



Bank credit for balanced economic growth: a closer look into MUDRA loans in Kerala

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Abstract

Balanced economic growth requires an equitable distribution of financial resources across sectors, regions, and enterprise sizes. In India, bank credit—particularly priority sector lending—plays a crucial role in promoting inclusive development by supporting agriculture, micro and small enterprises, and self-employment. Within this framework, the Pradhan Mantri Mudra Yojana (PMMY) was introduced to enhance access to formal credit for micro enterprises through collateral-free loans. Despite its ambitious objectives, emerging evidence suggests that the growth of MUDRA loans has not kept pace with the overall expansion of bank credit. This paper examines the performance of MUDRA loans extended by commercial banks in Kerala during the period 2020–2025, with a focus on their growth pattern, category-wise behaviour, and contribution to balanced economic growth. Using priority sector advances as a proxy for overall inclusive credit flow, the study analyses trends in disbursement and outstanding credit under the Shishu, Kishor, and Tarun segments. The findings reveal that while priority sector advances in Kerala recorded steady growth, MUDRA lending exhibited greater volatility and relatively slower expansion. The Shishu segment showed declining sustainability, whereas Kishor and Tarun loans demonstrated relatively stronger credit absorption. The study argues that without complementary non-credit support and stronger graduation mechanisms, MUDRA loans may fall short of their potential to foster durable microenterprise growth. Policy measures aimed at improving enterprise sustainability and integrating MUDRA lending with broader development strategies are therefore essential.

Keywords: Bank credit, balanced economic growth, MUDRA loans, priority sector lending, Kerala, micro enterprises

Introduction

Access to institutional credit is widely recognised as a key driver of balanced and inclusive economic growth. In developing economies such as India, the banking system performs not only a commercial function but also a developmental role by directing credit towards priority sectors and underserved segments. Balanced economic growth implies that financial resources are channelled in a manner that promotes employment generation, enterprise development, and regional equity, rather than concentrating benefits in a few capital-intensive sectors. Micro, small and informal enterprises constitute a significant share of employment and income generation in India, particularly in states such as Kerala where self-employment and service-oriented activities dominate the economic structure. However, these enterprises often face acute constraints in accessing formal finance due to lack of collateral, small scale of operations, and higher perceived risk. The Pradhan Mantri Mudra Yojana (PMMY), launched in 2015, sought to address these constraints by facilitating collateral-free loans to micro enterprises through scheduled commercial banks and other financial institutions. Under PMMY, loans are classified into three categories—Shishu, Kishor, and Tarun—based on loan size, reflecting different stages of enterprise development. The scheme is designed not only to enable entry into self-employment but also to support the graduation of enterprises from subsistence-level activities to more stable and growth-oriented ventures. In principle, sustained expansion of MUDRA credit should therefore contribute to balanced economic growth by strengthening the microenterprise base. The share of MUDRA loans in total PSL (priority sector loans) credit should be high also.

Despite this rationale, concerns have emerged regarding the uneven growth and sustainability of MUDRA loans. In several regions, MUDRA lending appears to be more responsive to policy directives than to organic enterprise demand. Against this background, Kerala presents an interesting case for analysis due to its relatively high banking penetration, strong priority sector orientation, and active participation of commercial banks (CBs) in development lending.

This paper undertakes a closer examination of MUDRA loans in Kerala during 2020–2025, a period marked by the COVID-19 pandemic, policy-led credit revival, and subsequent normalisation. By comparing MUDRA loan trends with overall priority sector advances, the study assesses whether MUDRA credit growth has been aligned with broader credit expansion and whether it has effectively supported balanced economic growth.

Objectives

1. To critically study the growth of MUDRA loans granted by CBs in Kerala during the period 2020–2025;
2. To analyze in detail category-wise trends in Shishu, Kishor, and Tarun types of MUDRA loans;
3. To compare the growth of MUDRA loans with total PSL credit, as a proxy for inclusive credit growth;
4. To assess the efficacy of MUDRA loans in promoting micro enterprises and self-employment in Kerala;
5. To apprise the influence of ICT adoption in economic growth, especially in the parlance of bank credit; and
6. To suggest policy measures for improving the developmental impact of MUDRA lending.

