

AN ANALYSIS OF CREDIT FLOW TO MSMEs IN INDIA USING SECONDARY DATA

Rubinabibi Farukh Shaikh

Research Scholar, SPB English Medium College of Commerce,
V. T. Choksi College Campus, Near Lal Bungalow, Athwalines, Surat, Gujarat-395007
Email: rubinas104@gmail.com

Dr. Farida Rusi Mandviwala

Assistant Professor, SPB English Medium College of Commerce,
V. T. Choksi College Campus, Near Lal Bungalow, Athwalines, Surat, Gujarat-395007
Email: farida.mandviwala84@gmail.com

<https://doi.org/10.65985/pimrj.2025323129>

Abstract

This study attempts to evaluate the trends, patterns, and difficulties in the credit flow to Micro, Small, and Medium Enterprises (MSMEs) in India with the help of secondary sources of data such as the Reserve Bank of India (RBI) and the Small Industries Development Bank of India (SIDBI). MSMEs are vital to the Indian economy, contributing significantly to GDP, exports, and employment. But, limited access to formal credit has historically constrained their growth. This paper evaluates credit disbursement trends over the last decade, examines policy interventions, and finds gaps in credit access. It concludes with policy recommendations to enhance financial inclusion and ease of credit for MSMEs.

Keywords: MSMEs, Financial Inclusion, Credit access, Credit Guarantee scheme

Introduction

The Micro, Small, and Medium Enterprises (MSME) sector is a backbone of the Indian economy, contributing nearly 30% to GDP and generating employment for over 11 crore individuals. Despite its prospects, the sector continues to face significant credit constraints. Understanding of these constraints, policymakers and financial institutions have collaborated to improve credit flow to MSME, especially after the COVID-19 pandemic negatively affected the MSME sector's solvency. Government schemes like the Emergency Credit Line Guarantee Scheme (ECLGS), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Udyam registration and GST linkage have all led to a visible increase in the flow of credit to MSME over the past two decades.

With the help of improvisation in digital lending and credit analytics, commercial banks, NBFCs and Fintech lenders have also increased their outreach with this sector. Despite this growth, differences in credit access remain across business size, sectors and regions. The credit gap still hampers the MSME sector from reaching its full potential.

Hence, understanding the patterns and trends of credit flow to MSMEs becomes crucial for analyzing the effectiveness of financial inclusion policies and designing targeted incentives for inclusive economic growth.

This research analyzes credit flow to MSMEs in India, using RBI and SIDBI data to examine how institutional lending has evolved and whether it meets the financial requirements of the sector. The assessment of credit flow to micro, small, and medium-sized enterprises (MSMEs) is crucial for understanding their economic impact and identifying potential constraints to funding (Cassano et al., 2013). Understanding the barriers these enterprises face in accessing

credit can inform policy decisions and improve financial support mechanisms for MSMEs (Deluca et al., 2014). Enhancing access to credit for MSMEs is important, as it enables them to expand business operations, create innovative investments, and make a significant contribution to economic development.

Literature Review

Formal credit availability continues to be one of the greatest obstacles affecting MSMEs in India. A comprehensive study was conducted by Chitsimran et al. (2020), which involved a thorough literature review on MSME finance from 1960 to 2020. The study demonstrated that MSMEs primarily rely on informal sources due to inadequate documentation, a lack of collateral, a lack of knowledge about credit, and structural inadequacies in official banking systems. Similar to this, Mohammad Abu Saleh (2023) revealed that the MSME financing gap is mostly caused by a lack of risk capital, high credit charges, and restricted access to formal financing, which forces many businesses to turn to informal lenders. The RBI's Sectoral Deployment of Bank Credit data is used in empirical studies by Raj A. et al. (2023) that examine credit trends and validate the significant boost in bank credit to MSMEs in recent years. The ISID (2022) evaluated the effectiveness of equity support, ECLGS, and interest rate moratorium as a post-COVID credit initiative. The study concluded that although these initiatives improved credit flow typically, the advantages were not equally distributed, only partially resolving long-standing financial exclusion in rural and informal areas. The government of India has introduced various schemes to facilitate credit access, consisting of priority sector lending policies (Bhattacharjee et al., 2023). Priority sector lending policies are among the many initiatives the Indian government has put in place to make credit more accessible (Bhattacharjee et al., 2023). Despite these initiatives, a large number of MSMEs are still unaware about the initiatives that are available to them, which restricts their capacity to take advantage of government assistance (Gupta, 2023). Dutt et al. (2018) the study analyzes the flow of credit to the MSME sector in India, highlighting the need for financing and showcasing the credit availability gaps. It indicates the necessity of measures to improve MSME's formal credit access and deal with financing challenges.

