

MSMES and Access to Credit in Post-Pandemic India: An Empirical Analysis

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Abstract

Micro, Small and Medium Enterprises (MSMEs) form an important part of Indian economy, which has a major role in generating employment, industrial production and export. However, access to timely and adequate institutional credit has been a constant challenge for the sector. The existing financial constraints were worsened by the pandemic's impact of operational disruptions, demand shocks, and liquidity shortages which are caused by the spread of the Covid-19 pandemic. In response, the Government of India and the Reserve Bank of India launched a number of policy interventions, such as emergency credit guarantee schemes and liquidity support mechanisms, to revive MSME financing.

This paper examines access pattern, extent and determinants of institutional credit to MSMEs in post-pandemic India. Using the secondary data from RBI, Ministry of MSME and SIDBI reports for the period of 2018-19 to 2023-24, the study analyses the trends in the flow of credit, assess the effectiveness of the post-pandemic policy interventions, and identify the persisting credit constraints. The findings show that while aggregate credit to MSMEs has risen in the post-pandemic period, access is still unequal, both across sizes of enterprises and regions, with micro enterprises still facing major hurdles.

Keywords: MSMEs, Credit Access, Post-Pandemic Recovery, Financial Inclusion, India

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) have a very vital role in the development of the economy of India. The sector accounts for almost a third of the country's Gross Value Added (GVA) and employs more than 110 million people making it the second largest employer after agriculture. MSMEs are also significant drivers in the promotion of regional development, entrepreneurship and export diversification.

Despite their importance, MSMEs have been subject to structural constraints in access to institutional finance in the past. Limited collateral, information asymmetry, high perceived risk and procedural rigidities have often left MSMEs relying on informal sources of credit. These limitations became more pronounced during the Covid-19 pandemic, which seriously disrupted production, supply chains and access to markets.

The pandemic-induced lock downs caused a sudden collapse in revenues of MSMEs resulting in acute liquidity shortage. Recognising the vulnerability in the sector, the Government of India and the Reserve Bank of India initiated a number of policy interventions, most notably the Emergency Credit Line Guarantee Scheme (ECLGS), moratorium on loans and target support to banks and NBFCs both through liquidity provision.

While these measures were expected to reduce credit constraints and facilitate the recovery process, there are concerns about the effectiveness of these measures, particularly for micro enterprises and informal MSMEs.

2. Review of Literature

Early work on MSME financing in India consistently point to deficient access to formal credit as a key factor to impediment to growth. Researchers have stressed on role of information asymmetry, lack of collateral, and risk aversion among banks as some of the key barriers to MSME lending.

Pre-pandemic studies mentioned that a considerable fraction of MSMEs relied on informal sources, such as moneylenders and trade credit, at often higher costs. Financial inclusion initiatives had positive effects on account ownership but did not necessarily result in access to credit. Post pandemic literatures suggest that credit measures of the form of emergency credit were helpful in preventing the widespread closure of MSMEs.

3. MSMEs and Institutional Credit Framework in India

3.1 Definition and Classification of MSMEs

Micro, Small and Medium Enterprises (MSMEs): Micro, small and medium enterprises are a heterogeneous class of enterprises operating in the manufacturing, services and trade sectors in India. Recognizing their economic significance as well as their peculiar financing requirements, the Government of India has a statutory framework for defining and classifying MSMEs under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

Originally, MSMEs were categorised on the basis of investment in plant and machinery (for manufacturing enterprises) and equipment (for service enterprises) only. However, this classification system faced criticism because it discouraged growth and technological upgradation since enterprises risked to lose the MSME status on increasing the base of investment.

Table 1: Classification of MSMEs in India (Revised Criteria)

Category	Investment in Plant & Machinery / Equipment	Annual Turnover
Micro Enterprise	Up to ₹1 crore	Up to ₹5 crore
Small Enterprise	Above ₹1 crore and up to ₹10 crore	Above ₹5 crore and up to ₹50 crore
Medium Enterprise	Above ₹10 crore and up to ₹50 crore	Above ₹50 crore and up to ₹250 crore

Source: Ministry of MSME, Government of India (Revised Classification, 2020)

3.2 Role of Institutional Agencies in MSME Financing

Access to institutional credit for MSMEs in India is facilitated through a multi-layered financial system comprising commercial banks, non-banking financial companies (NBFCs), specialized development institutions, and microfinance institutions. Each plays a distinct yet complementary role in addressing the diverse financing needs of MSMEs.

