



International Journal of Financial Management and Economics

P-ISSN: 2617-9210
E-ISSN: 2617-9229
IJFME 2025; 8(1): 312-317
www.theeconomicsjournal.com
Received: 03-02-2025
Accepted: 08-03-2025

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An overview of the performance of Pradhan Mantri Mudra Yojana in the North Karnataka region

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DOI: <https://www.doi.org/10.33545/26179210.2025.v8.i1.498>

Abstract

One notable problem in the MSME sector is a lack of funding. Governments implement financial aid programs each year as part of the budget to help the enterprise sector overcome its financial obstacles. The primary goal of this study is to evaluate the performance of the government's flagship program, the Pradhan Mantri Mudra Yojana, in the North Karnataka area. Data was gathered from the local lead bank offices in five districts in the region: Belagavi, Bagalkote, Gadag, Haveri, and Koppal. According to the study, when compared to other districts, Belagavi has the most MSMEs, bank branches, and accounts under the scheme. Shishu accounts exceed Tarun and Kishore accounts in all five districts. Compared to other districts, Belagavi has a larger population. The number of bank branches that are opened in a given location will depend on the population size. Here, we are unable to defend the districts' discriminatory introduction of PMMY. The banks should move those Shishu beneficiaries to the Kishore and Tarun categories rather than opening more branches in the other four districts, except Belagavi.

Keywords: MSME sector, PMMY, North Karnataka, Shishu, Kishore, and Tarun accounts

Introduction

Difficult access to formal finance is one of the major obstacles faced by micro, small, and medium enterprises. Lack of connectivity with banks, inadequate information about bank loans, complicated bank procedures, high service charges for processing loans, high interest rates, and lack of information about government policies are barriers on the demand side, and high transaction costs, creation of non-performing assets, uncertain nature of business and inability to provide collateral securities are main constraints on the supply side. The government is introducing several policies with the help of various agencies and authority departments to mitigate these hurdles for MSMEs in India. Nurturing this sector is critical to creating self-employment and raising income levels for developing countries to reach a trillion-dollar gross domestic product economy. Pradhan Mantri Mudra Yojana is one of the flagship policies of the Government of India. The scheme was introduced on April 8, 2015, to provide loans up to Rs 10 lakh to MSMEs. There are three categories under this scheme, i.e., Shishu Rs. 50000 including loans up to, Kishore Rs. 50001 to 5 lakhs, and Tarun includes loans ranging from 5 lakhs to 10 lakhs, but recently it has been increased up to 20 lakhs. Limited formal financial institutions such as public sector banks, private sector banks, regional rural banks, co-operative banks, small banks, micro-finance institutions, and non-banking financial institutions lend these loans to the MSMEs nationwide. However, the scheme mainly intends to fund the unfunded, promote financial inclusion, alleviate poverty, and reach out to credit-deficient districts.

Different kinds of enterprises like textile product activities such as handloom, power loom, khadi, traditional hand embroidery, and stitching. Food processing enterprises include papad, jam or jelly, hotels, canteens, ice cream-making units, biscuits, and bread. Social service activities include salons, beauty parlors, tailoring shops, gyms, grocery shops, vegetables, fruit vendors, bike and motorcycle repair shops, xerox shops, taxis, and auto-rickshaws. Allied agriculture activities like dairy farms, poultry, fishing, livestock-rearing, horticulture, apiculture, and other activities are eligible for loans under the scheme. As per the Mudra reports, the scheme has reached approximately 34.93 crore MSMEs, and Rs. 18.91 lakh crore

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of loans have been sanctioned nationwide in the last eight years. The southern states of Karnataka and Tamil Nadu are among the top ten states with the most beneficiaries of this scheme. Karnataka has sanctioned Rs. 28,695.29 crore under the scheme during 2021-22, and Belagavi, one of the districts of the North Karnataka region, is among the top ten districts with the highest number of beneficiaries of the scheme in the country. The present study focuses on the performance of PMMY in the North Karnataka region.

