



Theoretical Insights into MUDRA Yojana and Entrepreneurial Empowerment in India

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Abstract

This theoretical research paper critically examines the Pradhan Mantri MUDRA Yojana (PMMY) as a strategic policy instrument aimed at fostering entrepreneurial empowerment among India's micro and small enterprises. Drawing upon financial inclusion theory, entrepreneurship development models, and inclusive growth paradigms, the study explores the conceptual foundations of the scheme and its alignment with national development goals. The paper synthesizes insights from fifteen scholarly sources to construct a conceptual framework that positions MUDRA credit as an independent variable influencing entrepreneurial outcomes, mediated by factors such as financial literacy, institutional support, gender inclusion, and digital access.

Through a structured analysis, the research reveals that while MUDRA Yojana has expanded access to institutional credit, its transformative potential is contingent upon ecosystem-level enablers. The discussion highlights persistent challenges including regional disparities, gendered barriers, and weak monitoring mechanisms, which limit the scheme's ability to deliver sustainable empowerment. The study concludes that credit alone is insufficient; it must be embedded within a supportive infrastructure to catalyze inclusive and resilient entrepreneurship. Policy recommendations are offered to strengthen the scheme's impact, including capacity-building, gender-sensitive outreach, and digital integration.

Keywords: MUDRA Yojana, Financial Inclusion, Entrepreneurial Empowerment, Microfinance, Inclusive Growth, Public Policy, Women Entrepreneurship, Credit Access, Development Theory

1. Introduction

Entrepreneurship plays a pivotal role in fostering economic development, generating employment, and promoting inclusive growth. In a country like India, where a large segment of the population remains underserved by formal financial institutions, enabling access to credit for small and micro enterprises is essential for unlocking entrepreneurial potential. Recognizing this need, the Government of India launched the Pradhan Mantri MUDRA Yojana (PMMY) in 2015, with the objective of providing collateral-free loans to noncorporate, non-farm micro and small enterprises through the Micro Units Development and Refinance Agency (MUDRA).

The MUDRA Yojana is a landmark initiative aimed at bridging the credit gap faced by the informal sector, often referred to as the "missing middle." These are entrepreneurs who are too small to qualify for traditional bank loans yet too large to rely solely on informal sources of finance. By categorizing loans into Shishu (up to ₹50,000), Kishore (₹50,001 to ₹5 lakh), and Tarun (₹5 lakh to ₹10 lakh), the scheme provides a structured pathway for enterprise growth, from inception to expansion.

This research paper seeks to offer theoretical insights into the design, intent, and impact of the MUDRA Yojana, with a particular focus on its role in empowering grassroots entrepreneurs. Drawing upon established frameworks such as financial inclusion theory, entrepreneurship development models, and inclusive growth paradigms, the study aims to critically examine how access to formal credit influences entrepreneurial outcomes in India's socio-economic context.

While empirical studies have assessed the scheme's performance in terms of loan disbursement volumes and repayment behavior, this paper adopts a conceptual lens to explore the deeper policy rationale and developmental implications of MUDRA. It investigates how the scheme aligns with broader national missions such as Atmanirbhar Bharat, Make in India, and Startup India, and how it contributes to building a more resilient and self-reliant economy.

By synthesizing academic literature, government reports, and theoretical models, the study aims to contribute to the discourse on microfinance, entrepreneurship, and public policy. It also seeks to identify structural challenges and opportunities for enhancing the effectiveness of MUDRA Yojana as a tool for sustainable entrepreneurial empowerment.

2. Objective of the study

- To explore the conceptual framework of MUDRA Yojana.
- To examine its role in promoting entrepreneurial empowerment.
- To identify theoretical challenges and policy gaps in its implementation.

