

“Effectiveness Of Government-Supported Bank Credit Schemes for MSME Development”

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Abstract

Micro, Small and Medium Enterprises (MSMEs) are important contributors to entrepreneurship, employment generation, regional development and economic growth in India. However, inadequate access to affordable and timely institutional finance continues to restrict the establishment, survival and expansion of many MSMEs. To address this problem, the Government of India, the Reserve Bank of India (RBI), banks and specialized financial institutions have developed several credit-support mechanisms, including the Pradhan Mantri Mudra Yojana (PMMY), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Stand-Up India, Prime Minister's Employment Generation Programmed (PMEGP), priority-sector lending and digital credit platforms. This study examines the effectiveness of government-supported bank credit schemes in promoting MSME development in India. The study is descriptive and analytical and is based primarily on secondary data obtained from official reports and published sources. The analysis indicates substantial expansion in formal MSME credit, guarantee coverage and collateral-free lending. Scheduled commercial banks' outstanding MSME credit increased from ₹22.6 lakh crore in 2022-23 to ₹31.3 lakh crore in 2024-25. At the same time, CGTMSE guarantee approvals increased considerably during FY2024-25. The study concludes that government-supported bank credit schemes have significantly strengthened financial inclusion and credit availability for MSMEs, although documentation, awareness, information asymmetry, timely sanction, regional disparities and access among very small enterprises continue to require policy attention.

Keywords: MSMEs, Bank Credit, Government Credit Schemes, PMMY, CGTMSE, Stand-Up India, PMEGP, Financial Inclusion, Priority Sector Lending, Entrepreneurship.

Introduction

Micro, Small and Medium Enterprises constitute a strategically important segment of the Indian economy. MSMEs operate across manufacturing, services and trading activities and provide opportunities for entrepreneurship with relatively modest levels of capital investment. Their geographical dispersion also enables them to contribute to local economic activity and employment outside major industrial centres. Consequently, strengthening MSMEs has become an important component of India's inclusive and sustainable development strategy. Finance is one of the most important inputs required for the establishment and growth of an enterprise. MSMEs require both working capital and term finance for purchasing machinery, procuring raw materials, maintaining inventories, paying wages, adopting new technology, marketing products and expanding production capacity. Unlike large enterprises, however, micro and small firms often possess limited collateral, shorter credit histories and less formal financial documentation. These characteristics can make conventional bank finance more difficult to obtain.

Recognising these constraints, the Government of India and financial-sector institutions have established a range of schemes intended to improve the availability of formal finance. The RBI's Priority Sector Lending framework is particularly important because MSMEs constitute a recognised priority-sector category, and all eligible bank loans to MSMEs qualify for priority-sector classification.

One of the major initiatives is the Pradhan Mantri Mudra Yojana (PMMY), introduced in April 2015 to facilitate collateral-free institutional credit for micro enterprises. The scheme provides finance under Shishu, Kishore, Tarun and, from October 2024, Tarun Plus categories. The Tarun Plus category provides eligible borrowers who have successfully repaid earlier Tarun loans access to credit above ₹10 lakh and up to ₹20 lakh.

Another important intervention is **CGTMSE**, which reduces the collateral constraint by providing guarantee coverage to eligible credit facilities. Credit guarantees are significant because they share part of the lending risk and can encourage financial institutions to lend to viable micro and small businesses that may lack sufficient conventional collateral.

Stand-Up India has added a social-inclusion dimension to enterprise finance by promoting entrepreneurship among women and Scheduled Caste/Scheduled Tribe entrepreneurs. The scheme facilitated bank loans between ₹10 lakh and ₹1 crore for eligible greenfield enterprises. As of February 28, 2025, 2.67 lakh accounts involving ₹60,504 crore had been sanctioned under the scheme, according to the Department of Financial Services.

The importance of these initiatives is reflected in the expansion of formal MSME lending. RBI data show that scheduled commercial banks' outstanding MSME credit increased from ₹22.6 lakh crore in 2022-23 to ₹27.3 lakh crore in 2023-24 and ₹31.3 lakh crore in 2024-25.