Commercial Banks

Commercial banks are still the major source of formal credit for MSMEs in India. Public sector banks in particular have played an important role in the growth of MSME lending because of their large branch network and the priority sector lending requirement. Banks offer a wide variety of financial products such as working capital loans, term loans, cash credit, overdraft facilities and export finance.

However, bank lending to MSMEs is often limited by stringent collateral requirements, elaborate documentation procedures, and risk averse credit appraisal practices. These factors are disproportionate to micro and small enterprise, particularly those operating informally, or having limited credit history.

Non-Banking Financial Companies (NBFCs)

NBFCs have become an important alternative source of MSME finance, especially to enterprises who are underserved by traditional banks. NBFCs tend to have faster loan processing, customized products and more flexibility in the norms of collateral.

Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) is the apex financial institution for promotion, finance and development of MSMEs in India. SIDBI has direct and indirect roles by:

- Giving refinance support to banks and NBFCs
- Providing direct lending to MSMEs
- Implementing credit schemes sponsored by governments
- Fostering innovation, digital finance and cluster development

SIDBI has been at the heart of post-pandemic MSME recovery programmes especially in terms of its role in the administration and support of the credit guarantee schemes.

Microfinance Institutions (MFIs)

Microfinance institutions are oriented largely to micro enterprises and self-employed people, mostly in rural and semi-urban areas. MFIs offer small ticket loans without collateral, thus meeting the financing needs of informal and first-time borrowers. While the financing of MFIs enhances financial inclusion, the small size of the loan and relatively higher interest rate limit their capacity for enterprise expansion.

3.3 Evolution of MSME Credit Policies in India

The process of evolution in MSME Credit policies in India has been a process of progressive movement from directed credit system to market oriented and risk mitigated credit system. In the pre-reform period, financing of MSMEs was dominated by the social banking objectives with a focus on subsidized credit and public sector intervention.

Post-1991 economic reforms were accompanied by transition to financial sector liberalization, and issues of declining institutional credit to small enterprises were raised. In response, a number of targeted policy initiatives were introduced, such as priority sector lending mandates, specialized MSME branches and credit guarantee mechanisms.

3.4 Priority Sector Lending Norms for MSMEs

The Reserve Bank of India has classified MSME lending as part of Priority Sector Lending (PSL), mandating scheduled commercial banks to allocate 40 per cent of Adjusted Net Bank Credit (ANBC) to priority sectors, with a significant portion earmarked for MSMEs.

Under PSL norms:

- Loans to micro enterprises receive higher priority
- Export-oriented MSMEs receive special consideration
- Weaker sections within the MSME category are encouraged through sub-targets

3.5 Role of Credit Guarantee Mechanisms

Credit guarantee mechanisms have a key role to play in reducing the risk to lenders and to increase access of MSMEs to institutional finance. By in part covering the default risk, these serve to encourage banks and NBFCs to lend to the enterprises which do not have sufficient collateral as security.

In India, credit guarantee schemes have come the front as a major policy instrument especially in a post-pandemic era. The Emergency Credit Line Guarantee Scheme (ECLGS) was a paradigm shift by providing government-based guarantees on incremental lending, thus facilitating credit expansion at a rapid pace during a period of heightened uncertainty.

4. Post-Pandemic Credit Policies for MSMEs in India

The pandemic of the coronavirus (Coronavirus, 2020) came as an unprecedented shock to the Micro, Small and Medium Enterprises (MSMEs) in India, and disrupted production, supply chains and market access all at once. The sudden drought in revenues and working capital cycles meant a severe liquidity stress threatening a large chunk of enterprises to stay alive.

These interventions can broadly be divided into (i) government backed credit guarantee schemes, (ii) liquidity and monetary measures taken by RBI and (iii) regulatory forbearance and restructuring of loans.

