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Post-Pandemic MSME Financing and Employment Dynamics in India: A Comprehensive Recovery Analysis

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Abstract

The COVID-19 pandemic created special obstacles for micro, small, and medium enterprises (MSMEs) in India because it disrupted their ability to access credit, maintain business operations, and create new jobs. The government of India responded to this situation by implementing various financial assistance programmes while non-banking financial companies (NBFCs) and digital lending platforms increased their financial support for MSMEs. This study analyses the recovery of MSMEs after the pandemic through three factors that include credit disbursement patterns, beneficiary coverage, and employment generation from 2018 to 2024. The study uses secondary data, which researchers collected from official sources including the Reserve Bank of India, the Ministry of MSME, and NITI Aayog, and related government reports. The research team used MS Excel to perform descriptive, comparative, and trend analyses, which evaluated the performance indicators from before and after the pandemic. The results show that post-pandemic credit availability increased through government programmes and alternative funding options but job recovery progressed at a slower pace, which created an uneven recovery situation. The study shows that financial solutions provided better cash flow management and business stability but operational challenges made it difficult to create permanent job positions. The paper shows that integrated MSME policies require financial assistance to match employment growth efforts and productivity improvement activities because this link will result in sustainable development for enterprises.

Keywords: MSMEs, post-pandemic recovery, government schemes, NBFCs, employment sustainability, India

Introduction

Background of the Study

Micro, small, and medium enterprises (MSMEs) constitute a crucial segment of the Indian economy. MSMEs deliver economic benefits through creating job opportunities, producing industrial output, and supporting economic progress for all social groups. The sector accounts for a substantial share of non-agricultural employment and plays an important role in promoting entrepreneurship and regional development (Ministry of MSME, 2022; Gupta & Kumar, 2021). The labour-intensive operations of MSMEs, which need less capital investment, make these enterprises vital for developing nations such as India to provide employment opportunities for their semi-skilled and unskilled workforce (Beck & Demirgüç-Kunt, 2006).

The sector confronts three main obstacles, which include minimal access to formal financial resources, technological limitations, and inefficient business operations. The

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sector developed these base structural weaknesses, which created a situation where external economic shocks could easily affect their operations (Ayyagari, Demirgüç-Kunt & Maksimovic, 2014). The COVID-19 pandemic which began in 2020 created severe challenges for businesses because it caused their operations to stop and created financial problems.

Impact of COVID-19 on MSMEs

The COVID-19 pandemic with its lockdown rules completely disrupted MSME operations through its power to break supply chains and stop workers from moving, and its effect of reducing market demand to extremely low levels. The pandemic period brought multiple studies which showed that micro and small enterprises suffered severe financial problems which led to temporary business shutdowns and job termination (RBI, 2021; World Bank, 2022). The informal economy and unregistered businesses faced greater negative effects because they lacked sufficient financial reserves and had restricted chances to obtain formal bank loans (ILO, 2021).

Research shows that larger companies managed to handle economic shocks more successfully while MSMEs struggled with long-term recovery difficulties that specifically affected their ability to rehire staff members (Sharma & Rai, 2023). The pandemic revealed fundamental structural problems that existed within the MSME system and created doubts about how businesses would operate in the future.

Policy Response and Post-Pandemic Financial Support

The government of India implemented various financial and policy measures during the pandemic economic crisis to support MSME stabilisation and recovery efforts. The main initiatives consisted of the Emergency Credit Line Guarantee Scheme (ECLGS), the Pradhan Mantri Mudra Yojana (PMMY), the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and the Prime Minister's Employment Generation Programme (PMEGP). The initiatives aimed to provide businesses with better access to credit while working to solve their liquidity problems and avoid shutdowns that would impact their operations at a major scale (Government of India, 2021; RBA, 2022).

The post-pandemic era saw non-banking financial companies (NBFCs) and digital lending platforms expand their operations because government programmes introduced new financing methods for MSMEs. The institutions used technology-based lending systems to deliver rapid credit solutions, which provided better financing options to micro and informal businesses that traditional banks did not serve (NITI Aayog, 2023; Ghosh, 2022). The new developments brought better short-term liquidity results but researchers still need to study their impact on employment recovery and the long-term survival of MSMEs.

Structure of the Paper

The paper is organised into different sections. Section 2 presents a review of relevant literature on MSME financing, pandemic-induced challenges, and government support mechanisms. Section 3 explains data sources, research method, and the variables examined. The empirical findings of the research study show results according to established research objectives. The study concludes its research by presenting important findings, which create policy recommendations, research limitations, and future research paths.

Literature Review

Role of MSMEs in Economic Growth and Employment

MSMEs are usually regarded as the main engine of India's economic growth. They play a major role in the country's GDP, exports, and occupation; thus, their contribution to the establishment of the industrial sector and balancing progress over different regions could not be underestimated (Kumari, 2020; Gupta, 2023). The MSME sector, like agriculture, has the largest share in employment and offers cheap labour, which, in turn, motivates people to set up businesses in both cities and the countryside. Moreover, the MSMEs are already part of the responsible growth trend as they hire unskilled and semi-skilled workers, leading to development of the particular area. Despite this fact, the majority of studies available today are pre-pandemic and descriptive; there is therefore a need for an empirical analysis post-pandemic. which would facilitate understanding of the current trends in employment and economic contribution. Recent empirical studies also emphasise the increasing importance of digital transformation in improving the performance of MSMEs in developing economies. According to the literature, the introduction of digital technologies, the availability of fintech services, and financial inclusion development can significantly increase productivity, market access, and employment generation by small businesses. These notes suggest that technological integration is becoming one of the key factors affecting the competitiveness of MSMEs in the post-pandemic business environment (Behl & Gaur, 2022; OECD, 2023).

