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REVIEW ARTICLE

IMPACT OF MUDRA LOANS ON WOMEN ENTREPRENEURS IN THE UNORGANIZED SECTOR

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Abstract: The unorganized sector provides the backbone for India's economy and employs a disproportionately large share of women, who face persistent structural barriers in terms of access to formal credit, social security, and entrepreneurial opportunities. For the alleviation of these challenges, the Pradhan Mantri Mudra Yojana (PMMY) was launched in 2015, which offers collateral-free microcredit. Particularly, this group targets women entrepreneurs. The aim of this paper is to discuss the contribution of MUDRA loans in ensuring the economic empowerment of women engaged in the unorganized sector. In developing the framework for analysis, the study has relied on the Women's Economic Empowerment framework combined with microfinance impact theory and informal sector theory. Through a careful review of existing literature, the study identifies the promise and limitation of microcredit-based interventions.

Keywords: *Mudra loans, Women entrepreneurs, Unorganized sector.*

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INTRODUCTION

The unorganized sector is the backbone of India's economy, employing over 90% of the workforce, with women constituting a significant portion of this informal labor market. Despite their contributions, women in this sector continue to face structural barriers such as lack of access to formal credit, social security, skill development, and business opportunities.

The Pradhan Mantri Mudra Yojana (PMMY) was launched in 2015 to promote financial inclusion through collateral-free microcredit, particularly for micro and small enterprises. One of the key features of this scheme is its focus on supporting women entrepreneurs, with banks encouraged to lend to women across the Shishu, Kishore, and Tarun loan categories.

Theoretical Framework

There are three interlinked theoretical perspectives to examine the effect of MUDRA loans on women working in the unorganized sector:

Women's Economic Empowerment (WEE) Framework

The definition of women's economic empowerment in this study relies on the work of Naila Kabeer (1999), who sets out empowerment as "the expansion in people's ability to make strategic life choices in a context where this ability was previously denied." Kabeer highlights three related components: resources (access to material, human, and social assets), agency (capacity to set one's goals and act on them), and achievements (well-being outcomes).

Institutions such as UN Women and the World Bank have applied this framework, operationalizing indicators such as access to finance, control over earnings, mobility, and decision-making. The research will examine how access to MUDRA loans impacts these particular dimensions of empowerment among women in the informal sector.

Microfinance Impact Theory

The microfinance model rests on initial optimism regarding microcredit as a poverty alleviation tool, heavily shaped by Muhammad Yunus, the Grameen Bank founder and Nobel Laureate. Yunus claimed that poor women can be enabled with entrepreneurship and self-reliance through small loans. But this perception has changed with critical examination by thinkers like David Hulme and Paul Mosley (1996), who discovered that the worst-off borrowers tend to gain the least unless loans are supplemented by support services.

Linda Mayoux (2001) also criticized microfinance by indicating that without concern for social dynamics and gender roles, credit schemes might perpetuate prevailing inequalities. Therefore, the research will move beyond assessing access and loan repayment to examine outcomes such as income stability, business sustainability, indebtedness, and gendered utilization of credit.

Informal Sector and Dual Economy Theory

The informal sector is at the core of the Indian economy and deeply feminized. W. Arthur Lewis's Dual Sector Model of 1954 offers a base theory for how to explain the coexistence of a low-productivity, traditional sector and a modern, formal sector. Keith Hart, originator of the term "informal sector" in the 1970s, highlighted its function of supplying livelihoods independent of formal state and corporate arrangements.

Drawing on these bases, the International Labour Organization (ILO) has developed the discussion to concentrate on the gendered character of informal employment, highlighting that women are disproportionately found in insecure, low-return informal work as a result of systematic exclusions from education, credit, and property rights.

LITERATURE REVIEW

The increasing focus on financial inclusion as a poverty alleviation and gender empowerment tool has produced a robust literature examining access to credit for excluded groups, and especially women in the informal economy. Although the introduction of the Pradhan Mantri Mudra Yojana (PMMY) in 2015 is an important policy initiative to democratize financial access, empirical evaluations of its performance are scarce and fragmented.

This review critically discusses influential scholarly works, policy analyses, and industry studies that shape the conceptual and empirical foundation of the proposed study.

A starting point literature is the microfinance literature, which offers significant theoretical understanding of how credit can affect women's agency and economic mobility. Of particular interest, Kabeer (1999) highlighted empowerment through choice, resources, and agency expansion. Her research provided the foundation for subsequent studies evaluating if access to credit is enough to empower women or if institutional and societal factors should also be attended to.

Though Kabeer's model has been extensively used, various studies like Goetz and Gupta (1996) challenge if credit actually increases women's control over resources or continues male dominance by shifting financial responsibilities to women.

In the context of India, research on microfinance institutions (MFIs) and self-help groups (SHGs) offers helpful analogies to glean insights about the dynamics and pitfalls of MUDRA loan borrowers. For example, according to Holvoet (2005) in her research in South India, access to finance using group lending models enhanced women's bargaining power at the household level.

Yet, she also warned that institutional parameters such as group norms, interest rates, and repayment compulsion impact outcomes. While MUDRA loans vary in design by providing individual collateral-free credit via formal banks, these results still underscore the importance of delivery mechanisms.