Literature review

PMMY is a credit-plus approach, and under this program, a 10-12 percent interest rate for Shishu loans, 14- 17 percent interest rate for Kishore loans, and 16 percent for Tarun loans in Karnataka (Shahid & Irshad, 2016; Ibrahim, 2018; Bhayana, 2020) [16, 10, 2]. In 2015-16 and 2016-17, Karnataka was in the top two positions in the number of accounts sanctioned and disbursed amounts under the scheme among the other states in India. 17.08 percent interest rate in the State Bank of India and 12.65 percent in Punjab and Sind Bank in the state (John *et al.*, 2018) [11]. Tamil Nadu and Karnataka have more shares in the number of beneficiaries, the amount sanctioned, and the amount disbursed in South Indian states (Aravindaraj & Bala, 2018) [1]. Tamil Nadu was in the top first position regarding the number of MUDRA accounts, sanctions, and disbursement, followed by Karnataka and Maharashtra in second and third, respectively, in 2016-17 (Vijai, 2018; Poornima, 2019) [18, 15]. Manipur Rural Bank (MRB) has been the first in terms of the number of loans disbursed to MSMEs with a total amount of Rs. 3150.45 lakhs, followed by SBI with 5006.58 lakhs and BOI at the third position in performing PMMY. The 28.31 percent of Shishu loans, 51.90 percent of Kishore, and 19.79 percent of Tarun loans, which are products of the scheme, have been disbursed in the total amount in Manipur state. Further, Imphal West district was first in the state's scheme performance (Singh, 2018) [17]. The east and northeastern states had higher accounts, followed by the south, with most accounts opened under the

Shishu scheme (Ibrahim, 2018) [10]. The maximum MUDRA loan repayment period is five years, and Shishu loans were more sanctioned than Kishore and Tarun loans, and the banks positively supported government policies. Maharashtra state has the top three position in the number of MUDRA accounts, sanctioned, and disbursed amounts in India during 2015-18 (Mahajan, 2019) [12].

This scheme is a tool for financial inclusion initiatives and works for micro-enterprises. The compound annual growth rate of PMMY accounts, loans sanctioned, and loans disbursed was 19.73%, 32.77%, and 32.86%, respectively. Regarding the agency-wise progress of PMMY, NBFCs have been significant contributors to this scheme, with a CAGR of 74.46%. Tamil Nadu, Karnataka, Maharashtra, West Bengal, and Uttar Pradesh have the top five positions in the share of MUDRA accounts, loan sanctioning, and loan disbursing (Basak, 2020) [3]. Public sector banks, including SBI and RRBs, have performed very well in disbursing loans in Shivamogga district of Karnataka (Anjesh & Rathod, 2021) [9].

Objective of the study

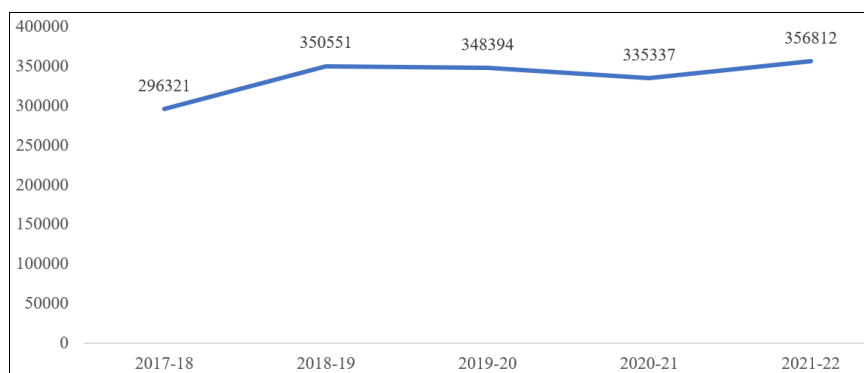
To examine the performance of Pradhan Mantri Mudra Yojana in the North Karnataka region.