Post-Pandemic Challenges of MSMEs

The COVID-19 crisis weakened MSMEs, where lack of cash flow, shortage of labour, and problems with operations were exposed. Sharma and Rai (2023) identify liquidity crisis, shrinking sales, and operational bottlenecks as the most critical issues. Kaur (2023) further opines previous economic shocks, such as demonetisation (2016) and GST implementation, exacerbated these problems. Among other issues were late payments from large companies and government agencies, migration of workers back to their homes leading to labour scarcity, and hike in prices of raw materials (Sharma & Rai, 2023; Kaur, 2023). The government assisted through the Atmanirbhar Bharat package, which, while being a major factor in the survival of numerous firms, was a more fruitful strategy for those who had better digital tools and e-commerce integration. This is to say that the view of long-term sustainability is one priority over mere survival. Recent research also indicates that, although several MSMEs have already been reinstated to business soon after the pandemic, recovery is still uneven among industries. The small businesses are still faced with limitations with regard to the shortage of working capital, labour supply, and higher costs of inputs, thus restricting their ability to increase output and workforce. These issues explain why continued policy responses that would add resilience to MSMEs in the post-COVID economic environment are necessary (Asian Development Bank, 2022; International Monetary Fund, 2022; OECD, 2023; World Bank, 2023; NITI Aayog, 2023).

Government Schemes and Financial Support for MSMEs

As a whole, the government has a huge impact on the financial performance of MSMEs in terms of recovery and competitiveness. The MUDRA, PMEGP, CGTMSE, and capital subsidies schemes have provided huge advantages to MSMEs in terms of credit access, operational capacity, and employment (Singh, 2024). Gupta (2023) states that government backing has made firms more competitive through financial aid, infrastructure development, and skill enhancement. However, this assistance was somewhat hampered by intricate procedures and low awareness. Devi et al. (2023) established that there is a positive correlation between financial policies and MSME productivity, which means that the design and execution of these schemes are crucial for their impact. Nevertheless, besides all these good intentions, there are challenges such as accessibility, awareness and effective implementation which make government support less effective in the long run. Recent research also demonstrates that, despite the fact that many MSMEs have reopened, even after the pandemic, the pace of recovery is still uneven in terms of sectors. Small businesses still face limitations in terms of working capital, labour, and rising cost of inputs, thus reducing their ability to grow production and jobs. These challenges highlight the need to implement policy measures that will be effective and sustained to increase the resilience of MSMEs in the post-Covid economic environment (Asian Development Bank, 2022; International Monetary Fund, 2022; OECD, 2023; World Bank, 2023; NITI Aayog, 2023).

Research Gap and Contribution

- Previous research has been more concerned with the short-term challenges faced by MSMEs.
- There are very few empirical studies that have combined financial viability, operational sustainability, and employment sustainability.
- Some studies have not considered the period after 2021 and have used secondary proxy variables.
- This study is an improvement because it provides a complete sustainability framework using data from 2018 to 2024.

Research Goals

- We shall analyse the contribution of small companies to the Indian economy post-COVID-19 with specific emphasis on their role in employment generation and expansion.
- We will explore the various issues that small businesses were confronted with during the pandemic including financial constraints, labour shortages, difficult working conditions, and the extent to which these issues are still being experienced.
- We will investigate the extent to which government financial assistance programmes helped small businesses recover.
- We will look into how different types of lenders, such as NBFCs and online platforms, contributed to the boost in lending.
- We shall determine whether the financial assistance had a long-lasting positive or negative impact on small companies, considering their performance, loan accessibility, and the trend of employment.

Research Methods

Research Design

The research used descriptive and analytical methods to investigate how MSMEs in India managed to survive and operate after the COVID-19 pandemic crisis. The research focused on studying the changes to essential financial metrics operational performance indicators and employee statistics, which occurred throughout various pandemic stages, to determine how financial aid affected the permanent viability of MSMEs.

Data Type and Origin

This investigation utilised secondary information collected from credible and authoritative sources. Data were acquired from official reports issued by multiple organisations consisting of Reserve Bank of India (RBI), the Ministry of MSME, the Ministry of Statistics and Programme Implementation (MOSPI), the Periodic Labour Force Survey, the Annual Survey of Unincorporated Sector Enterprises (ASUSE), the Press Information Bureau (PIB), and documentation from governmental initiatives such as PMEGP, MUDRA, and CGTMSE.

Timeframe of Investigation

The examination spans from 2018–19 to 2023–24, divided into three separate periods:

- Pre-pandemic period (2018–19).
- Pandemic impact period (2020–21).
- Recovery period following pandemic (2022–24).

This temporal segmentation enables systematic evaluation of MSME outcomes across pre-pandemic, pandemic, and post-pandemic stages.

Measurement Variables and Alternative Indicators

The research assessed MSME long-term viability through three different indicators because there was no access to complete enterprise-level longitudinal data. The research evaluated financial health through two indicators which made it possible to track lending growth and non-performing asset development. The research used government-backed programme credit utilisation patterns to measure operational continuity. The research applied alternative measurement methods because direct sustainability data were not available to researchers.

Methods of Analysis

Microsoft Excel was utilised to perform descriptive statistical analysis for summarising primary indicators. Comparative evaluation was used to detect differences among the three pandemic stages. Pattern analysis was used to recognise trends in lending growth, non-performing assets, and workforce recovery. Visual representations including tables, line charts, and bar graphs were employed to illustrate trends and improve clarity of findings.

Methodological Rationale

The research method used in this study enables researchers to conduct policy assessments, which require access to long-term enterprise data. The study uses secondary data sources and different measurement methods to assess MSME sustainability while evaluating the success of post-pandemic financial support programmes.

Study Constraints

The research faces several restrictions which limit its ability to investigate certain aspects. The total evaluation of business performance through secondary data and different measurement methods fails to show all aspects of company operations. The study could not investigate geographic and industry-specific differences because there was not enough data for research. The research presents its current limitations, which create chances for future studies that will use primary data and enterprise-level longitudinal datasets.

Empirical Results and Analysis

Role of MSMEs in Growth and Employment

Contribution of MSMEs to GDP Growth

Table 1: Contribution of MSMEs to India's GDP

Year	*Share of MSME GVA in All-India GDP (%)*	*Year-on-Year Change (%)*
2017–18	29.7	–
2018–19	30.5	2.7
2019–20	30.5	0.0
2020–21	27.3	−10.5
2021–22	29.6	8.4
2022–23	30.1	1.7

Source: Ministry of Statistics and Programme Implementation (MoSPI), Government of India.