Despite this progress, the availability of a scheme does not automatically guarantee effective access to credit. MSMEs may continue to face problems relating to documentation, information asymmetry, awareness, loan-processing time, financial literacy and the ability to demonstrate creditworthiness. RBI has itself identified information asymmetry, excessive documentation and lack of transparency as common difficulties faced by MSMEs in accessing formal credit. Therefore, it is necessary to examine not merely the existence of government-supported schemes but their effectiveness in expanding formal credit, reducing collateral barriers, supporting entrepreneurship and promoting sustainable MSME development.

Review of Literature

Ayyagari, Beck, and Demirgüç-Kunt (2007) examined the importance of small and medium enterprises across different countries and highlighted their contribution to employment generation and economic development. The study showed that the SME sector constitutes a substantial part of economic activity, particularly in economies with supportive institutional and financial environments. The authors observed considerable differences in the size and contribution of the SME sector across countries and linked these differences to the broader business environment. Their findings indicate that access to formal financial services and an enabling institutional framework are important for SME development. The study provides an important foundation for understanding why government and banking-sector interventions are necessary for strengthening MSMEs, especially in developing economies where smaller businesses frequently experience financing constraints.

Beck, Demirgüç-Kunt, and Maksimovic (2008) investigated financing patterns of firms across countries and examined whether small firms face different financial conditions compared with larger enterprises. Their study established that smaller firms generally encounter greater financing obstacles and depend more heavily on internal resources and informal sources of finance. The research demonstrated that firm size significantly influences access to external finance. These findings are relevant to MSME credit policy because they provide evidence for the need for specialised financial products and institutional mechanisms designed for smaller enterprises. Government-supported bank credit schemes can consequently play an important role in reducing the financing disadvantages experienced by MSMEs.

Beck, Demirgüç-Kunt, and Martínez Pería (2008) analysed bank financing of SMEs across different countries by examining the drivers, obstacles, business models and lending practices associated with SME finance. The study found that banks generally consider SMEs an important business segment but encounter difficulties associated with information asymmetry, collateral, credit assessment and the cost of servicing smaller borrowers. The authors also showed that banks adopt different organisational structures and lending technologies to address these challenges. The study is significant because it demonstrates that increasing MSME credit requires not only the availability of funds but also appropriate lending mechanisms, risk-management practices and institutional support.

de la Torre, Martínez Pería, and Schmukler (2010) examined the involvement of banks in SME financing and questioned the assumption that relationship lending is the only effective mechanism for financing smaller businesses. Their findings showed that banks can serve SMEs through multiple lending technologies and organisational approaches. Large and sophisticated

banks can also participate actively in SME finance by using credit scoring, risk-management systems and standardised lending products. The research indicates that technological and institutional innovations can expand access to MSME finance. This has important implications for government-supported schemes because digitalisation, guarantees and improved credit information can facilitate wider participation by banks in MSME lending.

Berger and Black (2011) studied the relationship between bank size, lending technologies and small-business finance. The authors demonstrated that different banks use different technologies when lending to small businesses and that both large and small banks can have important roles in SME financing. Smaller banks may benefit from relationship-based lending and local knowledge, whereas larger banks can utilise transaction-based technologies and standardised credit assessment systems. The study suggests that an effective MSME financing ecosystem should involve a diverse range of banking institutions and lending technologies. Government-supported credit programmes can improve their reach when implementation mechanisms accommodate different types of financial institutions.

Canales and Nanda (2012) investigated the relationship between decentralised banking structures, market power and credit rationing in SME lending. The study revealed that decentralisation does not necessarily guarantee better access to finance for smaller firms. Local lending conditions and the degree of competition among banks can influence credit availability and loan terms. The findings indicate that institutional structure and competitive conditions within banking markets can significantly affect SME borrowers. The study therefore highlights the importance of monitoring the actual delivery of government-supported credit schemes rather than evaluating them solely on the basis of policy design or aggregate sanction figures. Banerjee and Duflo (2014) examined credit constraints using evidence from a directed lending programme. Their research provides important empirical evidence that firms can be genuinely credit constrained and that expanding access to formal credit can influence business activity. The study found that firms receiving additional credit used it to expand operations rather than merely replacing other sources of borrowing. This finding is particularly relevant to government-supported MSME lending because it indicates that appropriately targeted credit interventions can generate real economic effects. The research supports the argument that directed credit and priority-sector mechanisms may help viable enterprises overcome financing constraints and undertake productive investments.

