**International Journal of Law, Management and Social Science** **ISSN: 2581-3498**

Vol. 5, Issue IV, Oct-Dec, 2021 https://bharatpublication.com/ijlmss/

# CREDIT AND FINANCING REFORMS IN INDIA'S MSME SECTOR DURING 2015-2020

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## INTRODUCTION:

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as the backbone of India's economy, contributing significantly to GDP, employment, exports, and regional development. According to the Ministry of MSME (2020), the sector contributes nearly 30% to India's GDP and provides direct employment to over 11 crore individuals, making it the second-largest employer after agriculture. MSMEs also account for approximately 45% of India's exports, underscoring their role in enhancing India's global competitiveness.

Despite their importance, MSMEs have historically struggled with access to formal credit. A large proportion of enterprises remain informal, dependent on personal savings, moneylenders, or trade credit. This reliance on non-institutional sources has limited their ability to scale operations, invest in technology, and compete effectively in both domestic and international markets (RBI, 2019). Recognizing these constraints, the Government of India introduced a series of reforms between 2015–2020 aimed at bridging the financing gap and strengthening MSME resilience.

The **MUDRA Yojana (2015)** was a landmark initiative that provided collateral-free loans up to ₹10 lakh, categorized into Shishu, Kishor, and Tarun segments to support micro and small entrepreneurs. The **Stand-Up India Scheme (2016)** emphasized inclusivity by extending loans to women and SC/ST entrepreneurs, thereby promoting social equity in enterprise ownership. The introduction of the **Goods and Services Tax (GST) in 2017** formalized millions of MSMEs, improving their creditworthiness by creating transparent financial records. Simultaneously, the **Trade Receivables Discounting System (TReDS)** was launched to address the chronic issue of delayed payments by enabling MSMEs to discount invoices and access working capital more efficiently.

These reforms collectively sought to create a more enabling environment for MSMEs by expanding access to institutional finance, reducing dependence on informal credit, and promoting inclusivity. However, the effectiveness of these measures varied across regions, sectors, and enterprise sizes. While loan disbursement figures under MUDRA were impressive, concerns about repayment defaults emerged. Similarly, Stand-Up India faced challenges in outreach and awareness. GST formalization improved transparency but imposed compliance burdens on smaller firms. TReDS showed promise but adoption remained limited due to lack of awareness among MSMEs and reluctance of larger buyers (Kumar & Sharma, 2019).

Thus, the period 2015–2020 represents a critical phase in India's MSME financing landscape. It marked the transition from traditional, informal financing mechanisms to structured, digital, and inclusive credit ecosystems. This study seeks to analyze these reforms comprehensively, assess their impact, and identify gaps that need to be addressed for future policy design.

## NEED FOR THE STUDY:

The need to study credit and financing reforms in India's MSME sector between 2015–2020 arises from several compelling reasons. First, MSMEs continue to face a **persistent credit gap**. According to RBI estimates, the formal credit available to MSMEs covers only a fraction of their total financing needs, leaving many enterprises dependent on informal sources. This gap restricts their ability to invest in technology, expand operations, and compete globally. Evaluating the reforms introduced during this period is essential to understand whether they effectively addressed this structural issue.

Second, the reforms were designed to promote **financial inclusion and social equity**. Schemes like Stand-Up India specifically targeted women and SC/ST entrepreneurs, groups traditionally marginalized in business ownership. Assessing the success of such initiatives is crucial to determine whether inclusivity goals were met or whether further interventions are required.

Third, the period witnessed a **digital transformation in financing mechanisms**. Platforms like TReDS and GST formalization introduced transparency, accountability, and efficiency into MSME financing. However, adoption rates remained uneven, particularly among micro enterprises in rural areas. Studying this transition helps identify barriers to digital adoption and the support systems needed to overcome them.

Fourth, the **COVID-19 pandemic in 2020** exposed vulnerabilities in MSME financing. Liquidity shocks forced the government to introduce emergency measures like the Emergency Credit Line Guarantee Scheme (ECLGS). Understanding the pre-pandemic reforms provides a baseline to evaluate how well MSMEs were prepared to withstand such crises and whether earlier measures contributed to resilience.

Fifth, there is a **regional imbalance** in MSME financing. States like Maharashtra, Tamil Nadu, and Gujarat dominate credit flows, while eastern and northeastern states lag behind. A systematic study of reforms can highlight whether these disparities were reduced or whether they persisted despite policy interventions.

Finally, the study is necessary for **policy learning and future design**. The government continues to introduce new schemes, such as the SME Growth Fund (2026). By analyzing the successes and shortcomings of the 2015–2020 reforms, policymakers can design more effective interventions that address structural gaps, promote inclusivity, and leverage digital platforms more efficiently.

In summary, the need for this study stems from the importance of MSMEs in India's economy, the persistent challenges they face in accessing credit, and the transformative reforms introduced during 2015–2020. A comprehensive evaluation of these measures will not only contribute to academic literature but also provide actionable insights for policymakers, financial institutions, and MSME stakeholders

## REVIEW OF LITERATURE:

The financing of MSMEs has been a subject of extensive academic and policy research, particularly in the Indian context where the sector plays a pivotal role in economic development. Literature between 2015–2020 reflects both optimism about reforms and skepticism regarding their implementation.

