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Access to Institutional Finance for MSMEs: A Descriptive Study of Commercial Banks in India

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ABSTRACT
Purpose: The purpose of the study is to examine access to institutional finance for Micro, Small and Medium Enterprises (MSMEs) in India, with special emphasis on the role played by commercial banks in facilitating credit availability.
Methodology: The study adopts a descriptive research design based on secondary data collected from Reserve Bank of India reports, Ministry of MSME publications, World Bank reports, and relevant research literature. Data are analysed using tables, percentages, and graphical tools.
Findings: The study finds that commercial banks have significantly increased institutional credit to MSMEs, supported by policy initiatives such as priority sector lending and credit guarantee schemes. However, MSMEs continue to face challenges such as collateral requirements, procedural complexities, and limited financial literacy.
Limitations: The study is limited to secondary data and focuses only on commercial banks, excluding NBFCs and informal sources of finance.
Implications: The findings provide useful insights for policymakers, bankers, and MSME stakeholders to strengthen institutional credit mechanisms, simplify lending procedures, and enhance financial inclusion in the MSME sector.
KEYWORDS: MSMEs, Commercial Banks, Institutional Finance, Financial Inclusion, Credit Accessibility

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in India's economic development by contributing significantly to employment generation, industrial output, and exports. According to the Ministry of MSME, the sector accounts for nearly 30 per cent of India's GDP and over 45 per cent of total manufacturing output **(MoMSME, 2023)**. Despite their economic importance, MSMEs continue to face persistent challenges in accessing timely and adequate institutional finance, which constrains their growth and sustainability.

Institutional finance, particularly from commercial banks, remains the primary source of external funding for MSMEs in India. Commercial banks provide various forms of credit such as term loans, working capital finance, overdrafts, and collateral-free loans under government- supported schemes. However, MSMEs often encounter barriers including stringent collateral requirements, information asymmetry, high transaction costs, and procedural complexities in bank lending **(RBI, 2022)**. These constraints limit credit penetration, especially for micro and small enterprises operating in semi-urban and rural regions.

Recognizing these issues, the Government of India and the Reserve Bank of India (RBI) have introduced several policy measures such as Priority Sector Lending norms, Credit Guarantee Fund Trust for Micro and Small Enterprises **(CGTMSE)**, and digital lending initiatives to improve MSME access to bank finance **(RBI, 2023)**. While these initiatives aim to enhance financial inclusion, disparities remain in credit availability, awareness, and utilization across regions and enterprise sizes.

In this context, a descriptive study of the role of commercial banks in facilitating institutional finance to MSMEs is crucial. Such a study helps in understanding existing financing patterns, identifying gaps in credit delivery mechanisms, and assessing the effectiveness of banking interventions. The present study attempts to provide a systematic description of how commercial banks contribute to MSME financing in India and the challenges faced in ensuring inclusive and sustainable access to institutional finance **(World Bank, 2021)**.

OVERVIEW OF THE STUDY

The present study focuses on examining access to institutional finance for MSMEs in India with special emphasis on the role of commercial banks. It adopts a descriptive research design to analyze the nature, extent, and patterns of bank credit provided to MSMEs. The study explores various banking products and schemes designed for MSME financing and evaluates their reach and effectiveness. Further, the study highlights the major challenges faced by MSMEs in accessing commercial bank finance, including documentation requirements, collateral constraints, and credit appraisal procedures. Secondary data from RBI reports, government publications, and existing literature form the basis of analysis. By presenting a structured overview of commercial bank financing practices, the study aims to provide insights useful for policymakers, bankers, and MSME stakeholders to strengthen institutional credit delivery and promote sustainable enterprise growth in India.

Conceptual Framework

The conceptual framework of the study is based on the relationship between commercial bank financing and MSME access to institutional credit. Commercial banks act as key financial intermediaries providing various credit facilities influenced by regulatory policies, risk assessment mechanisms, and government support schemes. MSME access to finance depends on factors such as enterprise size, creditworthiness, financial literacy, collateral availability, and awareness of banking products.

