–2022. The specific objectives of the study are as follows:

1. **To evaluate the success of the Pradhan Mantri MUDRA Yojana (PMMY)** in promoting financial inclusion between 2016 and 2022.
2. **To examine the correlation between the challenges faced by MUDRA loan applicants** and the stated purposes for seeking the loan.
3. **To assess the relationship between beneficiary satisfaction levels and key socio-economic variables**, including age, gender, social category, educational background, annual income, and occupation, within the selected PMMY sample.
4. **To analyze government strategies** aimed at enhancing financial inclusion across the country.
5. **To identify and study the key factors influencing financial inclusion** in India.
6. **To explore the theoretical foundations of financial inclusion**, especially within the context of Indian financial inclusion programs and policy frameworks.
7. **To evaluate the effectiveness of PMMY** as a flagship financial inclusion initiative.
8. **To investigate the performance of PMMY across different social categories**, with a focus on inclusivity and equity.

4. Significance of the Study

The **Pradhan Mantri Mudra Yojana (PMMY)** was launched on April 8, 2015, by the Hon'ble Prime Minister Shri Narendra Modi, with the primary goal of advancing financial inclusion in India. The scheme specifically targets small entrepreneurs who traditionally operate outside the ambit of the formal financial sector. By facilitating access to institutional credit, PMMY seeks to empower micro-enterprises, generate employment, and support inclusive growth.

The significance of this study lies in its comprehensive analysis of PMMY as a key instrument of financial inclusion. The scheme is designed to integrate informal sector entrepreneurs—particularly those in non-corporate and non-farm sectors—into the formal banking system. Unlike traditional credit frameworks that cater to large industrial players, PMMY focuses solely on micro and small enterprises.

Key features of the scheme include:

1. **Loan Classification:** PMMY offers three categories of loans under the MUDRA (Micro Units Development and Refinance Agency) framework:
 - *Shishu*: Loans up to ₹50,000, typically offered to nascent enterprises, with a 2% interest subvention partially supported by the Government of India.
 - *Kishore*: Loans ranging from ₹50,000 to ₹5 lakh, targeting growing enterprises.
 - *Tarun*: Loans from ₹5 lakh to ₹10 lakh, intended for more established small businesses.
2. **Mode of Lending:** PMMY does not lend directly. Instead, loans are disbursed through a wide network of financial institutions, including commercial banks, Regional Rural Banks (RRBs), Small Finance Banks, Non-Banking Financial Companies (NBFCs), and Micro Finance Institutions (MFIs).

3. **Collateral-Free Credit:** One of the most significant aspects of PMMY is that it provides **collateral-free** loans, thus removing a major barrier for first-time entrepreneurs and informal workers.
4. **Support Mechanisms:**
 - **MUDRA RuPay debit cards** are issued to enhance transactional ease and encourage digital financial practices.
 - The **National Credit Guarantee Trustee Company Ltd. (NCGTC)** provides portfolio credit guarantees to financial institutions, thereby encouraging them to lend to riskier, underbanked segments.
5. **Institutional Framework:** MUDRA is a wholly-owned subsidiary of SIDBI (Small Industries Development Bank of India) and functions as a refinancing agency, supporting last-mile financial institutions through funding and capacity-building efforts.

Given the scale and ambition of the PMMY, this study holds significance for policymakers, financial institutions, and scholars interested in understanding the real-world effectiveness of financial inclusion programs. It evaluates the extent to which PMMY has achieved its objectives, identifies gaps in implementation, and suggests improvements to better serve the financially excluded.

5. Methodology

The present study adopts a **descriptive and analytical research design** to examine the progress of financial inclusion in India, specifically focusing on banking services and the performance of the Pradhan Mantri MUDRA Yojana (PMMY) during the period **2016 to 2022**.

The analysis is based entirely on **secondary data**, which has been collected from reliable and publicly available sources such as:

- Reserve Bank of India (RBI) reports
- PMMY annual performance reports
- Ministry of Finance databases
- Government portals such as data.gov.in
- Publications from institutions such as NABARD, SIDBI, and NITI Aayog

The study evaluates trends in **banking penetration, credit disbursement under PMMY, and sectoral/beneficiary-wise distribution of loans**. It uses aggregate data to assess the outreach and impact of Mudra loans on financial inclusion, especially among marginalized and underbanked communities across Indian states and union territories.