Before the pandemic, the MSMEs had a steady and strong involvement as their GDP went from 29.7% in 2017–18 to 30.5% during 2019–20. This indicates MSMEs are becoming more important in economic value and growth.

Pandemic impact

A pronounced shrinkage happened during 2020–21, as the MSME portion of GDP fell down to 27.3% with a negative shift compared with last year by 10.5%. Such a decrease shows very hard effect of the COVID-19 pandemic on MSMEs. Supply chains faced troubles, requirements were fewer, and some businesses had to stop working for a while.

Recovery

The recovery in MSME contribution to GDP during the post-pandemic phase underscores the sector's resilience and its continued relevance in supporting economic growth. Given the labour-intensive nature of MSMEs, this improvement also suggests a gradual revival in employment generation, aligning with the objective of examining the role of MSMEs in growth and employment. It can be argued that the rebound of MSME contribution to GDP in the post-2021 period is due to the successive major policy interventions made by the government of India during and after the pandemic. The major financial support programmes such as Emergency Credit Line Guarantee Scheme (ECLGS), Pradhan Mantri Mudra Yojana (PMMY), and other credit guarantee programmes boosted the liquidity of MSMEs and thus many firms were able to get back to business. Simultaneously, the planned opening of markets and the methodical recovery of the supply chains offered further stimulation to the recovery of the sector, which only strengthens the key role of MSMEs in contributing to the overall development of the Indian economy.

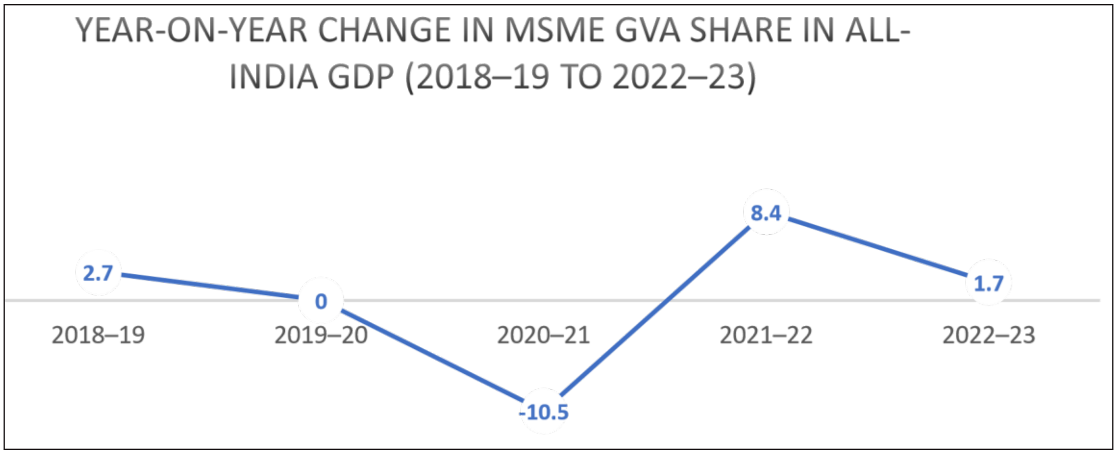


Fig. 1: Year-On-Year Change in MSME GVA Share in All-India GDP (2018–19 to 2022–23)

Fig. 1 illustrates yearly movement of MSME Gross Value Added (GVA) as a portion of India's GDP. The trend line demonstrates that before the pandemic, there was some moderate positive expansion, then after, in 2020–21, it dropped sharply by 10.5%, which portrays the big economic problems due to the COVID-19 pandemic situation.

Recovery and Resilience

The next period shows a remarkable bounce back. The MSME GVA portion grew by around 8.4% year-on-year for 2021–22. Yet in 2022–23, growth slowed to 1.7% but in general it indicates slow steadiness and more toughness in the MSMEs after the pandemic phase.

Trend analysis is giving more evidence that MSMEs hold an important place in economic improvement. Renewed rise in the GVA after the pandemic is showing operations are again active, which means job creation has started again in an indirect way. It shows the MSMEs are central for looking at how the growth and employment are being influenced.

Contribution of MSMEs in Employment Generation

Table 2: Employment Generation by MSMEs in India (Cumulative and Annual Increase)

Year	*Employment (Cumulative)*	*Increase over previous year*
2019–20	7,36,733	–
2020–21	7,40,834	4,101
2021–22	7,43,566	2,732
2022–23	7,47,637	4,071
2023–24	7,50,089	2,452
2024–25*	7,51,167	1,078

Note: 2024–25 figures are provisional.

Source: Ministry of MSME Annual Report.

Overall, employment trend Table 2 presents the trend in employment generation by MSMEs in India during the period 2019–20 to 2024–25. The cumulative employment figures indicate a steady increase over the years, reflecting the labour-intensive nature of the MSME sector and its continued role in absorbing workforce even during periods of economic stress.

Pandemic and After-Pandemic Observation

Although COVID-19 led to many disruptions, there was not a total downfall for MSME employment; however, the speed of creating new jobs was slower in 2020–21 and 2021–22. This shrinking of how many people got jobs each year exposes the negative effects caused by problems in operations and fewer demands. This is indicated by the relatively slow rate of change in employment that was observed throughout the pandemic period, implying that a high percentage of MSMEs focused their efforts on financial survival and operational sustainability rather than on the expansion of their workforce.

Within the framework of increased uncertainty about the demand in the market and significant disturbances in the supply chains, several businesses adopted risk-averse hiring practices and thus adopted the use of temporary or informal labour arrangements.

These dynamics give a reason as to why the recovery in employment was slow in the same breath as credit availability resumed in a similar manner in the post-pandemic period.

Recovery

The later rise in employment growth in 2022–23 and 2023–24 shows that MSME activities are slowly coming back after the pandemic period. Even though the growth increase was weaker in 2024–25 the main pattern indicates MSMEs have a stable involvement in increasing employment and so it helps to look at how they influence the economic growth and jobs.