Government interventions like priority sector lending norms, credit guarantee schemes, and digital finance platforms moderate the relationship between banks and MSMEs by reducing lending risks and improving credit flow **(RBI, 2023)**. Improved access to institutional finance is expected to enhance MSME outcomes in terms of business expansion, employment generation, and financial stability. The framework thus links banking policies and credit mechanisms with MSME financial access and developmental outcomes, forming the basis for descriptive analysis in the study.

Problem Statement

Micro, Small and Medium Enterprises (MSMEs) are widely recognized as the backbone of the Indian economy due to their significant contribution to employment generation, industrial production, and inclusive growth. Despite their importance, MSMEs in India continue to face acute difficulties in accessing adequate and timely institutional finance from commercial banks. Issues such as stringent collateral requirements, complex loan procedures, information asymmetry, inadequate financial records, and limited financial literacy restrict MSMEs' ability to avail formal credit. Although policy initiatives like priority sector lending norms, credit guarantee schemes, and digital banking reforms have been introduced to enhance credit flow, a substantial financing gap persists, particularly for micro and small enterprises. This gap adversely affects MSME growth, competitiveness, and sustainability. Therefore, it becomes imperative to undertake a descriptive study to examine the role of commercial banks in facilitating institutional finance to MSMEs in India and to identify existing constraints in the banking system that hinder effective credit access.

LITERATURE REVIEW

- **Beck and Demirguc-Kunt (2006)**, "Small and Medium-Size Enterprises: Access to Finance as a Growth Constraint", found that limited access to bank finance significantly hampers SME growth in developing economies. The study suggests simplifying lending procedures and strengthening financial infrastructure to improve credit access.
- **Rajan and Zingales (2008)**, "Financial Systems, Industrial Structure, and Growth", highlighted that well-developed banking systems enhance SME financing. They recommended improving credit information systems to reduce information asymmetry.
- **Berger and Udell (2006)**, "A More Complete Conceptual Framework for SME Finance", observed that relationship banking plays a vital role in MSME credit delivery. The authors suggested strengthening long-term bank–enterprise relationships.
- **Reserve Bank of India (2017)**, "Report on MSME Credit", identified procedural delays and collateral constraints as major hurdles in MSME financing. The report recommended expanding collateral-free lending and improving credit appraisal mechanisms.
- **Ghosh (2018)**, "Financing Constraints of MSMEs in India", found that micro enterprises face severe credit rationing. The study suggested enhanced credit guarantee coverage to mitigate lending risks.
- **Kumar and Rao (2019)**, "Role of Commercial Banks in MSME Financing", revealed that public sector banks dominate MSME lending but face rising NPAs. They suggested better monitoring and sector-specific lending policies.
- **World Bank (2019)**, "MSME Finance Gap Report", estimated a significant credit gap for MSMEs in emerging economies. The report emphasized digital finance as a key solution.
- **Sharma and Goyal (2020)**, "Financial Inclusion and MSME Growth", concluded that institutional finance positively impacts MSME sustainability. They recommended increasing financial literacy among entrepreneurs.
- **Singh (2020)**, "Challenges in Bank Financing of MSMEs", observed that lack of formal documentation restricts credit access. The study suggested simplified KYC and documentation norms.
- **OECD (2020)**, "Financing SMEs and Entrepreneurs", highlighted the importance of government-backed credit schemes. It recommended strengthening public–private coordination.
- **Patel and Mehta (2021)**, "Credit Accessibility of

MSMEs in India", found regional disparities in bank lending. The study suggested region-specific banking policies.