Methodology

The study is based entirely on secondary data. The primary source of data is the State Level Bankers' Committee (SLBC), Kerala, which provides consolidated information on priority sector advances and MUDRA loan performance. Due to the non-availability of disaggregated data on total commercial bank credit at the state level, total priority sector advances have been used as a proxy for overall inclusive credit flow. The period of analysis covers five financial years from 2020 to 2025. The study employs descriptive and trend analysis techniques, including growth rates and compound annual growth rates (CAGR), to examine changes in disbursement and outstanding loan amounts. Category-wise analysis is undertaken to highlight differences in performance across Shishu, Kishor, and Tarun segments. The interpretation of results is supplemented by a qualitative discussion of policy and institutional factors influencing credit behaviour.

Review of Literature

Bank Credit, Financial Intermediation, Economic Growth: Stiglitz and Weiss (1981) ^[1] provide a foundational explanation for this phenomenon through their theory of credit rationing under imperfect information. They show that even creditworthy borrowers may be excluded from formal finance due to asymmetric information, leading banks to restrict lending rather than adjust interest rates. This insight is particularly relevant for micro and small enterprises, which often lack collateral, formal records, and credit histories. In fact, the relationship between bank credit and economic growth has long been a central theme in development economics. Early theoretical contributions emphasised the role of financial intermediation in mobilising savings, allocating capital efficiently, and promoting productivity growth. Beck, Demirgüç-Kunt, and Levine (2007) ^[7] argue that well-developed financial systems not only enhance growth but also reduce income inequality by expanding access to finance for poorer sections of society. Their cross-country analysis demonstrates that financial inclusion is a key channel through which finance contributes to pro-poor growth. Erstwhile models like SEZs (of early 2000s) have lost steam. The SEZ-based route for inclusive growth, Manoj, P.K (2009) ^[9] 'Special economic zones in India: financial inclusion: challenges and opportunities' has its own limits. Rather, today the finance-growth nexus can play a key role in development discourses, since a large body of evidence shows that efficient financial intermediation can accelerate economic growth by savings mobilisation, capital allocation, innovation etc. While Rangarajan and Dev (2014) emphasise financial inclusion and access to institutional credit are critical for inclusive growth, Manoj, P. K. (2012) ^[12], 'Potential of micro enterprises in women empowerment: A critical study of micro enterprises run by women under the Kudumbashree Programme in Kerala' has observed the key role of financial inclusion of women through SHGs under the GOK-controlled 'Kudumbashree' project for grassroot level industrialization and hence financial security. Manoj, P.K. (2015) ^[15] 'Housing Microfinance: A Study on Quality, Cost and Default Rate with Respect to Bhavanashree in Kerala' suggest microfinance way to housing development and hence economic growth through linkage effects. Given Kerala's unique banking system characterised by the dense branch network, robust system of cooperative banking, high

financial literacy levels. RBI publications *viz. State Finances* and RBI's reports and state-wise data (RBI, 2022, 2024) show that Kerala has constantly scored high in CD (credit-deposit) ratio. This suggests significant use of bank credit by the State. However, many studies have pointed out a mismatch between the credit supply and sectoral demand for credit. For instance, Manoj, P.K(2016) ^[18] 'Real Estate Investment Trusts (REITs) for Faster Housing Development in India: An Analysis in the Context of the New Regulatory Policies of SEBI' has noted the need for innovative financing models like REITs for better credit into the construction sector so that linkage effects could translate housing development into overall economic growth. Chakravarty and Pal (2013) ^[13] suggest an axiomatic model to bring about financial inclusion, indicating that just access to various banking services is inadequate unless such access is duly aligned with relevant developmental goals. In Kerala's context, an apt reorientation of bank credit towards housing, tourism, MSMEs, green financing projects etc. is an imperative for creation of employment and sustained growth. As noted by Manoj (2023) ^[38] 'Affordable Healthcare and Affordable Housing: Need for an Integrative Approach for the Holistic Growth of the Digital Economy of Kerala, India' an integrative and holistic approach, along with ICT adoption, in two key sectors (healthcare and housing) is vital for sustained growth of Kerala. The credit distribution still remains uneven in developing economies like India where small firms and informal enterprises face structural disadvantages, and Kerala is no exception. Within this framework, directed lending and priority sector policies have emerged as policy instruments to correct market failures in credit allocation. Priority sector lending (PSL) has been a key tool to ensure that agriculture, MSMEs, and weaker sections get adequate bank credit (RBI, 2021).