4.1 Emergency Credit Line Guarantee Scheme (ECLGS)

The Emergency Credit Line Guarantee Scheme (ECLGS), launched in May 2020, was the biggest intervention of the post-pandemic for MSME financing in India. The scheme was set up to offer collateral-free government-guaranteed additional credit to eligible MSMEs and business enterprises having existing borrowing relationships with banks and NBFCs.

Under ECLGS, eligible borrowings were allowed by the scheme to avail incremental borrowings (an initial limit of 20 per cent of outstanding credit) which were fully guaranteed by the government. The scheme went through various extensions and modifications (ECLGS 1.0 to 4.0) - it was extended to cover stressed sectors, healthcare, hospitality, and medium enterprises.

Table 2: Amount Sanctioned and Disbursed under ECLGS (₹ lakh crore)

Year	Amount Sanctioned	Amount Disbursed
2020–21	3.10	2.45
2021–22	4.35	3.65
2022–23	4.50	3.85
2023–24	4.60	3.95

Source: Ministry of Finance / RBI Reports (compiled)

While ECLGS was successful in expanding aggregate MSME credit in a short period of time, the distributional impact highlights important limitations. Empirical evidence seems to indicate that the scheme primarily benefited existing and relatively formalized enterprises, as eligibility was tied to pre-pandemic borrowing. Micro enterprises, first-time borrowers and informal units continued to be substantially excluded. Thus, ECLGS acted more as a credit preservation mechanism, instead of a tool for wide based financial inclusion.

4.2 Liquidity Measures by the Reserve Bank of India

In parallel with the government initiatives, the RBI had taken a set of liquidity-enhancing measures to ensure that there is adequate flow of funds to the MSME sector. These measures were crucial in rebuilding trust in the banking and NBFC system which was risk-averse due to the pandemic.

Key RBI interventions were:

- Lowering of policy repo rate to historically low levels
- Targeted Long-Term Repo Operations (TLTROs)

- Special liquidity window of NBFCs and MFIs
- Refinancing facilities to MSME lending by SIDBI

These measures reduced the cost of funds to financial institutions and enhanced their ability to lend to MSMEs. By enhancing the liquidity of balance sheets, RBI indirectly helped the effectiveness of credit guarantee schemes such as ECLGS.

4.3 Regulatory Forbearance and Loan Restructuring

Regulatory forbearance was the third pillar of post-pandemic MSME credit policy. The RBI brought in moratoriums on loan repayments, asset classification standstills and special restructuring frameworks to reduce the repayment pressure on stressed borrowers.

The restructuring schemes provided for MSMEs to:

- Extend loan tenures
- Convert Interest into funded interest term loans
- In temporarily deferring repayments without being counted as non-performing assets

These measures gave immediate relief to borrowers and prevented a sharp increase in the level of non-performing assets (NPAs) in the MSME segment. From the systemic point of view, regulatory forbearance was used to preserve financial stability and avoid credit contraction in the recovery phase.

4.4 Growth in MSME Credit in the Post-Pandemic Period

The combined impact of credit guarantees, liquidity infusion, and regulatory relief is reflected in the post-2020 growth trajectory of MSME credit. Aggregate data indicate a noticeable acceleration in MSME credit outstanding after 2020, reversing the slowdown observed during the initial pandemic phase.

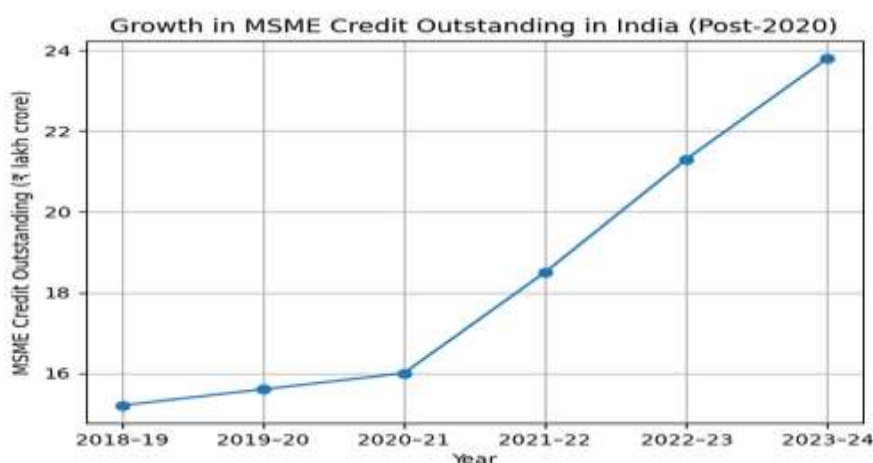


Figure 1 shows the trend of institutional credit outstanding to MSMEs in India between 2018-19 to 2023-24. The data shows a moderate growth in MSME credit before the pandemic and a significant acceleration in the