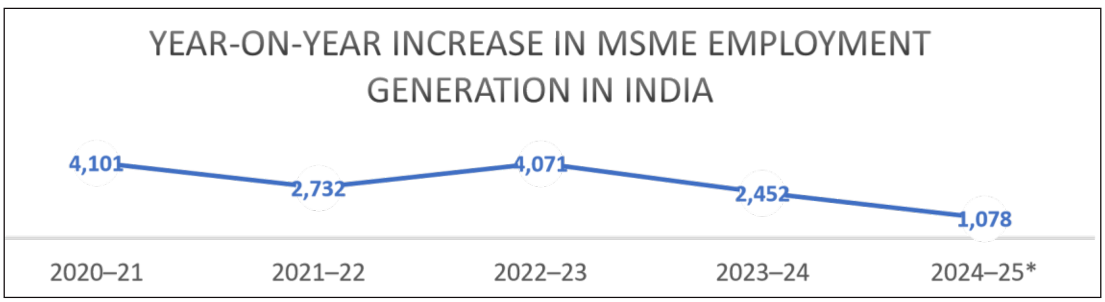


Fig. 2: Year-On-Year Increase in MSME Employment Generation in India

Trend Explanation

Fig. 2 shows how employment generation by MSMEs goes up year after year from 2020–21 to 2024–25. The tendency reveals moderate growth in jobs when the pandemic happened immediately; however, the numbers of employment go up and down with the fluctuations.

Pandemic and Recovery Point

The period 2021–22 had fewer jobs being added each year, which shows troubles from the pandemic problems still last. After this, in 2022–23, conditions get a bit better, hinting that MSMEs are reviving. However, later, addition of jobs becomes slower in 2023–24 and 2024–25. This means the comeback is slow and not happening everywhere in the same way.

Even when speed of job creation became slow, there was a positive increase every year during the period that shows the MSMEs are still able to create jobs. This situation highlights how MSMEs are important for creating jobs and so provides more support to examine how they add to the growth in economy and jobs.

Contribution of MSMEs to Export Performance

Table 3: Share of MSME-Related Products in India's Total Exports

Year	*Share of MSME-Related Products in Total Exports (%)*
2019–20	49.75
2020–21	49.35
2021–22	45.03

Year	Share of MSME-Related Products in Total Exports (%)
2022–23	43.59
2023–24	45.73
2024–25*	45.79

Note: Figures for 2024–25 are provisional.

Source: Ministry of MSME; Directorate General of Commercial Intelligence and Statistics (DGCIS).

Overall Export Trend

Table 3 presents the share of MSME-related products in India's total exports during the period 2019–20 to 2024–25. The data indicate that MSMEs consistently accounted for a substantial portion of India's export basket, with their share remaining close to 50% in the pre-pandemic period.

Pandemic Impact and Decline

The export share of MSME-related products declined significantly during the pandemic and the immediate post-pandemic years, reaching a low of 43.59% in 2022–23. This reduction can be attributed to supply-chain disruptions, decreased global demand, and logistical challenges encountered by MSME exporters.

Such a trend of gradual normalisation of global trade and opening of international markets in the post-pandemic period partially accounts for the fact that MSMEs had recovered their export performance. Programmes run by the state such as export promotion programmes, improvements of logistics infrastructure, and the implementation of digital trading platforms resulted in MSME exporters rejoining the world supply chains. However, the recovery speed is not as high as before the pandemic, which highlights the unchanged structural barriers, including limited technological potential, high compliance expenses, and increased international competition.

Post-Pandemic Stabilisation and Target Met Linkage

The recovery in 2023–24 and 2024–25 shows the gradual stabilisation of MSME export performance in the post-Covid period. Even with the partial rebound, however, the export share remains below pre-pandemic levels, underscoring enduring structural challenges. However, the continued contribution of MSMEs to exports at least helps bolster their status as a prime mover for economic growth; this reinforces the importance of examining the role of MSMEs in economic growth and export performance.

Employment Distribution Across MSME Categories

Table 4: Employment Distribution Across MSME Categories in India

MSME Category	Employment Provided (No of Persons)
Micro Enterprises	22,18,87,190
Small Enterprises	1,49,94,229
Medium Enterprises	67,39,936

Source: Ministry of MSME, Government of India.

Table 4 highlights the distribution of employment across MSME categories in India. The data indicate that micro enterprises account for an overwhelming share of employment generation, employing more than 22 crore persons, thus far exceeding the contribution of small and medium enterprises. The phenomenon is mainly due to the nature of micro units which are labour-intensive and their wide spread in both urban and rural areas. Small and medium enterprises' relatively low employment contribution hints at structural obstacles such as high capital intensity and limited size of operations. The results, therefore, point to the critical role of micro businesses in the employment absorption process, especially in the post-pandemic period where job creation has been unequal. This situation also indicates that the policy measures for employment recovery must first target the micro enterprises if the objectives of inclusive and widespread economic revival are to be met.

Aggregate MSME Registrations and Employment Profile

Table 5: Overall Scale of MSME Sector in India

Category	*Number*
Total MSME UDYAM Registrations	7,53,23,036
Total Employment Generated	33,12,80,132

Source: Udyam Registration Portal (including Udyam Assist Platform), Ministry of MSME, Government of India.

The large size of the MSME sector is illustrated by the very significant number of UDYAM registrations and the considerable employment induced, which together highlight its importance in India's economy and labour market.

Post-Pandemic Challenges Faced by MSMEs in India

Table 6: Post-Pandemic Challenges Faced by MSMEs in India (Liquidity, Labour, Operations)

Challenge Type	*Indicator*	*Pre-COVID Value*	*Post-COVID Value*	*% Change*	*Source*	*Impact Interpretation*
Liquidity Stress	MSME NPAs (%)	7.6	10.4	+36.84%	RBI Financial Stability Reports	Significant increase in credit stress and repayment difficulties
Liquidity Constraint	MSME Credit Gap (INR lakh crore)	2	28	+27.27%	RBI; World Bank MSME Impact Notes	Widening financing gap and restricted access to formal credit
Labour Shortage	Availability of Informal Labour	Stable	Declined	NA	World Bank; NITI Aayog	Labour shortages disrupting production and scale of operations
Operational Disruption	Capacity Utilisation (%)	75	65	−13.33%	RBI Industry & MSME Reports	Underutilisation of productive capacity and subdued demand

Source: Compiled from RBI and Ministry of MSME reports.