Credit Constraints, Enterprise Behaviour, Credit Demand: While supply-side constraints dominate much of the literature, Banerjee and Duflo (2014) ^[16] shift attention towards demand-side factors by examining whether firms actually want to borrow more when credit constraints are relaxed. Using evidence from a directed lending programme, they find that while access to credit increases borrowing, its impact on firm growth and investment varies significantly across firms. Many small firms prefer to remain at a subsistence level, limiting the transformative impact of credit. Reports of GOK (Govt. of Kerala), Kerala State Planning Board (2022,2024) and NITI Aayog (2025) show that Kerala has entered a new growth phase since the mid-2010s. This new phase is marked by higher growth rates in GSDP (Gross State Domestic Product), dominant services sector, and growing integration with digital economy. Even though Kerala is endowed with excessively rich tourism resources, Kerala is still lagging in the tourism front. As suggested by Manoj, P.K (2017) ^[21], 'Segmentation Strategy for Promotion of Ecotourism Products: Evidence from Thenmala Ecotourism', a clear segmentation strategy as per specific customer groups is vital to lure more foreign visitors. In spite of Kerala's economic growth in absolute terms mainly driven by its services, structural weaknesses persist in Kerala's growth trajectory and the stagnation in manufacturing sector is glaring. Zubair and Santha (2020) have noted that service-sector-led growth that is going on in Kerala could generate income and foreign exchange earnings, but it could not

translate itself into comparable level of generation of employment opportunities, thereby reiterating apprehensions on Kerala's jobless growth as articulated earlier by Kannan and Raveendran (2009) [5].

Financial Inclusion, MSMEs, Development Outcomes:

The global literature on MSME finance consistently highlights the importance of small enterprises in employment generation and inclusive growth. The World Bank (2020) [41] notes that MSMEs account for a substantial share of employment in developing countries, yet face persistent financing gaps. Credit constraints are especially severe for micro enterprises, which rely heavily on informal sources of finance. Subsequent World Bank studies underscore that access to finance improves enterprise survival rather than rapid growth (World Bank, 2022). Financial access helps smooth consumption, manage shocks, stabilize livelihoods, but does not necessarily translate into productivity gains or scale expansion. This distinction between enterprise survival and enterprise growth is critical in assessing the developmental impact of schemes like MUDRA. In the Indian context, RBI (2023) highlights the expanding role of institutional credit in MSME financing, particularly through digital lending platforms and policy-backed schemes. However, the report also acknowledges concerns regarding credit quality, sustainability, and uneven access across enterprise sizes. In the Kerala context, the available literature converges to the fact that Kerala's growth path, though socially progressive, needs structural remodeling so as to ensure that it is sustainable, equitable and inclusive.

While more growth avenues (e.g. Vizhinjam port in south Kerala besides ICTT in central Kerala, IT parks) are being created to boost the services, commensurate support to boost the industries too, especially small industries, is vital. As Manoj, P.K. (2015) [15], 'International Container Transshipment Terminal (ICTT) and its impact on coffee exports from India: An analysis' remarks that ICTT aids faster growth in exports, ways to boost industries too is vital to balance growth pattern. A vital element in the literature currently available relating to the growth pattern of Kerala economy has been, as already noted, the disconnect between growth in output and creation of employment.