Kumar and Rao (2015) analysed the financing patterns of Indian SMEs during the period from 2006 to 2013. The study examined the financial behaviour and sources of funds used by SMEs and highlighted the importance of access to suitable financing for business development. The authors indicated that financing decisions of SMEs differ from those of larger enterprises because smaller businesses face specific constraints related to their size, information availability and financial capacity. The study is particularly relevant in the Indian context because it reinforces the need for financial policies and banking mechanisms tailored to the requirements of MSMEs. Government-supported credit schemes can help reduce financing gaps by improving the availability of institutional credit.

International Finance Corporation (2018) examined the financing requirements of Indian MSMEs and estimated the extent of their debt requirements. The report identified a substantial gap between the financial requirements of MSMEs and the formal credit available to them. It highlighted structural constraints such as inadequate financial records, limited collateral, informality and difficulties in demonstrating creditworthiness. The report emphasised the importance of strengthening formal lending channels, digital financial infrastructure, alternative credit assessment and innovative financial products. These findings demonstrate that government-supported bank credit schemes have an important role in reducing India's MSME financing gap, particularly when combined with improvements in financial infrastructure and enterprise formalisation.

Reserve Bank of India (2025), in its *Annual Report 2024–25*, highlighted the continuing importance of financial inclusion, priority-sector lending and adequate flow of institutional credit to productive sectors of the economy. MSMEs remain an important component of India's credit and development framework because of their contribution to production, employment

and entrepreneurship. RBI's policy framework encourages regulated financial institutions to improve credit delivery while maintaining appropriate credit standards and risk-management practices. The report provides an institutional perspective for evaluating government-supported MSME credit programmes and demonstrates the importance of balancing wider credit access with financial stability and responsible lending.

Reserve Bank of India (2025), through its updated *FAQs on Priority Sector Lending*, clarified various aspects of priority-sector classification and lending requirements applicable to regulated entities. MSMEs constitute an important segment within the priority-sector framework. The policy framework encourages banks to direct a specified portion of their lending towards sectors that are economically and socially important but may otherwise experience inadequate access to institutional finance. Priority-sector lending therefore complements government-supported MSME schemes by strengthening the formal policy environment for credit delivery to smaller enterprises.

Reserve Bank of India (2025), through the *Master Directions on Priority Sector Lending – Targets and Classification*, provided the regulatory framework governing priority-sector credit by eligible financial institutions. The directions specify categories, targets and classification principles relevant to priority-sector lending, including lending to MSMEs. The framework is significant for MSME development because it institutionalises the role of banks in extending finance to smaller businesses. When combined with credit guarantees and targeted government schemes, priority-sector regulations can contribute to broader financial inclusion and improve the availability of institutional finance to MSMEs.

Department of Financial Services, Ministry of Finance, Government of India (2025), in its *Annual Report 2024–25*, discussed government initiatives aimed at expanding financial inclusion and improving access to institutional financial services. Government-supported credit programmes form an important part of this policy environment. Initiatives targeted at micro-enterprises, new entrepreneurs, women and disadvantaged groups have broadened the scope of formal business finance. The report indicates that banking institutions act as crucial implementation channels for translating government financial policies into actual credit delivery. Effective coordination among government departments, banks and other financial institutions is therefore essential for maximising the developmental impact of such programmes.

Objectives of the Study

1. To examine the role and coverage of major government-supported bank credit schemes in improving access to institutional finance for MSMEs.
2. To analyse the growth and effectiveness of bank credit and credit-guarantee support in promoting MSME development.
3. To identify major limitations in the delivery of government-supported MSME credit and suggest measures for improving its effectiveness.

Research Methodology

The present study follows a **descriptive and analytical research design**. It evaluates government-supported bank credit schemes and their contribution to the development of MSMEs in India.

The study is primarily based on **secondary data**. Information has been collected from reports and publications of the Reserve Bank of India, Ministry of Micro, Small and Medium Enterprises, Department of Financial Services, CGTMSE and related government sources. Relevant research articles and academic studies on SME finance have also been considered.

The analysis concentrates on major indicators such as the number of credit accounts, outstanding bank credit, number and amount of credit guarantees, loan sanctions and scheme coverage. Comparative and percentage-based analysis is used wherever appropriate.

The study covers major credit interventions such as PMMY, CGTMSE, Stand-Up India, PMEGP and the broader priority-sector lending framework. Recent official data available up to 2025-26 have been considered where relevant.

