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EDITORIAL ANALYSIS

# MSMEs Need Credit and Formalisation, Not Just a Day

THE HINDU

27 June 2026

ECONOMY

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GS3

CURATED &amp; WRITTEN BY

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# MSMEs Need Credit and Formalisation, Not Just a Day

 **The Hindu**   27 June 2026   **GS3**

Source: [ujyari.com](http://ujyari.com) — researched, fact-checked & UPSC-mapped



## INTERVIEW ANGLE

*"We mark International MSME Day every June 27. If MSMEs are the backbone of the economy, why do they still struggle for credit, and what would actually change that?"*

Source: [Original editorial](#)  [The Hindu](#)

 **Every fact web-verified against primary sources** (<https://ujyari.com/how-we-verify/>)

## WHY THIS MATTERS NOW

**International MSME Day** falls on **June 27**, and *The Hindu* uses the occasion to ask why a sector contributing about **30 percent of GDP**, **45 percent of exports** and the **largest employer after agriculture** is still held back. The answer, it argues, is a **credit gap**, **delayed payments** and **low formalisation**, and the fix is structural, not ceremonial. For an aspirant, this is a core GS3 case on **industry, employment and financial inclusion**.

## THE CRUX IN 60 WORDS

MSMEs power **GDP**, **exports** and **jobs** but face three brakes: a **credit gap** (collateral-based lending excludes them), **delayed payments** (large buyers choke working capital), and **low formalisation** (most stay outside the system). The cure is **cash-flow-based lending via TReDS and account aggregators**, enforced payment timelines, light-touch formalisation, and technology and skilling, not just a day of recognition.

## THE ISSUE, DECODED

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CONCEPT	WHAT IT MEANS	WHY IT MATTERS
<b>Credit gap</b>	Unmet MSME demand for formal finance	Firms fall back on costly informal credit
<b>Cash-flow-based lending</b>	Lending judged on transaction data, not collateral	Lets lenders fund firms without assets
<b>Delayed payments</b>	Late payment by large buyers	Strangles MSME working capital
<b>Formalisation</b>	Bringing firms into the formal system	Unlocks credit, schemes and benefits

## THE ANALYSIS

- ❶ **The credit gap is structural.** Lending tied to collateral and audited balance sheets excludes small and informal firms, leaving a large unmet credit demand met only by expensive informal finance.
- ❷ **Late payments bleed working capital.** Big buyers pay late and timelines are weakly enforced, so MSMEs effectively lend to larger firms while starved of their own cash.
- ❸ **Informality blocks the pipes.** Most MSMEs sit outside the formal credit, tax and benefit system, so even well-designed schemes cannot reach them and lenders cannot read their creditworthiness.
- ❹ **Cash-flow data changes the game.** Digital transaction trails, via TReDS and account aggregators, let lenders assess actual cash flows rather than collateral, expanding access to viable firms.
- ❺ **Productivity makes firms bankable.** Technology adoption and skilling raise efficiency and incomes, which is what ultimately makes an MSME a safe lending bet.

## DATA AND INSTITUTIONS VAULT

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*MSMEs contribute about **30 percent of GDP**, around **45 percent of exports**, and are the **largest employer after agriculture**. **Registration:** the **Udyam Registration** portal; the revised MSME classification on investment and turnover. **Credit machinery:** **TReDS** (Trade Receivables Discounting System) for invoice financing; the **Account Aggregator** framework for data-based lending; **CGTMSE** credit guarantees; **MUDRA / PMMY**; **SIDBI** (<https://ujjiyari.com/terms/sidbi/>) as the **apex** (<https://ujjiyari.com/vocab/apex/>) MSME bank. **Payments law:** the **MSMED Act, 2006** mandates payment within 45 days; the **MSME Samadhaan** portal for delayed-payment grievances. **Concept:** cash-flow-based lending; working capital; financial inclusion; formal vs informal sector.*

## THE DEBATE

**Argument that credit is the binding constraint:** Collateral-based lending, late payments and informality starve viable MSMEs of finance; without cash-flow-based credit and enforced payments, the sector cannot scale however large the schemes.

**Argument that the constraint lies elsewhere:** India already runs Udyam, CGTMSE, TReDS and emergency credit lines; the real brakes are weak demand, low management capacity and productivity, not access to finance.

**Balanced verdict:** Demand and capacity matter, but they are not substitutes for fixing the plumbing of credit. The schemes exist; what is missing is lending that reads cash flows, payments that arrive on time, and formalisation that helps. Address those, and existing demand can be served by firms that can finally finance growth.