Kannan and Raveendran (2009) [5] have pointed out that growth in India's organised sector has by and large bypassed employment generation over the years; this phenomenon being glaringly visible in Kerala State as this State has been relying on various capital-intensive and skill-intensive services. Narayana and Gulati (2016) have pointed out another complex issue in Kerala's growth process i.e. Kerala's peculiar situation in demographic transition and also its ageing population. This underscores the crucial need for generating more employment opportunities in productive sectors, particularly in Kerala's labour-intensive sectors including MSMEs, especially the microenterprises etc. Manoj, P. K. (2016) [18] 'Impact of Rural Tourism on the Environment and Society: Evidence from Kumbalangi in Kerala, India' points out the utmost need for promoting rural tourism and allied sectors for the sustained and environment-friendly growth of Kerala. The 'inclusive growth' as a concept, as articulated by Sen (1999) [3], and then adopted in policy discourses since Twelfth Five-Year Plan (Planning Commission of India, 2013), stresses

not only on income generation but also employment, social security etc.

Datt and Ravallion (2011) empirically shows that growth processes could differ markedly in poverty-reducing impact, and this underlines the key relevance of balancing the sectoral composition as well as a re-orientation of relevant policies. In the context of Kerala State, the State's Planning Board (2024) has pointed out that sectors like tourism, housing, MSMEs, healthcare, real estate, etc. deserve more attention. This is due to the extensive linkages of these sectors which in turn raises the employment prospects. Manoj (2009, 2017a) [9, 21] similarly argues that revitalising agriculture, manufacturing, and construction-related activities is key for sustainable growth.

Inclusive Growth, ICT Adoption, Employment Creation

Financial inclusion has emerged as a cornerstone of India's development strategy, culminating in the National Strategy for Financial Inclusion 2019–2024 (Government of India, 2021). The RBI's Financial Inclusion Index (Reserve Bank of India, 2022) provides empirical evidence of Kerala's relatively strong performance in access and usage dimensions. Manoj (2019a) [29] situates financial inclusion within the broader framework of social banking, arguing that ICT-enabled banking models can significantly enhance outreach, efficiency, and inclusiveness. Studies on housing microfinance (Manoj, 2015b) [15] demonstrate that targeted credit interventions can improve housing quality, reduce default rates, and enhance household welfare. These findings are particularly relevant for Kerala as housing and real estate play a vital role in employment and investment. Pickens (2009) [11] provides global evidence on mobile money systems, illustrating how ICT-driven financial services can bring unbanked populations into the formal financial system, the study being in the context of Philippines. Lakshmi and Manoj (2017) [21] and Joju, Vasantha, and Manoj (2017a) [21] empirically confirm that ICT-based banking products improve customer access and satisfaction in Kerala, especially in rural areas. Housing, real estate and allied sectors command a key status in growth discourses due to their high multiplier and linkage effects. Manoj (2004, 2017c, 2017d) [21] provides detailed analyses of housing finance dynamics, construction costs, and cost management in affordable housing projects in Kerala. These studies demonstrate that housing investment generates employment across construction, manufacturing, and services, while also addressing social goals. Manoj (2023a, 2023b) [38] extends this discussion by linking affordable housing with public health, ESG considerations, and the digital economy of Kerala. Green and sustainable housing has emerged as a complementary theme. Manoj (2013) and Tan and Goh (2018) [14, 28] explore consumer attitudes towards green residential buildings, while Darko *et al.* (2019) and Cole (2019) provide global perspectives on green building research. Manoj (2017e) [21] demonstrates that ecotourism initiatives generate income while preserving environmental assets. Social capital and community participation further enhance development outcomes, as evidenced by Manoj, Cyriac, and Pathak (2025) and Rao *et al.* (2025) [43, 46], who highlight the role of social networks and community resilience in urban and rural development. The dependence of tourism on credit, infrastructure, and ICT-based marketing underscores the importance of coordinated financial and technological strategies. The

literature suggests that bank credit, when channelled into MSMEs and allied sectors especially micro enterprises, can amplify inclusive growth effects. ICT has fundamentally transformed economic processes, governance, and financial intermediation. The World Bank (2019) emphasises that digital technologies reshape labour markets, productivity, and the nature of work. Manoj (2007) [6] provides an early SWOT analysis of India's ICT industry, highlighting its potential to drive growth while cautioning against skill mismatches and digital divides. In Kerala, ICT initiatives under the "Digital Kerala" vision have significantly improved e-governance, digital payments, and service delivery (Joju & Manoj, 2019) [29]. Jacob, Vasantha, and Manoj (2017b) [21] find that fintech adoption enhances service quality in banks, though branch banking continues to remain relevant due to trust and relationship-based interactions. The integration of ICT with banking has implications beyond efficiency. Manoj (2019b, 2019c) [29] argues that ICT-enabled CRM, HRM, and social banking strategies strengthen institutional capacity to support inclusive growth. These insights align with this study's emphasis on leveraging ICT to improve credit delivery to labour-intensive sectors.

