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EDITORIAL ANALYSIS

Closing the MSME Credit Gap: Cash Flow, Not Another Scheme

BUSINESS STANDARD

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Closing the MSME Credit Gap: Cash Flow, Not Another Scheme

Business Standard 28 June 2026 **GS3**

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



INTERVIEW ANGLE

"India keeps launching MSME credit schemes, yet the gap persists. Is the problem a shortage of programmes, or the absence of cash-flow-based lending, timely payments and easy formalisation?"

Source: [Original editorial](#) Business Standard

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

WHY THIS MATTERS NOW

International MSME Day on **June 27** spotlights the engine of Indian employment, yet the headline reality is stubborn: India's MSMEs still face a credit gap of roughly **Rs 25-30 lakh crore**, and only about **14 percent** reach formal institutional finance. With incubator programmes like **ASPIRE** in the news and a flurry of credit schemes, the aspirant must see past the announcements to the real GS3 question: why does the gap persist despite the schemes, and what actually closes it, cash-flow lending, timely payments and easy formalisation rather than another launch.

THE CRUX IN 60 WORDS

India's MSMEs are throttled by a **Rs 25-30 lakh crore** credit gap and **delayed payments**. The fix is not another scheme but better plumbing: **cash-flow-based lending** through **TReDS** and the **Account Aggregator** framework, faster dispute resolution under the **MSMED Act's 45-day rule** and **MSEFC** councils, and **light-touch formalisation** via **Udyam**. Pair access with **CGTMSE** guarantees to manage risk.

THE ISSUE, DECODED

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CONCEPT	WHAT IT MEANS	WHY IT MATTERS
Credit gap	Unmet demand for formal MSME finance, about Rs 25-30 lakh crore	Forces firms to costly informal lenders
TReDS	RBI platform to discount MSME invoices against buyers	Converts receivables into instant working capital
Account Aggregator	Consent-based financial-data sharing framework	Enables cash-flow lending without collateral
45-day rule (MSMED Act)	Buyers must pay MSEs within 45 days	Delayed payments lock up working capital
Udyam registration	Single online MSME identity portal	Light formalisation that unlocks benefits

THE ANALYSIS: WHY THE GAP SURVIVES THE SCHEMES

- ❶ **Lending judges the wrong thing.** Collateral and credit-history models exclude thin-file, asset-light micro units, the bulk of the sector, even when their cash flows are sound.
- ❷ **Working capital is hostage to delayed payments.** The MSMED Act's 45-day rule exists, but slow MSEFC disposal means the legal right does not translate into timely cash.
- ❸ **The infrastructure exists but is under-used.** TReDS onboarding is shallow, account-aggregator usage is thin, and many micro firms remain outside Udyam, so the data that could enable lending is not flowing.
- ❹ **Schemes treat symptoms, not plumbing.** Each new programme adds a counter; what is missing is the systemic ability to lend against cash flows and enforce payment.

DATA AND INSTITUTIONS VAULT

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estimated **Rs 25-30 lakh crore** (Deloitte/SIDBI (<https://ujjiyari.com/terms/sidbi/>) ranges); only about **14 percent** of MSMEs access formal institutional credit. **MSME footprint: roughly 30 percent of GDP** and around **45 percent of exports**; more than **6 crore** enterprises registered on Udyam. **Revised classification (effective April 1, 2025):** Micro up to Rs 2.5 crore investment / Rs 10 crore turnover; Small up to Rs 25 crore / Rs 100 crore; Medium up to Rs 125 crore / Rs 500 crore. **Cash-flow rails: TReDS** (platforms include RXIL, M1xchange, Invoicemart); **Account Aggregator** framework (RBI, 2016); **Udyam** registration. **Delayed-payment law: MSMED Act, 2006**, Section 15 (45-day rule) and Section 16 (compound interest at 3x bank rate); **MSEFC** and **Samadhaan** portal. **Risk backstop: CGTMSE** (Credit Guarantee Fund Trust for Micro and Small Enterprises), guarantee cover raised to up to Rs 10 crore. **Rural innovation: ASPIRE** (A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship), Ministry of MSME, Livelihood Business Incubators.

THE DEBATE

Argument for caution (formalisation and collateral first): Many micro units are genuinely risky and thin-file; lending faster without records invites defaults. The **prudent** (<https://ujjiyari.com/vocab/prudent/>) path is to formalise first, build credit histories, and lend conservatively.

Argument for plumbing (cash-flow lending now): Waiting for full formalisation entrenches exclusion. The data already exists in invoices, GST and bank flows; TReDS and account aggregators can lend against it today, with CGTMSE absorbing residual risk.

The balanced verdict: These are not opposed. Use **cash-flow-based lending** through TReDS and account aggregators to widen access, **enforce timely payments** so firms stay viable, keep **formalisation light** through Udyam so it is a gateway rather than a hurdle, and **manage risk** with credit guarantees. Plumbing and prudence together, not a new scheme.