A limitation of the study is that it relies mainly on aggregate secondary data. Therefore, the analysis evaluates the broad reach and financial performance of schemes rather than estimating

Analysis of the Study

Table 1: Growth of Bank Credit to MSMEs

Financial Year	Micro Enterprises (₹ lakh crore)	Small Enterprises (₹ lakh crore)	Medium Enterprises (₹ lakh crore)	Total MSME Credit (₹ lakh crore)
2022-23	10.5	7.5	4.6	22.6
2023-24	13.3	8.6	5.3	27.3
2024-25*	15.1	9.9	6.3	31.3

*2024-25 data are provisional. Source: Reserve Bank of India Annual Report.

Analysis

Table 1 demonstrates a clear increase in formal bank credit to MSMEs. Total outstanding MSME credit increased from ₹22.6 lakh crore in 2022-23 to ₹31.3 lakh crore in 2024-25, representing an increase of approximately **38.5 per cent over the two-year period**.

Micro-enterprise credit increased from ₹10.5 lakh crore to ₹15.1 lakh crore, while credit to small enterprises increased from ₹7.5 lakh crore to ₹9.9 lakh crore. Medium-enterprise credit also rose from ₹4.6 lakh crore to ₹6.3 lakh crore.

The growth across all three enterprise categories suggests a broad expansion in institutional lending. RBI reported that scheduled commercial banks' MSME credit increased by 14.8 per cent year-on-year during 2024-25. The findings support the view that policy measures, priority-sector treatment and guarantee mechanisms are contributing to deeper formal credit penetration.

Table 2: Performance of CGTMSE Guarantee Schemes

Guarantee Scheme	FY2023-24: No. of Guarantees	FY2023-24 Amount (₹ crore)	FY2024-25: No. of Guarantees	FY2024-25 Amount (₹ crore)	Growth in Amount
CGS-I	13,64,482	1,65,705	23,26,645	2,46,514	49%
CGS-II	3,58,659	36,858	3,82,428	57,494	56%
CGS-III	932	244	6,202	1,499	514%
Total	17,24,073	2,02,807	27,15,275	3,05,507	51%

Source: CGTMSE Annual Report 2024-25.

Analysis

Table 2 shows substantial growth in government-supported credit guarantees. The total number of guarantees approved increased from approximately 17.24 lakh in FY2023-24 to 27.15 lakh in FY2024-25. The total guarantee amount increased from ₹2,02,807 crore to ₹3,05,507 crore. The 51 per cent growth in the value of guarantees is particularly significant because inadequate collateral is one of the major obstacles faced by small enterprises. Guarantee support reduces the lender's exposure to default risk and can therefore encourage banks and other eligible institutions to provide finance to borrowers that have viable businesses but insufficient collateral.

The expansion of CGTMSE therefore represents an important improvement in the institutional mechanism supporting MSME finance. Nevertheless, guarantee coverage needs to be accompanied by effective appraisal and monitoring so that greater lending does not compromise credit quality.

Table 3: Coverage of Major Government-Supported Credit Schemes

Scheme	Principal Beneficiaries	Credit/Assistance Feature	Reported Progress
PMMY	Micro enterprises	Collateral-free loans; categories from Shishu to Tarun Plus	52.07 crore accounts sanctioned; ₹33.19 lakh crore sanctioned as of 28 Feb. 2025
CGTMSE	Eligible micro and small enterprises	Credit guarantee supporting collateral-free/guaranteed lending	₹3,05,507 crore guarantees approved under CGS-I, II & III during FY2024-25
Stand-Up India	Women and SC/ST entrepreneurs	₹10 lakh–₹1 crore for eligible greenfield enterprises	2.67 lakh accounts; ₹60,504 crore sanctioned as of 28 Feb. 2025
PMEGP	New micro enterprises	Bank-linked credit with margin-money subsidy	59,708 micro units assisted and ₹2,202 crore margin-money subsidy disbursed in FY2024-25

Sources: Department of Financial Services; CGTMSE; Ministry of MSME.

Analysis

Table 3 reveals that the government's MSME financing architecture addresses different financing requirements rather than depending upon a single credit programme.

PMMY has achieved particularly large-scale outreach among micro enterprises. The scheme provides collateral-free institutional credit and now includes Tarun Plus loans above ₹10 lakh and up to ₹20 lakh for qualifying repeat borrowers.