Interest is increasing to assess government initiatives such as PMMY. For example, NABARD's All India Financial Inclusion Survey (2017) offered early evidence of the low penetration of formal credit for women in rural areas despite multiple state and central schemes. The survey highlighted that absence of financial literacy, gendered social roles, and collateral demands were significant deterrents.

Although MUDRA was designed to address these through simplified processes and the addition of small-ticket loans (such as the Shishu category), subsequent implementation studies show difficulties in targeting and monitoring.

Banerjee et al. (2015) employed a randomized experiment in Hyderabad to examine the effects of microfinance on household outcomes. It discovered more business investment and expenditure on durable goods but no improvements in health, education, or women's empowerment. The results indicated that microcredit promoted business growth but had minimal developmental impacts beyond that.

Along with Indian research, international research is valuable. The World Bank's Global Findex Database (2021) provides comparative information on women's financial inclusion in developing economies. It reaffirms that although account ownership by women has risen worldwide, the gender gap in access to credit continues to be entrenched. This macro data highlights the importance of localized, focused research such as the proposed one, particularly on large but neglected groups such as women in India's unorganized sector.

Mahadule and Chib's (2022) study brought into perspective the Pradhan Mantri Mudra Yojana's (PMMY) role in empowering women's entrepreneurship in India. The review highlighted the fact that financial and economic autonomy is essential in empowering women and that PMMY has played a crucial role in empowering women by providing access to credit.

The review noted that coordinated support by institutions and civil society was needed to empower women to move from vulnerability to entrepreneurship.

One of the significant lacunae in current literature is the absence of large-scale, region-based empirical research studies analyzing the differential effect of MUDRA loans across various social, occupational, and income classes among women. Most research tends to be national in scope with broad aggregates or micro-region or sector-specific.

There is virtually no research that looks at MUDRA loans within the larger empowerment context by bringing together economic, social, and psychological indicators—particularly employing statistically robust analysis on large datasets.

FUTURE RESEARCH AGENDA

Despite significant government efforts to promote financial inclusion through schemes like the Pradhan Mantri Mudra Yojana (PMMY), especially targeting women entrepreneurs, existing literature reveals multiple critical research gaps.

There is a noticeable lack of region-specific studies, particularly in the context of Northern India, where women in the unorganized sector play a pivotal but often undocumented economic role. Most national-level studies aggregate data and findings without accounting for the socio-economic diversity and implementation differences across regions. This geographical oversight limits the applicability of findings to local policy contexts and ignores region-specific barriers faced by women.

Research to date has largely overlooked women in the unorganized sector. The bulk of scholarly focus is on women who are already relatively empowered-those running registered businesses or with some access to formal financial systems. However, a vast number of women beneficiaries of MUDRA loans belong to the unorganized sector-working as vendors, artisans, home-based workers, or domestic help-where economic vulnerabilities are more pronounced. These women face unique constraints that remain insufficiently explored in the literature.

While there is broad agreement about the intended goals of PMMY, empirical evaluations of its actual impact remain limited. Most studies are either qualitative in nature or rely on small sample sizes and anecdotal evidence. There is a need for rigorous, large-scale quantitative research that measures how access to MUDRA loans influences income levels, business expansion, and women’s financial independence.

Moreover, the existing body of research rarely uses longitudinal data, leaving a significant gap in understanding the sustainability of the benefits. Whether positive outcomes endure beyond the initial stages of loan disbursement is yet to be thoroughly examined.

Lack of analysis on different loan categories within the PMMY—namely Shishu, Kishore, and Tarun. These categories are designed to cater to varying levels of entrepreneurial needs, yet most studies do not differentiate between them. As a result, the dynamics of progression from micro to medium-scale enterprises remain poorly understood. Similarly, there is limited gender-disaggregated analysis in evaluating the scheme's impact. Although the PMMY reports an increasing number of women beneficiaries, few studies systematically assess whether these loans translate into genuine empowerment or simply serve as short-term credit instruments.

Many existing studies fail to consider empowerment indicators beyond income, such as decision-making capacity within households, mobility, access to markets, or control over financial assets. Empowerment is a multifaceted concept, and its assessment requires broader, well-defined indicators, which current literature lacks.

Likewise, while government documents and evaluation reports cite high disbursement figures, they do not sufficiently engage with implementation challenges-such as delays, bureaucratic hurdles, lack of financial literacy, and absence of follow-up support-faced by women at the grassroots level.

There is insufficient exploration of the ecosystem surrounding entrepreneurship, such as training, mentoring, market linkages, and digital access. These support structures are often critical in determining the success of enterprises initiated through MUDRA loans, yet they remain underexplored in empirical studies.

CONCLUSION

It has emerged from this review that mere access to finance is incapable of guaranteeing empowerment. The review indicates significant gaps in region-specific, large-scale, and longitudinal empirical research, especially on women in the informal economy and their differentiated experience of PMMY loan categories. The paper contributes by synthesizing theoretical and empirical insights into a focused research agenda on the broader economic, social, and agency-related outcomes of MUDRA loans for women in the unorganized sector.

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