3. Scope of the Study

This study focuses on the theoretical dimensions of the Pradhan Mantri MUDRA Yojana (PMMY) as a policy tool for entrepreneurial empowerment in India. It examines the scheme through the lens of financial inclusion, entrepreneurship development, and inclusive growth, emphasizing its role in supporting micro and small enterprises—particularly among women, rural entrepreneurs, and marginalized communities. Rather than evaluating operational metrics, the study constructs a conceptual framework to understand how access to credit, mediated by factors like financial literacy and institutional support, translates into empowerment.

4. Review of literature

The Pradhan Mantri MUDRA Yojana (PMMY), launched in 2015, has emerged as a cornerstone of India's financial inclusion strategy, aimed at empowering micro and small entrepreneurs through collateral-free institutional credit. The scheme's threetiered loan structure—Shishu, Kishore, and Tarun—caters to enterprises at different stages of growth, reflecting a lifecycle approach to entrepreneurship development (Bharti & Verma, 2023).

Several scholars have examined the theoretical and practical implications of PMMY. Financial inclusion theory underscores the importance of accessible credit in enabling economic participation among marginalized groups. Studies by Kalaiarasan and Panchalan (2024) and Chakrabarty (2012) affirm that MUDRA has expanded credit access, especially for women and first-generation entrepreneurs, contributing to inclusive development.

Entrepreneurship development models, including McClelland's Achievement Motivation Theory and Schumpeter's Innovation Theory, suggest that access to finance is a key trigger for entrepreneurial behavior. Kumar and Sharma (2016) argue that MUDRA loans reduce entry barriers and foster self-employment, particularly in informal sectors. This is echoed by Dasa (2024), who highlights MUDRA's role in supporting agripreneurs and rural MSMEs.

Gender-focused studies reveal that PMMY has had a significant impact on women's entrepreneurship. Kandalkar and Khanzode (2024) conducted a mixed-methods study in Amravati district, showing that MUDRA loans improved financial strength, business performance, and socio-economic status among women entrepreneurs. Similarly, Prashanti and Siddappa (2025) found that the Kishore category was particularly effective in supporting medium-scale women-led enterprises, despite challenges in procedural complexity and outreach.

From a policy perspective, Singh (2020) and RBI Annual Reports emphasize the decentralized implementation of MUDRA through banks, NBFCs, and MFIs. While this model enhances reach, it also introduces variability in service quality and awareness levels. Jakkampudi (2024) recommends targeted campaigns and simplified procedures to improve uptake and impact.

Sectoral analyses by Sharma and Gupta (2022) show that MUDRA loans have been instrumental in boosting micro-enterprises in manufacturing, trade, and services. However, regional disparities persist, with urban areas benefiting more than rural counterparts. This aligns with findings by Narayanan (2021), who calls for better integration of MUDRA with skill development and market access programs.

The literature also explores the scheme’s alignment with national missions. PMMY supports Atmanirbhar Bharat by promoting self-reliance, Startup India by nurturing early-stage ventures, and Digital India by encouraging digital transactions and formalization (Planning Commission, 2011; NITI Aayog, 2023).

Despite its achievements, scholars caution against over-reliance on credit as a standalone tool. Das & Roy (2022) argue that without complementary support—such as training, mentorship, and infrastructure—credit alone may not lead to sustainable entrepreneurship. This is supported by Yunus (1999), whose microfinance model emphasizes holistic empowerment.

