

Structural Transformation in MSME Lending Patterns: Evidence from a Decade of Data

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in economic development by contributing to job creation and income generation. The main objective of this study is to propose the operational transformation in MSME lending patterns by major sectors. This study investigates the structural changes in credit deployment to Micro, Small, and Medium Enterprises (MSMEs) in India over the period 2016 to 2025, using empirical data sourced from the Reserve Bank of India. The analysis aims to uncover trends, shifts, and disparities in the distribution of gross bank credit among micro, small, medium, and large enterprises. The decade under review witnessed significant policy interventions, including credit guarantee schemes, pandemic-related relief packages, and digital banking initiatives, which have influenced credit accessibility and allocation patterns. The findings indicate that while credit to medium enterprises has seen steady growth, micro and small enterprises still face challenges in equitable access to institutional finance. This paper contributes to the understanding of how structural shifts in the financial ecosystem have impacted the MSME sector and provides recommendations for more inclusive and targeted lending policies to ensure balanced sectoral development.

Keywords: *MSME, Credit deployment and RBI*

Introduction

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. (MSME Annual Report 2023) Micro, Small, and Medium Enterprises (MSMEs) form the backbone of the Indian economy, contributing significantly to employment generation, industrial output, and exports. With over 63 million units across the country, the MSME sector accounts for nearly 30% of India's GDP and plays a critical role in fostering inclusive economic growth. Despite their importance, MSMEs have historically faced constraints in accessing adequate and timely credit. Limited collateral, high perceived risk, and complex lending procedures have often hindered their ability to obtain institutional finance.

Over the past decade, the Government of India and the Reserve Bank of India (RBI) have introduced a series of policy measures aimed at enhancing credit flow to the MSME sector. These include the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), the Emergency Credit Line Guarantee Scheme (ECLGS) during the COVID-19 pandemic, interest subvention schemes, and the promotion of digital lending platforms. These initiatives have aimed to bring about structural reforms in the financial ecosystem supporting MSMEs.

This paper explores the evolving patterns in the deployment of gross bank credit to MSMEs over the period from 2016 to 2025. It examines how credit distribution has shifted across micro, small, and medium enterprises, and assesses the extent to which these structural changes have contributed to greater financial inclusion within the sector. By analyzing official data and identifying key inflection points, the study seeks to provide a comprehensive understanding of the transformation

in MSME lending. The findings have important implications for policymakers, financial institutions, and stakeholders aiming to promote sustainable and equitable growth in the MSME sector. In India, the definition of MSMEs was revised by the Government in July 2020 to include both manufacturing and service enterprises under a common framework. The updated classification is as follows:

