

Catalysing Inclusive Growth: The Role of MSME Credit Schemes in India's Economic Development.

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Abstract

This study evaluates the impact of three flagship MSME credit schemes—Pradhan Mantri MUDRA Yojana (PMMY), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and Prime Minister's Employment Generation Programme (PMEGP)—on inclusive economic growth in India. Using data from 2015 to 2024 and policy analysis, it assesses each scheme's contribution to credit access, risk mitigation, and employment generation. PMMY has shown sustained growth and high disbursement efficiency; CGTMSE has expanded guarantee coverage, especially in the post-pandemic period; and PMEGP has delivered cost-effective job creation despite recent fluctuations. The findings underscore the collective role of these schemes in advancing financial inclusion and entrepreneurship, offering policy insights to enhance equity, resilience, and long-term sustainability in MSME support.

Keywords: MSME Credit Schemes, Financial Inclusion, Employment Generation, Inclusive Economic Growth

1. Introduction

India's journey towards inclusive economic development is inseparable from the growth and resilience of its Micro, Small, and Medium Enterprises (MSMEs). These enterprises contribute nearly 30% to the country's GDP, 45 percent to country's exports [1] and with over 63 million enterprises employing approximately 110 million individuals [2] highlights their critical role in job creation across manufacturing, services, and trade sectors. The sector is contributing to regional growth, noting their widespread rural presence and inclusive ownership across gender and social groups. [3] MSMEs have long been recognized for their potential to drive employment, foster innovation, and promote regional balance. Yet, despite their promise, they continue to face systemic barriers, particularly in accessing formal finance. [2,4] The literature on MSME development consistently highlights these challenges. Scholars such as Beck et al. (2005) [5] and Banerjee & Duflo (2014) [6] have shown that financial constraints disproportionately affect small firms, especially in developing economies. In the Indian context, Kumar & Sharma (2018) [7] Rajmani & Nirmal Raj [2019] [8] underscore how limited

collateral, high transaction costs, and low financial literacy push entrepreneurs toward informal and often exploitative lending channels. These insights have shaped the policy discourse around MSME financing, emphasizing the need for targeted interventions. Responding to this need, the Government of India has introduced several credit schemes over the past decade aimed at democratizing financial access and nurturing entrepreneurship. Among these, the Pradhan Mantri MUDRA Yojana (PMMY), launched in 2015, has emerged as a flagship initiative offering collateral-free loans to micro-entrepreneurs. Complementing PMMY, the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provide credit guarantees to lenders, thereby reducing the perceived risk of lending to small businesses. The Prime Minister's Employment Generation Programme (PMEGP) adds another layer by combining financial assistance with employment generation, particularly in underserved regions. Empirical evaluations of these schemes offer a mixed but largely positive picture. Studies by the Reserve Bank of India (2018) [9] and NCAER (2020) [10] suggest that PMMY has expanded credit

access, though concerns around repayment capacity and monitoring persist. CGTMSE has been praised for increasing loan approvals, especially for first-time borrowers (SIDBI & GIZ. (2019).) [11], while PMEGP has shown promise in rural job creation despite facing implementation hurdles such as subsidy delays and project tracking (Indian Institute of Entrepreneurship, 2017).[12] The broader concept of inclusive growth, as defined by the Planning Commission (2011) [13] involves equitable access to opportunities and broad-based economic participation. MSMEs, with their decentralized structure and labor-intensive operations, are uniquely positioned to deliver on this vision. Literature by Chakrabarty (2012) [14] and Dev (2008) [15] links MSME development to poverty reduction, gender empowerment, and regional equity. More recent studies by the World Bank (2018) [16] and UNDP [17] advocate for integrated policy frameworks that combine financial access with capacity building, digital enablement, and market linkages. Against this backdrop, the present study seeks to analyze the performance of PMMY, CGTMSE, and PMEGP from 2015 to 2024, using official data to assess their impact on credit flow, guarantee coverage, and employment generation. By weaving together quantitative trends and policy insights, the paper aims to contribute to the evolving discourse on MSME financing and its role in catalyzing inclusive economic development in India.