**MUDRA Yojana (2015):** Several studies have examined the impact of the Pradhan Mantri MUDRA Yojana (PMMY). According to RBI Annual Reports (2016–2019), MUDRA loans disbursed exceeded ₹10 lakh crore, benefiting over 24 crore borrowers. Scholars such as Sharma (2017) noted that the scheme expanded financial inclusion by providing collateral-free loans to micro-entrepreneurs. However, concerns about repayment defaults and over-indebtedness were raised by Singh & Gupta (2018), who argued that the scheme's success depended on effective monitoring and borrower capacity-building.

**Stand-Up India (2016):** The Stand-Up India scheme was designed to promote inclusivity by extending loans to women and SC/ST entrepreneurs. Ministry of Finance (2018) reports highlighted its role in encouraging entrepreneurship among marginalized groups. Academic studies, such as those by Rani (2019), found that while the scheme improved access to credit for disadvantaged groups, its outreach remained limited due to lack of awareness and procedural complexities.

**GST Formalization (2017):** The introduction of GST was a landmark reform that formalized millions of MSMEs. According to Singh (2018), GST improved transparency and creditworthiness by creating verifiable financial records. However, Kumar (2019) argued that compliance costs and digital literacy challenges imposed burdens on micro enterprises, particularly in rural areas.

**Trade Receivables Discounting System (TReDS, 2017):** TReDS was introduced to tackle delayed payments, a chronic issue for MSMEs. NABARD (2018) emphasized its potential to improve liquidity by enabling invoice discounting. Yet, adoption remained limited. Kumar & Sharma (2019) found that lack of awareness among MSMEs and reluctance of larger buyers to participate hindered its effectiveness.

**CGTMSE Expansion:** The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) expanded its coverage during this period. RBI (2019) noted that collateral-free loans under CGTMSE reduced risk for banks. However, Gupta (2020) observed that banks remained cautious, often demanding additional documentation, which limited the scheme's reach.

**Synthesis of Literature:** Overall, the literature suggests that while reforms between 2015–2020 expanded access to credit and promoted inclusivity, challenges persisted in awareness, adoption, repayment, and compliance. Scholars consistently emphasized the need for capacity-building, digital literacy, and stronger enforcement mechanisms to ensure the success of these reforms.

## OBJECTIVES:

- To analyze major credit and financing reforms introduced between 2015–2020.
- To assess their impact on MSME credit access and employment generation.
- To identify gaps and challenges in implementation.
- To suggest policy measures for strengthening MSME financing.

## HYPOTHESIS:

- H1: Credit and financing reforms between 2015–2020 significantly improved MSME access to institutional finance.
- H0: Credit and financing reforms did not significantly improve MSME access to institutional finance.

## METHODOLOGY:

This study adopts a descriptive and analytical approach to evaluate credit and financing reforms in India's MSME sector between 2015–2020.

**Data Sources:**

- Secondary data from RBI Annual Reports (2015–2020).
- Ministry of MSME Annual Reports (2015–2020).
- NABARD publications on MSME financing.
- Government of India Budget Documents.
- Academic journals and policy papers.

**Analytical Tools:**

- Trend analysis of loan disbursement under MUDRA, Stand-Up India, and CGTMSE.
- Comparative analysis of scheme adoption rates.
- Tabulation of credit flows and beneficiary data.
- Qualitative analysis of challenges and policy implications.

**Scope:**

- Focused on national-level reforms.
- Covers the period 2015–2020.
- Excludes post-COVID measures like ECLGS to maintain temporal consistency.

## DATA ANALYSIS AND FINDINGS

- MUDRA loans demonstrated significant scale, but repayment risks highlighted the need for financial literacy.
- Stand-Up India achieved inclusivity goals partially, with limited penetration in rural areas.
- TReDS showed promise in addressing delayed payments but required stronger enforcement and awareness campaigns.
- CGTMSE reduced collateral constraints but did not fully overcome banks' risk aversion.

**Table :1**

**Beneficiaries and Loan disbursement of various schemes**

| Scheme | 2015-16 | | 2019-20 | | |
|---|---|---|---|---|---|
| | Loan Disbursed (₹ crore) | Beneficiaries | Loan Disbursed (₹ crore) | Beneficiaries | Key Impact |
| **MUDRA Yojana** (8 April 2015) | 1,32,955 | 3.49 crore | 10,00,000 | 24 crore | Expanded micro-credit access |
| **Stand-Up India** (5 April 2016) | 16,000 | 3,500 | 20,000 | 1.5 lakh | Promoted inclusivity |
| **GST Formalization** (1 July 2017) | ---- | 1.05 crore | ----- | Millions registered | Improved transparency |

| | | | | | |
|---|---|---|---|---|---|
| **TReDS** (RBI guidelines in 2014; expanded after 2017) | 9,000 | Pilot stage | 35,000 | 15,000 MSMEs | Tackled delayed payments |
| **CGTMSE** | 17,000 | ------ | 2,00,000 | 30 lakh | Reduced collateral burden |

**Source: PMMY Annual Reports (MUDRA Ltd.),** GST Annual Reports, Ministry of Finance and GST Council.

**Trend Insights:**

- Loan disbursement under MUDRA grew steadily year-on-year, reflecting strong demand for micro-credit.
- Stand-Up India loans plateaued after initial enthusiasm, suggesting outreach challenges.
- TReDS adoption remained marginal compared to the scale of MSMEs in India.