Methodology

The present study has chosen five districts, Belagavi, Bagalkote, Gadag, Haveri, and Koppal in the North Karnataka region. It fully relies on secondary data which was collected from annual mudra reports, the lead bank office (Canara bank) of Bagalkote district, the lead bank office (State Bank of India) of Gadag and Koppal districts, and the lead bank office (Bank of Baroda) of Haveri district. In addition, data were collected from District Statistical reports of Belagavi, Bagalkote, Gadag, Haveri, and Koppal districts, Economic survey of the Government of Karnataka.

Results

PMMY accounts in North Karnataka region

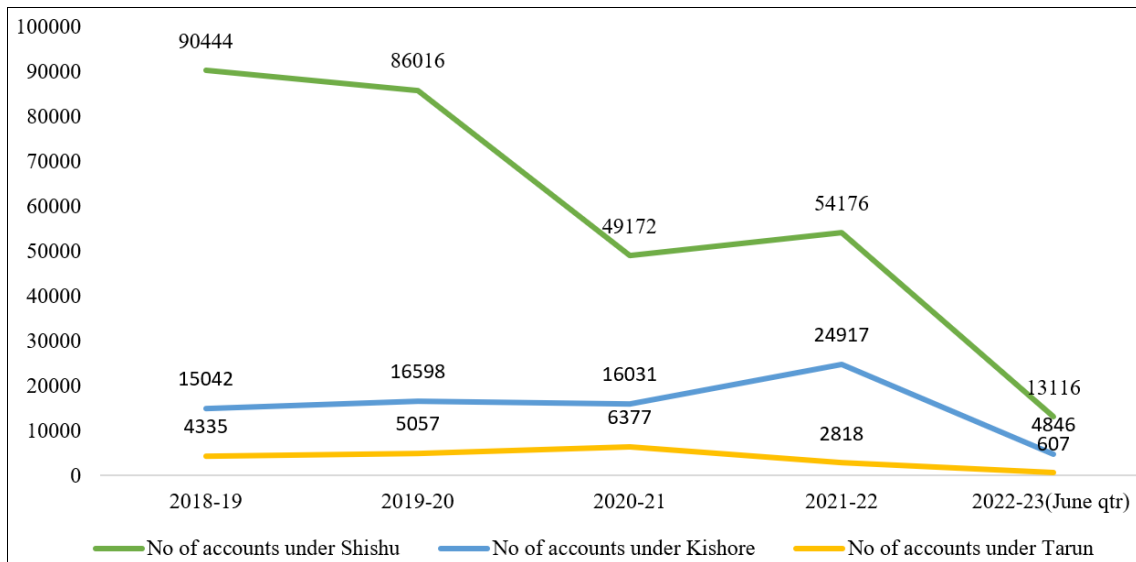


Source: Annual MUDRA Reports

Fig 1: Number of PMMY accounts in Belagavi

Figure 1 shows the trend in PMMY accounts in the Belagavi district over several years, highlighting an overall increase with some fluctuations. In 2017-18, 2,96,321 accounts, including the Shishu, Kishore, and Tarun categories. This number grew to 3,50,551 accounts in 2018-19 before slightly decreasing to 3,48,394 in 2019-20. The most significant drop occurred in 2020-21, as accounts fell to 3,35,337, likely due to the economic impact of the COVID-19 pandemic. Post-pandemic, the account numbers

rebounded, reaching 3,56,812 in 2021-22. Belagavi has consistently ranked among the top ten districts nationally for the number of PMMY accounts and loans sanctioned, showing the scheme's effectiveness in supporting micro, small, and medium enterprises. This success may also stem from efforts to foster new business growth, with PMMY providing financial assistance to encourage regional entrepreneurship.