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

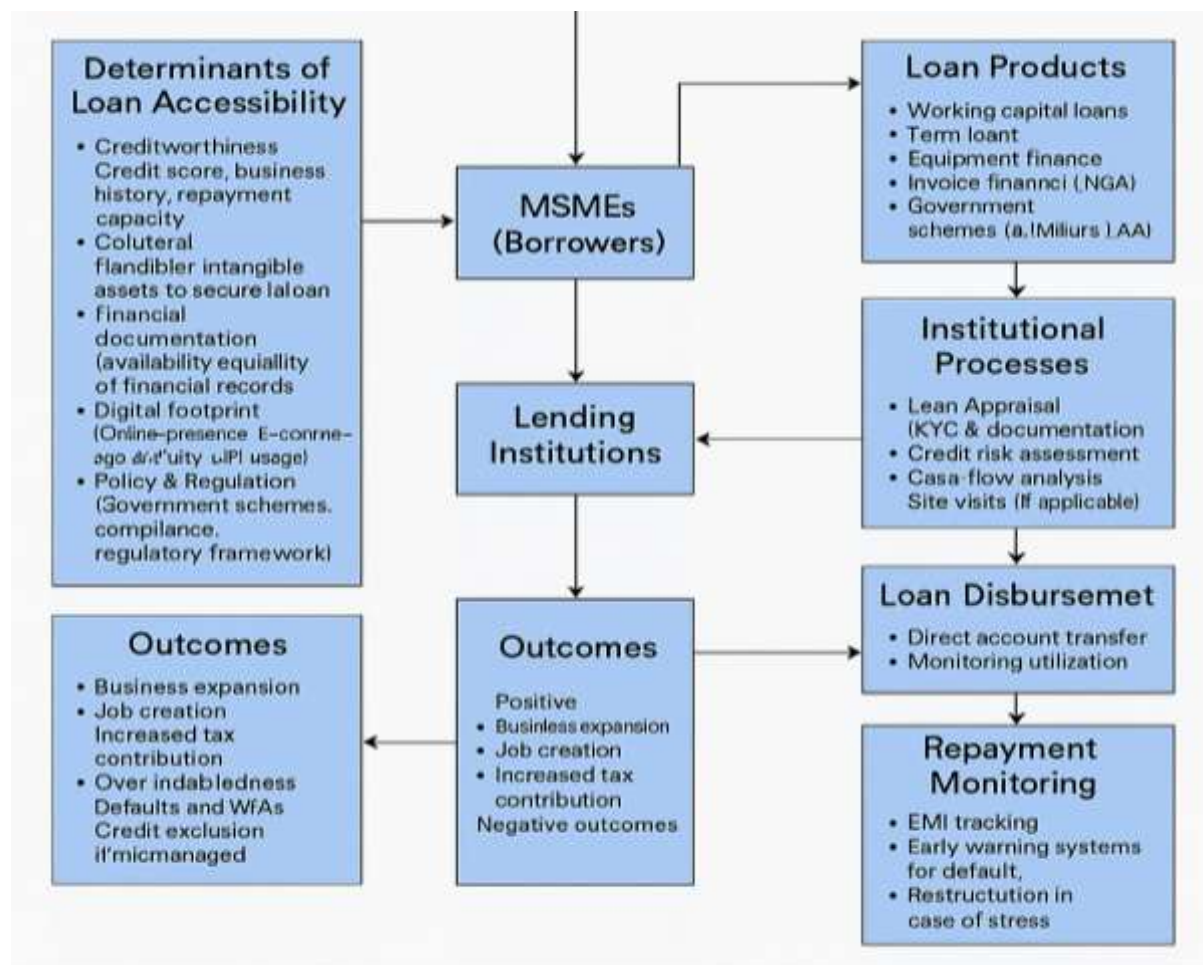
Methodology

Objectives

- To study the conceptual framework of MSME in India
- To examine the bank deployment credit to various sectors in MSME
- To compare the state-wise distribution of MSME in India

Data Collection: Secondary data has been collected through reports like RBI, MSME and SIDBI.

CONCEPTUAL FRAMEWORK



Literature Review

A comprehensive analysis of the financial barriers faced by MSMEs reveals several critical factors that impede access to finance, including accessibility, availability, awareness, and institutional reluctance. These obstacles are prevalent during various stages of the MSME life cycle and significantly impact financing decisions (Kumar & Rao, 2015). Research has shown that firm characteristics, such as location, industry, size, and age, play a pivotal role in influencing access to debt financing. For instance, a study conducted in Tanzania identified that these firm attributes are essential in determining the extent to which MSMEs can secure necessary funding (Kira & He, 2012). The relationship between financial obstacles and MSME performance has been well-documented. Access to financial services directly correlates with improvements in market share, sales, and profitability for MSMEs (Kress, Su, & Wang, 2016). Furthermore, the examination of financial inclusion in Indonesia highlighted that enhanced access to financial services significantly boosts MSME performance, underscoring the importance of targeted financial interventions (Fan & Savedoff, 2014). Additionally, the study by Hughes et al. (2017) emphasizes that understanding the interplay between firm attributes and financial obstacles can lead to improved policy frameworks that support MSMEs in navigating their financing challenges. By integrating these considerations, the conceptual framework developed in this study aims to facilitate a more holistic understanding of MSME financing. In India, Gupta et al. (2019) emphasize the importance of strengthening financing options for MSMEs, exploring various funding sources and the challenges they encounter. This aligns with Rajamani et al. (2022), who detail the impact of firm attributes on access to finance, emphasizing the necessity of understanding the financial lifecycle of MSMEs to tailor support effectively. Such insights could be instrumental in refining the conceptual framework to better accommodate the diverse financial needs of MSMEs.

