



# Effect of Mudra on Promotion of Entrepreneurship

Arun Kumar Jaiswal\*, Puneet Kumar\*, Dr. RBL Srivastava

Research Scholar\* Associate Professor\*\*

Department of Commerce and Business Administration,

University of Allahabad, Prayagraj U.P

## Abstract

This study analyzes the impact of variables (loans) on promoting entrepreneurship growth and development in India's Pradhan Mantri Mudra Yojana. This study examines the variables of various loan offer under Mudra Yojana and their effect on GDP and market size in terms of increase in self-tiny units, SMEs, Micro Business, Small business units, sole proprietorship, and many more by the loan availability from 2015 onwards. The analysis concludes that the most critical factor that can affect the growth of entrepreneurship in India is loans from banks, basically from government banks. This research paper can be essential to research scholars, entrepreneurs, policymakers, employment exchanges, and government bodies in providing details of the effect of loans. This research can be further used in detail by incorporating the various opinions of borrowers and entrepreneurs, and ready to accept the various recommendation from borrowers, customers, and regulating authorities in our subsequent research.

**Keywords:** Promotion, Entrepreneurship, SME, PMMY, Loans.

## Introduction

Entrepreneurship has a meaning for enterprises to the unemployed by indulging them in working for self-employment or giving employment in the economy. Enterprise is a self-creating phenomenon to create employment by making an individual a set of busy by giving a contribution to GDP. According to Dinkar Rao (1982), an extension of credit to the weaker sections in terms of entrepreneurship promotion can create development in the agriculture sector in the long terms perspective. From a long-term perspective maintaining a good source of family income for livelihood. The easy access to loans under Mudra Yojana can also boost the agriculture sector in terms of generating income leading to growth in GDP. G.P. Prasain (2009) conducted a performance evaluation of Prime minister Rojgar Yojana on target disbursement was lower than the average

expected disbursement in some districts. The low availability of loans to the target sample was also exceptionally adverse to the Manipur economy. Verma S. (2015) has stated that much young population becomes entrepreneurs by obtaining loan facilities offered by banks under the Pradhan Mantri Mudra Yojana to become self-dependent. R. Rupa (2017) has shown that several accounts opened successfully under PMMY to cater to each borrower in getting various government facilities. Manish Agarwal Ritesh Dwivedi (2017) concluded in his study that GOI initiated a significant step towards microfinance availability to the weaker section of the people, the low-income group people. Under PMMY, there is an increase in opportunities for credit facility requirements and refinances. The introduction of Pradhan Mantri Mudra Yojana is inclusive of women financing too. The inclusion of PMMY helps in the initiative to boost the Indian economy. Eighty per cent of all SMEs grew their sales, income, and assets since the loan, at average annualized rates of 9, 10, and 7 per cent, respectively. Productivity increased as SMEs grew their sales faster than job creation. Some of this may have been driven by those who used the loan to invest in assets or equipment (27 per cent).

## MAJOR ECONOMIC FACTORS THAT AFFECT BUSINESS LOANS

### 1. Monetary policy of the country

India's monetary policy is determined by its central bank, the Reserve Bank of India (RBI). RBI uses several tools at its disposal to regulate the supply of capital in the market. The policy RBI sets up has a massive bearing on the state of loans in India. The loan interest rates are lower if the economic growth is stable with adequate liquidity. Note that the monetary policy is implemented based on the country's current financial health and inflation state.

### 2. Interest rate changes

One factor that significantly affects the demand and supply of business loans is the prevailing interest rates in the market. High-interest rates hamper the rate of economic growth of the country. A higher interest rate means a rise in interest payments, discouraging borrowers from applying for business loans. When the economy is steady and interest rates are low, business owners are motivated to avail of business loans. A *variable interest rate* is a rate that moves up and down with the rest of the market or along with an index. The underlying benchmark interest rate or index for a variable interest rate [depends on the type of loan](#) or security. However, it is often associated with the [London Inter-Bank Offered Rate](#) (LIBOR) or the [federal funds rate](#).

