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EXPLORING THE RELATIONSHIP BETWEEN FINANCIAL LITERACY AND SUCCESSFUL LOAN REPAYMENT UNDER THE MUDRA YOJANA SCHEME IN INDIA

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ABSTRACT
Financial literacy enhances the ability of the borrower to manage their finances such as budgeting and monitoring cash flow, thus leading to successful repayment of debts. This research employs a detailed review of secondary data, which includes qualitative insights. By focussing articles, reports, journals and websites, the study aims at providing insights on Mudra scheme and the role financial literacy in successful loan repayment and the importance of financial literacy to address the challenges faced by borrowers under the Mudra Yojana Scheme. Research reveal that higher financial literacy leads to better finance management, which leads to informed decisions and adherence to repayment schedules. Financial literacy enables individuals to mitigate financial challenges, make informed decisions, financial management, which in turn leads to timely loan repayments. It also highlights the importance of enhancing financial education through training programs conducted by policy makers, as it contributes to the strategic decision making and business growth. Thus contributing to the broader goals of financial inclusion and economic development.

KEY WORDS: *Sishu, Kishore, Tharun and Financial literacy.*

INTRODUCTION
Government of India launched a scheme in April 2015 to provide financial support to the micro and small enterprises that are non-corporate and non-farm in nature. The scheme is known as The Pradhan Mantri Mudra Yojana (PMMY), which aims to provide credit facilities to the individuals and businesses. This initiative aims to promote entrepreneurship and financial inclusion by funding the unfunded or those who lack access to traditional banking services. It is the approach by the government to promote inclusive growth by meeting the credit needs of these small businesses, as it creates job opportunities and thus leading to economic development (Micro Units Development & Refinance Agency (MUDRA)). Based on the financial need the scheme provides credit under three category, Shishu (Up to ₹50,000), Kishore (Above ₹50,000 and up to ₹5 lakh), and (Tarun Above ₹5 lakh and up to ₹10 lakh).) Those entrepreneurs or beneficiaries who have availed and successfully repaid previous loans under the 'Tarun' category, the loan limit of Mudra schme will be increased to ₹ 20 lakh from the current ₹ 10 lakh for Budget 2024-2025 (Sitharaman, 2024). The scheme faces challenges with loan repayment that can be influenced by factors such as borrowers' financial literacy, despite its ambitious goals and extensive reach.

The increasing recognition and the gap between financial inclusion and financial literacy has brought the significance of this study. The scheme increased the access to credit but the loan repayment by the beneficiaries showed a significant variability (Baidoo et al., 2020). Financial literacy plays a major role in successful loan repayment as financially literate individuals has the ability to manage personal and business finances (OECD, 2023).

The study aims to understand how successful loan repayment is influenced by financial literacy and the importance of financial literacy to address the challenges faced by borrowers under the Mudra Yojana Scheme. Research reveal that higher financial literacy leads to better finance management, which leads to informed decisions and adherence to repayment schedules (Lusardi & Mitchell, 2014). Moreover, studies have focused on the impact of mudra scheme on financial inclusion and entrepreneurship, whereas negligible consideration given to financial literacy and the factors leading to loan repayment success (Khan et al., 2022). Financial literacy encompasses

budgeting, saving, investing competencies and also understanding financial products, the essential factors of the success of loan repayment (Lusardi & Tufano, 2015). Hence the study focusses on analysing the relationship between financial literacy and loan repayment and to provide insights on enhancing the effectiveness of the Mudra Yojana Scheme and boosting its impact on financial inclusion.

Emphasizing financial literacy as a key element in loan repayment, the study aims to address this research gap. While financial inclusion initiatives focus on enhancing credit access, the success of these initiatives depends on ability of the beneficiary to meet repayment obligations (Giné & Mansuri, 2014). By concentrating on financial literacy, this study aims to provide comprehensive understanding of how this variable influences loan repayment success under the Mudra Yojana Scheme.

