



ASSESSING THE ROLE OF GOVERNMENT CREDIT SCHEMES, WITH SPECIAL REFERENCE TO PMMY, IN PROMOTING ENTREPRENEURSHIP AND EMPLOYMENT GENERATION AMONG MSMEs IN INDIA

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) play a significant role in India's economic development by contributing to employment generation, entrepreneurship development, income creation, and regional economic growth. However, inadequate access to formal finance remains one of the major challenges faced by MSMEs, particularly micro and small enterprises. To address these financial constraints, the Government of India has introduced various credit-oriented schemes aimed at improving access to institutional finance and encouraging entrepreneurial activity. Among these initiatives, the Pradhan Mantri Mudra Yojana (PMMY) has emerged as an important programme for providing collateral-free institutional credit to micro enterprises.

This study, titled "Assessing the Role of Government Credit Schemes, with Special Reference to PMMY, in Promoting Entrepreneurship and Employment Generation Among MSMEs in India," seeks to examine the contribution of government credit schemes to entrepreneurship development and employment generation, with particular emphasis on PMMY. The study proposes to analyse the extent to which access to credit influences business establishment, expansion, investment, turnover, and employment creation among MSMEs. It will also examine the challenges faced by entrepreneurs in accessing and utilising institutional credit and assess the effectiveness of government credit interventions in supporting sustainable enterprise development. The study is expected to provide insights into the relationship between credit accessibility, entrepreneurial growth, and employment generation. The findings may be useful to policymakers, financial institutions, entrepreneurs, and other stakeholders in strengthening the design and implementation of government credit schemes for the sustainable development of the MSME sector in India.

KEYWORDS: MSMEs, Government Credit Schemes, Pradhan Mantri Mudra Yojana, Entrepreneurship, Employment Generation, Financial Inclusion, Institutional Credit.

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) constitute an important component of the Indian economy. The sector contributes significantly to employment generation, entrepreneurship development, income distribution, industrial production, exports, and balanced regional development. MSMEs operate across manufacturing, trading, and service activities and provide opportunities for individuals to establish and expand businesses with relatively modest capital requirements. The sector is therefore particularly important for promoting self-employment and livelihood opportunities among economically active sections of the population. Despite their economic importance, MSMEs face several constraints that affect their establishment, growth, and long-term sustainability. One of the most persistent challenges is limited access to adequate and affordable institutional finance. Many micro and small enterprises operate with limited internal resources and may not possess sufficient collateral, formal financial records, or established credit histories to obtain conventional bank loans. As a result, entrepreneurs may depend on informal sources of finance, which can restrict business expansion and increase the cost of borrowing. Improving access to formal credit is therefore essential for strengthening the productive capacity and competitiveness of MSMEs.

The relationship between access to credit and entrepreneurship is particularly important in the context of MSMEs. Adequate financing can influence an entrepreneur's ability to start a business, introduce new products or services, adopt technology, increase production capacity, and enter new markets. At the same time, expansion of enterprises can create additional employment opportunities. Therefore, government credit schemes may contribute to employment generation indirectly by facilitating the establishment, survival, and expansion of micro and small enterprises.

However, the availability of credit alone does not necessarily guarantee successful entrepreneurship or employment creation. The effectiveness of a credit scheme can depend on several factors, including the adequacy of the loan amount, cost of credit, ease of application, awareness of the scheme, timeliness of loan disbursement, repayment conditions, entrepreneurial skills, market conditions, and the productive utilisation of borrowed funds. Some entrepreneurs may also face difficulties related to documentation, financial literacy, institutional procedures, and awareness of available government programmes. Examining these factors is essential for understanding the actual impact of government credit interventions.



REVIEW OF LITERATURE

Kukar and Mehta (2022) reviewed selected government schemes and policies aimed at supporting MSMEs in India. Their study highlighted the importance of government interventions in addressing problems related to credit availability, marketing, technology, and other operational requirements of MSMEs. The authors observed that government assistance schemes can help enterprises overcome financial and structural constraints, although effective implementation remains important.