### 3. Inflation

Inflation denotes the rate at which the price of goods and services increases in a country. It lets entrepreneurs know whether doing business in the current economy will be expensive or cheaper. When inflation in the economy escalates, the goods get more expensive, reducing the individuals' buying power. The result is higher [interest rates and a decrease in demand for business loans](#). Inflation considerably affects the prevailing interest rate and RBI's monetary policy.

#### 4. Economic slowdown

Economic slowdown puts brakes on the flow of money. The lack of cash flow results in an increased number of bankruptcies, especially for SMEs that require late-stage funding. Too many bankruptcies discourage banks, venture capitalists, and other lenders from offering loans to small businesses until the economy turns around. As the economy slows, lending to businesses (including SMEs) declines. Business loans tend to pick up as the economy recovers.

#### 5. Players that influence the economy

Several segments drive the economy of a country. These segments are banks, enterprises, stock markets, financial institutions, lenders, and borrowers (business and personal). All of them are interlinked with one another. Any disruption with one segment also ripples effect on all the other sectors. For instance, any disruption in the stock market could drive the interest rates high, affecting the state of business loans in India.

#### 6. Fixed loans

A fixed-rate loan is a loan that has a rate of interest that is fixed for the entire lifetime of the loan. A fixed-rate loan has a constant interest rate and, therefore, is less risky and more stable for the borrower. A borrower who takes out a fixed-rate loan will know the level of interest that needs to be paid periodically, which can help in cash flow management. A long-term mortgage is the most common form of fixed rate loan, where the loan duration is usually longer (generally up to at least 30 years), which means that the borrower would have to pay more interest over the longer term of the loan. A [fixed-rate](#) loan applies the same interest rate for the duration of the borrowing period. The cost to borrow the money is set before you agree to take on the loan and remains the same until the debt is repaid unless otherwise specified.

#### 7. Variable loans

As the name suggests, a variable rate loan is the exact opposite of a fixed rate loan. In a variable rate loan, the interest rate applied on loan does not remain constant throughout the loan. Instead, the interest rate keeps fluctuating in line with a market index. In a variable interest rate loan, the interest rates are prone to market changes and can be pretty vulnerable to market conditions. This means that the lender can stand to pay lower interest rates or higher interest rates depending on the interest rate fluctuations.

There are, however, adjustment periods in which the interest rates can change. For example, if the loan taken out has an adjustment period of a year, then the interest rate will be changed to market indexes every year, and this rate will be applied for the following year. Variable interest rates also have certain limits to the lows and highs they can reach, called 'caps'. If the ceiling rate (the highest that can be charged) and floor rate (the lowest rate that can be charged) is between 3% and 11%, then the interest rate cannot be lower than 3% or higher than 11%. A variable interest rate (sometimes called an "adjustable" or a "floating" rate) is an interest rate on a loan or security that fluctuates over time because it is based on an underlying benchmark interest rate or index that changes periodically.

## 8. Interest rate credit cards

Interest-rate credit cards have an [annual percentage rate](#) (APR) tied to a particular index, such as the prime rate. The prime rate most commonly changes when the Federal Reserve adjusts the federal funds rate, resulting in a change in the rate of the associated credit card. The rates on variable-interest-rate credit cards can change without advance notice to the cardholder.

## 9. Debit Card

A Debit Card Loan is a type of Consumer Durable loan. You ideally pay the lump sum at once when you buy a product. However, with Debit Card Loans, you can buy the product monthly using Debit Card.

## REVIEW OF LITERATURE

**Dinkar Rao's (1982)** Lead Bank Scheme: Retrospect and Prospects stated in his study on the extension of credit to the weaker sections of people and social obligation. It is seen that government and financial agencies are indulged in implementing schemes for developing agriculture and other priority sectors.

**G.P. Prasain (2009)** Conducted a Performance Evaluation of Prime Minister Rojgar Yojana. The target disbursement achievement on the implementation of PMRY was lower than of average disbursement in many districts.

**Verma S. (2015)** has explained that the MUDRA scheme will not cater to the financial problems of MSMEs but also give moral support to many of the young population to become entrepreneurs.