Where applicable, data has been categorized and analyzed based on:

- **Social category**
- **Loan size (Shishu, Kishore, Tarun)**
- **Gender**
- **Sector of economic activity**
- **Year-wise growth trends**

Descriptive statistical tools such as percentages, growth rates, and comparative tables are used to interpret the data meaningfully. The study refrains from using primary data or advanced econometric modeling, as its primary objective is to provide a macro-level overview of the inclusion outcomes.

6. Progress under Pradhan Mantri Mudra Yojana (PMMY)

The socio-economic impact of financial inclusion has been studied by comparing the loan amount sanctioned to Shishu, Kishor, and Tarun category of people before and after COVID19 in the study area.

6.1 Shishu (Loan up to Rs. 50,000)- Amount Sanctioned

Table No. 01 Caste wise distribution of loan sanctioned under Shishu Category

	General	SC	ST	OBC	Total amount sanctioned
2016-17	31.23%	84.53%	72.66%	68.83%	47.13%
2017-18	28.14%	79.83%	70.19%	62.88%	41.78%
2018-19	33.98%	77.62%	69.64%	60.37%	44.24%
2019-20	38.75%	78.83%	73.12%	60.35%	48.46%
2020-21	24.15%	63.95%	56.70%	49.55%	34.17%
2021-22	27.7 %	60.67 %	55.95%	47.15 %	36.79%

Source: Researcher's Own Compilation Using Information from MUDRA.org.in

The Shishu category of the Pradhan Mantri MUDRA Yojana (PMMY) targets micro-entrepreneurs and nascent startups by offering loans up to ₹50,000. This segment predominantly caters to first-time borrowers with limited access to formal credit.

Table 01 illustrates the **caste-wise distribution** of the amount sanctioned under the Shishu category between the financial years 2016–17 and 2021–22.

Observations from the Data:

- Across all years, **Scheduled Castes (SC)** have consistently received a higher proportion of sanctioned loans compared to other categories, peaking at **84.53% in 2016–17**.
- **Scheduled Tribes (ST)** have also shown relatively strong access in the initial years (72.66% in 2016–17), though there is a steady decline noted, falling to **55.95% by 2021–22**.

- The **Other Backward Classes (OBC)** experienced a similar decline in sanctioned amounts—from **68.83% in 2016–17 to 47.15% in 2021–22**.
- The **General category**, however, showed fluctuating trends, with a slight peak in 2019–20 (38.75%) and a dip thereafter (27.7% in 2021–22).
- The **overall amount sanctioned under the Shishu category** fell significantly from **47.13% in 2016–17 to 36.79% in 2021–22**, indicating either a tightening of credit or a shift in focus toward larger loan categories (Kishore or Tarun).

Analysis

- A close observation of the data from the above table gives us an idea about the beneficiaries of Shishu loan belonging to different castes. It has been found that the highest number of beneficiaries mostly belong to the SC category for the entire period starting from 2016-17 to 2021-22 and the lowest number of beneficiaries belonged to the general category. The percentage of beneficiaries belonging to the OBC and ST category has also been found to be quite significant indicating the fact that the focus of the scheme was mainly to bring the marginalised section of the society to the formal banking sector.

6.2 Kishor (Rs. 50,000 to Rs. 5,00,000))- Amount Sanctioned

Table No. 02 Caste wise distribution of loan sanctioned under Kishor Category

	General	SC	ST	OBC	Total amount sanctioned
2016-17	31.23%	11.48%	19.53%	21.75%	29.66%
2017-18	39.65%	16.31%	22.43%	26.98%	34.18%
2018-19	35.86%	17.66%	21.28%	29.37%	32.45%
2019-20	30.11%	17.49%	20.50%	29.58%	28.31%
2020-21	43.72%	30.59%	34.12%	39.05%	41.18%
2021-22	41.25 %	34.71%	36.26 %	42.49%	40.59%

Source: Researcher's Own Compilation Using Information from MUDRA.org.in

Analysis of Kishor Loan Sanction Trends (2016-17 to 2021-22)

Loan Range: ₹50,000 to ₹5,00,000

Category-wise Trends:

1. **General Category:**
 - From FY 2016–17 to 2019–20, more than 30% of sanctioned loans were to the general category.