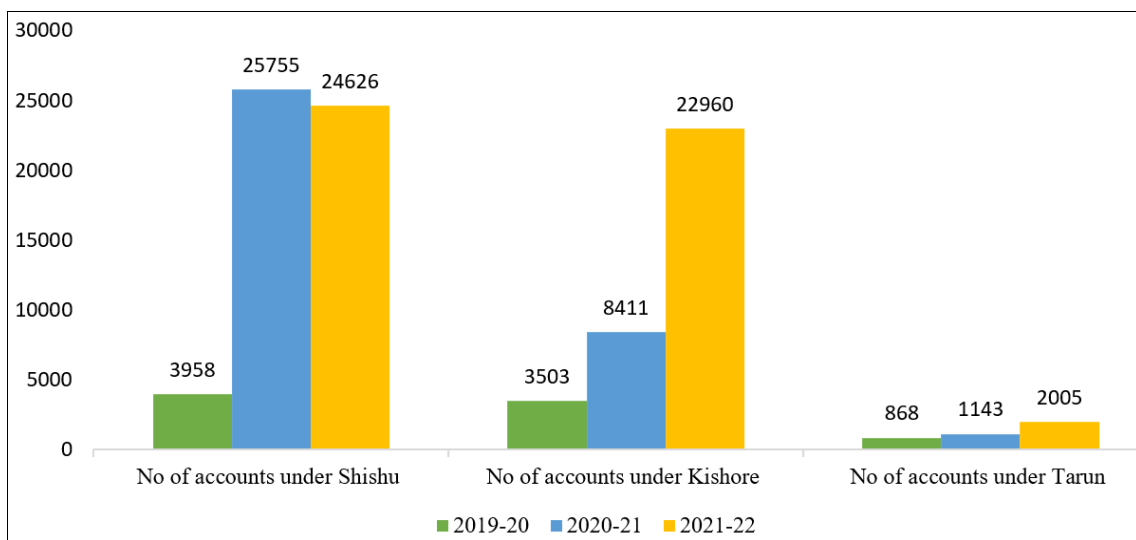
Source: Lead Bank Office, (Canara Bank) Bagalkote

Fig 2: Number of PMMY accounts in Bagalkote

Figure 2 illustrates the number of PMMY accounts by category in the Bagalkote district, highlighting that the Shishu category consistently has the highest number of accounts compared to Kishore and Tarun. However, all three categories have shown a declining trend in recent years. In the Shishu category, the account count started at 90,444 in 2018-19 and steadily decreased to 86,016 in 2019-20 and then to 49,172 in 2020-21. This was followed by a slight increase to 54,176 in 2021-22, but a significant drop to 13,116 in 2022-23, indicating a noticeable reduction over the period. For the Kishore category, accounts increased from 15,042 in 2018-19 to 16,598 in 2019-20, decreased

slightly to 16,031 in 2020-21, likely due to the impact of COVID-19, surged to 24,917 in 2021-22, and then sharply dropped to 4,846 in 2022-23.

In the Tarun category, accounts rose from 4,335 in 2018-19 to 5,057 in 2019-20 and peaked at 6,337 in 2020-21, but then declined to 2,818 in 2021-22 and further to 607 in 2022-23. Overall, the data suggests that banks are more inclined to lend under the Shishu category, which involves smaller loans up to Rs. 50,000, while being hesitant to provide higher loans in the Kishore and Tarun categories, which allow for borrowing up to and above Rs. 10 lakhs, respectively.