**R. Rupa's (2017)** MUDRA yojana scheme is very successful and found that MFIs have contributed substantially to increasing the number of accounts financed under the PMMY.

**Manish Agarwal Ritesh Dwivedi (2017)** Pradhan Mantri Mudra Yojana: financial inclusion of population under monetary consideration to cover the whole segment of the population under monetary administrations.

**Somesh Jha (2019)** Mudra Loans: Employment Generation. Loans availed under PMMY boost employment creation, according to an official survey conducted by the government.

## 3. OBJECTIVE OF THE STUDY

- 3.1. To study the cause of the Pradhan Mantri Mudra Yojana.
- 3.2. To study the effect of the PMMY on enterprises.
- 3.3. To study the implication of the PMMY.

## 4. RESEARCH METHODOLOGY

### 4.1. Design:

The study is composed of a descriptive analysis of Pradhan Mantri Mudra Yojana on the promotion of an increase in the number of entrepreneurs by covering the whole sector of society, considering interested borrowers.

## 4.2. Data Procedure:

This research paper is carryout by secondary data analysis from the State Level Bankers Committee (SLBC) and Business Standard from the Labour Bureau under the Ministry of Labour and Employment.

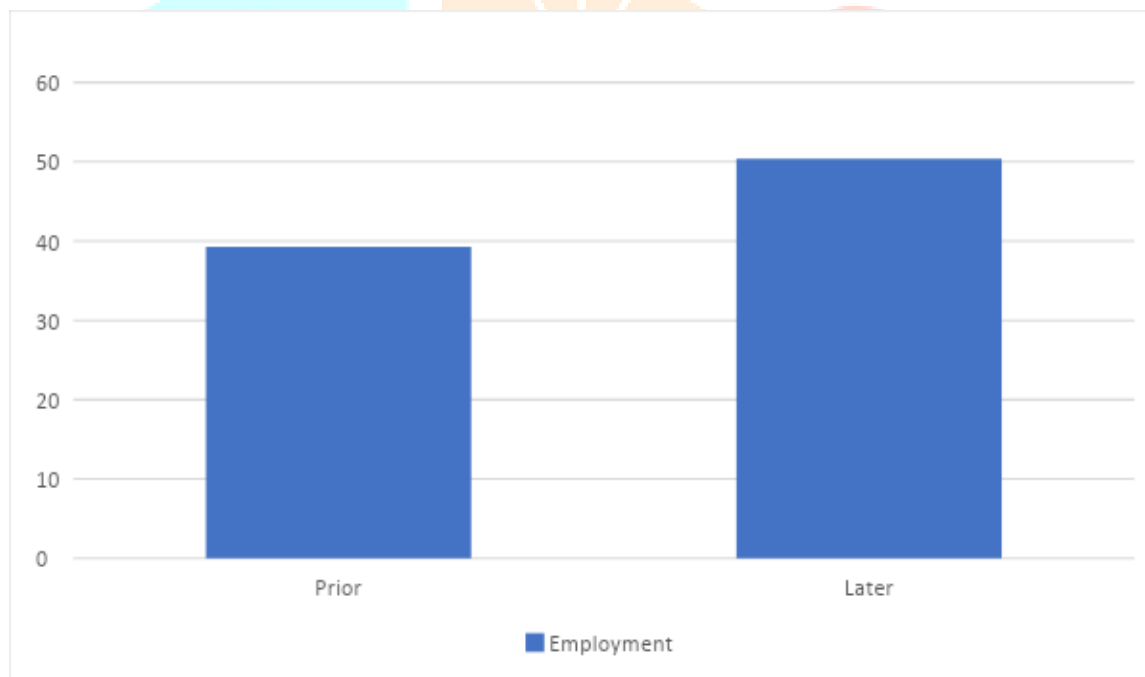
4.3 Data has been restudied from the World Bank report to present the various impact of the variable on PradhanMantri Mudra Loan Yojana on the different categories of the borrower.

