UPSC & STATE PCS CURRENT AFFAIRS · UJIYARI.COM

DAILY CURRENT AFFAIRS

RBI Pushes Digital Public Infrastructure to Close the MSME Credit Gap

23 June 2026 · ECONOMY · GS3

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

RBI Pushes Digital Public Infrastructure to Close the MSME Credit Gap

23 June 2026 · 7 min read ·

Source: ujiyari.com — researched, fact-checked & UPSC-mapped

Every fact web-verified against primary sources (https://ujiyari.com/how-we-verify/)

WHY IN NEWS

On June 22, 2026 (Monday), RBI Governor Sanjay Malhotra urged banks and Non-Banking Financial Companies (NBFCs) to leverage (https://ujiyari.com/vocab/leverage/) India's Digital Public Infrastructure (DPI) to close the persistent credit gap for Micro, Small and Medium Enterprises (MSMEs). Describing MSMEs as the country's "entrepreneurship nursery" and a critical enabler of the Viksit Bharat 2047 vision, the Governor called for a decisive shift from collateral-based lending to flow-based, data-driven credit underwriting.

THE GOVERNOR'S MESSAGE

Speaking on the role of credit in unlocking grassroots entrepreneurship, the Governor framed the MSME sector as the spine of India's growth and employment story. His central argument was that the technology to lend smartly already exists; what is missing is its full-scale adoption by lenders.

The thrust of the message rested on three ideas:

1. **MSMEs are the "entrepreneurship nursery"** that incubate first-generation entrepreneurs, absorb labour, and feed larger value chains.
2. **The credit gap is a solvable, structural problem**, not an inevitable feature of small-enterprise lending.
3. **DPI rails make small-ticket lending viable** by replacing physical collateral with verifiable digital data trails.

In short, the Governor positioned digital public infrastructure as the bridge between an underserved borrower base and the formal financial system.

WHAT THE MSME SECTOR IS, AND THE REVISED DEFINITION

MSMEs are classified under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, using a **composite criterion**: investment in plant and machinery (or equipment) **and** annual turnover. The Union Budget 2025-26 raised these thresholds substantially, with the revision notified through **S.O. 1364(E) dated March 21, 2025** and effective from **April 1, 2025**. Investment limits were raised 2.5 times and turnover limits roughly doubled.

CATEGORY	INVESTMENT (PLANT AND MACHINERY)	ANNUAL TURNOVER
Micro	up to Rs 2.5 crore	up to Rs 10 crore
Small	up to Rs 25 crore	up to Rs 100 crore
Medium	up to Rs 125 crore	up to Rs 500 crore

An enterprise is reclassified upward if it crosses the limit on **either** investment or turnover, but is downgraded only if it falls below the limit on **both**. The higher ceilings allow micro units to grow into small enterprises, and small into medium, without prematurely losing the policy benefits attached to their tier.

THE CREDIT GAP PROBLEM

Despite the sector's economic weight, formal credit reaches only a fraction of MSMEs. Lenders have historically been reluctant to extend small-ticket loans because:

- **Information asymmetry (https://ujiyari.com/terms/asymmetry/)**, many micro units lack audited financials or formal accounting records.
- **High origination cost**, the cost of appraising a Rs 2 lakh loan is nearly the same as appraising a Rs 2 crore loan, making small loans unprofitable under traditional models.
- **Collateral dependence**, borrowers without immovable property or pledgeable assets are screened out, even when their cash flows are healthy.
- **Informality**, a large share of micro enterprises remain outside the GST and formal documentation net.

The result is that a vast number of viable, cash-generating small businesses are starved of working capital and forced toward costly informal lenders.

THE DPI RAILS EXPLAINED

India's Digital Public Infrastructure is a set of interoperable, consent-driven public digital platforms that allow a borrower's verified data to substitute for physical collateral. The key rails the Governor named are below.

DPI RAIL	WHAT IT DOES	LENDING RELEVANCE
Account Aggregator (AA)	Consent-based sharing of a customer's financial data (bank statements, etc.) across institutions	Gives lenders an instant, verified view of cash flows without paper documents
Unified Lending Interface (ULI)	RBI-built platform (launched 2024) that pulls authenticated data from multiple sources via standardised APIs	Enables seamless, frictionless and time-bound credit delivery, especially for rural and MSME borrowers
Trade Receivables Discounting System (TReDS)	Electronic platform to finance MSME trade receivables (invoices) from large buyers	Unlocks working capital tied up in unpaid invoices
GST data trails	Digital records of an enterprise's tax-paid sales and purchases	Provide a verifiable, hard-to-fake proxy (https://ujiyari.com/vocab/proxy/) for actual business turnover
Aadhaar authentication	Digital identity verification	Enables paperless, presence-less KYC and onboarding

Together, these rails convert a borrower's everyday digital footprint, sales, taxes, bank flows and identity, into underwritable credit information.

Unified Lending Interface (ULI)

ULI deserves particular emphasis. **Launched by the RBI in 2024**, it acts as a single, standardised conduit that allows lenders to access authenticated borrower data, land records, GST data, financial statements, from disparate (https://ujiyari.com/vocab/disparate/) sources through a "plug-and-play" architecture. By eliminating fragmented, manual data collection, ULI compresses loan turnaround time and brings down origination cost, the two biggest barriers to small-ticket lending.

FLOW-BASED VS COLLATERAL-BASED LENDING

The Governor's appeal marks a deliberate (https://ujiyari.com/vocab/deliberate/) pivot in lending philosophy.