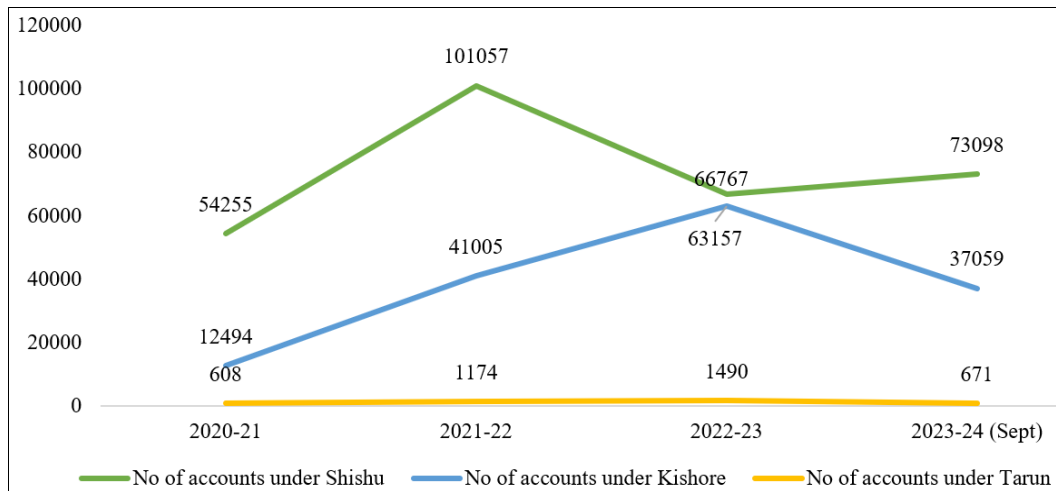


Source: Lead Bank Office, (State Bank of India) Gadag

Fig 3: Number of PMMY accounts in Gadag

The number of PMMY accounts in the Gadag district during the previous three years is shown in Figure 3. There were 3,958 accounts in the Shishu category in 2019-20, rising to 25,755 in 2020-21 and then somewhat down to 24,626 in 2021-22. The Kishore category had a noteworthy rise, with accounts increasing from 3,503 in 2019-20 to 8,411 in 2020-

21 and 22,960 in 2021-22. Similarly, there were 868 accounts in the Tarun category in 2019-20, 1,143 in 2020-21, and 2,005 in 2021-22, respectively. In the Gadag district, the number of Shishu accounts higher than the Kishore and Tarun accounts. It implies increasing lending under these categories in the district.



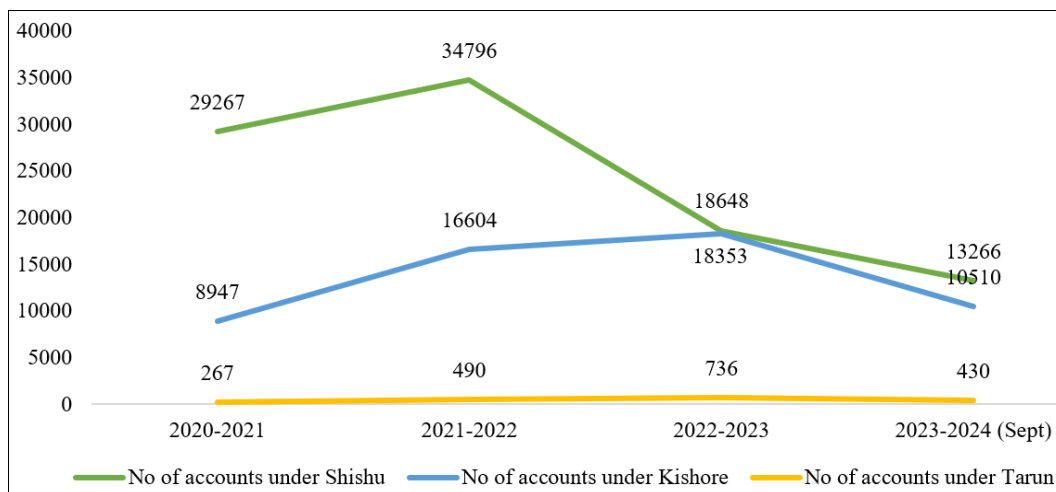
Source: Lead Bank Office, (Bank of Baroda) Haveri

Fig 4: Number of PMMY accounts in Haveri district

In the Haveri district, the number of PMMY accounts is shown in Figure 4. The number of accounts that fall within the Shishu category is shown in the upper line. In the Shishu category, there were 54,255 accounts in 2020-21, 1,01,057 accounts in 2021-22, 66,767 accounts in 2022-23, and 73,098 accounts in 2023-24. These numbers experienced considerable decreases and increases throughout time. The center line in this chart shows the total number of accounts under the Kishore category, which was 12,494 in 2020-21. From there, the number of accounts climbed steadily to

41,005 in 2021-22 and 63,157 in 2022-23, but then dropped to 37,059 in 2023-24.