MUDRA Loans: Policy Design and Implementation: The Pradhan Mantri Mudra Yojana (PMMY) was introduced in 2015 as a flagship financial inclusion initiative aimed at "funding the unfunded" microenterprise sector (Government of India, 2015). By categorising loans into Shishu, Kishor, and Tarun segments, the scheme sought to support enterprises at different stages of development and encourage graduation to higher loan sizes. Policy documents highlight MUDRA's role in promoting self-employment, particularly among first-time borrowers, women, and informal sector participants. However, the scheme's reliance on banks for implementation exposes it to the same risk perceptions and operational constraints that traditionally limit microenterprise lending. Empirical studies on MUDRA loans indicate mixed outcomes. While outreach and loan accounts have expanded rapidly, concerns have been raised regarding loan sustainability, repayment behaviour, and regional disparities (RBI, 2021). The absence of strong non-credit support mechanisms has further limited the scheme's ability to foster durable enterprise growth. Kerala offers a distinctive regional context for studying MUDRA loans due to its high banking density, strong social development indicators, and active state-led microenterprise initiatives. Kudumbashree (2022) [37] documents the role of women-led neighbourhood groups in promoting self-employment and microenterprise development. These institutions provide not only credit linkage but also training, marketing support, and collective risk-sharing. Despite these advantages, micro enterprises in Kerala face challenges related to market saturation, small scale of operations, and limited scope for expansion. The SLBC Kerala (2025) review of priority sector and MUDRA lending shows that while overall priority sector advances have grown steadily, MUDRA loan growth has been comparatively slower and more volatile. Category-wise data reveal declining outstanding credit under Shishu loans and stronger growth in Kishor and Tarun segments, indicating uneven enterprise sustainability.

Gaps in Existing Literature: Although extensive literature exists on financial inclusion, MSME finance, and microcredit, several gaps remain. First, relatively few studies explicitly compare MUDRA loan growth with

overall credit expansion to assess alignment with balanced economic growth objectives. Second, most evaluations focus on national-level aggregates, overlooking state-level dynamics and institutional variations. Third, limited attention has been paid to the quality of credit expansion—measured in terms of enterprise continuity and graduation—rather than mere outreach. The present study addresses these gaps by examining the growth of MUDRA loans in Kerala vis-à-vis priority sector advances, with a particular focus on category-wise sustainability and policy implications.

Significance of the Study

It is a widely acknowledged fact that banking is the backbone of any economy. Inclusive and equitable growth economic growth can be brought about through channelling bank credit into labour intensive and micro level economic units across the nation. Bank credit through MUDRA loans plays a key role in ensuring grass root level growth that is highly equitable and hence sustainable too. In the above rala as it aims to suggest pragmatic policies in the above direction.

Analysis and Discussion

Total Priority Sector Loans (PSL) Credit in Kerala: There has been steadily growing trend over the years and that too with a high predictability (R-square 0.9682) (Figure I).