HOW TO THINK ABOUT THIS (TRANSFERABLE SKILL)

When a problem persists despite many schemes, the binding constraint is usually not policy will but a missing mechanism, the “plumbing” that lets intent reach the ground. The high-value answer names the constraint (here, collateral-based lending and delayed payments) and then the specific instrument that relaxes it (cash-flow lending, faster MSEFC disposal). This “constraint then instrument” move works across economy, governance and welfare questions.

DIAGRAM-IN-WORDS

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Collateral-based lending + delayed payments -> thin-file MSMEs excluded + working capital locked -> Rs 25-30 lakh crore gap. The fix: cash-flow lending via TReDS + Account Aggregator + 45-day enforcement + light Udyam formalisation + CGTMSE cover -> viable micro units financed.

THE WAY FORWARD

- 1 **Deepen TReDS onboarding** for large and public-sector buyers and **scale account-aggregator usage** for cash-flow underwriting.
- 2 **Enforce the 45-day payment rule** with faster MSEFC disposal and visible penalties on chronic late-payers.
- 3 **Keep formalisation light** so Udyam registration is a one-step gateway to credit and benefits, not a compliance burden.
- 4 **Back access with guarantees** through CGTMSE and prudent underwriting to manage thin-file risk.

THE TAKEAWAY BOX

“India’s MSME credit gap is a problem of plumbing, not of policy intent.” Critically examine cash-flow-based lending and faster dispute resolution. (250 words)

“The MSME credit gap will narrow when a viable micro unit can borrow against its cash flows and be paid on time, not when another scheme is announced.”

TReDS · Account Aggregator framework · Udyam registration · MSMED Act 2006 (45-day rule, Section 16) · MSEFC and Samadhaan portal · revised MSME classification (2025) · CGTMSE · ASPIRE · International MSME Day (June 27).

When the law guarantees payment in 45 days but enforcement is slow, is the gap a failure of statute or of administration, and where should reform focus?

Connects to GS3 PYQs on MSMEs, employment generation and financial inclusion; probable forward question is the “plumbing versus policy” framing above.

static GS3 on industry, financial inclusion, digital public infrastructure and the informal economy.

Sources: *Business Standard* (<https://www.business-standard.com>), *PIB* (<https://pib.gov.in>), *RBI* (<https://www.rbi.org.in>)

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 Editorial Analysis

● **KEY ARGUMENTS AT A GLANCE**

India's micro, small and medium enterprises remain throttled by a credit gap of roughly Rs 25-30 lakh crore and chronic delayed payments; the answer lies in cash-flow-based lending through TReDS and account aggregators, faster dispute resolution and light-touch formalisation, not in another headline scheme.

✓ **SUPPORTING**

- Only about 14 percent of MSMEs access formal institutional credit, leaving a gap estimated at Rs 25-30 lakh crore that informal lenders fill at punitive cost.
- Delayed payments lock up working capital; the MSMED Act's 45-day rule, the MSEFC councils and the Samadhaan portal exist but resolution is slow.
- Digital public infrastructure, TReDS, the Account Aggregator framework and Udyam registration, can let lenders assess cash flows rather than collateral, but onboarding and usage remain shallow.

⚠ **COUNTER**

Some argue the binding constraint is genuine credit risk among thin-file micro units, so caution and collateral are prudent and the real fix is formalisation first, not faster lending.

→ **WAY FORWARD**

Deepen TReDS onboarding and account-aggregator usage for cash-flow lending, enforce the 45-day payment rule with quicker MSEFC disposal, and keep formalisation light through Udyam so registration is a gateway, not a burden.


MAINS ANSWER FRAMEWORK

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QUESTION

"India's MSME credit gap is a problem of plumbing, not of policy intent." Critically examine the role of cash-flow-based lending and faster dispute resolution in widening MSME credit access. (250 words)

INTRODUCTION

India does not lack MSME schemes; it lacks the plumbing that moves credit to a viable micro unit quickly and cheaply. The persistent credit gap is a design problem, not a problem of intent.

BODY

The structural fault is that lending is collateral and credit-history based, while most micro units are thin-file and asset-light. The result is a credit gap estimated at Rs 25-30 lakh crore, with only about 14 percent of MSMEs reaching formal institutional finance; the rest pay informal-lender rates.

Compounding this, delayed payments by large buyers lock up working capital. The MSMED Act, 2006 mandates payment within 45 days and provides Micro and Small Enterprise Facilitation Councils and the Samadhaan portal, yet disposal is slow.

India's answer is its digital public infrastructure. The Trade Receivables Discounting System (TReDS) lets MSMEs discount verified invoices against corporate and public-sector buyers; the Account Aggregator framework surfaces consent-based cash-flow, GST and banking data; Udyam registration creates a formal identity.

Together they enable cash-flow-based lending that judges a firm by its receivables and transactions rather than its land. The caution is real: thin-file lending can raise defaults, so it must pair with credit guarantees through CGTMSE and prudent underwriting.

But the binding constraint is plumbing, deepening TReDS onboarding, account-aggregator usage and faster MSEFC disposal, far more than a new scheme.

CONCLUSION

The MSME credit gap will narrow when a viable micro unit can borrow against its cash flows and be paid on time, not when a new programme is announced. Plumbing, not posters, is the priority.


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