The number of accounts under the Tarun category is also shown in the figure below. It started out with 608 accounts in 2020-21 and steadily climbed to 1,174 accounts in 2021-2022 and 1490 accounts in 2022-2023 accordingly. The total number of accounts under this category fell to 671 in 2023-2024. The chart shows that in the Haveri district, there are more accounts in the Shishu category than in the Kishore and Tarun categories combined.



Source: Lead Bank Office, (State Bank of India) Koppal

Fig 5: Number of PMMY accounts in Koppal district

Figure 5 illustrates the number of PMMY accounts in the Koppal district. In 2020-21, there were 29,267 accounts in the Shishu category; this climbed to 34,796 in 2021-22, then fell to 18,648 in 2022-23, and then again to 13,266 in 2023-24. The Kishore category, with 8,947 accounts in 2020-21, 16,604 in 2021-22, 18,353 in 2022-23, and 10,510 accounts in 2023-24, is represented by the middle line in the figure. At 267 accounts in 2020-21, the Tarun category constantly increased to 490 in 2021-22 and 736 in 2022-23, as indicated by the bottom line. Still, in 2023-2024, there were just 430 accounts available.

Accounts under the Shishu category, which have smaller debts of Rs. 50,000 more than other Kishore and Tarun category accounts, are found in all five districts of the North Karnataka region. This suggests that the banks are not

offering loans under the Kishore and Tarun categories to clients who have paid off their Shishu credit. People eligible for the scheme are limited to borrowing under the Kishore and Tarun categories and are only frequently eligible for loans under the Shishu category. This trend likely reflects the banking sector's concerns over high transaction costs and the risk of non-performing assets in the MSME sector, discouraging them from offering larger loans to small businesses. Only certain public sector, private sector, regional rural banks, co-operative banks, small banks, and non-banking financial companies (NBFCs) provide PMMY loans nationwide. As per the annual MUDRA reports, public sector banks, including regional rural banks, significantly contributed to establishing the scheme by lending loans to the MSMEs in the country.

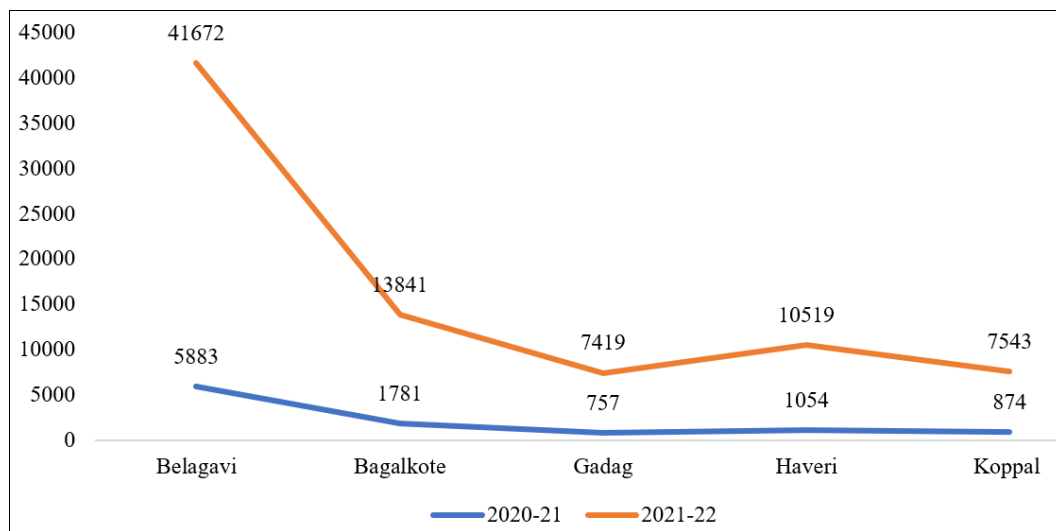
Table 1: Number of bank branches in districts