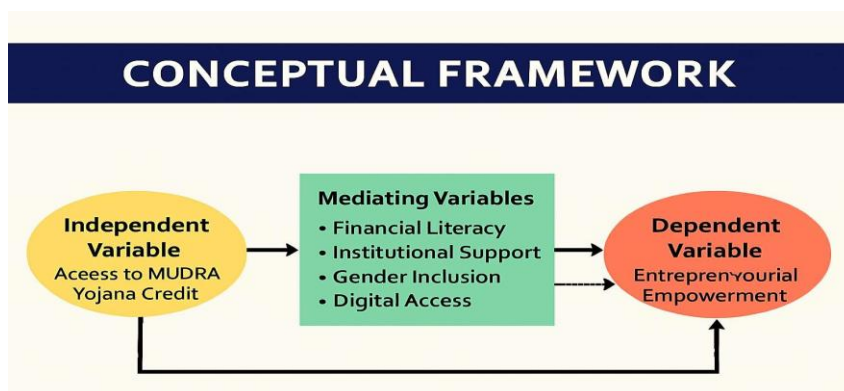
In summary, the literature presents MUDRA Yojana as a theoretically sound and practically impactful initiative for entrepreneurial empowerment. It integrates financial inclusion, gender equity, and enterprise development within a unified policy framework. However, its long-term success depends on addressing structural challenges, enhancing outreach, and embedding it within a broader ecosystem of support.

Summary Table: Literature on MUDRA Yojana

Author(s) & Year	Title	Focus Area	Methodology	Key Findings
Bharti & Verma (2023)	Transforming India by 'Funding the Unfunded'	Loan category performance	Quantitative (trend analysis)	Shishu loans dominate; PMMY supports earlystage micro-enterprises
Jakkampudi (2024)	Comprehensive Analysis on Mudra Yojana Effectiveness	Scheme performance & outreach	Mixed methods	Loan growth across years; regional success stories; procedural gaps
Dasa (2024)	MUDRA's Role in MSMEs & Agriculture	MSMEs & agripreneurs	Conceptual + secondary data	MUDRA supports rural entrepreneurship and GDP contribution
Kandalkar & Khanzode (2024)	Women Entrepreneurship via MUDRA	Gender empowerment	Mixed methods (Amravati district)	Improved income, confidence, and business sustainability among women
Prashanti & Siddappa (2025)	Women Entrepreneurship in India	Women-led enterprises	Survey-based	Kishore loans effective; challenges in awareness and documentation
Kalaiarasan & Panchalan (2024)	PMMY & Women's Economic Empowerment	Financial inclusion	Case study	MUDRA enhances financial autonomy and self-employment among women

Chakrabarty (2012)	Financial Inclusion: A Road India Needs to Travel	Theoretical foundation	Policy speech	Credit access is key to inclusive growth; PMMY aligns with this vision
Kumar & Sharma (2016)	Entrepreneurship Development in India	Credit & enterprise growth	Literature review	Institutional credit fosters innovation and risk-taking
Singh (2020)	Policy Implementation Challenges	Governance & delivery	Public policy analysis	Decentralized model works but needs better monitoring and outreach
Sharma & Gupta (2022)	Sectoral Impact of MUDRA Loans	Manufacturing, trade, services	Empirical analysis	Urban areas benefit more; sectoral growth visible in micro-enterprises
Narayanan (2021)	Bridging the Credit Gap	Regional disparities	Secondary data	Need for better integration with skilling and market access
Das & Roy (2022)	Women Entrepreneurs & Credit Access	Credit sustainability	Gender studies	Credit alone insufficient; support services needed for longterm impact
Yunus (1999)	Banker to the Poor	Microfinance theory	Conceptual	Holistic empowerment requires credit + training + social support
Planning Commission (2011)	Twelfth Five Year Plan Approach	Inclusive growth	Policy document	PMMY aligns with national goals of equity and employment
NITI Aayog (2023)	Annual Report on Financial Inclusion	National strategy	Government report	PMMY contributes to Atmanirbhar Bharat and Startup India missions

Conceptual Framework



Source: Author's Own

The conceptual framework of this study is anchored in the idea that access to institutional credit—specifically through the Pradhan Mantri MUDRA Yojana—can serve as a powerful enabler of entrepreneurial empowerment in India. This framework draws upon multiple theoretical strands, including financial inclusion theory, entrepreneurship development models, and the inclusive growth paradigm, to explain how targeted financial interventions can stimulate enterprise creation and sustainability among underserved populations.