The study adds to current body of literature by reviewing literatures and reports on financial literacy and financial management and providing case studies and empirical evidences on the relationship between financial literacy and loan repayment success within the Mudra Yojana Scheme (Goel et al., 2024). Additionally, the study provides practical implications for policymakers and practitioners, who are involved in these programs.

To sum-up, it is a key research question which needs to be addressed in exploring the influence of financial literacy on loan repayment success under Mudra Yojana Scheme so as making the financial inclusion policies more impactful. This relationship was studied with the obvious intention of enhancing our insight concerning financial literacy contributing to loan repayment and suggestions were formulated for effectively assisting mechanisms through which associated impact is delivered by Mudra Yojana Scheme.

RELATED WORK

Mudra Yojana Scheme

Mudra Loan Scheme: A loan scheme launched by the Government of India to ensure and encourage entrepreneurship in micro-units, more for small-business units. It has been an effective mechanism for facilitating entrepreneurship, particularly among a very disadvantaged section of women in rural West Bengal by making access to financial resources needed for initiating or expanding businesses more user friendly. But, keeping these ventures alive in the long run is not just a matter of providing financial support; it also needs continuous capacity building efforts (Agarwala et al. 2015). Further, a comparative study shows that the performance of the scheme is divergent among states with even Shishu category experiencing negative growth. This result highlights the importance of location specific interventions to deal with general issues and facilitate successful implementation of the program (Biswas, 2019). Insights like these highlight the need for regional recalibration and an all-round support system to maximize Mudra Yojana's overall impact.

Financial Literacy and Its Impact on Financial Behaviour

In the importance of financial knowledge and confidence in accounting for financial behaviours, Asaad (2015) indicated that overconfidence when not rooted into initial knowledge can lead towards taking risky decisions. It is generally accepted that financial literacy significantly affects how individuals budget, save, invest and manage debt. More financial literacy generally correlates with individuals taking better choices and results related to finances. Just as an example, Lusardi & Mitchell (2014) showed a strong correlation between financial literacy and financial behaviours: having multiple indices of positive attitudes to budget effectively or cooperation in the investment choice phase. In a third example, to illustrate an association between financial literacy interventions and reduced use of debt outstanding — more fully developed in Fernandes et al., (2014) absence-standard encouraging evidence that this point-can improve the way we manage other outcomes associated with managing savings behaviours. Also, Jappelli and Padula (2013) added that more financial literacy makes better for optimal over the lifecycle saving. This research underscores the importance of financial literacy to encourage responsible behaviour that leads a way towards greater economic well-being.

Loan Repayment Patterns in Microfinance

The repayment patterns in microfinance institutions (MFIs) are subject to the influence of a large number of socio-economic, institutional and loan-specific factors. Existing studies have statistically shown that the better-paying and higher-income people in cities will predictably pay back their loans at a much lower rate– since income stability, as well as financial literate borrowers are less risky to lend money toward (Kiran & Mayya, 2024). It is also critical that the loan size and duration be compatible, as well as implementing an appropriate borrower support to ensure timely repayment. In contrast, a study conducted in Lagos, Nigeria showed that demographic factors like age and marital status were insignificant determinants of repayment behaviour highlighting the multifaceted nature to determining past due remittances by region (Olateju 2024). In addition, liquidity management in

microfinance banks is important since good internal cash mobilisation drives better repayment performance although the effect is generally weak (Caleb et al., 2023). Therefore, in order improve loan repayment performance and ensure financial sustainability, The MFIs need to draw strategies in alignment with the specific needs and characteristics.

METHODOLOGY

This research employs a detailed review of secondary data, which includes qualitative insights. By focussing articles, reports, journals and websites, the study aims at providing insights on Mudra scheme and the role financial literacy in successful loan repayment. Additionally, it also aims at identifying other significant factors that affects successful mitigation of the debt. Moreover, the study provides recommendations and practical implications for the stakeholders. Finally researcher provides case studies and empirical evidences on success of this scheme. Thus provides valuable insights on the significance of financial literacy.