Table 6 shows the post-pandemic challenges faced by Indian MSMEs in terms of liquidity, labour, and operational issues. The data point out a drastic fall in liquidity conditions through an increase in MSME non-performing assets and a credit gap that became larger in the post-COVID scenario. Moreover, the constraints in the labour supply persisted since the informal workers who left their locations due to the pandemic had not returned. The industries working below their full capacity indicate operational inefficiencies that have emerged due to both low demand and supply-chain problems. In short, the study concludes that the emergency policy measures were effective in keeping MSMEs alive, but the structural constraints remained major barriers preventing a complete and equitable recovery, thus the necessity for financial interventions must be revisited. These observations suggest that policies of recovery after the pandemic must also aim at enhancing labour availability and supply-chain resilience as well as technological adoption by MSMEs. The enhancement of digital infrastructure, enhancement of skill-development programmes, and timely payment of larger firms can make the MSME sector less vulnerable to the effect of weakness in its operations.

Impact of Government Schemes

Table 7: Impact of Major Government Schemes on MSME Recovery (Pre- and Post-Pandemic)

Scheme	*Indicator*	*2018–19 (Pre-COVID)*	*2020–21 (Shock)*	*2022–23 (Recovery)*	*2023–24 (Recovery)*
MUDRA (PMMY)	Loan Amount (INR crore)	3,21,723	3,21,759	4,56,000	5,32,000
	Beneficiaries (crore accounts)	5.99	5.07	6.23	6.67
PMEGP	Units Assisted	73,427	74,415	85,167	89,118
	Employment Generated (persons)	5,87,416	5,95,320	6,81,336	7,12,944
CGTMSE	Guarantees Approved (No)	4,35,520	8,35,592	11,65,786	11,02,548
	Amount Guaranteed (INR crore)	30,169	36,899	1,04,781	1,35,668
ECLGS	Guarantees Issued (No)	NA	1,19,34,963	Ended	Ended
	Amount Sanctioned (INR crore)	NA	3,68,108	Ended	Ended

Source: Mudra/PMMY Dashboard; PMEGP Annual Reports; CGTMSE Annual Reports; Ministry of Finance.

Table 8: Growth in Government Scheme Support (Pre-Pandemic to Recovery Phase)

Scheme & Indicator	*2018–19 → 2022–23 % Change*	*2018–19 → 2023–24 % Change*
MUDRA Loans (INR crore)	41.80%	65.40%
MUDRA Beneficiary Accounts	4.00%	11.30%
PMEGP Units Assisted	16.00%	21.40%
PMEGP Employment Generated	16.00%	21.30%
CGTMSE Amount Guaranteed	247.00%	350.10%
CGTMSE Guarantees Approved	168.00%	153.00%
ECLGS Amount Sanctioned	NA	NA (Pandemic-specific intervention)

Source: Calculations based on official scheme data.

Tables 7 and 8 show how key financial programmes for small businesses changed before and after the pandemic. Before the crisis, these initiatives moved relatively little credit around. The moment the pandemic hit, things shifted fast – MUDRA and CGTMSE loans grew much more quickly than earlier. This spike was not just numbers – it helped bring back cash flow for countless local firms struggling to stay afloat.

By 2023–24, MUDRA loans had risen by 65.4%, yet the number of eligible account holders grew only modestly, pointing to larger typical loan amounts instead of broader reach expansion. PMEGP saw consistent gains in both supported units and jobs created, showing how it can help launch small businesses and generate work opportunities.

Out of all programmes, CGTMSE saw the sharpest increase – its guaranteed amount jumped more than 350% once recovery began, showing how heavily lenders leaned on credit safety nets. During the pandemic, the ECLGS programme stepped in briefly yet helped keep lending steady thanks to its short-term protection. In the end, official support clearly helped MSMEs regain footing after the crisis; however, jobs failed to catch up with the rapid growth in loans.

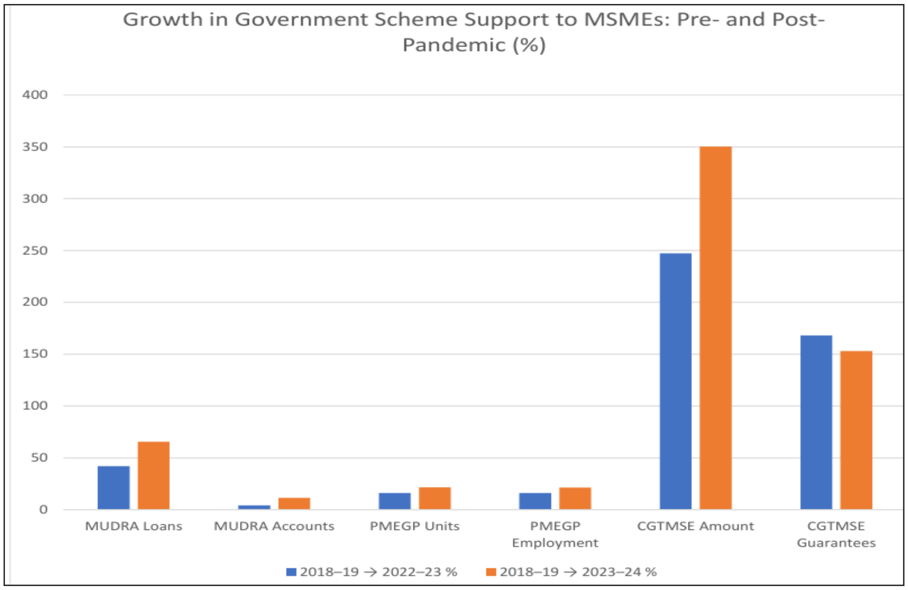


Fig. 3: Growth Rate of Major Government Schemes Supporting MSMEs (Pre- and Post-Pandemic)

The figure shows how government support for MSMEs grew during the recovery phase compared with the pre-pandemic period. Credit guarantee programmes – especially CGTMSE – expanded the most, highlighting their key role in stabilising post-pandemic credit. Employment-focused schemes, by contrast, saw only a moderate recovery.