Belagavi		Bagalkote	Gadag	Haveri	Koppal
Public Sector Banks	329	132	105	90	76
Regional Rural Banks	167	74	60	78	51
Private Sector Banks	70	39	12	38	28
Total	566	245	177	206	155

Source: District statistical glance of five districts, Government of Karnataka

Total of 566 banks as of 2018 in Belagavi, 245 banks as of 2016 in Bagalkote, 177 banks as of 2017 in Gadag, 206 banks as of 2020 in Haveri, and 155 banks as of 2022 in

Koppal district. As shown in Table 1 above, the number of public sector bank branches is greater in each district than in other banks. When observed on the number of PMMY accounts in the five districts, Belagavi has more accounts than the other four districts and has the highest number of bank branches. It indicates that more bank branches would likely increase the number of accounts. Public sector bank branches are more than other regional rural and private sector bank branches, and these public sector bank branches might be more lending loans under the PMMY in the districts compared to other financial institutions.



Source: Karnataka Economic Survey 2021-22, 2022-23

Fig 6: Number of registered MSMEs

Figure 6 shows how many micro, small, and medium-sized businesses were registered in five districts of the North Karnataka region through the Udyam Aadhar portal in the District Industries Center in 2020-21 and 2021-22. During this period, the number of registered MSMEs in Belagavi has grown from 5883 to 41672, in Bagalkote from 1781 to 13841, in Gadag from 757 to 7419, in Haveri from 1054 to 10519, and in Koppal district from 874 to 7543. We can typically see that there is a favourable correlation between rising accounts and enterprise units based on the number of PMMY accounts and registered MSMEs.

Therefore, it encourages the development of a rationale for the scheme's assistance to the enterprise sector by growing the number of MSMEs and accounts under the scheme. Is it a suitable method to determine the scheme's impact and success? Registered enterprises may be non-PMMY beneficiaries, beneficiaries of other government programs, or no programs at all. The growing number of accounts under the plan does not accurately indicate whether the scheme is performing well based on data pertaining to these accounts. Could accounts contain non-MSMEs or non-eligible individuals, as the program is exclusively intended for the business sector? Both registered and unregistered businesses are supported by the program. Examining PMMY's performance in MSMEs will be required to determine whether or not the program was successful. The study will make an effort to connect with real beneficiaries or entrepreneurs in order to assess the scheme's effectiveness and influence in the North Karnataka area.

Conclusion

Belagavi is a bigger populated district than Bagalkote, Gadag, Haveri, and Koppal. Based on the population size, a number of bank branches will be opened in the particular area. Here, we can not justify the discrimination in introducing PMMY among the districts of the North Karnataka region. Instead of increasing bank branches in the other four districts except Belagavi, banks should promote those Shishu beneficiaries to the Kishore and Tarun categories. The Shishu accounts are more numerous in all five districts than the Kishore and Tarun accounts. The government of India has announced up to 20 lakh loans under the Tarun category in the present union budget 2024-25, which was up to a maximum 10 of lakhs under the Tarun category earlier. Then, the government raised a further 10 lakhs under the same category. Therefore, banks should lend under the next categories after clearing the loans under the Shishu category.

Acknowledgment

"I extend my heartfelt gratitude to the lead bank managers of Bagalkote, Gadag, Haveri, and Koppal districts of the North Karnataka region. Special thanks are due to ICSSR for their financial support and for enabling me to undertake this research endeavor."

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