Research Gap

Though there is an increasing amount of literature on credit flow to the MSME in India, there is still a gap for a thorough, data-driven analysis based on official and detailed financial data like those from SIDBI and RBI. Also, there is a lack of not being integration with official banking trends or sectoral deployment data from the RBI. This research study aims to address this gap by using secondary data from RBI and SIDBI to carry out a systematic, long-term evaluation of credit patterns to MSMEs.

Research Objective

- To study the trend of credit deployment to MSMEs from 2019 to 2024
- To examine the various government initiatives aimed at enhancing MSME credit access

Research Methodology

This study is based on secondary sources of data. The research methodology would include the following steps:

Research Design: This study uses a **quantitative, descriptive research design based on secondary data analysis**. The aim is to assess the trends, distribution, and institutional patterns of credit flow to Micro, Small, and Medium Enterprises (MSMEs) in India for 2019 to 2024.

Data collection: A study based on secondary sources of data would be collected from the Reserve Bank of India(RBI) reports, SIDBI MSME Pulse reports, Economic survey report and MSME annual reports for the period of 2019 to 2024.

Data analysis tools: Descriptive statistics are applied to analyze the year-wise credit flow. Also, a graphical representation was done. A percentage analysis was done to measure the growth rate.

Data Analysis and Discussion

1. Credit flow to MSMEs (2019-2024)

Table 1 Credit flow to MSMEs (Rs in Lakh crore)

Year	Deployment of bank credit	Growth rate (%)
2013-14	7.8	-
2014-15	8.00	2.56%
2015-16	8.48	6.00%
2016-17	9.02	6.37%
2017-18	9.96	10.42%
2018-19	10.67	7.13%
2019-20	11.98	12.27%
2020-21	12.06	0.67%
2021-22	14.30	18.58%
2022-23	16.43	14.90%
2023-24	19.74	20.15%
2024-25	20.92	5.98% (approx..)

(Source: RBI Report)

Table 1 shows the credit deployment to the MSMEs from 2013-14 and 2024-25.

The credit deployment to the MSMEs increased from Rs. 7.80 lakh crore in 2013-14 to Rs. 20.92 lakh crore in 2024-25. This depicts an overall 21.56% growth in credit flow over 12 years. From 2013-14 to 2016-17 annual growth increased by 2.5% to 6.37% which indicates a modest growth. Credit flow accelerated from 2017-18 to 2019-20, which is 7% to 12% annually. In 2020-21, credit flow growth rate dropped by 0.67% due to the COVID pandemic. After the pandemic, there is a strong recovery growth of 18.58%, 14.9% and 20.15% in the consecutive years from 2021-22 to 2023-24.

2. Various Government initiatives to enhance credit flow to MSMEs

Over the past decade, the Government of India has implemented a number of initiatives to improve credit flow and ensure the long-term expansion of MSMEs, as detailed below.

- **Pradhan Mantri Mudra Yojana (PMMY)**

PMMY has been crucial in empowering micro and small businesses that are not corporations or farms by offering loans up to ₹10 lakh. During the Union Budget 2024-25 on July 23, 2024, the finance minister announced raising the loan cap to ₹20 lakh in order to better assist ambitious business owners. This new threshold entered commencement on October 24, 2024. From FY2021 to FY2425, more than ₹20 lakh crore has been approved and distributed under PMMY.

- **StandUp India**

The Stand Up India (SUI) Scheme helps women and SC/ST business owners establish greenfield ventures by facilitating bank credit. There were 57,466 crore in outstanding loans in the scheme as of the end of December 2024.

- **PM Vishwakarma Scheme**

To acknowledge and encourage traditional handicrafts and artists. offers marketing support, financial aid (loan up to ₹3 lakh), and skill training.