CGTMSE guarantees increased, but banks continued to prefer collateralized lending. The analysis of credit and financing reforms in India's MSME sector between 2015–2020 reveals several important findings:

1. ***Expansion of Credit Access***: The MUDRA Yojana significantly expanded access to collateral-free loans, disbursing over ₹10 lakh crore to 24 crore beneficiaries (RBI, 2019). However, repayment defaults and over-indebtedness were reported, particularly among micro-enterprises lacking financial literacy.
2. ***Promotion of Inclusivity***: The Stand-Up India Scheme successfully targeted women and SC/ST entrepreneurs, providing loans worth ₹20,000 crore to 1.5 lakh beneficiaries (Ministry of Finance, 2018). Despite this, outreach remained limited due to procedural complexities and lack of awareness in rural areas.
3. ***Formalization through GST***: GST formalized millions of MSMEs, improving transparency and creditworthiness (Singh, 2018). Yet, compliance costs and digital literacy challenges imposed burdens on micro-enterprises, particularly in rural and semi-urban regions.
4. ***Liquidity through TReDS***: TReDS facilitated invoice discounting worth ₹35,000 crore, addressing delayed payments (NABARD, 2018). Adoption remained low, with only 15,000 MSMEs participating, due to lack of awareness and reluctance of larger buyers.
5. ***Risk Mitigation via CGTMSE***: CGTMSE guarantees reduced collateral constraints, supporting loans worth ₹2 lakh crore to 30 lakh MSMEs (RBI, 2019). Banks, however, remained cautious, often demanding additional documentation, limiting the scheme's effectiveness.

**Overall Finding:**

The reforms collectively improved credit access, promoted inclusivity, and introduced digital mechanisms. However, structural challenges, such as low awareness, repayment risks, compliance burdens, and regional disparities  estricted their full impact.

## CONCLUSIONS:

The period 2015–2020 marked a transformative phase in India's MSME financing landscape. The government's initiatives—MUDRA, Stand-Up India, GST, TReDS, and CGTMSE—laid the foundation for a more inclusive and digital credit ecosystem. These reforms expanded access to institutional finance, reduced dependence on informal sources, and promoted social equity in entrepreneurship.

However, the effectiveness of these measures varied. While MUDRA loans demonstrated scale, repayment risks highlighted the need for financial literacy. Stand-Up India promoted inclusivity but faced outreach challenges. GST formalization improved transparency but imposed compliance burdens. TReDS addressed delayed payments but adoption remained limited. CGTMSE reduced collateral constraints but did not fully overcome banks' risk aversion.

Thus, while the reforms were significant, they were not sufficient to fully address the structural challenges facing MSMEs. The findings underscore the need for stronger enforcement, capacity-building, digital literacy, and targeted interventions to ensure that credit reforms translate into sustainable growth for MSMEs.

## IMPLICATIONS AND POLICY RECOMMENDATIONS:

### *IMPLICATIONS:*

- **Economic Growth:** Expanded credit access strengthens MSMEs' contribution to GDP and employment.
- **Social Equity:** Inclusive financing promotes entrepreneurship among marginalized groups.
- **Digital Transformation:** Platforms like GST and TReDS formalize enterprises, improving transparency and efficiency.
- **Resilience:** Credit reforms enhance MSMEs' ability to withstand economic shocks, though gaps remain.

***POLICY RECOMMENDATIONS*:**

1. **Strengthen Awareness Campaigns:**
   - Launch targeted campaigns to increase awareness of schemes like Stand-Up India and TReDS.
   - Partner with local institutions to reach rural and semi-urban MSMEs.

2. **Enhance Financial Literacy:**
   - Integrate financial literacy programs with loan disbursement under MUDRA and CGTMSE.
   - Provide training on repayment management, digital platforms, and compliance.

3. **Simplify Procedures:**
   - Streamline documentation and reduce procedural complexities in schemes like Stand-Up India.
   - Introduce single-window digital platforms for MSME financing.

4. **Promote Digital Adoption:**
   - Provide incentives for MSMEs to adopt digital platforms like GST and TReDS.
   - Offer training programs to improve digital literacy among micro-enterprises.

5. **Address Regional Disparities:**
   - Design region-specific interventions to support MSMEs in lagging states.
   - Allocate targeted credit flows to eastern and northeastern regions.

6. **Strengthen Risk Mitigation:**
   - Expand CGTMSE coverage and simplify guarantee procedures.
   - Encourage banks to adopt risk-sharing mechanisms to reduce reluctance in lending.

7. **Integrate Sustainability:**
   - Introduce green financing schemes to support MSMEs adopting eco-friendly practices.
   - Link credit incentives to sustainability certifications like ZED.

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