post-2020 period. While the growth in credit continued to be subdued in 2020-21 against the economic disruptions caused by Covid-19, the growth is seen to shoot upward from 2021-22 onwards.

This sustained growth in MSME credit outstanding is coupled with the introduction of policy interventions post pandemic in the form of Emergency Credit Line Guarantee Scheme (ECLGS), liquidity infusion by the Reserve Bank of India and regulatory forbearance measures.

4.5 Assessment of Policy Effectiveness

Post-pandemic credit policies played a crucial role in stabilising MSME financing in a period of extraordinary stress. The ECLGS ensured that there was continuity in the flow of credit, RBI's liquidity measures restored lender confidence and regulatory forbearance gave short-term relief to distressed borrowers.

However, these policies worked broadly within the existing formal credit ecosystem and therefore failed to reach those enterprises who were already integrated within institutional finance. Structural constraints- such as informality, lack of collateral, and weak financial records-prevent access to a large segment of micro enterprises.

Thus, while post-pandemic credit policies were successful as counter-cyclical stabilization tools, the policies have limited potential to result in long-term, inclusive MSME financial development. This underlines the necessity of complementary reforms in the assessment of credit, formalization of enterprises, and data-driven models of lending.

5. Data Sources and Methodology

5.1 Data Sources

The present study is mainly conducted by using secondary data, gathered from authoritative and publicly available sources to provide sufficiently reliability and consistency of the study. The period covered by the data is 2018-19 to 2023-24, which facilitates the comparative analysis of the pre-pandemic, pandemic and post-pandemic phases of MSME credit flow in India.

The broad sources of data are as follows:

- Reserve Bank of India (RBI)
- Ministry of MSME, Government of India
- Small Industries Development Bank Of India (SIDBI)
- Economic Survey of India

These sources contain detailed information on the MSME credit outstanding, sectoral distribution, policy interventions and institutional lending patterns.

5.2 Methodology

The following analytical tools and techniques are employed:

Descriptive Statistics

Absolute values and percentage shares

Growth rates of MSME credit outstanding

Trend Analysis

Year-wise analysis of MSME credit growth

Pre- and post-pandemic comparison

The results are presented through tables and figures for clarity and interpretability.

6. Analysis and Findings

6.1 Trend in MSME Credit Outstanding

The analysis reveals a clear upward trend in institutional credit to MSMEs in the post-pandemic period. While MSME credit growth was modest during the pre-pandemic years, a marked acceleration is observed after 2020–21, coinciding with the introduction of government-backed credit support measures.

Year	MSME Credit Outstanding
2018–19	15.20
2019–20	15.60
2020–21	16.00
2021–22	18.50
2022–23	21.30
2023–24	23.80

Source: RBI and Ministry of MSME (compiled)

Table 3: MSME Credit Outstanding in India (₹ lakh crore)

The data indicate that while credit expansion slowed during the pandemic year (2020–21), the post-pandemic recovery phase witnessed robust growth, reflecting the effectiveness of policy interventions such as ECLGS and liquidity support.

6.2 Growth Rate of MSME Credit

To assess the pace of expansion, year-on-year growth rates were computed.

Year	Growth Rate (%)
2019–20	2.63
2020–21	2.56
2021–22	15.63
2022–23	15.14
2023–24	11.74

Table 4: Growth Rate of MSME Credit Outstanding (%)

The sharp increase in growth rates after 2020–21 underscores the counter-cyclical role of credit policies in stabilizing MSME financing during economic recovery.

6.3 Size-wise Distribution of MSME Credit

Despite overall growth, the distribution of credit across MSME categories remains uneven.