Effectiveness of Financial Education Programs

Financial education is effective in enhancing financial literacy, impacting savings, investments, and overall financial decision-making behaviours. According to Buratti & D'Ignazio (2024) utilizing the machine learning, to evaluate the programs effectives on those who are in need of financial education showed that financial education leads to the better financial management. Similarly, individuals who participated in financial literacy programs took an informed investment decision, demonstrating a notable shift in their decisions post training. Thus positively influencing investment behaviour (Ray & K. T., 2023). Moreover, Clarke (2023) also highlighted that employer-provided financial education had a significant positive impact on retirement planning and savings decisions of employees. The microfinance institutions provided free financial education which lead to the enhancement of formal savings among rural populations as reported by Boyd & Dìez-Amigo (2023). Finally, the financial planning skills among communities showed a significant surge due to the financial education (Wiranatakusuma, 2023). These finding collectively demonstrates the significance of well-structured programs on financial education in fostering better financial behaviours and enhancing economic well-being.

Case Studies and Empirical Evidence

Several impactful scenarios highlight the positive relationship between financial literacy and successful loan repayment under the Mudra Yojana scheme. For instance, story of Anita, from a small village in Maharashtra received loan through mudra scheme and availed the literacy training successfully started her business, which led the job creation to many women in their region. Similarly, Suman, an artisan from Rajasthan, Meera, a farmer in Karnataka have availed training on digital marketing, financial management and sustainable farming practices through different programs like Stree Shakti Yojana and Annapurna Scheme helped them in enhancing their sales and income significantly. These case studies reveals that women entrepreneurs engaging in financial literacy programs through schemes were successful in enhancing their business and improved their financial management (Bhatia, 2024). Success stories of Ravi from Uttar Pradesh availing loan for his grocery store, improved his infrastructure leading to the success of his business and successfully repaid loan within stipulated time. Additionally, the stories of Amit's Dairy Farm and Priya's Tailoring Business have flourished by availing mudra loan and successfully repaid their loan (Mudra, n.d.). This shows that there is a relationship between business performance and successful repayment rate (Supriyadi et al., 2024). The study on inclusivity through mudra scheme highlighted that marginalised communities were able to access credit with customised loan and training have enhances repayment outcomes (Bharti & Verma, 2023).

Empirical studies provide robust evidence linking financial literacy to successful loan repayment under the Mudra Yojana scheme in India. Lahiri & Biswas, (2022) highlights in their study that financial behaviour enhancement is possible through financial literacy and thus leads to loan repayment rates among urban residents, as they are highly confident in their financial skill. Moreover, challenges management, infrastructure, and technology indirectly affect financial literacy programs. Thus these obstacles faced by the implementation agencies limits the access to these program leading to low repayment rates (Solanki & Chhikara, 2023). Finally, Agarwal et al (2015) highlighted that financial planning and management behaviours are essential factors in enhancing successful loan repayment rates. To sum up, these case studies and empirical evidence demonstrates the relationship between financial literacy, business performance and successful loan repayments.

Challenges in Loan Repayment and the Importance of Financial Literacy for Entrepreneurs

The critical factors that influences loan repayment under Mudra scheme includes financial literacy, business performance, socio-economic conditions, and access to financial resources. The fundamental aspect for effective loan repayment is financial literacy as it involves understanding budgeting, saving, investing, and debt

management. The successful repayment of loan requires financial planning, thus entrepreneurs lacking financial literacy face problems in obligation of loan repayment. Additionally the significant factor, performance of the business play a major role in this obligation, as the business will low profitability, poor financial health and poor cash flow, may result in difficulty in meeting their obligations (Lahiri & Biswas, 2022). Further, the factors influences borrowers' repayment capabilities are their socio- economic conditions like income stability, education levels, and familial support. (Solanki & Chhikara, 2023). Lastly, access to financial services like savings or alternative credit options are crucial for maintain liquidity and meeting repayment obligations, as the entrepreneur without enough backup financial options struggle to meet their repayment schedules, especially during periods of financial strain.