Role of NBFCs & Digital Lending in MSME Credit Expansion

Table 9: Changing Role of NBFCs in MSME Credit (Pre- and Post-COVID)

Year/Period	*Estimated Share of Credit*	*NBFCMSME*	*Remarks*
FY 2018–19 (Pre-Covid)	NA		No separate RBI disclosure on NBFC MSME share; FY 2021 used as baseline.
FY2020–21 (Pandemic shock)	5.9%		Earliest official share of MSME credit in NBFC loan portfolios.
FY 2021–22 (Early recovery)	Not reported		RBI reports growth in MSME credit by NBFCs but no explicit share.
FY 2022–23 (Recovery phase)	Increasing based)	(Trend-	RBI data indicate strong expansion in NBFC MSME lending.
FY 2023–24 (Post-Covid recovery)	~11.7%		NBFC share in total MSME credit across lenders.
FY 2024–25 (H1, Latest)	~9.1%		Continued expansion in NBFC MSME portfolios.

Source: RBI Trend and Progress of Banking in India; FIDC; CareEdge; industry reports.

Table 9 shows the shift in how NBFCs handle MSME lending becomes clear – before versus after the pandemic. Since there are no post-pandemic NBFC-specific figures showing MSME loan sizes, we rely on FY 2020–21 numbers as a starting point. That year marks 5.9% of total loans going to MSMEs within NBFCs.

With healing ongoing, NBFCs took part more and more, making up about 11.7% of small business loans by March 2024. The growing role of NBFCs and online loan providers is an indicator of the overall repositioning of the MSME financing environment in India. Alternating the traditional banking paradigms, such organisations often use technology-based credit assessment strategies and faster credit processing, thus enabling faster access to capital among micro and small businesses. Therefore, lending via fintech and financing via NBFCs have emerged as relevant auxiliary credit options to MSMEs as part of the post-pandemic recovery curve.

Table 10: Growth of Digital Lending in India (FY 2020–25)

Financial Year	*Growth Trend*	*Disbursement Value (INR Crore)*
FY 2019–20 (Pre-Covid)	Baseline (nascent stage)	Not reported
FY 2020–21 (Shock)	Low base, sharp expansion	46,616
FY 2021–22	+177% volume growth	76,396
FY 2022–23	+49% volume, +21% value growth	92,267
FY 2023–24	+35% volume, +49% value growth	1,46,517
FY 2024–25	Continued strong growth	1,06,548*

Source: FACE–Equifax; ETBFSI; Business Standard; Economic Times.

Table 10 displays the fast growth of digital lending in India which started after the COVID-19 pandemic. The pre-pandemic period showed digital loan disbursement values at their lowest point but the values increased rapidly from that point during FY 2020–21 and FY 2021–22 which brought back strong results.

The ongoing increase in loan volumes together with disbursement values through upcoming years shows how more people use fintech-based credit systems. Digital lenders became an important route for MSME funding because they decreased processing times and made financing more available to businesses during the time of post-pandemic recovery.

Table 11: Digital Finance as a Proxy for Financial Inclusion (Supportive Evidence)

Year	*Indicator*	*Evidence*
2017	Formal borrowing from institutions	Pre-pandemic baseline
2021	Use of digital payments	+7.7% increase
2025	Digital financial access	Expanded dataset available

Source: World Bank Global Findex Database.

Table 11 provides supporting evidence on the expansion of digital financial inclusion in the post-pandemic period. The World Bank Global Findex indicators demonstrate that people started using digital payment systems and official financial services more frequently after the COVID-19 pandemic.

The development of digital networks together with improved access to financial services has resulted in increased digital lending activity according to our findings, which demonstrate that better digital infrastructure solutions have enabled MSME businesses to access multiple funding sources.

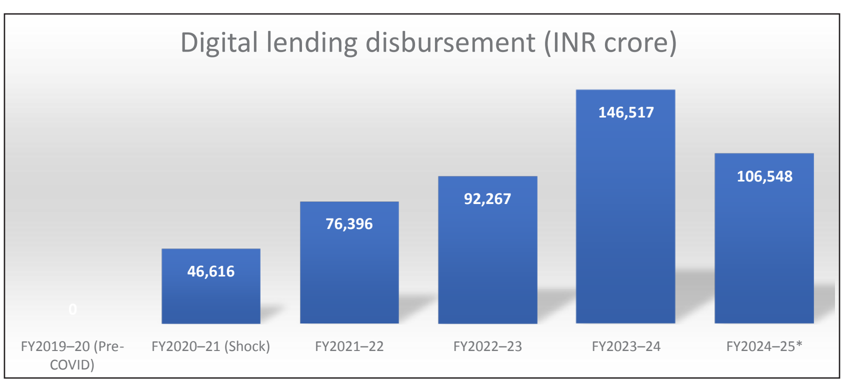


Fig. 4: Growth in Digital Lending Disbursement in India (FY 2020–25)

Fig. 4 shows how digital lending disbursements in India increased after the pandemic until today. The sharp upward movement after FY 2020–21 shows how people now rely on fintech-based credit systems more than traditional banking methods. The digital lenders' operations together with NBFCs demonstrate their significant role in reducing the MSME credit deficit through their provision of quick technology-driven financial solutions which helped businesses during the recovery time.

The analysis shows that there has been a major change in MSME credit distribution since the pandemic ended; funds are now directed away from traditional banking methods towards non-bank and digital banking systems. NBFCs increased their participation in MSME financing, with their share in total MSME credit rising to approximately 11.7% by FY 2023–24. NBFCs now consider flexible underwriting methods and industry-specific lending approaches as essential underwriting standards.

Digital lending platforms experienced rapid growth while their loan disbursement amounts showed significant increases starting from FY 2020. Fintech-based credit delivery systems have become more popular because they help businesses reduce their loan processing times and gain easier access to credit during the recovery period. NBFCs and digital lenders worked together to successfully close the MSME credit deficit that arose after the pandemic.