Category	Share in Total MSME Credit
Micro Enterprises	33
Small Enterprises	42
Medium Enterprises	25

Table 5: Size-wise Distribution of MSME Credit (%)

Micro enterprises, which constitute the largest share in terms of number of units and employment, receive a disproportionately smaller share of institutional credit. This reflects persistent challenges such as informality, lack of collateral, and weak credit histories.

6.4 Institutional Pattern of MSME Lending

Commercial banks account for the dominant share of MSME credit, followed by NBFCs and MFIs. Public sector banks play a critical role due to priority sector lending obligations, while NBFCs have gained prominence in catering to smaller and riskier borrowers.

However, NBFC lending is often associated with higher borrowing costs, limiting its suitability for long-term enterprise growth.

6.5 Key Findings

The major findings of the study are summarized as follows:

1. MSME credit outstanding has grown significantly in the post-pandemic period.
2. Government-backed credit guarantees played a crucial role in restoring lender confidence.
3. Credit growth has been uneven across MSME categories, favouring small and medium enterprises.
4. Micro enterprises continue to face structural barriers to institutional finance.
5. Aggregate credit expansion does not automatically translate into inclusive credit access.

7. Policy Implications and Recommendations

The credit policies taken after the pandemic have been significant in stabilizing the finance of MSMEs in India, the results of the study reveal. However, the existence of structural barriers underlines the importance of a more inclusive, sustainable and targeted credit framework. Based on the empirical analysis the following policy implications and recommendations are offered:

7.1 Enhancing the Access of Credit for Micro Enterprises

Micro enterprises are the most credit-constrained segment of MSME sector even though they are the largest contributors for employment. Policy efforts should go beyond aggregate credit expansion and focus on last mile credit delivery.

7.2 Increasing Coverage Beyond Existing Borrowers

Post-pandemic schemes like ECLGS benefited mostly those enterprises that have had prior access to institutional credit. Future credit interventions should have some provision for facilitating first-time and unorganised borrowers, including enterprises moving into the formal sector.

7.3 Enhancing Credit Evaluation and Risk Reduction

Traditional lending models based on collateral do not have much relevance in the context of MSMEs that have intangible assets with volatile cash flows. Financial institutions should develop more cash flow-based and data-driven credit appraisal models based on GST data, digital payment records and alternative credit scoring tools. This would lower reliance on physical collateral and help to open up access to smaller enterprises.

7.4 Rationalization of Credit Guarantee Frameworks

While the use of credit guarantee mechanisms has been shown to be effective to encourage lending during periods of stress, the long-term sustainability of such mechanisms requires careful calibration.

7.5 Enhancing Financial Literacy and Formalization

Low financial literacy and informality continue to limit the access of MSMEs to institutional credit. Targeted financial education initiatives, along with digital adoption incentives and formal registration can enhance the creditworthiness of enterprises and their long-term financial resilience.

8. Conclusion

Micro, Small and Medium Enterprises occupy a central position in India's economic structure due to their contribution to employment generation, industrial output, and regional development. However, access to timely and adequate institutional credit has remained a persistent constraint, particularly for micro enterprises. The COVID-19 pandemic intensified these challenges, necessitating large-scale policy intervention.

This study examined the pattern, growth, and distribution of MSME credit in the post-pandemic period using secondary data from 2018–19 to 2023–24. The analysis revealed that post-pandemic credit policies—especially government-backed credit guarantees, liquidity support by the Reserve Bank of India, and regulatory forbearance—were effective in restoring aggregate credit flows to the MSME sector. MSME credit outstanding registered strong growth during the recovery phase, underscoring the counter-cyclical role of policy support.

However, the findings also highlight significant structural imbalances. Credit expansion has been uneven across enterprise categories, with micro enterprises continuing to face barriers related to informality, collateral requirements, and limited credit histories. Moreover, post-pandemic credit measures largely operated within the existing formal credit framework, limiting their reach to enterprises already integrated into institutional finance.

The study concludes that while post-pandemic credit policies succeeded as short-term stabilization tools, achieving long-term and inclusive MSME financial development requires deeper structural reforms. Strengthening alternative credit assessment mechanisms, expanding coverage to first-time borrowers, rationalizing credit guarantees, and promoting formalization are essential to ensuring that MSME credit growth translates into broad-based and sustainable economic development.

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