ANALYSIS

Table No:1 DEPLOYMENT OF GROSS BANK CREDIT

Year	Micro & Small	Medium	Large
2025	7,84,802	3,52,907	27,37,676
2024	7,26,315	3,03,998	26,22,490
2023	6,33,289	2,68,286	24,64,831
2022	5,32,081	2,13,996	24,06,372
2021	4,32,246	1,38,476	23,60,719
2020	3,81,825	1,05,598	24,17,728
2019	3,75,505	1,06,395	24,03,878
2018	3,730	1,037	22,226
2017	3,697	1,048	22,053
2016	3,715	1,148	22,444
TOTAL	38,77,205	14,92,889	1,74,80,417
MEAN	3,87,721	1,49,289	17,48,042
SD	2,97,771.96	1,30,600.31	11,96,307.29
CV	77	87	68

INTERPRETATION

1. Micro and Small Enterprises

The bank credit deployed to Micro and Small Enterprises (MSEs) has shown a remarkable and consistent increase over the observed period. From a modest ₹3,715 crore in 2016, credit extended to this segment surged to ₹7,84,802 crore by 2025. Notably, a steep upward trajectory is observed post-2020, which coincides with the implementation of several

government-led support measures in response to the COVID-19 pandemic. Initiatives such as the Emergency Credit Line Guarantee Scheme (ECLGS), targeted refinancing, and priority sector lending guidelines have significantly enhanced credit flow to this sector. The data underscores a structural shift in the financial inclusion of MSEs and reflects improved accessibility to formal finance.

2. Medium Enterprises

The Medium Enterprise segment experienced an even more pronounced growth trajectory. Credit deployment increased from ₹1,148 crore in 2016 to ₹3,52,907 crore in 2025. A substantial acceleration is observed from 2020 onwards, particularly between 2021 and 2025, indicating growing recognition of the sector's economic potential. This surge can be attributed not only to targeted policy support but also to the revised definition of MSMEs in 2020, which reclassified several previously "large" enterprises into the medium category. Consequently, this segment has witnessed increased institutional engagement and credit penetration.

3. Large Enterprises

In contrast to the MSME segments, credit deployment to Large Enterprises has remained relatively stable with moderate growth. From ₹22,444 crore in 2016, credit increased to ₹27,37,676 crore in 2025. The slower pace of growth compared to Micro, Small, and Medium Enterprises may suggest a saturation in demand or a strategic shift in bank lending towards more inclusive and diversified credit allocation. Furthermore, large enterprises, having greater access to alternative financing sources such as capital markets, may be relatively less dependent on bank credit.