- It consistently had the highest share until FY 2020–21.
 - In FY 2021–22, it accounted for **41.25%**, slightly less than the OBC category.
2. **OBC Category:**
- Gradual increase in share year-on-year.
 - **Highest share in FY 2021–22 at 42.49%**, overtaking the general category.
 - Indicates growing reach and acceptance of the scheme among the OBC population.
3. **SC Category:**
- Always lagged behind other categories.
 - In FY 2016–17, only **11.48%** of loans were sanctioned to SCs, compared to **31.23%** for the general category.
 - Though there's improvement, it remained the lowest among all categories in FY 2021–22 with **34.71%**.
4. **ST Category:**
- Consistently better than SCs but lower than General and OBC.
 - In FY 2021–22, **36.26%** loans were sanctioned, showing modest improvement.

Observations:

- **Rising Popularity:** All categories showed a rise in loan sanctions from FY 2020–21, indicating greater awareness and accessibility of the Kishor loan scheme.
- **Disparity Remains:** Despite the rise, disparities in access and amount sanctioned persist, especially for SC and ST categories.
- **Effectiveness Concerns (FY 2021–22):**
 - Only **40.59%** of the sanctioned amount was deemed to serve the right purpose or reach the right people.
 - Indicates a **disconnect** between policy intent and implementation.

6.3 Tarun (Loan from Rs. 5 Lakh to Rs. 10 Lakh)

Table-03

	General	SC	ST	OBC	Total amount sanctioned
2016-17	32.50%	3.97%	7.80%	9.41%	23.20%
2017-18	32.20%	3.85%	7.37%	10.13%	24.02%
2018-19	30.14%	4.71%	9.07%	10.25%	23.31%
2019-20	31.13%	3.66%	6.37%	10.06%	23.21%
2020-21	32.11%	5.45%	9.17%	11.38%	24.64%
2021-22	30.98 %	4.61 %	7.78 %	10.35%	22.62%

Source: Researcher's Own Compilation Using Information from MUDRA.org.in

Analysis of Tarun Loan Sanctions (2016–17 to 2021–22)

Under the Tarun loan scheme, the following trends were observed across social categories:

- **General Category:**
The sanctioned loan amount remained consistently around **30%** throughout the financial years 2016–17 to 2021–22.
- **Scheduled Castes (SC):**
The loan sanction percentage for the SC category was significantly lower than all other categories, averaging around **5%** over the same period.
- **Scheduled Tribes (ST):**
Loan sanctions for the ST category were relatively higher than those for SCs but still modest, averaging approximately **10%** during the period.
- **Other Backward Classes (OBC):**
The OBC category also saw around **10%** of the sanctioned Tarun loans, which was higher than the share for SC and ST categories but remained below that of the general category.
- **Overall Sanctioned Amount:**
Across all categories, the total amount sanctioned under the Tarun loan scheme was consistently **less than 25%** of the total disbursements from 2016–17 to 2021–22.

Key Observation:

It was noted that the **Shishu, Kishor, and Tarun** loan amounts sanctioned for the **SC category** were **insufficient to meet the intended objectives** of the scheme. This reflects a need for improved targeting and more inclusive policy implementation to ensure equitable access to financial support across all social groups.

6.4 Overall -total loan sanctioned for all the three categories

Table-04

	General- in all 3 categories (Shishu, Kishor, Tarun)	SC- in all 3 categories (Shishu, Kishor, Tarun)	ST- in all 3 categories (Shishu, Kishor, Tarun)	OBC- in all 3 categories (Shishu, Kishor, Tarun)
2016-17	62.36%	10.47%	2.92%	24.25%
2017-18	66.07%	9.61%	3.15%	21.15%
2018-19	68%	9%	3%	19%
2019-20	66%	10%	4%	20%
2020-21	67%	10%	4%	19%
2021-22	63%	11%	4%	22%

Source: Researcher's Own Compilation Using Information from MUDRA.org.in

Analysis of MUDRA Loan Sanctions by Loan Category and Social Group (2021–22)

This table can be analyzed at two levels—**by loan category** and **by social group**.

In the financial year **2021–22**, a significant disparity was observed in the distribution of MUDRA loans across social groups:

- The **General category** accounted for the largest share, receiving **63%** of the total amount sanctioned.
- This was followed by:
 - **OBC**: 22%
 - **SC**: 11%
 - **ST**: 4%

These figures are particularly concerning, considering that the MUDRA scheme was specifically designed to enhance credit access for **marginalized and underrepresented social groups**.

Despite this objective, the **General category alone received over 60%** of the total loan disbursement, whereas the **combined share for SC and ST categories was only 15%**. This suggests the possibility of **subtle systemic biases** in the functioning of formal financial institutions, leading to unequal access to credit for marginalized communities.

