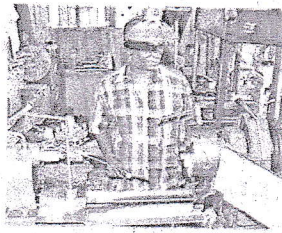


With MSME sector facing ₹30 lakh crore credit gap, alternative finance gathers pace

G Balachandrar
Chennai

Despite a steady increase in credit supply, the micro, small and medium enterprises (MSME) sector continues to face a significant credit gap, estimated at approximately ₹30 lakh crore, according to a report by the Small Industries Development Bank of India (SIDBI). While traditional lenders struggle to bridge this gap due to challenges, such as information asymmetry and lack of collateral, alternative finance is gaining traction.

The total finance demand from the MSME sector is pegged at ₹123 lakh crore, with debt accounting for around ₹92 lakh crore, based on an assumed 3:1 debt-equity ratio. Of this, about ₹64 lakh crore is considered addressable debt demand.



However, with banks and NBFCs supplying only ₹34 lakh crore in formal debt, the remaining ₹30 lakh crore forms the addressable credit gap, said the report, titled *'Understanding Indian MSME sector: Progress and Challenges'*.

Medium enterprises face the steepest shortfall at 29 per cent, followed by micro and small enterprises. Sector-wise, trading MSMEs face the largest gap at 33 per cent, followed by services (27 per cent) and manufacturing and allied sectors (20

per cent). This is because most of the trading MSMEs face a working capital shortfall due to inability to provide collateral, given their business model.

CREDIT GAP

Regionally, rural MSMEs encounter a higher credit gap (32 per cent) than urban counterparts (20 per cent) due to fewer financial institutions and lower industrial activity. Female-owned enterprises are particularly disadvantaged, facing a 35 per cent credit gap compared to 20 per cent for male-owned MSMEs, prompting many to rely on informal credit sources.

To counter these challenges, alternative and digital lending solutions are emerging as promising alternatives. Fintech companies,

in collaboration with traditional banks, are expanding digital lending infrastructure, raising awareness and pushing for greater financial inclusion. Although only 18 per cent of surveyed MSMEs currently use digital lending platforms, over 90 per cent accept digital payments — highlighting strong readiness for digital finance adoption.