At the heart of the framework lies the independent variable: access to MUDRA loans, categorized into Shishu, Kishore, and Tarun segments. These represent different stages of enterprise maturity, from nascent ventures to expanding businesses. The availability of credit through these channels is expected to influence a range of entrepreneurial outcomes.

However, the relationship between credit access and empowerment is not linear. It is mediated by several intervening factors, such as financial literacy, institutional support, digital infrastructure, and social inclusion. For instance, an entrepreneur with access to MUDRA credit may still struggle if they lack basic financial knowledge or face bureaucratic hurdles. Therefore, these mediating variables play a crucial role in shaping the effectiveness of the scheme.

The dependent variable in this framework is entrepreneurial empowerment, which is conceptualized as a multidimensional outcome. It includes indicators such as the ability to start and sustain a business, generate income, formalize operations, and scale activities. Empowerment also encompasses intangible aspects like increased confidence, autonomy, and social mobility.

The framework assumes that when MUDRA credit is combined with enabling conditions—such as training, digital access, and institutional support—it leads to more robust and sustainable entrepreneurial outcomes. This aligns with the entrepreneurship development theory, which emphasizes the importance of ecosystem-level support in nurturing enterprise growth. It also resonates with the inclusive growth model, which advocates for equitable access to resources and opportunities across socio-economic strata.

In summary, the conceptual framework positions MUDRA Yojana not merely as a financial product but as a strategic policy tool embedded within a broader developmental agenda. It highlights the interconnectedness of credit, capability, and context in shaping entrepreneurial trajectories, and sets the stage for analyzing how theoretical constructs translate into realworld impact.

5. Analysis and Discussion

Analysis

Objective 1: Exploring the Conceptual Framework of MUDRA Yojana

At its core, MUDRA Yojana is designed to democratize access to finance for micro and small enterprises. The scheme's tiered structure—Shishu, Kishore, and Tarun—reflects a lifecycle approach to entrepreneurship, enabling progression from informal to formal business activity. This aligns with financial intermediation theory, which posits that institutional credit reduces transaction costs and information asymmetry, thereby facilitating market entry for underserved entrepreneurs (Chakrabarty, 2012).

However, the conceptual strength of MUDRA lies not just in its structure, but in its intent: to “fund the unfunded.” By targeting the missing middle—entrepreneurs who fall between informal lending and formal banking—the scheme attempts to fill a critical gap in India’s financial architecture. Yet, as several studies suggest (Bharti & Verma, 2023; Singh, 2020), the conceptual promise is often diluted by implementation bottlenecks, such as low awareness, procedural complexity, and uneven outreach.

Objective 2: Examining MUDRA’s Role in Entrepreneurial Empowerment

Entrepreneurial empowerment is a multidimensional construct encompassing financial autonomy, business sustainability, and socio-economic mobility. MUDRA Yojana contributes to this by offering collateral-free loans, which reduce entry barriers and encourage risk-taking—key drivers in McClelland’s Achievement Motivation Theory and Schumpeter’s Innovation Theory.

Empirical studies reinforce this theoretical link. For instance, Kandalkar & Khanzode (2024) found that women entrepreneurs who accessed MUDRA loans reported increased confidence, improved income, and greater control over business decisions. Similarly, Jakkampudi (2024) highlighted regional success stories where MUDRA credit enabled micro-enterprises to scale operations and formalize their structures.

However, empowerment is not automatic. It is mediated by factors such as financial literacy, institutional support, and digital access—as outlined in the conceptual framework. Without these enablers, credit may lead to debt rather than development. This interpretation is supported by Das & Roy (2022), who argue that credit must be embedded within a broader ecosystem of training, mentorship, and market linkage.

Objective 3: Identifying Theoretical Challenges and Policy Gaps

Despite its theoretical soundness, MUDRA Yojana faces several structural and policy-level challenges. One key issue is the asymmetry between access and absorption—many entrepreneurs receive loans but lack the capacity to utilize them effectively. This gap reflects a disconnect between financial inclusion and financial capability.