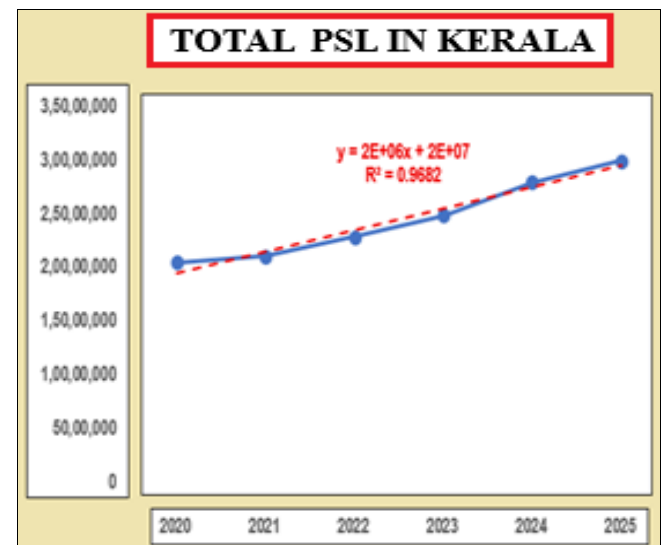


Fig 1: Total PSL Credit by CBs in Kerala

Overall Growth Pattern of MUDRA Loans: MUDRA loan disbursements during 2020–2025 exhibited significant year-to-year fluctuations. The initial decline during 2020–2021 coincided with the economic uncertainty caused by the COVID-19 pandemic. A sharp increase in disbursement during 2023 appears to have been driven by policy measures aimed at credit revival rather than by sustained enterprise demand. Then, the disbursements moderated, indicating a cautious approach by the CBs. An examination of MUDRA loans extended by CBs in Kerala during the period 2020–2025 shows that the growth pattern was neither uniform nor linear. Instead, lending behaviour differed across loan categories and across years. These variations appear to be influenced by the economic disruption caused by COVID-19, subsequent policy responses aimed at credit revival, and the generally cautious approach adopted by commercial banks while dealing with microcredit. The present analysis

therefore looks at overall trend in MUDRA loans, differences across Shishu, Kishor and Tarun categories, and the relative position of MUDRA loans within priority sector advances.

Trend in MUDRA Loan Disbursement and Outstanding:

Total disbursement of MUDRA loans fluctuated considerably over the study period. Lending declined during 2020–2021, reflecting the impact of the pandemic on both borrowers and banks. Disbursements picked up in 2022 and increased sharply in 2023, after which they declined again in 2024 and 2025. The sudden rise in 2023 appears to have been driven more by policy initiatives than by sustained demand from micro enterprises.

Outstanding MUDRA loans, however, followed a distinct pattern. Outstanding amounts rose gradually up to 2024 and showed only a marginal decline thereafter. The contrast between fluctuating disbursements and relatively stable outstanding levels suggests that commercial banks were careful in managing their exposure, balancing fresh lending with repayments and loan closures. (Figure II).

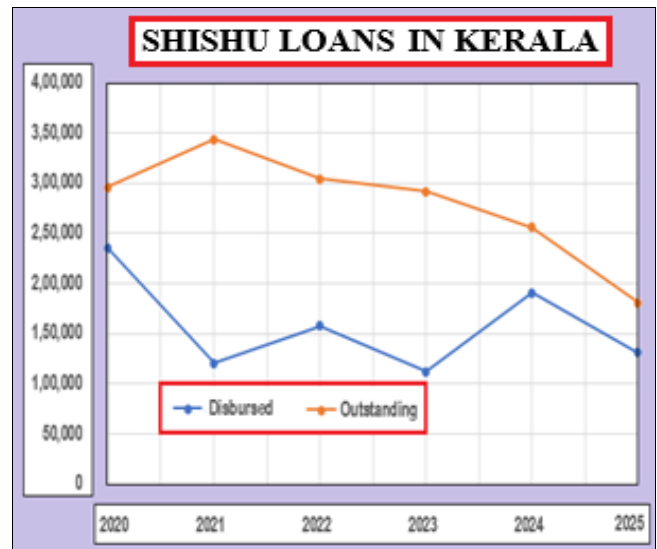


Fig 3: Shishu (Mudra) Loans by CBs in Kerala

Performance of Kishor Loans: Kishor loans present a contrasting picture. Outstanding credit under this category increased steadily over the period, despite noticeable fluctuations in annual disbursements, particularly in 2023. The sustained rise in outstanding amounts indicates stronger credit absorption and longer enterprise continuity compared to the Shishu segment. This trend suggests that at least a section of borrowers has been able to move beyond survival-oriented activities, pointing to partial graduation within the MUDRA framework.

