



Analysis of Credit flow to the MSME Sector in Uttar Pradesh

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Abstract: Marginal, Small and Medium Enterprises play an important role in the growth of the industrial sector in any country. This sector has special strategic importance for the growth and development of the industrial sector in India. According to the fourth Economic Census of the MSME sector, this sector contributes 40% of the total manufacturing output and 45% of the total exports from India. The sector behaves like an incubator for new business ideas that have the potential to grow in large industries in future. One of the most important requirements of the MSME sector is adequate and timely credit provision. The Indian government has initiated many schemes to ensure sufficient and timely credit supply to the sector. This study analyses the growth of credit in the MSME sector through commercial banks in Uttar Pradesh. This study is based on secondary data taken from various editions of the Handbook of Statistics on the Indian Economy. The study period was from 2012 to 2022. The study shows that although credit growth to the MSME sector in India has remained stagnant, it shows good growth in Uttar Pradesh. However, during the post-pandemic period, the pace of credit growth seems stagnant.

Keywords: MSME sector, Credit, Commercial Banks, Priority sector Lending, Uttar Pradesh, Covid-19, AAGR, CAGR

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1. INTRODUCTION

The Indian government recognized the significance of Small-Scale Industries immediately after independence. The promotion of small-scale industries aims to reduce regional disparities and create employment opportunities with relatively smaller capital and equity in the distribution of wealth (Poojary, 1996). The government has taken many steps to support the sector both financially and non-financially. Financial support is a crucial element in determining the growth of small-scale industries in any country. To achieve rapid industrialization, the government of India implemented financial policies. India's financial system has evolved in three stages. The first stage was the post-independence era when the development of financial institutions facilitated long-term credit to the industrial sector. The second stage was the period when banks were nationalised, and priority sector lending was introduced to cater to social welfare needs. The third stage was the introduction of new economic reforms in 1991 (Das 2015). Financial liberalisation programs aimed to ensure that the market could play a dominant role in allocating resources to the needy sector. It was assumed that credit availability would increase for small-scale industries because they would pay higher interest. However, despite improved financial institutions, credit to the industrial sector, particularly to the small-scale industries, did not improve significantly (Bhattacharya, 2013). This study analyses the credit provided to the MSME sector in India and Uttar Pradesh. According to the Annual Report MSMEs 2023 published by Ministry of Mico, Small and Medium Enterprises, Uttar Pradesh has the highest number of MSME units (89.9 lakhs). The growth of MSMEs in Uttar Pradesh plays a significant role in the overall growth of the MSME sector in India. In recent years, the government of India has eased the flow of credit to the sector through various programs like Mudra Yojana, Stand Up India, Start-Up India, etc. The registration process of MSMEs has also become easier since the launch of the Udyog Aadhar Memorandum (UAM) for online registration of MSME units. This study focuses mainly on the credit provided by scheduled commercial banks to the MSME sector. Several research papers have analyzed the growth of the MSME sector in India and have raised various concerns. Poojari (1996) analyzed the growth of small-scale industries in Dakshin Karnataka and found that while the State Government of Karnataka's efforts to develop small-scale industries were effective, the pattern of industrialization was not uniform, and

employment growth was confined to a few traditional industries. Bhide (2000) argued against the policy of reserving certain items for the production of SSI, stating that it hindered Indian industries' ability to benefit from economies of scale and become global competitors. Mathew (2000) highlighted the problems with the policies of the SSI sector in India, stating that they often ignore the social framework in which these enterprises must operate. Despite the critical role of this sector in economic growth and employment, they face challenges in availing adequate and timely credit, often relying on microfinance institutions instead of commercial banks. Rao et. al. (2006) studied the pattern of commercial bank lending to the SSI sector and found that high incidences of bad loans from SSI advances were a major reason for declining SSI loans from commercial banks. Biswas (2015) studied the widening financial gap in the MSME sector in India and concluded that financial institutions offered less favourable financial conditions to the sector, which impacted its innovation capability and exports. Banik(2018) highlighted that the MSME sector faces the issue of scarcity of credit mainly because the creditworthiness of the small borrowers who are owners of micro and small enterprises is generally weak and therefore, they face unwilling creditors. Behera and Wahi (2018) conclude that the deceleration of credit to the MSME sector has started before demonetisation. However, the impact of GST implementation is not visible on this growth. Esubalew and Raghurama (2020) highlighted that the impact of using commercial bank credit is much less than expected because of the behavioural biases. Other factors such as behavioural finance aspect, lack of significant moderation by the gender of owner and size of enterprises cause lower credit exposure to the MSME sector.