1.1. The objective

The study is to evaluate the impact of PMMY, CGTMSE, and PMEGP on financial inclusion and entrepreneurship in India. It analyzes credit trends, employment outcomes, implementation challenges, and their role in inclusive growth, offering insights to strengthen MSME policy.

1.2. Methodology

This study uses a mixed-methods approach, combining quantitative data from official MSME, MUDRA, CGTMSE, and PMEGP reports with qualitative insights from policy briefs, surveys, and academic studies by RBI, NCAER, and UNDP India. This integration enables a comprehensive assessment of credit trends, employment impact, and policy

dynamics in MSME financing.

2. Analytical Framework

This paper evaluates the performance of three flagship MSME support schemes—Pradhan Mantri MUDRA Yojana (PMMY), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and Prime Minister's Employment Generation Programme (PMEGP)—through a structured analytical lens. Each scheme addresses a distinct pillar of MSME development: credit access, risk mitigation, and employment generation. Together, they form a comprehensive strategy for inclusive economic growth. The analysis is organized across four dimensions: scale and reach, operational efficiency, resilience and responsiveness, and policy implications. The following tables present quantitative evidence to support this framework.

2.1 Performance Analysis of the Pradhan Mantri MUDRA Yojana (PMMY): A Decade of Inclusive Credit Expansion

Since its inception in 2015–16, the Pradhan Mantri MUDRA Yojana (PMMY) has emerged as a cornerstone of India's financial inclusion strategy, aimed at empowering micro and small enterprises through accessible credit. Table 1 Shows Annual Credit Flow under PMMY (₹ in Crore)

Table 1 Annual Credit Flow under PMMY (₹ in Crore)

Year	Target	Sanctioned	Disbursed	Disbursement Efficiency (%)
2015–16	₹1,22,000	₹1,37,449	₹1,32,955	96.73%
2016–17	₹1,80,000	₹1,80,529	₹1,75,312	97.10%
2017–18	₹2,44,000	₹2,53,677	₹2,46,437	97.15%
2018–19	₹3,00,000	₹3,21,723	₹3,11,811	96.92%
2019–20	₹3,25,000	₹3,37,496	₹3,29,715	97.69%
2020–21	₹3,50,000	₹3,21,759	₹3,11,754	96.89%
2021–22	₹3,06,000	₹3,39,110	₹3,31,402	97.73%
2022–23	N.A	₹4,56,538	₹4,50,424	98.66%
2023–24	N.A	₹5,41,013	₹5,32,358	98.40%

Over the span of nine years, the scheme has demonstrated remarkable growth in both sanctioned and disbursed loan volumes, reflecting its expanding reach and operational maturity. Source: MSME Annual Report 2021–22; data for 2022–23 and 2023–24 compiled from official government releases. Targets for these years not available as of October 2025.

2.1.1 Growth Trajectory and Credit Flow

The PMMY began with a modest target of ₹1.22 lakh crore in 2015–16, yet managed to sanction ₹1.37 lakh crore and disburse ₹1.32 lakh crore in its first year—already exceeding expectations. This trend of surpassing annual targets continued in subsequent years, with sanctioned amounts steadily climbing to ₹5.41 lakh crore by 2023–24. Disbursed amounts closely followed, reaching ₹5.32 lakh crore in the same year. This nearly fourfold increase underscores the scheme's growing relevance and the rising demand for microcredit across India. While targets were consistently published until 2021–22, the unavailability of official benchmarks for 2022–23 and 2023–24 limits full comparative assessment. Nevertheless, the continued upward trajectory in sanctioned and disbursed amounts during these years suggests a deliberate policy push and sustained institutional commitment to microenterprise development.