DIMENSION	COLLATERAL-BASED LENDING	FLOW-BASED (CASH-FLOW) LENDING
Basis of credit	Pledged assets (property, gold)	Verified income and transaction flows
Excludes	Asset-poor but cash-rich entrepreneurs	Far fewer; rewards genuine business activity
Data source	Physical documents, valuation	AA, ULI, GST, bank-statement analytics
Speed	Slow, paper-heavy	Near-real-time, digital
Formalisation effect	Weak	Strong; incentivises GST registration and digital records

Flow-based lending assesses repayment capacity from the **actual cash a business generates**, not from what it owns. This widens the eligible borrower pool and creates a powerful incentive for **formalisation**: an enterprise that registers under GST and routes transactions digitally builds the very data trail that earns it cheaper, faster credit.

MSME SHARE OF GDP, EXPORTS AND MANUFACTURING

The economic case for fixing the credit gap is anchored in the sector's macro footprint (2026 data):

INDICATOR	MSME SHARE
Share of India's GDP	30.1%
Share of India's exports	45.73%
Share of manufacturing output	35.4%

Outstanding bank credit to the MSME sector stood at **Rs 36.79 trillion as on December 31, 2025**, having grown at roughly a **15% compound annual growth rate (CAGR) over five years**. While this growth is healthy, the Governor's point is that the sector's contribution to output and exports still outpaces its access to formal finance, leaving headroom that DPI can unlock.

ANALYSIS AND WAY FORWARD

The Governor's intervention reframes MSME credit as a problem of **information, not risk**. When lenders can see a borrower's verified cash flows, the perceived riskiness of small loans falls sharply, and DPI is precisely the apparatus that makes those flows visible.

The way forward rests on several pillars:

- **Scale ULI adoption** so that flow-based underwriting becomes the default for new-to-credit and micro borrowers, not a niche product.

- **Deepen GST formalisation** to expand the pool of enterprises with credible digital data trails.
- **Strengthen TReDS** participation by mandating larger buyers and government bodies to onboard, freeing MSME working capital trapped in receivables.
- **Embed consumer protection** around the Account Aggregator consent framework, so that data-sharing remains genuinely voluntary and secure.
- **Build lender capability** in cash-flow analytics so banks and NBFCs can price risk from data rather than retreat to collateral.

If executed well, this model can simultaneously widen credit access, accelerate formalisation, and channel finance into the segment that delivers the highest employment per rupee, a direct contribution to the Viksit Bharat objective.

UPSC RELEVANCE

- **GS Paper 3 (Economy)**, financial inclusion, banking sector reforms, role of NBFCs, and the priority-sector lending logic behind MSME credit.
- **Digital Public Infrastructure**, AA, ULI, TReDS and GST as exam-relevant building blocks of "India Stack"; understand consent architecture and interoperability (https://ujiyari.com/terms/interoperability/).
- **MSME policy**, the revised April 2025 classification, composite investment-cum-turnover criterion, and reclassification rules are high-yield Prelims facts.
- **Prelims linkages**, ULI is an RBI initiative (2024); Account Aggregator operates under RBI's NBFC-AA framework; TReDS is an RBI-regulated platform.
- **Mains angle**, "Discuss how Digital Public Infrastructure can transform MSME credit and drive formalisation of India's informal economy."

FACTS CORNER

Outstanding MSME bank credit: Rs 36.79 trillion (as on December 31, 2025); ~15% five-year CAGR.

MSME share of GDP: 30.1%.

MSME share of exports: 45.73%.

MSME share of manufacturing output: 35.4%.

RBI Governor: Sanjay Malhotra (remarks on June 22, 2026).

DPI tools for MSME credit: Account Aggregator (AA), Unified Lending Interface (ULI), Trade Receivables Discounting System (TReDS), GST data trails, Aadhaar authentication.

ULI: launched by the RBI in 2024 for seamless, data-driven credit delivery.

Revised MSME definition: effective April 1, 2025; Micro (investment up to Rs 2.5 cr, turnover up to Rs 10 cr), Small (up to Rs 25 cr / Rs 100 cr), Medium (up to Rs 125 cr / Rs 500 cr).

Lending shift: flow-based / cash-flow-based lending replacing collateral-based lending to drive formalisation.

Sources: Reserve Bank of India (https://www.rbi.org.in), Business Standard (https://www.business-standard.com), Press Information Bureau (https://pib.gov.in)

Source: RBI Pushes Digital Public Infrastructure to Close the MSME Credit Gap — Ujiyari.com | Free UPSC & State PCS Current Affairs

RELATED EDITORIALS

DOWN TO EARTH

[When the Thermometer Sets the Growth Rate: Warming as India's Economic Variable]

23 Jun

INDIAN EXPRESS

[Power From the Paddy: Why Energy Security Runs Through India's Farms]

23 Jun

THE HINDU

[India's Cheapest Power is Here: Why the Grid Must Catch Up]

23 Jun

BUSINESS STANDARD

[Terms of Trade: Why India Must Lock In Rules, Not Chase a Tariff Deal]

23 Jun

RELATED KEY TERMS

KEY TERM

ACNAS

Advisory Committee on National Accounts Statistics — the expert body...

KEY TERM

Act East Policy

India's strategic foreign policy framework prioritising active...

KEY TERM

Agri-Photovoltaic

A dual land-use technology that integrates elevated solar panels with...

KEY TERM

ALMM

MNRE-notified list restricting government-supported solar PV projects...

Ujiyari Current Affairs · ujiyari.com · Free Daily Current Affairs for UPSC & State PCS

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

📖 Read Full Article on Ujiyari →

https://ujiyari.com/daily/2026/06/23/rbi-dpi-msme-credit-uli-2026/