This study analyses the pattern of credit to the MSME sector in India and Uttar Pradesh under three objectives. The first is to analyse the pattern of credit to the MSME sector in India. The second is to analyse the share of MSME credit in Uttar Pradesh and the last is to analyse the pattern of MSME credit in Uttar Pradesh.

2. METHODOLOGY AND DATA SOURCE

This study aims to elucidate the dynamics of the credit flow to the MSME sector through commercial banks in Uttar Pradesh from 2012 to 2022. This period is taken for the analysis as the MSME sector faces a lot of

structural changes in terms of credit availability such as change in central Government policies 2014, NBFC crisis in 2015, Demonetization 2016, GST implementation 2017, disastrous effect of covid (2020-2022). The study employs a descriptive approach, utilizing secondary data sourced from multiple editions of the Handbook on the Indian Economy published by the Reserve Bank of India (RBI). Specifically, credit data pertaining to the Non-Food, Industry, and Micro, Small, and Medium Enterprises (MSME) sectors is gathered and analysed. This helps to understand India's overall credit scenario. Non-food credit is total credit extended by financial institutions businesses and individuals other than food procurement. It is a crucial indicator that shows the credit flow in the various sectors of the economy like agriculture, industry, personnel, housing education and other commercial needs. Industrial credit is a subset of Non-food credit. In an economy where the industrial sector is getting the greater chunk of total credit could be understood as the one which is focusing more on the industrial development whereas if the lesser proportion of credit is provided to the sector shows negligence to the industrial sector. MSME credit is again the subset of Industrial credit. Out of total industrial credit, we are analysing how much credit is provided to the MSME sector. This helps to understand whether the credit requirements are fulfilled or not. In analysing the data, several metrics are utilised to gain insights into the trends and patterns within the credit disbursement to the MSME sector through commercial banks in India. These metrics include: Average Annual Growth Rate (AAGR), Compounded Annual Growth Rate (CAGR), Annual Growth Rate Share.

3. RESULTS

3.1. Credit Disbursed to the MSME Sector through Commercial Banks in India

The banking sector plays a crucial role in the financial system worldwide. Banks offer both long- and short-term credit to firms in the form of fixed and working capital. Commercial Banks provide credit to the MSME sector under priority sector lending, in accordance with the definition of Micro, Small, and Medium Enterprises outlined in the MSME Development Act 2006. As per RBI guidelines, banks should achieve a year-on-year growth of twenty percent in lending to Micro and Small enterprises. Table 1 displays the growth of

bank credit to overall non-food credit, Industrial credit (which includes large medium and small-scale industries), and small-scale industries from 2012 to 2022, a highly volatile period for the MSME sector. During this period, the sector faced the impact of global slowdown, Demonetisation, GST reforms, the coronavirus outbreak, and many supporting Government schemes such as Mudra Yojana, Stand Up India, Start-up India, and special credit facilities due to COVID-19. Therefore, it is interesting to observe the overall credit flow to the sector during this period. Table 1 shows the status of credit outstanding to sectors such as non-food, industries, and MSME, their growth rate, and their respective shares.

Table 1: Growth of Credit through Commercial banks to different sectors

Year	Bank Credit Outstanding (Rs Crore)			Growth rate(%)			
	Non-food credit	Industry	MSME	Non-food credit	Industry	MSME	
2012	4869563	2230179	409052				
2013	5529601	2516483	472263	13.55	12.84	15.45	
2014	6002952	2657627	504564	8.56	5.61	6.84	
2015	6546903	2730677	486288	9.06	2.75	-3.62	
2016	7094490	2679833	474537	8.36	-1.86	-2.42	
2017	7688424	2699268	476679	8.37	0.73	0.45	
2018	8633418	2885778	481900	12.29	6.91	1.10	
2019	9211544	2905151	487423	6.70	0.67	1.15	
2020	10320149	2881362	474840	12.03	-0.82	-2.58	
2021	10890307	2895786	519908	5.52	0.50	9.49	
2022	11836304	3156067	758064	8.69	8.99	45.81	
CAGR	-0.78	-0.87	-0.83	AAGR	9.31	3.63	7.17

Source: RBI Handbook (various editions)

The table shows that the growth rate of non-food credit during this period has been moderate. The growth rate is at its maximum in 2013 at 13 percent and the minimum in 2019 at 5 percent. However, the industrial sector shows a sharp decline in the growth rate of credit during the period 2013-2016. After 2016, it started improving, but the momentum was once again disrupted due to the pandemic-induced slump in credit demand in 2019-20. This decline could be attributed to the adverse impact of the COVID-19 pandemic. However, after 2021, we see a positive growth rate in credit to the industrial sector due to government intervention. For the MSME sector, a robust growth rate of 15.45 percent was witnessed in 2013. However, the growth trajectory remained

sluggish during the period 2014–2020. This decline could be attributed to the increasing Non-Performing Assets (NPA) of the banking sector and the NBFC crises. Additionally, demonetisation and GST reforms were introduced during this period, which impacted the industrial sector and particularly the MSME sector. Although several schemes were introduced during this period to support the MSME sector by increasing the credit supply, they could not create fruitful results. In other words, the negative effect was much higher than the positive efforts during this period.