Long-Term Impact of Post-Pandemic Financial Assistance on MSMEs

Table 12: Sustainability Dimensions and Proxy Variables Used for Objective 5

Sustainability Aspect	*Proxy Variable*	*Data/Source*
Financial Viability	Credit growth and NPA trend	RBI MSME Credit Reports; MUDRA, CGTMSE, NBFC reports (2018–24)
Operational Stability	Repeat credit access	Number of MSMEs accessing fresh or follow-up loans under PMEGP and MUDRA schemes (PIB, Ministry of MSME)
Employment Sustainability	Employment trend post-2021	ASUSE Survey; MSME Annual Reports; Government employment data (MOSPI), 2021–24

Source: Compiled from RBI and Ministry of MSME reports.

Table 12 lists the sustainability dimensions and related proxy variables that were used to look at the long-term effects of post-pandemic financial aid on MSMEs. We look at credit growth trends and NPAs to see if a company is financially stable. These numbers show how easy it is to get money and pay it back. Operational stability is measured through repeat credit access, indicating whether MSMEs can keep operating beyond the initial emergency support. We evaluate employment sustainability through employment trends after 2021 to see if financial aid led to job retention and creation. These proxies provide a thorough assessment of MSME sustainability using trustworthy secondary data sources.

Table 13: Proxy Data Illustration

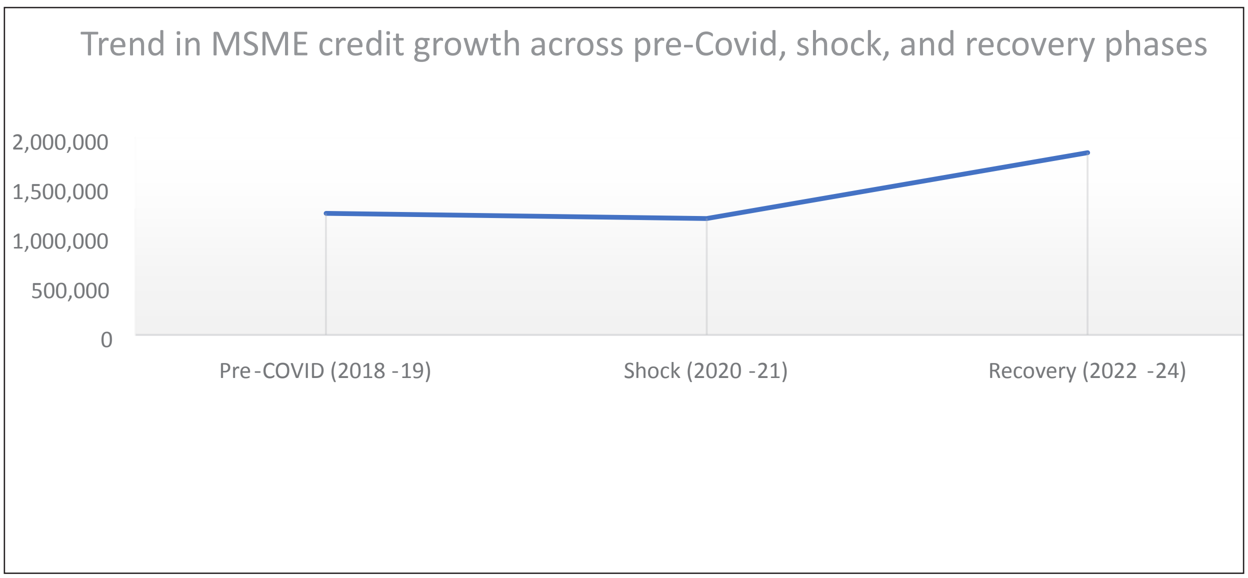
Proxy Aspect	*Indicator/Metric*	*Pre-COVID (2018–19)*	*Shock (2020–21)*	*Recovery (2022–24)*	*Source*
Financial Viability	Credit growth (INR crore)	12,34,000	11,80,000	18,50,000	RBI MSME Credit Reports
Financial Viability	NPA ratio (%)	5.2	7.1	4.8	RBI; CGTMSE Annual Reports

Proxy Aspect	*Indicator/Metric*	*Pre-COVID (2018–19)*	*Shock (2020–21)*	*Recovery (2022–24)*	*Source*
Operational Stability	Repeat credit access (number of firms)	6,50,000	5,80,000	7,90,000	PMEGP; MUDRA Scheme Reports
Employment Sustainability	Employment (crores of workers)	9.4	8.6	10.9	ASUSE Survey 2021–24 (MOSPI)

Source: Ministry of Statistics and Programme Implementation (MOSPI). Annual Survey of Unincorporated Sector Enterprises (ASUSE), 2021–22, 2022–23, and 2023–24, Government of India.

Table 13 illustrates the long-term sustainability outcomes of MSMEs across different phases of the pandemic using proxy indicators. Financial viability deteriorated during the shock period, as reflected by a decline in credit growth and a rise in NPA ratios in 2020–21. However, the recovery phase shows a strong rebound in credit disbursement accompanied by a reduction in NPAs, indicating improved repayment capacity and enhanced financial resilience.

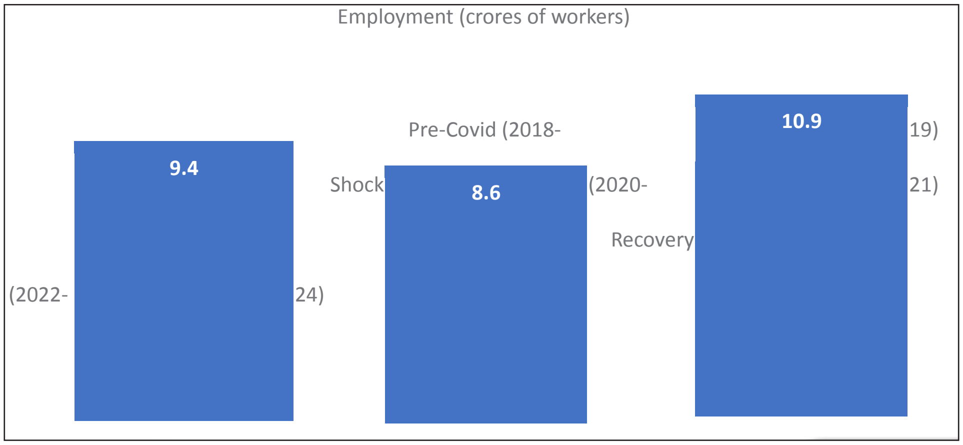
Operational viability, measured by the ability to have repeated access to credit, was affected during the pandemic period due to higher uncertainty and risk aversion. The increase in the recovery phase shows that MSMEs have been able to restore the confidence of lenders and ensure operational viability. Employment sustainability contracted during the pandemic period, but the data available after 2021 show a recovery, which is moderate compared with the growth of credits. The table shows that financial support after the pandemic has positively influenced financial stability and credit access, but employment recovery is not complete.