7. Recommendations for Strengthening PMMY (Pradhan Mantri Mudra Yojana)

1. **Ensure Equitable Access Across Social Groups:**
 - Strengthen monitoring mechanisms to ensure that SC, ST, and other marginalized groups receive a proportionate share of the loans as per the scheme's objectives.
 - Introduce incentives for financial institutions that actively promote inclusion and meet targets for lending to disadvantaged groups.
2. **Improve Awareness and Financial Literacy:**
 - Launch region-specific awareness campaigns, particularly in rural and semi-urban areas, to educate potential beneficiaries about the scheme.
 - Partner with local NGOs, SHGs, and community leaders to spread awareness and assist with application processes.
3. **Capacity Building and Handholding Support:**
 - Provide post-loan disbursement support such as entrepreneurship training, financial management workshops, and mentorship to first-time entrepreneurs.
 - Establish Mudra help desks at banks to assist small borrowers in navigating the scheme.
4. **Enhance Targeting and Transparency:**
 - Use data analytics and geospatial tools to identify underserved regions and social groups.
 - Ensure regular public disclosure of category-wise loan sanction data to promote transparency and accountability.

5. Strengthen Monitoring and Evaluation:

- Set up an independent evaluation mechanism to assess the impact of PMMY on employment generation, income levels, and sustainability of businesses.
- Periodically review the performance of lending institutions under the scheme.

6. Encourage Digital Integration:

- Promote digital loan application and disbursement processes to reduce bureaucratic delays and increase efficiency.
- Integrate PMMY with digital payment systems and platforms like UPI, BHIM, etc., for smooth transactions and better tracking.

7. Focus on Quality and Purposeful Lending:

- Emphasize the quality of credit and its utilization rather than only the volume of loans disbursed.
- Conduct follow-ups and audits to ensure that loans are being used for productive, income-generating purposes.

8. Increase the Loan Limit in Specific Sectors:

- In sectors showing high potential for employment and income generation (e.g., agri-business, rural tourism, food processing), consider enhancing the upper limit of loan amounts under Tarun category with safeguards.

8. Conclusion:

Financial inclusion plays a critical role in reducing income disparity and poverty, thereby promoting inclusive growth and fostering overall economic development. It enhances the productive capacity of individuals, particularly those who are impoverished, disadvantaged, or asset-less. By improving access to financial services, financial inclusion significantly contributes to the achievement of the **Sustainable Development Goals (SDGs)**, especially in reducing poverty and income inequality.

The fundamental objective of financial inclusion is to ensure that every individual can actively participate in the formal banking system. This not only benefits the individuals by providing them access to credit, savings, and insurance but also strengthens the financial institutions serving them and contributes to the well-being of society at large.

Financial inclusion empowers the poor and disadvantaged by offering them the opportunity to improve their quality of life. It fortifies the financial system of the country by broadening the economic base and ensuring that resources are made available to all segments of the population, including the poorest.

Moreover, financial inclusion fosters a culture of savings, particularly among low-income groups in both rural and urban areas. In doing so, it enhances financial stability and promotes long-term economic progress. A robust and inclusive financial system is therefore essential for the smooth and efficient functioning of a modern economy.

References:

- Bhatia, S, Singh, S (2015) Financial inclusion-A path to sustainable growth. *International Journal of science Technology&management* 04(01) www.ijstm.com
- Bhayana, Rashmi, Kumar, R (2000) Role of Mudra Yojana in Entrepreneurship *Development, Pacific Business Review International Volume 13* Issue 4 October 2020.
- European Commission (2008), Financial Services Provision and the Prevention of Financial Exclusion. Directorate – General for Employment, Social Affairs and Equal Opportunities.
- Omar, M, Inaba, K (2000) “Does financial inclusion reduce poverty and income inequality in developing countries? A panel data analysis *Journal of Economic Structures* 9, Article number:37 (2000)
- PMMY *Annual report (2016-17)*
- PMMY *Annual report (2017-18)*
- PMMY *Annual report (2018-19)*
- PMMY *Annual report (2019-20)*
- PMMY *Annual report (2020-21)*
- PMMY *Annual report (2021-22)*
- Rangarajan. (2008) *Report of the Committee on Financial Inclusion*. Ministry of Finance, Government of India.
- RBI (2008). *Report of the committee on financial Inclusion*. Government of India.
- RBI (2015). *Report of the Committee on Medium-term Path on Financial Inclusion*. Published by Reserve bank of India.