Chart No: 1 DEPLOYMENT OF GROSS BANK CREDIT

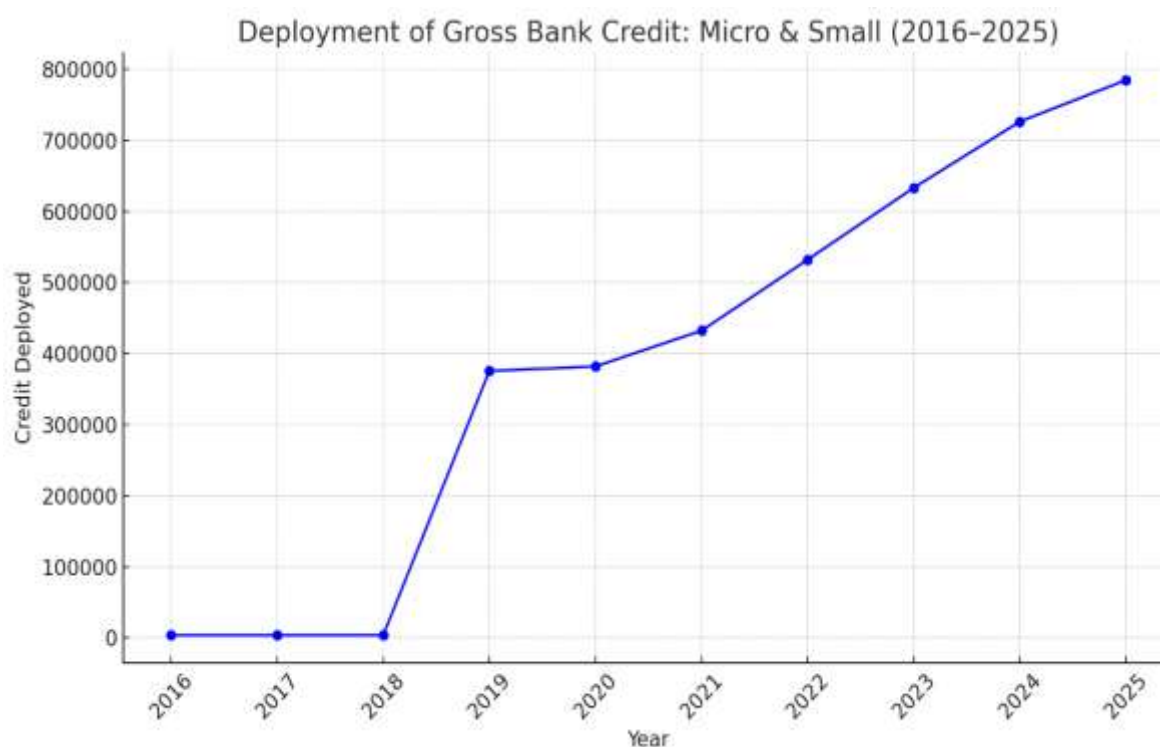


Table No: 2 STATE-WISE MSME DISTRIBUTION IN INDIA

According to the above data, Totally India is contributing **633.88 lakh (63.3 million) to the enterprises**. Interestingly, just **ten states** account for a whopping **74%** of the total MSMEs in the country, indicating a high level of regional concentration.

- **Uttar Pradesh** and **West Bengal** lead the list, each contributing **14%** of the total enterprise count with **89.99 lakh** and **88.67 lakh enterprises** respectively. This dominance is linked to their large populations, strong informal economies, and active state-level entrepreneurship initiatives.
- **Tamil Nadu** and **Maharashtra** follow closely, with each state housing around **8%** of India's MSMEs. Both states are industrial powerhouses, supporting robust manufacturing, textiles, and services sectors.
- **Karnataka**, with **6%** share, benefits from its thriving startup ecosystem and technology-driven enterprises.
- States like **Bihar**, **Andhra Pradesh**, **Gujarat**, **Rajasthan**, and **Madhya Pradesh** each contribute between **4% to 5%**, supported by traditional industries, agricultural linkages, and growing digital adoption.

Meanwhile, the remaining **26%** of enterprises are scattered across India's other states and Union Territories. These include several northeastern states, hilly regions, and smaller UTs, where enterprise activity is less dense due to geographical, infrastructural, or demographic constraints.

Findings and Suggestions

The analysis reveals a clear rebalancing of bank credit towards the MSME sector, particularly since 2020. The exponential increase in credit to Micro, Small, and Medium enterprises highlight the success of policy interventions aimed at fostering financial inclusion, improving credit availability, and bolstering the resilience of the MSME sector in the post-pandemic economy.

This redistribution of credit also aligns with the Government of India's vision of enhancing the contribution of MSMEs to GDP and employment. However, the significant spike post-2020 also raises questions about credit quality, absorption capacity, and the need for supportive infrastructure to ensure the productive deployment of funds.

Conclusion

STATE-WISE MSME DISTRIBUTION		
State/UT	Number (in lakh) Share (in %)	
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Uttar Pradesh	89.99	14
West Bengal	88.67	14
Tamil Nadu	49.48	8
Maharashtra	47.78	8
Karnataka	38.34	6
Bihar	38.46	5
Andhra Pradesh	33.87	5
Gujarat	33.16	4
Rajasthan	26.87	4
Madhya Pradesh	26.74	4
Total of above ten States	469.36	74
Other State/UTs	164.52	26
All	633.88	100

The trajectory of bank credit deployment in India from 2016 to 2025 demonstrates a significant shift in lending priorities, with Micro, Small, and Medium Enterprises (MSMEs) emerging as a focal point of financial inclusion and economic support. While large enterprises have traditionally dominated the credit landscape, recent years—especially post-2020—have seen a sharp increase in credit flows to the MSME sector.

This transformation is underpinned by a combination of policy interventions, regulatory reforms, and economic necessity. Government-led schemes such as the Emergency Credit Line Guarantee Scheme (ECLGS), along with revised definitions and enhanced credit guarantee mechanisms, have substantially improved access to formal finance for smaller enterprises. The upward trend in MSME credit, particularly for Medium Enterprises, also reflects their growing role in the national economy and their potential for driving employment, innovation, and regional development.

In conclusion, the expanding credit deployment to MSMEs signifies a positive stride toward a more inclusive financial ecosystem. However, continued policy focus, monitoring of credit quality, and structural reforms will be essential to unlock the full potential of MSMEs as engines of equitable and resilient economic growth in India.

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