- **RBI (2021),** "Trend and Progress of Banking in India", reported increased MSME lending post policy reforms. It suggested continuous regulatory support to sustain credit growth.
- **Verma (2021)**, "Bank Credit and MSME Performance", observed that timely credit improves productivity. The study recommended faster loan sanctioning processes.
- **Sahu and Das (2022)**, "Institutional Finance and MSME Development", found that credit guarantee schemes enhance bank confidence. They suggested expanding CGTMSE coverage.
- **Chakraborty (2022),** "Risk Perception in MSME Lending", noted banks' risk aversion toward small enterprises. The study suggested improved risk assessment models.
- **Kaur (2022),** "Digital Banking and MSME Finance", highlighted digital platforms as effective tools for credit access. The study recommended promoting fintech–bank collaboration.
- **RBI (2022),** "MSME Lending Guidelines", identified improvement in credit flow but persistent access gaps. It suggested enhanced monitoring of priority sector targets.
- **Gupta and Jain (2023),** "Banking Reforms and MSME Credit", found that reforms improved loan availability. They suggested reducing procedural complexity further.
- **World Bank (2023),** "Enhancing MSME Access to Finance", emphasized policy stability and digital innovation. The report suggested strengthening credit bureaus.
- **Meena and Singh (2023),** "Financial Literacy and MSME Financing", found a strong link between literacy and credit access. They recommended targeted training programs.
- **RBI (2023),** "Financial Stability Report", observed improved MSME credit resilience. It suggested continued regulatory easing for small enterprises.
- **Shukla (2023),** "Bank Lending Behaviour towards MSMEs", found conservative lending approaches among banks. The study suggested incentive-based MSME lending.
- **NITI Aayog (2024),** "MSME Financing in India", highlighted structural credit gaps. It recommended integrated policy support and banking reforms.
- **Begum (2024),** "Role of MSMEs in India's Economic Growth", emphasized finance as a key growth driver. The study suggested strengthening institutional credit networks.
- **ASSOCHAM (2025),** "MSME Credit Ecosystem in India", found increasing reliance on commercial banks. The report recommended enhancing digital and collateral-free lending mechanisms.

Research Objectives

1. To examine the extent of institutional finance provided by commercial banks to MSMEs in India.
2. To identify the major challenges faced by MSMEs in accessing institutional finance from commercial banks.
3. To analyse the role of government and RBI initiatives in improving MSMEs' access to commercial bank finance.

Research Questions

1. What is the extent and trend of institutional finance extended by commercial banks to MSMEs in India?
2. What are the major constraints faced by MSMEs while accessing finance from commercial banks?
3. How effective are government and RBI initiatives in enhancing MSMEs' access to institutional finance through commercial banks?

RESEARCH METHODOLOGY RESEARCH DESIGN

The present study adopts a descriptive research design to examine access to institutional finance for MSMEs with special reference to the role of commercial banks in India. Descriptive research is appropriate as it enables systematic description of existing banking practices, credit patterns, and policy initiatives related to MSME financing without manipulating variables.

Nature of the Study

The study is analytical and descriptive in nature, focusing on understanding trends, patterns, and challenges in commercial bank financing of MSMEs using secondary data sources.

Sources of Data

The study is based entirely on secondary data, collected from reliable and authentic sources, including:

- Reserve Bank of India (RBI) publications
- Ministry of MSME reports
- World Bank and OECD reports
- Government policy document
- Research journals, books, and working papers
- Reports of industry bodies such as ASSOCHAM and FICCI

Tools and Techniques of Analysis

The collected data have been analysed using:

- Tables and percentages
- Line graphs and bar diagrams
- Trend analysis
- Comparative analysis

These tools help in presenting data in a clear and interpretable manner.

MSME Credit by Commercial Banks

Table 1: Commercial Bank Credit to MSMEs in India (₹ lakh crore)

Year	MSME Credit by Commercial Banks
2019	15.6
2020	16.2
2021	18.3
2022	20.1
2023	22.0

Source: RBI, Trend and Progress of Banking in India (Various Issues)

Interpretation:

The table indicates a consistent increase in commercial bank credit to MSMEs over the study period. Despite economic disruptions during the pandemic, MSME credit has shown steady growth, reflecting policy support, priority sector lending norms, and increased bank focus on MSME financing.