## HOW TO THINK ABOUT THIS (TRANSFERABLE SKILL)

*When a sector underperforms despite many schemes, the gap is often not in policy intent but in delivery channels, how credit, data and payments actually flow to the firm. Before recommending “a new scheme”, check whether the existing ones can reach their target. Diagnosing the plumbing rather than adding pipes produces more credible policy answers.*

## DIAGRAM-IN-WORDS

MSMEs (~30% GDP, ~45% exports, top employer after agriculture) -> need finance -> collateral-based lending excludes them (credit gap) + delayed payments drain working capital + informality keeps them off the radar -> fix: cash-flow-based lending (TReDS +

account aggregators) + enforced payment timelines + light-touch formalisation + technology and skilling > bankable, growing firms

## THE WAY FORWARD

- 1 **Scale cash-flow-based lending.** Expand TReDS and account-aggregator-driven credit so firms are assessed on transaction data, not collateral.
- 2 **Enforce payment timelines.** Tighten enforcement of the 45-day MSME Act rule and strengthen MSME Samadhaan to free working capital.
- 3 **Make formalisation light-touch.** Keep Udyam registration simple and incentive-led so formalising brings credit and benefits, not just compliance.
- 4 **Invest in technology and skilling.** Support digital adoption, quality upgrading and worker skilling to raise productivity and bankability.
- 5 **Deepen credit guarantees.** Use CGTMSE and SIDBI to de-risk lending to first-time and informal borrowers.

## THE TAKEAWAY BOX

*MSME underperformance is a delivery problem, the credit gap, delayed payments and informality, solvable through cash-flow-based lending, enforced payments and light-touch formalisation rather than new commemorative (<https://ujiyari.com/vocab/commemorative/>) schemes.*

*“MSMEs do not need another commemorative day; they need credit that flows on cash flow.”*

*International MSME Day (June 27); ~30% GDP, ~45% exports; Udyam Registration; TReDS; Account Aggregator framework; CGTMSE; MUDRA/PMMY; SIDBI; MSME Act 2006 (45-day rule); MSME Samadhaan.*

*Is it fair that large firms use small suppliers as involuntary lenders through delayed payments? What responsibility do big buyers owe to the small firms in their supply chain?*

*UPSC has asked about MSMEs, financial inclusion and employment; this editorial connects those to the credit-and-formalisation diagnosis.*

*GS3 (industry, employment, financial inclusion), and the formalisation and ease-of-doing-business agenda.*

**Sources:** *The Hindu* (<https://www.thehindu.com>), *Ministry of MSME* (<https://msme.gov.in>), *SIDBI* (<https://www.sidbi.in>)

Source: MSMEs Need Credit and Formalisation, Not Just a Day — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

**KEY ARGUMENTS AT A GLANCE**

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MSMEs contribute around 30 percent of GDP and 45 percent of exports and are the largest employer after agriculture, yet a persistent credit gap, delayed payments and low formalisation hold them back; the way forward is cash-flow based lending, light-touch formalisation, and technology and skilling.

 **SUPPORTING**

- A large MSME credit gap persists because lending relies on collateral and balance sheets that small and informal firms lack, leaving them dependent on costly informal finance.
- Delayed payments from large buyers choke MSME working capital, and weak enforcement of payment timelines turns the sector into an involuntary lender to bigger firms.
- Low formalisation keeps most MSMEs outside the credit, tax and benefit system, so reforms and schemes cannot reach the firms that need them most.

 **COUNTER**

Some argue that India already runs major MSME support, Udyam registration, credit guarantees, TReDS and emergency credit lines, and that the binding constraint is demand and management capacity rather than access to finance.

 **WAY FORWARD**

Scale cash-flow-based lending through TReDS and account aggregators, enforce payment timelines, make formalisation light-touch and incentive-led, and invest in technology adoption and skilling so credit reaches viable firms.


**MAINS ANSWER FRAMEWORK**

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**QUESTION**

*"India's MSMEs are held back less by demand than by a credit gap, delayed payments and low formalisation." Examine and suggest a way forward, including cash-flow-based lending. (250 words)*

**INTRODUCTION**

Every June 27 is International MSME Day, and India duly celebrates a sector that contributes about 30 percent of GDP and 45 percent of exports and is the largest employer after agriculture. But a day of recognition is not a substitute for solving the problems that hold the sector back.

**BODY**

Three constraints recur. First, the credit gap.

Conventional lending leans on collateral and audited balance sheets that small and informal firms simply do not have, so a vast share of MSME credit demand goes unmet and is filled by costly informal finance.

Second, delayed payments.

Large buyers routinely pay MSMEs late, choking the working capital that small firms run on, and weak enforcement of statutory payment timelines turns the sector into an involuntary lender to bigger companies. Third, low formalisation.

Most MSMEs remain outside the formal credit, tax and benefit system, so schemes and reforms cannot reach the firms that need them most, and lenders cannot see their creditworthiness. The answer is not another scheme launched on MSME Day; it is to change how credit flows.

Cash-flow-based lending, using digital transaction data through TReDS and the account-aggregator framework, lets lenders assess a firm by its actual cash flows rather than its collateral. Strict enforcement of payment timelines frees working capital.

Formalisation must be light-touch and incentive-led, so registering brings credit and benefits rather than only compliance costs. And technology adoption and skilling raise the productivity that makes firms bankable in the first place.

These are structural fixes, not symbolic ones.

**CONCLUSION**

MSMEs do not need another commemorative day; they need credit that flows on cash flow, payments that arrive on time, and formalisation that helps rather than burdens. That is how a celebrated sector becomes a thriving one.


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