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ASSESSING THE ECONOMIC IMPACT OF THE PRADHAN MANTRI MUDRA YOJANA (PMMY) ON KARNATAKA'S ECONOMY

Economics

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ABSTRACT

Launched in 2015, the Pradhan Mantri Mudra Yojana (PMMY) was designed to promote self-employment, strengthen micro-enterprises, and facilitate inclusive growth through institutional finance. Karnataka, one of the top-performing states under this scheme, has seen significant disbursal of collateral-free loans, especially in rural and semi-urban regions. This paper analyses the macroeconomic impact of PMMY on Karnataka's economy, examining its role in employment generation, entrepreneurship, financial inclusion, and structural transformation.

KEYWORDS

Inclusive growth, Employment, Self- employment, institutional finance, Economy

INTRODUCTION:

Karnataka's economy is one of the most diversified in India, combining a strong industrial base with dynamic agricultural and services sectors. The rural economy, however, has long suffered from limited access to formal credit, hampering micro and small enterprise growth. PMMY was introduced to bridge this credit gap by offering collateral-free loans of up to ₹10 lakh to non-corporate, non-farm small businesses.

The loans under PMMY are categorized into:

- **Shishu** (up to ₹50,000)
- **Kishor** (₹50,001 to ₹5 lakh)
- **Tarun** (₹5 lakh to ₹10 lakh)

Karnataka has emerged as a leader in PMMY implementation, disbursing over ₹3 lakh crore as of 2024.

Disbursement And Sectoral Distribution In Karnataka

According to the Ministry of Finance and reports from the Karnataka SLBC (State Level Bankers' Committee):

- From 2015 to 2024, **Karnataka disbursed more than ₹3.02 lakh crore** in Mudra loans.
- Around **65% of loans** were disbursed to **women entrepreneurs**, and nearly **50% went to SC/ST/OBC** beneficiaries.
- A major share (~88%) of loans were issued under the **Shishu category**, indicating high participation by micro-businesses and self-employed individuals.

The most common business types included:

- Tailoring and garment units
- Kirana shops and food vendors
- Dairy farming and rural logistics
- Home-based services (e.g., beauty parlors, repairs)

Economic Contributions

Employment Generation

An independent study by SKOCH Group (2018) estimated that PMMY created **5.5 crore jobs nationally** in its first two years. Karnataka contributed significantly, particularly in rural areas such as Tumakuru, Bagalkot, and Chamarajanagar. A 2023 study from ResearchGate found that Mudra-supported enterprises in Karnataka employed an average of **2.8 persons per unit**, with notable female **participation.**

Formalization Of Micro Enterprises

PMMY led to a surge in business registrations under Udyam and GSTN, particularly in Tier-2 and Tier-3 towns. The formalization helped:

- Expand the tax base
- Improve business credit scores
- Enable digital payments and transactions

Consumption And Output Growth

An increase in rural enterprise income led to higher household consumption and localised economic activity. Districts with higher loan disbursal (e.g., Bengaluru Rural, Mysuru, and Davanagere) showed stronger increases in GDP per capita over the 2016–2022 period.

Financial Inclusion And Credit Access

PMMY facilitated the rapid expansion of financial inclusion by:

- Enabling **first-time borrowers** to access formal credit
- Encouraging **women-led enterprises**, especially through joint liability groups (JLGs)
- Enhancing **credit culture** in rural markets

Key Statistics:

- **95% of PMMY accounts in Karnataka** were opened in rural/semi-urban branches
- More than **60% of borrowers** had no previous loan history
- Significant growth in **mobile and digital banking** usage followed loan disbursement

Structural Challenges And Limitations

Despite its success, PMMY in Karnataka has faced structural challenges:

Issue	Implication
Overdependence on Shishu loans	Limited scalability and low capital formation
Rising NPAs in Kishor and Tarun categories	Concerns over credit quality and repayment
Lack of entrepreneurial training	Many businesses remain vulnerable to market shocks
Underrepresentation of backward districts	Regions like Koppal and Yadgir have lower disbursal

Moreover, only a small fraction (~12–15%) of loans were used for asset creation or business expansion, limiting long-term productivity gains.

Policy Recommendations

1. Promote Credit Plus Model: Combine loans with capacity building, marketing support, and financial literacy programs.
2. Geographic Rebalancing: Target underperforming districts through cluster development schemes.
3. Encourage Upgradation: Provide top-up support for successful Shishu borrowers to graduate to Kishor and Tarun.
4. Improve Monitoring: Use Aadhaar-linked MIS to track loan utilization and employment creation.
5. Strengthen Women's Collectives: Expand self-help group (SHG) linkages to improve collective enterprise models.

CONCLUSION

PMMY has had a profound impact on Karnataka's rural and semi-urban economy. By democratizing credit, empowering women, and enabling millions of small businesses, it has significantly contributed to employment generation, financial inclusion, and local economic growth. However, the full potential of the scheme can only be realized with complementary investments in training, infrastructure, and institutional support. A shift from credit access to **credit efficiency and productivity** must now guide Karnataka's Mudra roadmap for sustained rural development.

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