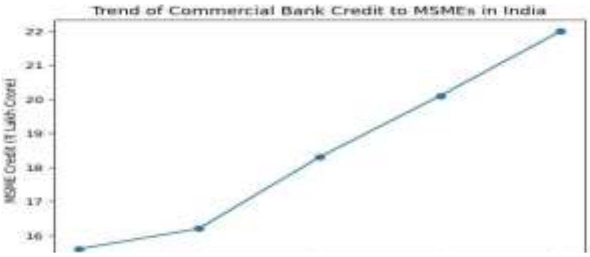

Figure 1: Commercial Bank Credit to MSMEs in India (₹ lakh crore)

Source: Author Creation

This line graph shows a steady increase in institutional credit extended by commercial banks to MSMEs from 2019–20 to 2023–24. The upward trend indicates enhanced banking support, policy interventions, and improved credit flow to the MSME sector despite economic disruptions.

Major Constraints Faced by MSMEs in Bank Financing

Table 2: Major Constraints Faced by MSMEs in Bank Financing

Constraint	Percentage of MSMEs Affected (%)
Lack of collateral	62
Complex loan procedures	58
Inadequate financial records	46
High interest rates	41
Limited financial literacy	39

Source: World Bank (2023); RBI MSME Survey Reports

Interpretation:

The data reveals that lack of collateral and complex banking procedures are the most significant barriers. This highlights the need for collateral-free lending and simplified loan processing systems to enhance MSME access to institutional finance.

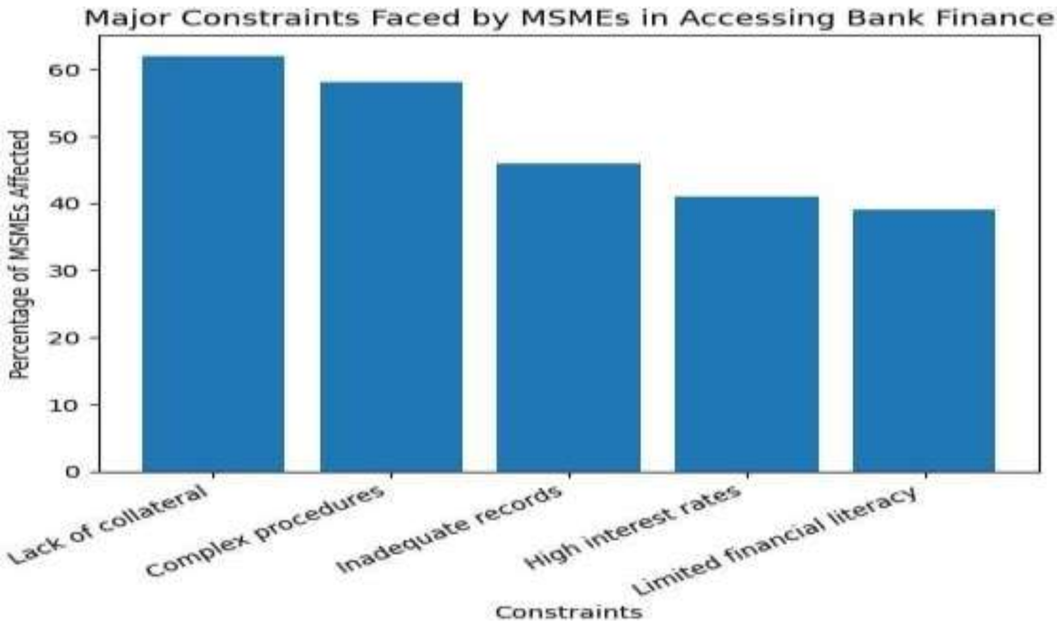

Figure 2: Major Constraints Faced by MSMEs in Bank Financing

Source: Author Creation

The bar diagram highlights that lack of collateral (62%) and complex loan procedures (58%) are the most significant constraints faced by MSMEs. Other challenges include inadequate financial records, high interest rates, and limited financial literacy. These barriers continue to restrict MSMEs' effective access to institutional finance.

Impact of Policy Initiatives on MSME Bank Credit

Table 3: Impact of Policy Initiatives on MSME Bank Credit

Initiative	Observed Impact
Priority Sector Lending	Increased share of MSME credit
CGTMSE	Rise in collateral-free loans
Emergency Credit Line Guarantee Scheme (ECLGS)	Improved credit flow during crisis
Digital Lending Platforms	Faster loan approvals

Source: RBI (2023); Ministry of MSME Reports

Interpretation:

The table indicates that government and RBI initiatives have positively influenced MSME financing by reducing lending risks and improving credit accessibility. However, continued policy support and effective implementation are required to address remaining credit gaps.