- **Prime Minister's Employment Generation Programme (PMEGP)**
 - credit-linked microenterprise establishment assistance program. Up to ₹50 lakh for manufacturing and ₹20 lakh for services, the subsidy amounts to 15–35% of the project cost. Beneficiaries from special categories (SC/ST, women, and ex-servicemen) receive larger subsidies.
 - PMEGP assisted 89,118 enterprises in 2023–2024, promoting entrepreneurship in a range of industries. Through the scheme's ₹3,093.87 crore margin money subsidy, small firms were able to expand and maintain growth. Consequently, an estimated 7,12,944 work possibilities were created, highlighting PMEGP's contribution to boosting self-employment and job creation across the country.
- **Special Credit Linked Capital Subsidy Scheme**

The National SCST Hub (NSSH) launched SCLCSS to foster new enterprises and assist established ones in growing so they may participate more fully in public procurement. Under NSSH, qualified SC-ST MSEs in the industrial and service sectors have received a 25% subsidy on institutional financing for the purchase of plant, machinery, and equipment up to ₹1 crore (i.e., a subsidy cap of ₹25 lakhs).
- **Credit Guarantee Scheme for Micro & Small Enterprises (CGTMSE):**

Eligible MSEs can receive credit guarantees from CGTMSE for loans up to ₹10 crore without collateral. For microbusinesses (loans up to ₹5 lakh), the coverage is 85%; for other businesses, it is 75%. A total guarantee coverage of ₹9.34 lakh crore (1.15 billion) has been granted by the Trust to qualified MSEs as of March 31, 2025.

Conclusion

Credit flow to the MSME sector has shown an upward and consistent trend in the period from 2013-14 to 2024-25, especially after 2017, except 2020-21 pandemic year. Government initiatives, mandates for priority sector lending and digitalization played a significant role in boosting formal credit. After the Covid period saw a robust rebound depicts that the strength of policy assistance and the resilience of MSME. Furthermore, schemes like PMMY, CGTMSE and StandUp India have been essential in improving access to formal financing, particularly for micro and small enterprises. Despite the institutional obstacles and geographical differences, the changing ecosystem shows a constructive trend toward inclusive funding. Maintaining this pace will require ongoing legislative support, digital enablement, and credit quality monitoring.

References

- Cassano, F., Jõeveer, K., & Svejnar, J. (2013). Cash flow vs. collateral-based credit: Performance of micro, small and medium-sized firms in transition economies. *Economics of Transition*, 21(2), 269–300. <https://doi.org/10.1111/ecot.12016>
- DeLuca, T. J., Meehan, J., & Lloyd, J. (2014). New approaches to MSME lending: Challenging traditional credit assessment models in electronic cash-flow environments. *Enterprise Development and Microfinance*, 25(3), 226–235. <https://doi.org/10.3362/1755-1986.2014.021>
- Chitsimran, G., Mathur, A., & Agarwal, S. (2020). MSME financing gaps – A review of literature for the period 1960 to 2020. *Solid State Technology*, 63(6), 18164–18203. SSRN: <https://ssrn.com/abstract=4125962>
- Saleh, A., & Ahmed, M. (2023). A study of MSME's financing gaps in India. *Shodh Drishti: An International Peer Reviewed Refereed Research Journal*, 14(8.1). ISSN: 0976-6650
- Raj, A., Kumari, P., & Shah, M. (2023). Credit flow to MSMEs in India: A descriptive analysis using RBI data (2021–2022). *IJFANS International Journal of Food and Nutritional Sciences*, 12(1). ISSN (Print): 2319-1775, ISSN (Online): 2320-7876

Institute for Studies in Industrial Development (ISID). (2022). *Enhancing credit flow for accelerating the recovery of MSMEs*. <http://isid.org.in>

Bhattacharjee, M., Chakraborty, A., & Ghosh, D. (2023). Credit allocation, sustained growth of MSMEs and unorganized sector: A general equilibrium study with reference to the less developed economies. In *Inclusive Development Through Guarantee Schemes* (pp. 97–113). Emerald Publishing. <https://doi.org/10.1108/978-1-80455-554-520231008>

Reserve Bank of India (RBI). (n.d.). *Sectoral deployment of bank credit*. Retrieved from <https://www.rbi.org.in>

SIDBI Reports and Surveys – including SIDBI's MSME Pulse Reports

(<https://www.sidbi.in>)

<https://www.indiabudget.gov.in>

ISID. (2022). *Enhancing Credit Flow for Accelerating the Recovery of MSMEs*.