Another challenge lies in gender and regional disparities. While the scheme promotes inclusion on paper, women and rural entrepreneurs often face hurdles in documentation, institutional bias, and lack of digital infrastructure (Prashanti & Siddappa, 2025; Narayanan, 2021). These findings suggest that empowerment is not just about credit—it’s about context. From a governance perspective, Singh (2020) critiques the decentralized delivery model for its lack of standardized monitoring and feedback mechanisms. The absence of real-time data on loan utilization, repayment behavior, and business outcomes limits the scheme’s ability to evolve responsively.

Discussions

The Pradhan Mantri MUDRA Yojana (PMMY) stands as a pivotal policy intervention in India’s financial inclusion and entrepreneurship landscape. Conceived to “fund the unfunded,” the scheme offers collateral-free institutional credit to micro and small enterprises, thereby attempting to bridge the gap between informal entrepreneurship and formal financial systems. This research, grounded in theoretical inquiry, set out to explore the conceptual underpinnings of MUDRA Yojana, examine its role in entrepreneurial empowerment, and identify structural and policy-level challenges that may hinder its longterm effectiveness.

At the conceptual level, MUDRA Yojana reflects the principles of financial inclusion theory, which posits that access to affordable and reliable financial services is a prerequisite for equitable economic participation. The scheme’s tiered loan structure—Shishu, Kishore, and Tarun—mirrors the lifecycle of enterprise development, offering tailored credit solutions based on the maturity and capital needs of the business. This design is theoretically sound, as it recognizes the heterogeneity of micro-entrepreneurs and attempts to provide scalable financial support. However, access alone does not guarantee empowerment. The literature consistently emphasizes that financial inclusion must be accompanied by financial capability—an area where MUDRA’s implementation reveals gaps. Entrepreneurs often lack the literacy, training, and institutional guidance needed to convert credit into sustainable enterprise outcomes (Chakrabarty, 2012; Das & Roy, 2022).

From the perspective of entrepreneurship development theory, particularly McClelland's Achievement Motivation Model, MUDRA loans serve as external enablers that can stimulate entrepreneurial behavior. By removing collateral requirements and simplifying procedures, the scheme lowers entry barriers and encourages risk-taking among first-generation entrepreneurs. Empirical studies support this theoretical link. For instance, Kandalkar and Khanzode (2024) found that women beneficiaries of MUDRA loans reported enhanced confidence, financial autonomy, and improved business performance. Similarly, Jakkampudi (2024) documented regional success stories where MUDRA credit facilitated business formalization and expansion. These outcomes suggest that the scheme does contribute to entrepreneurial empowerment—but only when certain mediating conditions are met.

This brings us to the mediating variables identified in the conceptual framework: financial literacy, institutional support, gender inclusion, and digital access. These factors significantly influence the extent to which MUDRA credit translates into empowerment. For example, while the scheme targets women and marginalized groups, studies reveal persistent challenges in documentation, awareness, and institutional bias (Prashanti & Siddappa, 2025; Narayanan, 2021). The digital divide further complicates access, especially in rural areas where entrepreneurs may lack the infrastructure or skills to engage with formal banking channels. Thus, empowerment is not merely a function of credit availability—it is shaped by the broader ecosystem in which the entrepreneur operates.

The inclusive growth paradigm offers another lens through which to interpret MUDRA's impact. This model emphasizes equitable access to resources and opportunities across socioeconomic strata. MUDRA Yojana aligns with this vision by prioritizing underserved segments, including women, SC/ST communities, and rural entrepreneurs. However, the literature suggests that while the scheme promotes inclusion in theory, its practical implementation is uneven. Urban beneficiaries tend to receive larger and more frequent loans, while rural applicants face delays, rejections, or limited support (Sharma & Gupta, 2022). These disparities highlight the need for targeted outreach and capacity-building initiatives to ensure that inclusion is not just symbolic but substantive.