4.4 Annual report of the selected magazine, newspaper, and bank report has been significantly considered in this paper.

## 5. SCOPE AND COVERAGE OF STUDY

According to the official survey, loans availed under PMMY led to an increase in a 28 per cent rise in jobs generation. The availability of loans under PMMY by the Labor Bureau Under the Ministry of Labor and Employment showed that 39.3 million people were employed before availing of Mudra loans which increased to 50.4 million after the schemes.

**Chart 1: Effect on employment under PMMY**



Source: Report by Ministry of Labour and Employment (in million)

## 6. FUTURE THE PROSPECT OF PRADHAN MANTRI MUDRA YOJANA

The government's vision is always on funding to be unfunded by implementing PMMY. There is always a government motive to connect each individual digitally through the bank by opening zero balance accounts. So that no one can be left from various schemes introduced by the government year to year in terms of providing monetary facilities for the promotion of entrepreneurship via

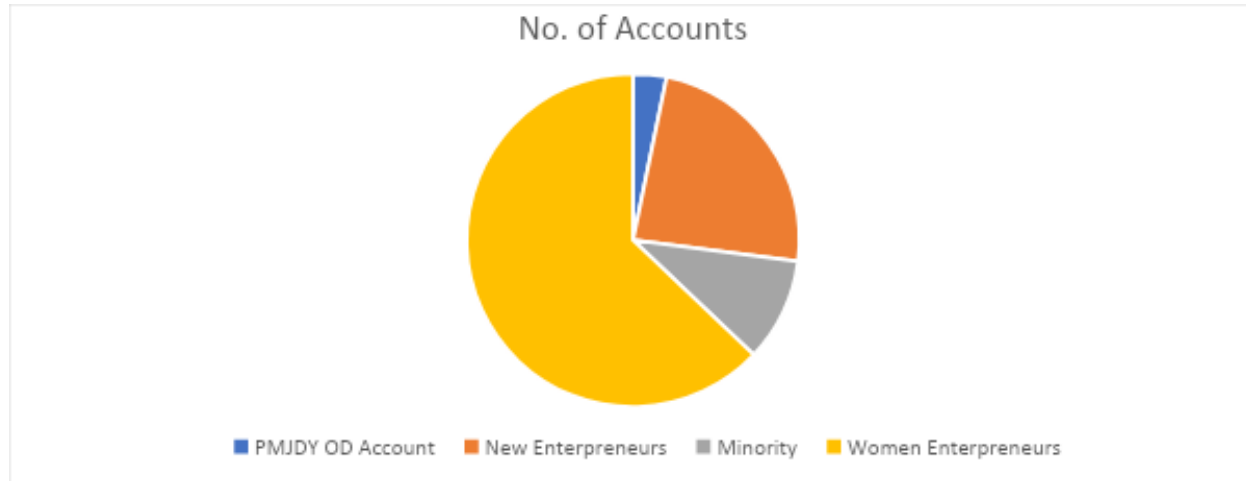
New Entrepreneurs 6413050.

PMJDY OD Account 878167.

Minority 2704754.

Women Entrepreneurs 16976738.

**Chart 2: No. Of Account under PMMY**



Source: (<http://www.mudra.org.in/>)

### 1. Impact of SMEs on the Economy

SMEs have gradually grown to become a crucial part of the Indian economy. These enterprises have not only contributed to the development of the nation's economy but have also created more employment opportunities. People who found it challenging to be employed in large organizations can now find jobs in these small businesses. The increased presence of SMEs led to a reduction in poverty and unemployment, thereby influencing the country's socio-economic growth.

According to a KPMG report released in February 2019, the number of start-ups has grown from 7000 in 2008 to 50,000 in 2018. The numbers are expected to grow further in the coming years. As the influence of these start-ups has grown, the government and the private sector's financial players have recognized the value of these small businesses.

While it was difficult for small companies to gain funds a decade ago, things have changed now, and several support systems are in place to support budding entrepreneurs.

Economic changes significantly influence small business lending and borrowing as follows:

- Lenders are risk-averse based on the general economic state of the nation. During slowdowns, they are highly risk-averse and could decline to make business loans they would have agreed at other times.
- Small businesses may decline to undertake projects that provide risk-adjustment returns during slowdowns. This practice reduces the demand for small business loans.
- The economic fluctuation affects the collateral values as well. For instance, the collateral value of the real estate may be low during the slowdown period compared to when the economy is healthy.