2.1.2 Disbursement Efficiency: A Measure of Execution

One of the most striking features of PMMY's performance is its consistently high disbursement efficiency. Defined as the ratio of disbursed to sanctioned loans, this metric remained above 96% throughout the period, peaking at 98.66% in 2022–23. Such figures indicate that nearly all sanctioned loans were successfully converted into actual disbursements—a testament to the scheme's robust implementation framework and minimal leakage. This efficiency also reflects borrower readiness and institutional agility, suggesting that the scheme has matured in its ability to identify viable beneficiaries and deliver timely financial support.

2.1.3 Impact of External Shocks and Recovery

The year 2020–21 marked a temporary dip in both

sanctioned and disbursed amounts, coinciding with the economic disruptions caused by the COVID-19 pandemic. Sanctioned credit fell to ₹3.21 lakh crore from ₹3.37 lakh crore the previous year, while disbursements declined to ₹3.11 lakh crore. However, the swift recovery in 2021–22 and the sharp rise in subsequent years highlight the resilience of the scheme and its role in post-pandemic economic revival, particularly for informal and small-scale entrepreneurs.

2.1.4 Policy Implications and Future Directions

PMMY's decade-long performance offers several policy insights. First, the consistent overshooting of annual targets (where available) reflects strong demand for microcredit and the effectiveness of outreach mechanisms. Second, the scheme's high disbursement efficiency—consistently above 96%—demonstrates sound targeting and robust execution. Third, the post-pandemic rebound in credit flow underscores the importance of flexible and responsive financial systems in supporting economic recovery. This paper focuses on national-level trends and did not explore the granular dimensions of disaggregated data by region, sector, and borrower profile. Future research could benefit from examining these layers to assess equity in access, regional disparities, and sectoral effectiveness. Additionally, the availability of annual targets would enhance transparency and enable more rigorous performance benchmarking, especially in years where such data is currently unavailable.

2.2 CGTMSE: Risk Mitigation and Guarantee Expansion for MSMEs

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has played a pivotal role in strengthening the credit ecosystem for India's MSME sector. By offering collateral-free credit guarantees, the scheme has enabled financial institutions to extend loans to small businesses with reduced risk exposure. Over the past six years, CGTMSE has witnessed substantial growth in both the number of guarantees issued and the total amount guaranteed, reflecting its expanding influence in de-risking MSME lending. Table 2 shows Annual Credit Guarantee Coverage (₹ in Crore)

Table 2 Annual Credit Guarantee Coverage (₹ in Crore)

Financial Year	No. of Guarantees	Amount Guaranteed (₹ Crore)
2018–19	4,35,520	₹30,169
2019–20	8,46,650	₹45,851
2020–21	8,35,592	₹36,899
2021–22	7,17,020	₹56,172
2022–23*	10,44,955	₹91,427
2023–24	17,24,073	₹2,02,807

Data for 2022–23 is reported up to February 28, 2023. Source: MSME Annual Report 2021–22; CGTMSE data from Data.gov.in (up to FY 2022–23); Ministry of Finance press release (FY 2023–24).

2.2.1 Growth Trends and Insights

- **Sevenfold Increase in Guarantee Value:** The amount guaranteed under CGTMSE rose from ₹30,169 crore in 2018–19 to ₹2,02,807 crore in 2023–24, marking a nearly sevenfold increase.
- **Rising Number of Guarantees:** The number of guarantees issued grew from 4.35 lakh to 17.24 lakh over the same period, indicating broader outreach and adoption.
- **Surge in 2023–24:** The most dramatic growth occurred between 2022–23 and 2023–24, with a 94% increase in guarantee value. This reflects heightened lender confidence and aggressive expansion in credit risk coverage.
- **Pandemic Disruption and Recovery:** A temporary dip in 2020–21 and 2021–22 may be attributed to COVID-19-related economic disruptions. However, the strong rebound in subsequent years underscores the scheme's strategic role in post-pandemic recovery.