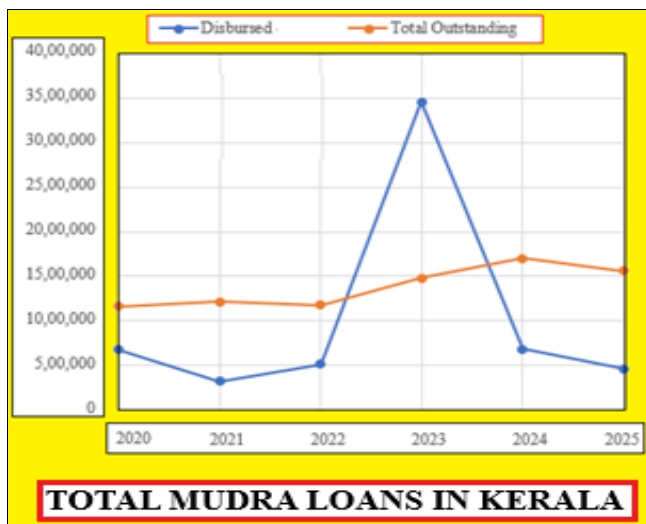


Fig 2: Total Mudra Loans extended by CBs in Kerala

Outstanding MUDRA loans, however, followed a relatively smoother trajectory, increasing gradually up to 2024 before showing marginal decline. This divergence between disbursement and outstanding trends suggests that banks balanced fresh lending with repayments and closures, thereby managing risk exposure prudently.

Performance of Shishu Loans: The Shishu segment recorded a consistent decline in outstanding credit from ₹2,95,819 crore in 2020 to ₹1,81,209 crore in 2025, resulting in a negative CAGR of -9.6 per cent. This contraction indicates limited sustainability of very small enterprises supported under this category. Although Shishu loans facilitate initial entry into self-employment, the data suggest that many such activities remain short-lived or fail to scale up. This situation is depicted in Figure III.

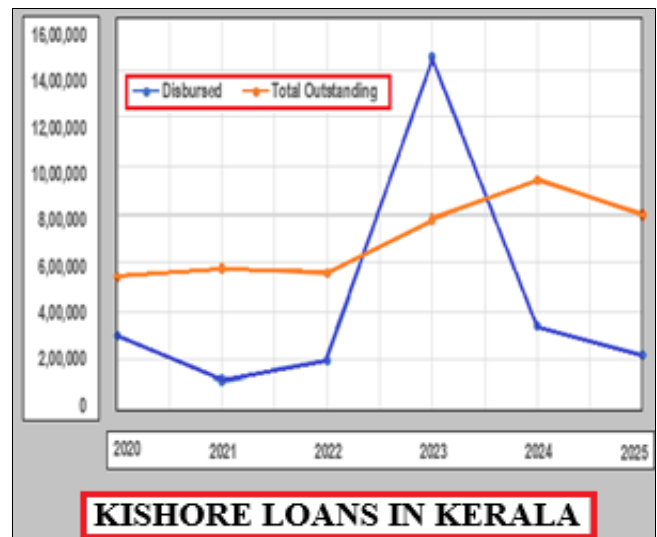


Fig 4: Kishore (Mudra) Loans by CBs in Kerala

Performance of Tarun Loans: Among the three categories, Tarun loans had the highest growth in outstanding credit, during the study period. At the same time, disbursement levels remained uneven, indicating selective lending by banks. CBs appear to have continued support for well-performing Tarun accounts while remaining cautious in extending new, high-value loans. This behaviour reflects the higher risk perception associated with larger microenterprise loans and the absence of strong risk-mitigation mechanisms. (Figure V).