CGTMSE works differently by strengthening the risk-sharing mechanism between lenders and the guarantee system. Its importance lies in reducing dependence on physical collateral.

Stand-Up India demonstrates the use of credit policy to encourage inclusive entrepreneurship. Of the 2.67 lakh accounts sanctioned by February 28, 2025, 1.99 lakh were women's accounts, showing the scheme's strong orientation towards women entrepreneurs.

PMEGP combines institutional credit with margin-money subsidy to encourage the establishment of new micro enterprises. Ministry of MSME data show that 59,708 micro units were assisted during FY2024-25, with estimated employment generation of 4,77,664 persons. Thus, the effectiveness of the overall framework comes partly from the complementary nature of its instruments direct loans, guarantees, targeted lending and subsidies.

Table 4: Assessment of Effectiveness and Continuing Challenges

Dimension	Evidence/Observation	Assessment
Formal credit availability	MSME outstanding bank credit rose from ₹22.6 lakh crore in 2022-23 to ₹31.3 lakh crore in 2024-25	Strong Positive
Credit guarantee support	CGTMSE guarantee amount increased 51% in FY2024-25	Strong Positive
Financial inclusion	PMMY recorded more than 52 crore sanctioned accounts by Feb. 2025	High Outreach
Inclusive entrepreneurship	Stand-Up India reached 2.67 lakh sanctioned accounts, including 1.99 lakh women's accounts	Positive
Loan-processing environment	RBI identified documentation, information asymmetry and transparency as continuing issues	Needs Improvement
Timeliness of small loans	RBI advised a uniform 14-day turnaround time for MSE loans up to ₹25 lakh	Improving Institutional Response

Sources: Compiled from RBI, Department of Financial Services and CGTMSE official information.

Analysis

Table 4 provides an overall assessment of government-supported bank credit interventions. The evidence indicates that these schemes have been effective in expanding the **scale, reach and institutional support** available for MSME financing.

The increase in outstanding bank credit demonstrates growing participation of formal financial institutions in MSME finance. Similarly, rapid expansion in CGTMSE guarantee coverage indicates that government-backed risk-sharing mechanisms are becoming increasingly important.

However, effectiveness should not be measured only by the volume of loans sanctioned. The quality of access is equally important. Entrepreneurs need transparent information, reasonable documentation, predictable processing periods and appropriate loan products.

RBI has recognised some of these operational barriers and advised scheduled commercial banks to maintain a **uniform 14-day turnaround time for loans up to ₹25 lakh for micro and small enterprise borrowers**. Banks have also been instructed to improve loan tracking, communicate reasons for rejection and provide borrowers with indicative documentation checklists.

Therefore, the analysis suggests that India's MSME credit-support system has achieved significant quantitative expansion, while further improvements are required in the qualitative dimensions of credit delivery.

Overall Conclusion

The study concludes that government-supported bank credit schemes have played a significant role in strengthening the financial ecosystem for MSMEs in India. The combination of priority-sector lending, collateral-free lending, credit guarantees, targeted entrepreneurship

programmes and subsidy-linked credit has increased the availability of institutional finance for micro, small and medium enterprises.

The increase in scheduled commercial banks' outstanding MSME credit from ₹22.6 lakh crore in 2022-23 to ₹31.3 lakh crore in 2024-25 provides strong evidence of expanding formal credit. The growth of CGTMSE is equally significant: guarantee approvals reached ₹3,05,507 crore during FY2024-25, representing 51 per cent growth in value over the previous year.

PMMY has substantially expanded collateral-free microenterprise finance, while Stand-Up India has promoted participation by women and SC/ST entrepreneurs. PMEGP has complemented bank finance with government margin-money support for establishing new micro enterprises. Collectively, these schemes demonstrate that government intervention can reduce some of the structural financial disadvantages experienced by smaller firms.

Nevertheless, sanction volumes alone cannot provide a complete measure of effectiveness. Access to finance continues to be influenced by documentation requirements, financial awareness, information asymmetry, processing time, borrower credit history and regional differences in banking access. The next stage of policy development should therefore focus on simplifying procedures, improving digital credit appraisal, strengthening borrower awareness, ensuring faster sanction and disbursement, increasing outreach in underserved regions and monitoring the post-credit performance of assisted enterprises.

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