From a governance standpoint, the decentralized delivery model of PMMY—implemented through banks, NBFCs, and MFIs—offers flexibility and reach. Yet, it also introduces variability in service quality, monitoring, and accountability. Singh (2020) critiques the absence of standardized feedback mechanisms and real-time data tracking, which limits the scheme's ability to adapt and evolve. Without robust evaluation frameworks, it becomes difficult to assess whether loans are being used productively or whether they are contributing to long-term entrepreneurial success.

Synthesizing these insights, it becomes evident that MUDRA Yojana is not merely a financial product—it is a developmental instrument. Its theoretical foundation is strong, and its policy intent is aligned with national missions such as Atmanirbhar Bharat, Startup India, and Digital India. However, its transformative potential depends on how well it integrates credit with capability, policy with practice, and inclusion with empowerment. The conceptual framework developed in this study illustrates that entrepreneurial empowerment is a dynamic outcome, influenced by both structural access and individual agency.

In conclusion, while MUDRA Yojana has made commendable strides in expanding financial access, its long-term impact on entrepreneurship will depend on addressing the mediating variables identified in this research. Future policy enhancements must focus on ecosystem-level reforms, including financial education, mentoring, digital infrastructure, and gendersensitive outreach. Only then can the scheme fulfill its promise of empowering India's microentrepreneurs and driving inclusive economic growth.

6. Conclusion and Policy Recommendations

Reframing Credit as Capability: Theoretical Reflections on MUDRA Yojana

The Pradhan Mantri MUDRA Yojana (PMMY) represents a bold attempt to democratize access to finance and stimulate grassroots entrepreneurship in India. As this theoretical investigation has shown, the scheme is conceptually robust, aligning with key frameworks such as financial inclusion theory, entrepreneurship development models, and the inclusive growth paradigm. It offers a structured pathway for micro-entrepreneurs to access institutional credit, reduce entry barriers, and formalize their business activities.

However, the analysis reveals that access alone is not empowerment. Entrepreneurial success under MUDRA is mediated by a constellation of factors—financial literacy, institutional support, gender inclusion, and digital access. These mediating variables determine whether credit becomes a tool for transformation or a temporary relief. The theoretical framework developed in this study underscores that entrepreneurial empowerment is a dynamic outcome, shaped by both structural access and individual agency.

The literature reviewed affirms MUDRA's potential but also highlights persistent challenges: regional disparities, gendered barriers, lack of capacity-building, and weak monitoring mechanisms. These gaps suggest that while the scheme is well-intentioned, its implementation requires deeper integration with ecosystem-level reforms.

In light of these insights, the following policy recommendations are proposed to enhance the theoretical and practical effectiveness of MUDRA Yojana:

Policy Recommendations

1. Integrate Financial Literacy and Capacity-Building Modules

Credit must be accompanied by capability. Government and financial institutions should embed mandatory financial literacy programs for MUDRA beneficiaries, focusing on budgeting, repayment planning, and digital banking.

2. Establish Entrepreneur Support Cells at District Level

To operationalize institutional support, local entrepreneur facilitation centers should be set up to offer mentoring, documentation assistance, and business planning guidance—especially for first-time borrowers.

3. Strengthen Gender-Sensitive Outreach and Monitoring

Special provisions should be made to simplify loan access for women entrepreneurs, including doorstep services, simplified documentation, and grievance redressal mechanisms. Gender-disaggregated data should be tracked to evaluate impact.

4. Digitally Enable and Track Loan Utilization

Digital dashboards should be developed to monitor loan disbursement, utilization, and repayment behavior in real time. This will improve transparency, accountability, and policy responsiveness.

5. Link MUDRA with Market Access and Skill Development Schemes

To ensure sustainability, MUDRA should be integrated with schemes like Skill India, Startup India, and Digital India, creating a holistic support ecosystem for micro-entrepreneurs.

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