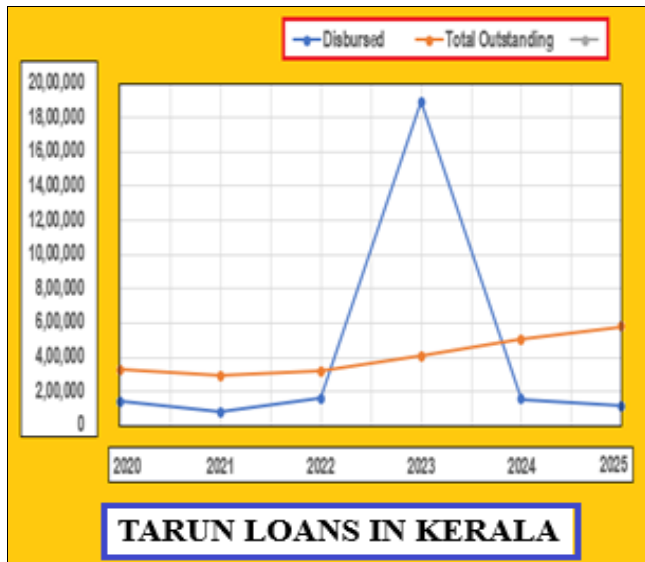


Fig 5: Tarun (Mudra) Loans by CBs in Kerala

MUDRA Loans within PSL Credit: PSL advances in Kerala expanded steadily during 2020–2025, showing relatively stable growth. When viewed against this background, MUDRA lending appears more cyclical and more responsive to policy measures. While MUDRA loans constitute an important segment of priority sector credit, the findings suggest that their contribution depends less on rapid expansion and more on the quality of lending and the sustainability of enterprises supported.

Efficacy of MUDRA Loans: Efficacy of MUDRA loans in promoting micro enterprises and self-employment is analysed here. The category-wise analysis indicates that the effectiveness of MUDRA loans varies considerably. Shishu loans have been successful in enabling initial entry into self-employment, but their limited durability raises concerns about enterprise sustainability. In contrast, Kishor and Tarun loans show greater stability and continued use of credit, indicating better enterprise performance. Overall, the evidence suggests that access to credit alone is not sufficient to transform subsistence-level activities into growth-oriented micro enterprises.

Results

- MUDRA loan disbursements fluctuated significantly over the study period, with a pronounced policy-driven increase in 2023.
- Outstanding MUDRA loans grew at a more stable pace, indicating cautious credit exposure by CBs.
- Shishu loans showed declining sustainability, reflecting limited continuity of small enterprises.
- Kishor and Tarun loans recorded consistent growth in outstanding credit, suggesting relatively stronger enterprise stability.
- Transition of borrowers from Shishu to higher loan categories was observed only to a limited extent.
- Priority sector advances expanded steadily, while MUDRA lending remained more sensitive to policy interventions.
- As MUDRA loan growth lagged behind overall priority sector growth there is need for an extra push.
- Credit to MUDRA loans has remained sensitive to policy interventions rather than organic demand.

- ICT adoption could improve the performance of CBs.

Policy Suggestions based on the Study

Based on the above findings, the following measures may help improve the effectiveness of MUDRA lending:

- Greater emphasis on non-credit support for Shishu borrowers, including basic training, bookkeeping assistance and market linkage support, possibly through institutions such as Kudumbashree and MSME development agencies.
- Development of clear graduation pathways from Shishu to Kishor loans by identifying borrowers with satisfactory repayment behaviour and supporting them through simplified procedures and mentoring.
- Strengthening credit guarantee and risk-sharing arrangements to encourage more stable expansion of Tarun loans without increasing banks' credit risk.
- Closer integration of MUDRA lending with overall priority sector planning, supported by regular monitoring through SLBC forums.
- Promotion of lending to labour-intensive and linkage-rich activities through sector-specific products and cluster-based approaches.
- Wider use of digital tools in credit delivery, combined with efforts to improve digital literacy among borrowers.
- Adoption of outcome-based indicators, such as enterprise survival and employment continuity, for evaluating the performance of MUDRA loans.
- ICT adoption has to be encouraged by the CBs in Kerala, particularly in respect of MUDRA and such other types of PSL loans.

Conclusion

The analysis reveals that while MUDRA loans have enhanced access to formal credit for micro enterprises in Kerala, their contribution to balanced economic growth remains uneven. The dominance of short-term, subsistence-oriented lending in the Shishu segment limits long-term developmental impact. In contrast, Kishor and Tarun loans demonstrate greater potential for sustaining enterprises and employment. To strengthen the role of MUDRA in inclusive growth, policy efforts must extend beyond credit delivery to include enterprise support, risk mitigation, and structured graduation pathways. Integrating MUDRA lending more closely with priority sector planning can help ensure that microcredit contributes meaningfully to balanced economic development in Kerala.

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