The significant factors as discussed earlier, financial literacy majorly impacts success of the business and its sustainability. Financial management, risk assessment, and resource allocation are crucial aspects on which informed decisions needed to be made by the entrepreneurs, which is possible by those who have strong financial literacy skills. Research shows that financial literacy acts a catalyst for business performance, as it helps in better financial planning, cash flow management and investment strategies, factors for sustainability and growth of the small enterprises. A study by Kumar et al, 2024 reveals that Indian micro enterprises performance and innovativeness highly dependent on the better financial literacy, as they were able to make better financial management and adapt to market volatility. Business failures can be minimised when the entrepreneurs are confident in making financial decision with their financial knowledge. Additionally such entrepreneurs can secure venture capital, as they have the ability to attract investors (Obeng et al., 2024). Financial literacy also helps in maintaining accurate financial records, assess credit risks, and plan strategically, thus leads to sustainability and avoidance of financial pitfalls. Finally, financial literacy among entrepreneurs are crucial for business resilience, innovation overall economic growth.

DISCUSSION

While examining the influence of financial literacy on success of the loan repayment, it is also important to highlight on how the financial knowledge and skills impact the ability of the beneficiary or the borrower to manage their finance and loan. The paper is drawn by referring to secondary sources to elucidate the relationship between financial literacy and loan repayment under the Mudra Yojana Scheme. Financial literacy includes the knowledge and skills that is significant to make informed financial decisions. According to Huston (2010), financial literacy includes understanding concepts such as budgeting, saving, investing, and debt management etc. Financial literacy enables individuals to mitigate financial challenges, make informed decisions, financial management, which in turn leads to timely loan repayments. Entrepreneurs benefiting from the schemes such as mudra needs to be financially literate in order to manage the business, including cash flow management, setting goals and making strategic investment decisions. Thus leads to effective planning of future financial needs, anticipation of potential challenges and finally leading to successful loan repayment (Wanjiku & Muturi, 2017).

The relationship between financial literacy and loan repayment success is highlighted by various articles. According to Baidoo et al. (2020) higher financial literacy enhances the ability of the borrower to manage their finances such as budgeting and monitoring cash flow, thus leading to successful repayment of debts. Additionally, the OECD (2023) revealed that entrepreneurs undergone training or financial education programs enhanced their financial literacy, fostering financial inclusion and stability which also helped them to make decisions on resource allocation, financial planning and reducing the risk of default, thus leading to successful loan repayment. This is in line with the findings of Jabbour et al. (2023), who highlighted the positive effect of financial literacy on borrower’s financial behaviour and repayment behaviour. Mudra scheme has been successful in providing credit access but the repayments rates have been variable (Rathi & Sharma, 2023). These variability can be improved dy providing necessary tailor made training for the mudra beneficiaries through workshops on financial planning, budgeting, and debt management. Thus, helps them in maintaining financial records, cash flow management, and making informed financial decisions (Iiste & Patel, 2024). Therefore policy makers can enhance effectiveness of these programs through financial education.

There are several challenges associated with the implementation of financial education programs along with its benefits. One of the challenge faced by policy makers is ensuring the accessibility of training programs by entrepreneurs according to their needs, as such tailor made programs is significant for the financial challenges faced by the beneficiaries (Intellecap, 2019). According to Academia & Smith, (2020) financial literacy programs should be continuously conducted, which will help the entrepreneurs to make the effective utilization of the knowledge in their business throughout its lifespan.