Jena (2021) examined public credit guarantee programmes for small enterprises in India and noted that such programmes can improve access to institutional credit for enterprises that face difficulties in obtaining loans from mainstream financial institutions. The study also emphasised that the effectiveness and sustainability of credit guarantee programmes depend on their design and the alignment of incentives among borrowers, lenders, and guarantors.

Research specifically examining **Pradhan Mantri Mudra Yojana (PMMY)** has generally identified positive associations between access to Mudra credit and entrepreneurial development. A recent study by **Ezhilarasan et al. (2025)** analysed trends in PMMY loan sanctions and disbursements from 2015 to 2024. The study reported substantial growth in the number and value of loans and highlighted the importance of PMMY in improving access to institutional credit for micro and small enterprises. It also identified regional differences in scheme utilisation, suggesting the need for further policy refinement.

Rathee and Aggarwal (2025) investigated the relationship between microcredit, entrepreneurship, employability, and women's empowerment in the context of PMMY. Their study provides evidence that PMMY is relevant not only from the perspective of credit access but also in relation to entrepreneurial development and women's economic participation. The use of statistical techniques such as regression and the Wilcoxon test demonstrates the scope for examining the entrepreneurial outcomes of PMMY using empirical data.

A study by **Salasty and Kanagavalli (2024)** examined the impact of PMMY on employment and livelihood transformation among micro-entrepreneurs in Karnataka. Using quantitative and qualitative information from beneficiaries, the study considered changes in employment, income, and business expansion. The study is particularly relevant to the present research because it connects access to Mudra credit with both enterprise performance and employment outcomes.

Similarly, **Paramasivan, Samuel Anbu Selvan and Ram Raj (2025)** examined the effectiveness of PMMY in relation to business growth and employment in Tamil Nadu. Their study reported positive developments in areas such as financial inclusion, business growth, revenue, and employment among beneficiaries, while also identifying challenges relating to rural accessibility and loan-processing procedures. The authors suggested improvements in the application process, financial literacy, and scheme outreach.

RESEARCH GAP

The existing literature provides considerable evidence on PMMY, financial inclusion, MSME growth, entrepreneurship, and employment, but several gaps remain. First, many studies focus exclusively on PMMY rather than examining it within the broader framework of government credit schemes. Second, several studies concentrate on loan disbursement and beneficiary numbers, while relatively fewer studies examine whether credit actually results in new enterprise creation, business expansion, and additional employment. Third, differences across sectors, regions, enterprise categories, and borrower characteristics require further investigation. Finally, there is scope for empirical research that simultaneously examines credit accessibility, entrepreneurship development, enterprise performance, and employment generation.

Therefore, the proposed study, "Assessing the Role of Government Credit Schemes, with Special Reference to PMMY, in Promoting Entrepreneurship and Employment Generation Among MSMEs in India," seeks to address these gaps by examining the relationship between government-supported credit and entrepreneurial as well as employment outcomes among MSMEs.

OBJECTIVES OF THE STUDY

- To examine the role of government credit schemes in improving access to finance for MSMEs in India.
- To assess the contribution of Pradhan Mantri Mudra Yojana (PMMY) towards promoting entrepreneurship among MSME beneficiaries.
- To analyse the impact of PMMY credit on the establishment, expansion, and growth of MSME enterprises.
- To evaluate the role of government credit schemes, particularly PMMY, in generating direct and indirect employment opportunities.
- To examine the relationship between access to institutional credit and the employment-generating capacity of MSMEs.