Source: RBI MSME Credit Reports; Ministry of MSME (compiled).

Fig. 6: Trend in MSME Credit Growth Across Pre-COVID, Shock, and Recovery Phases

Fig. 6 shows the path of credit growth in MSMEs during different stages of the pandemic. The marginal decline in credit during the shock stage (2020–21) represents the impact of uncertainty and risk aversion. On the other hand, the large increase in credit during the recovery phase (2022–24) shows that lenders regained confidence and that credit support policies initiated by the government have been successful in injecting liquidity into the MSME sector.

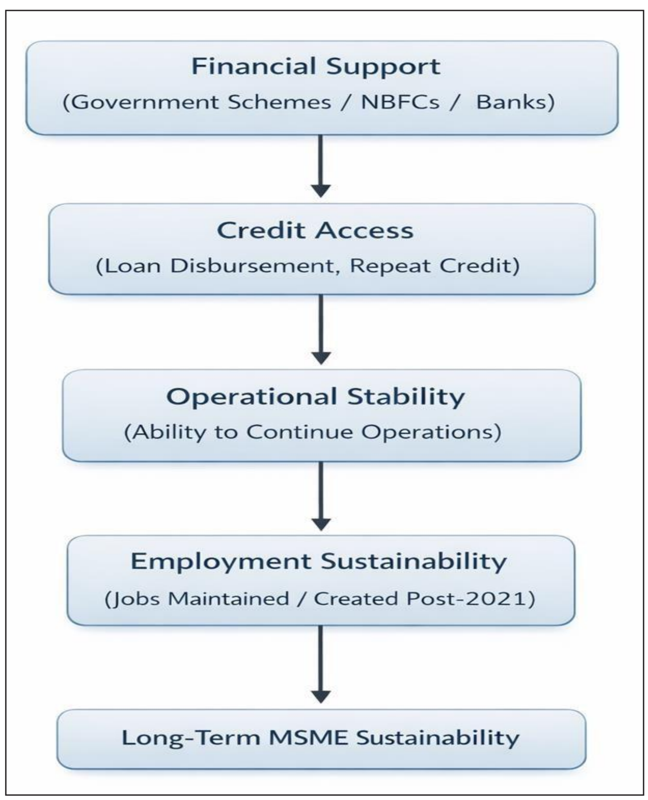


Source: ASUSE Survey (2021–24), Ministry of Statistics and Programme.

Fig. 7: Employment Sustainability in MSMEs Across Pre-COVID, Shock, and Recovery Phases

Implementation (MoSPI)

The employment path of MSMEs in the pre-pandemic, shock, and recovery stages is shown in Fig. 7. During the shock phase of the COVID-19 pandemic, employment declined, indicating widespread disruptions, closures, and displacement. Although employment numbers increased in the recovery phase and exceeded pre-pandemic numbers, the rate of recovery was slow. This indicates that while support helped sustain businesses, employment growth was lower than credit growth, which is a partial recovery.



Source: Author's conceptualisation based on secondary literature and policy reports.

Fig. 8: Conceptual Framework: Long-Term MSME Sustainability

Fig. 5 illustrates the conceptual framework that explains the role of financial assistance in the post-pandemic era in ensuring the sustainability of MSMEs. The role of financial assistance offered through government initiatives, banks, non-banking financial companies (NBFCs), and online lenders increases credit accessibility, which helps businesses obtain new and follow-on loans. Credit accessibility helps create stability in business operations by ensuring the continuity of business operations. Business operation continuity also helps create stability in employment, which aids in employment sustainability in the post-2021 era.

Table 14: Summary of Objective-Wise Findings

Objective	*Key Findings*	*Supported?*
Obj 1	Credit declined during Covid but recovered post-2021	✓
Obj 2	Govt schemes increased disbursement and beneficiaries	✓
Obj 3	NBFC participation improved credit inclusion	✓
Obj 4	MSME recovery uneven across indicators	✓
Obj 5	Financial support ensured partial long-term sustainability	✓

Conclusion

The research analysed the recovery process of Indian MSMEs after the pandemic by evaluating their access to credit and their ability to maintain operations and keep employees between 2018 and 2024. Financial support programmes and alternative lending methods successfully restored credit operations after the pandemic, according to research results, but various sustainability measures produced different recovery evaluation results. The speed of credit disbursement recovery exceeded the pace of employment creation, which shows that the restoration of liquidity resulted in job growth that fell short of matching actual employment needs.

The government-backed programmes MUDRA, PMEGP, and CGTMSE and emergency credit guarantees provided essential assistance to MSMEs, which helped them achieve stability during their recovery period. Small enterprises and unregistered businesses now have improved credit options because non-banking financial companies and digital lending platforms have become more available in the market.

Policy Implications

The research establishes the requirement for a unified post-pandemic MSME policy system that needs to be developed for the current business environment. Organisations need credit expansion to reach their goals, but they require support that emphasises growing their workforce base while developing employee skills and boosting their production capacity. The improvement of credit monitoring systems together with better public knowledge about government programmes will create financial assistance systems that link to job market results to support MSME recovery through inclusive and sustainable methods.

Limitations and Future Research

The research has specific restrictions, which limit its findings. The study uses secondary data and proxy indicators because enterprise-level longitudinal datasets are not available. The research did not explore sectoral and regional variations because of the study's constraints. Future research can use primary surveys or firm-level panel data to study how financial assistance affects the productivity and employment quality and long-term survival of MSMEs.

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