To sum up, financial literacy plays a crucial role in influencing loan repayment success under the Mudra Yojana Scheme. Although this paper is not a primary study and doesn't include statistical analysis, the conceptual insights obtained from existing literature and reports underscores the positive impact of financial literacy on the ability of the borrower to manage and successfully repay loans. Enhancing financial literacy can contribute to greater financial stability and success for entrepreneurs, who are Mudra Yojana beneficiaries.

Policy Implications

Policymakers can tailor the financial education programs in accordance with the specific need of the entrepreneur availing Mudra loan. Additionally, focus needs to be given on the budgeting, cash flow management, and debt handling topics, as they are significant factors affecting financial decision making (Su, Peng, & Kong, 2024). In addition to training programs, establishing financial advisory services and mentorship programs as a support system that can provide ongoing assistance to beneficiaries (OECD, 2023). Thus helps the entrepreneurs to meet their debt obligations. Moreover awareness of such government schemes needed to be given to the entrepreneurs for the better utilization of the given benefits (Su, Peng, & Kong, 2024). Furthermore, counselling sessions should be conducted regularly to address the issues face by the borrowers (Uthaileang & Kiattisin, 2023).

CONCLUSION

In conclusion, this study provides invaluable insights on the importance of financial literacy in improving loan repayment rates under Mudra Yojana Scheme. Financial literacy is the knowledge an entrepreneur needs to manage his/her finances successfully, and thus fulfil loan obligations that can help him attain business success. This study find that increased financial literacy of beneficiaries under Mudra Yojana can translate into better decision-making, managing cash –inflows on time and further in the long-term lead to less NPA's.

These have extensive references for policymakers. Fintech Integration — Policy makers can ensure effective loan repayment and programme capabilities by embedding financial education into the policy of Mudra Yojana Scheme. Thus, targeted financial literacy programs, education dissemination through loan cycle and after credit provision are essential to provide proper support resources which can lead towards greater inclusion as well increasing the success associated with different kind of supports (Supriyadi et al., 2024)

Subsequent research may seek to extend these findings by investigating other determinants of loan repayment and studying long-term effects of financial literacy programs. This research will contribute towards a larger and comprehensive variable identification list for the successful loan repayment and more provision of enlightened financial education intervention strategies (Bumbali, 2021). This can provide comprehensive overview of such factors. Moreover, a primary study can be conducted by the future researcher to evaluate the impact of financial literacy among mudra scheme beneficiaries on loan repayment success.

Overall the study underscores the significance of financial literacy in achieving sustainable financial inclusion and its influence of successful repayment of availed loan through mudra scheme. Additionally it also highlights the importance of enhancing financial education through training programs conducted by policy makers, as it contributes to the strategic decision making and business growth. Thus contributing to the broader goals of financial inclusion and economic development (Wanjiku & Muturi, 2017).

Practical Implications

The practical imputation of this are crucial for building up the effectiveness of Mudra yojana scheme. Firstly, it is essential to design targeted financial literacy programs for the mudra yojana recipient. These programs should address the specific economic burden faced by small business owners and include cash flow management, training on budgeting and debt handling. By providing relevant financial skills, it helps the recipients to improve their ability to meet repayment schedules and control loans

Secondly, combining financial literacy drilling into Mudra Yojana Scheme itself can notably build up its impact. It is necessary for the recipient to receive basic financial knowledge before accessing credit which is considered as prerequisites for loan disbursement. These facilities not only prepares entrepreneurs for effective financial management but also decreases the risk of non-repayment and encourages greater loan repayment rates (IFC, 2020).

Lastly, continuous assistance and resources are important for retaining financial inclusion. Building mentorship programs and financial advisory can provide recipient with ongoing guidance and support. These resources help entrepreneurs apply their financial knowledge in real-world situations, navigate financial challenges, and achieve

long-term business success (OECD, 2023). By incorporating these practical implications, policymakers can improve the effectiveness of the Mudra Yojana Scheme, enhance financial literacy among beneficiaries, and contribute to the broader goals of financial inclusion and economic development.

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