Role of Government Credit Schemes in Improving Access to Finance for MSMEs in India

Government credit schemes play a vital role in improving access to finance for Micro, Small and Medium Enterprises (MSMEs) in India by addressing financial constraints such as inadequate collateral, limited credit history, and difficulty in obtaining loans from formal financial institutions. Schemes such as the Pradhan Mantri Mudra Yojana (PMMY), credit guarantee programmes, and other government-supported financing initiatives facilitate the availability of timely and adequate institutional credit for starting, operating, and expanding business activities. These schemes help MSMEs meet their working capital requirements, purchase machinery and equipment, procure raw materials, adopt new technologies, and expand their market operations. By reducing dependence on informal sources of finance and encouraging financial inclusion, government credit schemes particularly support first-generation entrepreneurs, women, youth, rural entrepreneurs, and economically weaker sections. Improved access to formal finance enables MSMEs to strengthen their business



performance, increase production capacity, promote entrepreneurship, and generate employment opportunities, thereby contributing significantly to the overall growth and development of the MSME sector in India.

Contribution of PMMY towards Promoting Entrepreneurship Among MSME Beneficiaries

The **Pradhan Mantri Mudra Yojana (PMMY)** plays a significant role in promoting entrepreneurship among MSME beneficiaries by improving their access to institutional finance. Lack of adequate capital is a major barrier for aspiring and existing entrepreneurs, and PMMY helps overcome this challenge by providing financial assistance for starting, operating, and expanding micro and small enterprises. The scheme supports beneficiaries in meeting working capital requirements, purchasing machinery and equipment, procuring raw materials, adopting new technology, and expanding business activities. It is particularly beneficial to first-generation entrepreneurs, women, youth, and economically weaker sections who may face difficulties in obtaining conventional bank credit. By reducing dependence on informal sources of finance and encouraging access to the formal financial system, PMMY promotes self-employment and motivates individuals to establish their own enterprises. Further, the availability of credit enables existing MSMEs to expand their operations, diversify their products and services, and improve their business performance. Thus, PMMY contributes to entrepreneurship development by reducing financial barriers, supporting business creation and expansion, strengthening financial inclusion, and creating opportunities for self-employment and employment generation.

Role of Government Credit Schemes, Particularly PMMY, in Generating Direct and Indirect Employment Opportunities

Government credit schemes, particularly the **Pradhan Mantri Mudra Yojana (PMMY)**, play an important role in generating both direct and indirect employment opportunities by providing financial assistance to micro and small entrepreneurs. Access to institutional credit enables individuals to establish new enterprises and expand existing businesses, thereby creating **direct employment** for entrepreneurs as well as workers employed in these enterprises. Financial support under PMMY can be utilized for purchasing machinery, procuring raw materials, meeting working capital requirements, and expanding production and business operations, which increases the demand for skilled and unskilled labour. The growth of MSMEs also creates **indirect employment opportunities** in related sectors such as suppliers, transport services, marketing, distribution, maintenance, and other supporting activities. Further, by promoting self-employment and encouraging first-generation entrepreneurs, women, youth, and economically weaker sections to start their own businesses, government credit schemes contribute to broader employment generation. Thus, PMMY and other government credit initiatives support enterprise creation and expansion, strengthen MSME activities, and contribute significantly to both direct and indirect employment generation in India.

CONCLUSION

Government credit schemes play a crucial role in strengthening the MSME sector by improving access to timely

and adequate institutional finance. In particular, the **Pradhan Mantri Mudra Yojana (PMMY)** has contributed to promoting entrepreneurship by reducing financial barriers and supporting individuals in starting, operating, and expanding their business enterprises. Access to credit enables MSMEs to meet working capital needs, acquire assets and machinery, increase production capacity, and expand their business activities. These developments contribute to both **direct employment**, through the creation and expansion of enterprises, and **indirect employment** in related sectors such as supply, transportation, marketing, and other supporting services. Thus, government credit schemes, particularly PMMY, serve as important instruments for promoting financial inclusion, entrepreneurship development, MSME growth, and employment generation. However, improving awareness, simplifying loan procedures, ensuring timely credit availability, and providing adequate post-loan support can further enhance the effectiveness of these schemes and their contribution to inclusive economic development in India.

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