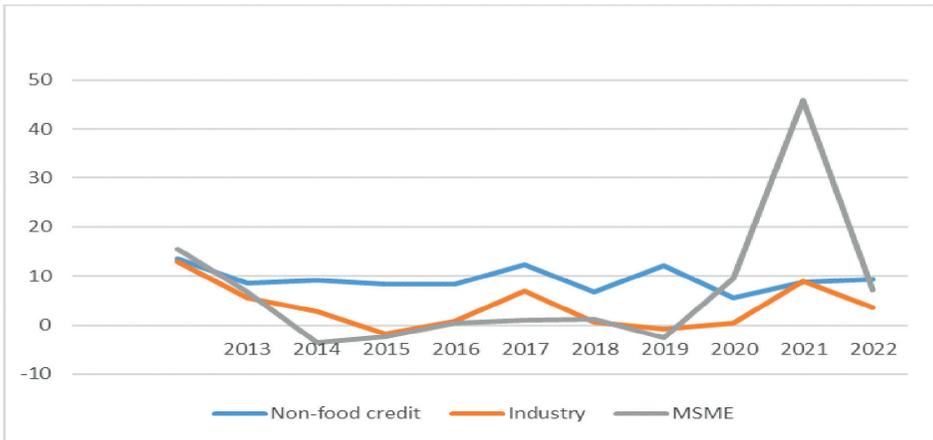


Figure 1: Growth rate of Non-food, Industrial and MSME Credit

Source: Based on Author's Calculation

The Indian Government's proactive actions to support the MSME sector are visible in the accelerated growth of MSME credit in the year 2021, particularly in the medium-scale industries. However, there is a declining trend in the share of MSME credit in the non-food credit during this period. The Compound Annual Growth Rate (CAGR) for non-food credit, industry credit, and MSME credit is negative, indicating a slight decline over the years. However, the Average Annual Growth Rate (AAGR) shows positive growth rates, with MSME credit experiencing an average growth of 7.17%.

3.2. Share of MSME credit for Uttar Pradesh to India

Uttar Pradesh has the highest number of MSMEs with a 14% share of total MSMEs in India, and its MSMEs are among the top exporters in the economy. Therefore, it is crucial to understand the availability of sufficient credit to the

sector. We obtained data from the Reserve bank of India's Statistical Table relating to banks in India. Table-2 shows the proportion of MSME credit disbursed in Uttar Pradesh compared to the entire country.

Table 2: Credit to the MSME sector in U.P. and India

Year	Credit to the SSI/MSME sector		Share of U.P. in India (%)
	India (Rs Crore)	U.P. (Rs Crore)	
2012	259191	33323.45	12.86
2013	284348	40355.09	14.19
2014	348194	48872.53	14.04
2015	380028	52827	13.90
2016	371467	63946.27	17.21
2017	369731	70507.57	19.07
2018	372999	70249.57	18.83
2019	375505	90201.48	24.02
2020	381825	88511.79	23.18
2021	519908	105219.61	20.24
2022	758064	136980.51	18.07

Source: Handbook of Statistics on the Indian Economy (RBI), Various editions

Table 2 provides an overview of the total credit disbursed to the MSME sector in Uttar Pradesh as well as in India. The data shows that even though U.P. has the highest number of MSME units, the proportion of credit disbursed to the sector within the state was relatively low in the year 2012, accounting for only 12.86% of the total credit disbursed to the sector in India. However, this situation underwent a remarkable transformation over the subsequent years, reaching 24.02% by the year 2019. This shift indicates that the potential of this sector has been recognized in Uttar Pradesh, and deliberate efforts have been undertaken to foster its growth. However, the efforts of the government to support the MSME sector are not very visible at all Indian levels as they are in Uttar Pradesh. However, this upward trajectory experienced a slight decline during the period 2020-2022, with the proportion of credit allocated to the MSME sector in U.P. remaining at 18.07% in 2022. The probable reason for this decline could be that most of the MSMEs in U.P. are micro units, which were the most affected during the COVID-19 pandemic. Consequently, there seems to be a noticeable decline in the demand for credit within the MSME

sector in Uttar Pradesh, with many micro units forced to shut down and struggling to recover from this shock.