## 8. CONCLUSION

Pradhan Mantri Mudra Yojana, a program initiated by honourable Prime Minister of India Shri Narendra Damodar Das Modi on April 08 2015, to foster the growth and development of a country. They were availing



the loan facility under Mudra Yojana to the weaker section of the society at a cheaper rate. The cheap availability of loans under various categories like Shishu, Kishor and Tarun to needy or borrowers of loan for self-settlement are seen as successful. The number of accounts opened under the given target successfully promoted entrepreneurship to 6413050, and women's entrepreneurship reached 16976738 to a great extent.

The impact of mudra yojana on the increase in employment creation significantly took place after implementing easy availability of loans. Support for a loan to the economy has shown a significant effect on reducing unemployment. It is intended to boost employment by self-sufficiency and promotes self-employment by creating jobs for the unemployed.

The above points validate how economic prominence significantly impacts business loans in India. If you have additional insights to add, please share them in the comments below.

If you want to safeguard yourself from economic fluctuations while securing a business loan in the future, then talk to our experts at Indifi. Indifi is a customer-centric online lending platform supporting businesses in more than 200 cities across India. A fixed-rate loan has a constant interest rate and, therefore, is less risky and more stable for the borrower. In a variable rate loan, the interest rate applied on loan does not remain constant throughout the loan. Instead, the interest rate keeps fluctuating in line with a market index. Most entities favour a fixed interest rate approach since this will improve stability and certainty in the amount that should be set aside as interest.

A variable interest rate, unlike a fixed interest, can be riskier unless in a market environment with constantly decreasing interest rates. Summary: Fixed Rate Loan vs Variable Rate Loan. • A fixed rate loan has a constant interest rate and, therefore, is less risky and more stable for the borrower.

## 9. SUGGESTION

The above study suggested focussing more on ground level to reach or avail loans under Mudra Yojana to the disabled or physically challenged section. Physically challenged sections of society are too struggling from low income to survive their livelihood. Such schemes ignore significant sections of society, such as Mudra Yojana (Nishita, 2019). The government of India should bring some package which provides them with a loan with some suitable kind of work which feasible their life.

## REFERENCES

1. Pradhan Mantri Mudra Yojana: A critical Review Manish Agarwal and Ritesh Dwivedi, Parikalpana-KIIT Journal of Management (December 2017) DOI#10.23862/kiit-parikalpana/2017/v13/i2/164524
2. Paisabazar. com-compare & apply for loans & credit cards. <https://www.paisabazaar.com>
3. Credit card loan-Market Business News. [www.marketbusinessnews.com/financial-glossary/credit-card-loan/](http://www.marketbusinessnews.com/financial-glossary/credit-card-loan/)
4. Personal Loans with Debit Card & Get Up To Right Loans. [www.justrightloans.com/debit-card-loans/](http://www.justrightloans.com/debit-card-loans/)

5. A Comparative Analysis of Pradhan Mantri Mudra Yojana (With Special Reference to The State Of Uttar Pradesh) Puneet Kumar and R.K. Singh, International Journal of Humanities, Law and Social Sciences, Kanpur Philosophers Vol IX, Issue III(I), March 2022.
6. Mudra boost to employment: Beneficiaries of the scheme create 11 mn jobs Somesh Jha November 06 2019
- 7.. [www.mudra.gov.in/](http://www.mudra.gov.in/)
8. Annual report by the ministry of labour employment
9. Jha Somesh (2019). Mudra boost to employment: Beneficiaries of the scheme create 11 MN jobs. Business Standard.
10. Prasain G.P. (2009). Performance Evaluation of Minister's Rojgar Yojana A case study of Manipur. The Indian Journal of Commerce. 62(3), 80-87
11. Nishita (2019). How Economics Health Affects Business Loans: <https://wittysparks.com/how-economics>.
12. Lynsay Taffe. Understanding the impact of loans on small businesses in India. <https://www.bii.co.uk/en/emerging-markets-investment/understanding>.

