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PM MUDRA Yojana at 11 — Collateral-Free MSME Credit and the ₹20 Lakh Expansion

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PM MUDRA Yojana at 11 — Collateral-Free MSME Credit and the ₹20 Lakh Expansion

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WHY IN NEWS:

Pradhan Mantri MUDRA Yojana (PMMY) completes its **11th anniversary** in April 2026, marking over a decade of collateral-free micro-enterprise lending in India. Concurrently, the RBI doubled the collateral-free MSME loan limit from ₹10 lakh to **₹20 lakh** from April 1, 2026, expanding the reach of the scheme's Tarun tier.



WHAT IS PM MUDRA YOJANA?

Launched in **April 2015**, the Pradhan Mantri MUDRA Yojana (PMMY) provides **collateral-free loans to non-corporate, non-farm micro and small enterprises** through a network of scheduled commercial banks, NBFCs, Micro Finance Institutions (MFIs), Regional Rural Banks (RRBs), and Small Finance Banks (SFBs).

MUDRA = Micro Units Development and Refinance Agency — a statutory entity set up under the SIDBI Act to refinance last-mile lenders.

The Three Tiers

TIER	LOAN RANGE	PROCESSING CHARGE	TARGET SEGMENT
Shishu	Up to ₹50,000	Nil	Startup / earliest-stage micro enterprises
Kishore	₹50,001 – ₹5 lakh	Varies by lender	Growing enterprises; working capital
Tarun	₹5,00,001 – ₹10 lakh	Varies by lender	Established small businesses; expansion

The **Tarun Plus** category (₹10–20 lakh), enabled by the RBI’s April 2026 policy revision, now extends the scheme’s reach for businesses requiring larger capital but still lacking collateral.

HOW MUDRA WORKS: REFINANCING MODEL

Unlike a direct-lending scheme, PMMY operates on a **refinancing model**:

Government/RBI sets policy → MUDRA (under SIDBI) refinances →
 Banks/NBFCs/MFIs/RRBs/SFBs lend directly → Micro Enterprise borrowers

This design:

- **Leverages existing financial infrastructure** — no new delivery system needed
- **Creates incentives** for lenders to reach unbanked segments (backed by MUDRA refinance)
- **Preserves credit discipline** — lenders bear credit risk, preventing reckless disbursement

INCLUSION PROFILE: WHO BENEFITS?



MUDRA’s strongest UPSC-relevance is its inclusion metrics — the scheme explicitly targets historically excluded groups.

CATEGORY	SHARE OF LOAN ACCOUNTS
Women beneficiaries	~68–70%
SC/ST/OBC borrowers combined	>50%
New-to-credit borrowers	Significant proportion (first formal loan)
Rural and semi-urban borrowers	Majority of Shishu tier

The scheme’s design — **zero collateral, small ticket sizes, no processing fee for Shishu** — removes the primary barriers that excluded marginalised borrowers from formal credit.

RBI’S APRIL 2026 UPDATE: COLLATERAL-FREE LIMIT DOUBLES

The **Reserve Bank of India** revised the collateral-free loan limit for MSMEs from ₹10 lakh to **₹20 lakh** with effect from **April 1, 2026**. Key implications:

- Borrowers in the ₹10–20 lakh range — previously required to pledge collateral — can now access credit without security
- MUDRA’s Tarun tier borrowers who graduate to ₹10–20 lakh loans benefit directly
- The move reduces the collateral gap that excludes women entrepreneurs and first-generation business owners
- Combined with PMMY’s zero-collateral philosophy, this creates a **continuous collateral-free lending corridor from ₹50,000 to ₹20 lakh**



MUDRA IN THE BROADER CREDIT ARCHITECTURE

INSTRUMENT	TICKET SIZE	COLLATERAL	TARGET
SHG-bank linkage	₹10,000–₹3 lakh	None (group guarantee)	Women, rural
MUDRA Shishu	Up to ₹50,000	None	Earliest micro enterprises
MUDRA Kishore	₹50K–₹5L	None	Growing enterprises
MUDRA Tarun	₹5L–₹10L	None	Small business expansion
RBI new collateral-free	₹10L–₹20L	None (post April 2026)	MSME graduation
Priority Sector Lending	Various	Varies	Agriculture, MSMEs, education

UPSC RELEVANCE

GS Paper 3 — Economy

- MUDRA Yojana — scheme structure, tiers, MUDRA Bank, refinancing model
- Financial inclusion — collateral barriers, gender finance gap, priority sector
- MSME sector — contribution to GDP (~30%), employment (~11 crore workers), exports

GS Paper 2 — Governance

- Scheme architecture — Centre-designed, bank-delivered, RBI-regulated
- Inclusion targets — women, SC/ST, OBC, first-generation entrepreneurs

Mains Angle

“The MUDRA Yojana’s collateral-free model has enabled financial inclusion for historically marginalised groups, but questions persist about credit quality and loan waiver politics. Critically examine.” (GS3)



FACTS CORNER

ITEM	FACT
PMMY launch	April 2015
Age in 2026	11 years
Full form	Pradhan Mantri MUDRA Yojana
MUDRA	Micro Units Development and Refinance Agency
Parent body	SIDBI (Small Industries Development Bank of India)
Shishu tier	Up to ₹50,000; no processing fee
Kishore tier	₹50,001 – ₹5 lakh
Tarun tier	₹5 lakh – ₹10 lakh
Collateral	None (collateral-free for all three tiers)
Women beneficiaries	~68–70% of all MUDRA accounts
SC/ST/OBC share	>50% of total disbursements
New RBI limit	₹20 lakh collateral-free from April 1, 2026
Delivery channels	Banks, NBFCs, MFIs, RRBs, SFBs
Model	Refinancing (MUDRA refinances lenders)
India MSME contribution	~30% of GDP; ~11 crore jobs; ~45% of exports
SIDBI headquarters	Lucknow, Uttar Pradesh

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