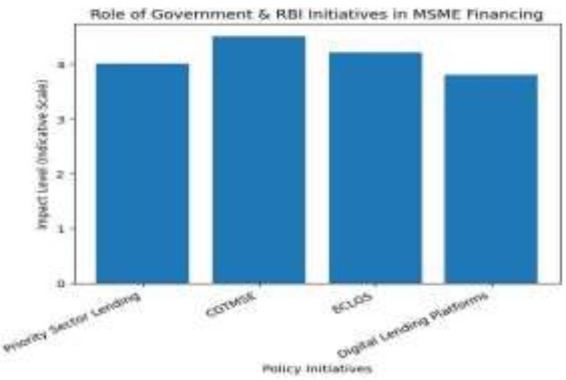

Figure 3: Impact of Policy Initiatives on MSME Bank Credit

Source: Author Creation

This diagram presents the relative impact of major policy initiatives on MSME financing. Credit Guarantee schemes (CGTMSE) and the Emergency Credit Line Guarantee Scheme (ECLGS) show a higher impact in improving credit availability. Digital lending platforms have also contributed by reducing processing time and improving accessibility.

FINDINGS OF THE STUDY

The study finds that commercial banks play a crucial role in providing institutional finance to MSMEs in India, as reflected in the consistent growth of bank credit to the sector during the study period. Policy initiatives such as priority sector lending norms, credit guarantee schemes, and emergency credit support measures have positively influenced credit flow. However, the findings reveal that access to finance remains uneven, particularly for micro and small enterprises. Major constraints identified include lack of collateral, complex loan procedures, inadequate financial documentation, and limited financial literacy among MSME owners. Although digital banking initiatives have improved loan processing efficiency, awareness and utilization of such platforms remain limited. Overall, while institutional financing has improved, structural and operational challenges continue to restrict inclusive and timely access to bank credit for MSMEs.

CONCLUSION

The study concludes that institutional finance provided by commercial banks is vital for the growth and sustainability of MSMEs in India. Commercial banks have significantly expanded their lending to the MSME sector, supported by regulatory reforms and government-backed schemes aimed at enhancing financial inclusion. Initiatives such as credit guarantee schemes and digital lending platforms have helped reduce lending risks and improved access to finance, particularly during periods of economic stress.

Despite these improvements, the study highlights persistent challenges faced by MSMEs in accessing bank finance. Procedural complexities, collateral requirements, and inadequate financial literacy continue to limit credit accessibility, especially for micro enterprises and businesses operating in rural and semi-urban areas. The findings emphasize the need for further simplification of lending processes, enhanced financial awareness programs, and stronger implementation of policy measures. Strengthening the institutional credit framework and improving coordination between banks and MSMEs will be essential to ensure sustainable and inclusive economic growth in India.

FURTHER SCOPE OF THE STUDY

The present study opens several avenues for future research in the area of MSME financing. Further studies may adopt a primary data approach by conducting field surveys to capture the perceptions and experiences of MSME owners regarding bank financing. Comparative studies can be undertaken to analyse the role of public sector and private sector banks in MSME credit delivery. Future research may also focus on regional or district-level analysis to identify location-specific challenges in accessing institutional finance.

Additionally, the role of non-banking financial companies (NBFCs), fintech firms, and alternative financing platforms in supporting MSMEs can be explored. Longitudinal studies covering a longer time span may provide deeper insights into the long-term impact of banking reforms and policy initiatives. Examining the relationship between institutional finance and MSME performance indicators such as productivity, profitability, and employment generation would further enrich the existing literature.

LIMITATIONS OF THE STUDY

- The study is based solely on secondary data sources.
- Primary perceptions of MSME owners are not included.
- The analysis is limited to commercial banks and excludes NBFCs and informal finance sources.

- The findings depend on the accuracy and availability of published data.
- Regional variations within India could not be examined in detail.

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