3.3. Credit Disbursed to the MSME Sector through Commercial Banks in Uttar Pradesh

This section provides sector-wise distribution of credit in Uttar Pradesh that includes total credit, industrial credit and MSME credit. Table 3 shows the distribution of credit in these heads and their growth rates during the period 2012- 2022. As in the previous section, it is observed that Uttar Pradesh has seen a high credit growth rate in MSME credit disbursement in India, it is expected a significant proportion of overall credit growth is driven by MSME lending.

Table 3: Credit Scenario through commercial banks in Uttar Pradesh

	<i>In Rs Crore</i>				<i>Year</i>	<i>Growth rate (%)</i>			
	<i>Total lending</i>	<i>Credit To Industries</i>	<i>Priority sector</i>	<i>MSME</i>		<i>Total Credit</i>	<i>Credit to Industries</i>	<i>Credit to priority sector</i>	<i>Credit to MSME</i>
2012	204472.3	64787.96	129254.4	33395.03	2012				
2013	270702.4	85118.98	151841.9	44097.35	2013	32.39	31.38	17.48	32.05
2014	286791.8	88982.8	172448.5	53249.48	2014	5.94	4.54	13.57	20.75
2015	329140.2	102830.5	199400.4	62296.44	2015	14.77	15.56	15.63	16.99
2016	368309.1	96120.9	239637.8	70753.76	2016	11.90	-6.52	20.18	13.58
2017	380578.9	82755.6	258985.4	78739	2017	3.33	-13.90	8.07	11.29
2018	418730.8	79563.73	282558.2	94076.72	2018	10.02	-3.86	9.10	19.48
2019	470245	84801	311153	109750.7	2019	12.30	6.58	10.12	16.66
2020	507550	91950	334569.7	120939.4	2020	7.93	8.43	7.53	10.19
2021	472505	102032	377168.6	132623.7	2021	-6.90	10.96	12.73	9.66
2022	551027	130391	294437.8	136980.5	2022	16.62	27.79	-21.93	3.29
CAGR	-0.75501	-0.81704	-0.79291	-0.62711	AAGR	10.83	8.10	9.25	15.39

Source: Handbook of Statistics on the Indian Economy (RBI), Various editions

Table 3 provides the details of credit disbursed through commercial banks in Uttar Pradesh in terms of total lending, credit to industries, priority sector lending, and credit to the MSME sector during the period 2012-2022. The average annual growth rate of total lending is 10.83 percent. The growth rate of industrial credit during this period is 9.25 percent, whereas the average annual growth rate of the MSME sector stands at an encouraging 15.39 percent. The trajectory of credit disbursed to the MSME sector presents an interesting dynamic. While the growth rate of credit to MSME was high in the year 2013, a discernible downward trend can be observed since the year 2017.

The decline in the credit to the industrial sector was more drastic. However, a subsequent recovery was observed, though it experienced another dip in 2020, predominantly due to the outbreak of the coronavirus-led pandemic. In 2021, the efforts of the government showed positive signs in Uttar Pradesh, but the growth rate could not reach the level previous to 2020.

4. CONCLUSION

The MSME sector has played a crucial role in the growth of the Indian economy, and the government has recognized its strategic importance by launching various schemes and programs to support it, such as Stand-Up India, Start-Up India, Pradhan Mantri Employment Generation Scheme, Mudra Yojana, and Udyog Aadhaar Memorandum. However, the sector has faced challenges such as high NPA, demonetization, GST implementation, and the COVID-19 pandemic. This paper analyzed the growth of MSME credit in India and Uttar Pradesh from 2012 to 2022, highlighting the dynamic nature of credit disbursal within the MSME sector, particularly in Uttar Pradesh. The state's journey from modest credit allocation in 2012 to substantial growth in 2019 underscores the attention and efforts directed towards nurturing this sector. While the growth rate of credit to the MSME sector in Uttar Pradesh has been encouraging, the decline observed during the period 2020-2022 raises the question of why the state is not getting appropriate credit support after COVID when the central government is working in this direction to provide much-needed financial support to this sector. This decline underscores the need for continued vigilance and targeted interventions to ensure sustained growth and resilience of the MSME sector, particularly in the face of unprecedented challenges. Moving forward, policymakers and stakeholders must work collaboratively to address the identified challenges and capitalize on the sector's immense potential to drive inclusive and sustainable economic growth.

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