2.2.2 Policy Implications

The CGTMSE's trajectory highlights its growing importance in facilitating credit access for micro and small enterprises, particularly those lacking collateral. The sharp rise in guarantees suggests that financial institutions are increasingly leveraging the

scheme to mitigate lending risks. This expansion aligns with broader policy goals of financial inclusion and MSME empowerment. To deepen impact assessment, future research could explore disaggregated data by region, sector, and enterprise size. Such analysis would help evaluate equity in access and identify areas for targeted intervention. Additionally, continued monitoring of guarantee utilization and repayment outcomes will be essential to ensure long-term sustainability and effectiveness.

2.3 PMEGP: Employment Generation and Cost Efficiency

The Prime Minister's Employment Generation Programme (PMEGP) has emerged as a key initiative for promoting self-employment and entrepreneurship among first-generation business owners, particularly in rural and semi-urban areas. By offering margin money subsidies to eligible entrepreneurs, the scheme facilitates the establishment of micro-enterprises and supports job creation at the grassroots level. Table 3 shows Performance Overview (2017–18 to 2022–23)

Table 3. Performance Overview (2017–18 to 2022–23)

Year	Margin Money Disbursed (₹ Lakh)	Projects Assisted	Employment Generated	Cost per Job (₹ Lakh)
2017–18	₹1,31,240.07	48,398	3,87,184	₹0.339
2018–19	₹2,07,000.54	73,427	5,87,416	₹0.352
2019–20	₹1,95,082.15	66,653	5,33,224	₹0.366
2020–21	₹2,18,880.15	74,415	5,95,320	₹0.368
2021–22	₹2,97,765.91	1,03,219	8,25,752	₹0.361
2022–23*	₹1,44,848.34	45,036	3,60,288	₹0.402

As on 30.11.2022 Source: Ministry of MSME, PIB

Press Release dated December 19, 2022. Data for 2022–23 as on November 30, 2022. <https://pib.gov.in/PressReleasePage.aspx?PRID=1884050>

2.3.1. Key Insights

- **Peak Performance in 2021–22:** The scheme reached its highest employment generation in 2021–22, with over 8.25 lakh jobs created from 1.03 lakh projects. This surge may reflect post-pandemic recovery efforts and increased budgetary allocation.
- **Cost Efficiency:** The cost per job remained stable across years, averaging between ₹0.35 and ₹0.40 lakh. This indicates that PMEGP is a relatively cost-effective employment generator.
- **Dip in 2022–23:** A sharp decline in both margin money disbursed and employment generated in 2022–23 may be attributed to partial-year reporting or implementation adjustments. Further analysis is needed to determine whether this reflects a structural shift or temporary disruption.
- **Cumulative Impact:** Between 2017–18 and 2022–23, PMEGP supported over 4.1 lakh projects and generated approximately 32 lakh jobs, with nearly ₹12.95 lakh crore disbursed in margin money subsidies.

2.3.2 Policy Implications

PMEGP's performance underscores its strategic role in promoting self-employment and inclusive growth. Its relatively low cost per job suggests efficient use of public funds, especially in underserved regions. To enhance impact, future policy efforts could focus on:

- Strengthening monitoring and reporting mechanisms to ensure timely and complete data.
- Exploring integration with credit schemes like PMMY to improve financial sustainability of assisted enterprises.
- Expanding outreach and capacity-building support for beneficiaries to improve long-term viability.

Concluding Remarks

PMMY, CGTMSE, and PMEGP have collectively strengthened India's MSME ecosystem by expanding access to finance, reducing credit risk, and generating employment. PMMY's consistent loan growth and execution efficiency, CGTMSE's surge in guarantees, and PMEGP's stable cost-per-job metrics reflect a scalable and resilient framework for inclusive development. To sustain their impact, future policy should focus on integrating these schemes, improving data transparency, and targeting underserved regions. Together, they represent a strategic foundation for empowering small enterprises and catalysing equitable economic growth.

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