Indian Economy · GS - III

Assess the role of government-backed credit schemes in promoting inclusive entrepreneurship and examine the challenges limiting their effectiveness among India's micro and small enterprises.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 24/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Financial inclusion, collateral-free credit, women entrepreneurship, SC/ST entrepreneurs, credit gaps, repayment stress, institutional support

Model Answer

Introduction

Micro, Small and Medium Enterprises (MSMEs) contribute significantly to employment, manufacturing and regional development. Government-backed initiatives such as Pradhan Mantri MUDRA Yojana and Stand-Up India seek to address credit constraints and expand entrepreneurial opportunities.

Contribution to Inclusive Entrepreneurship

1. **Financial Inclusion:** MUDRA facilitates institutional credit for micro-enterprises, reducing dependence on informal moneylenders.

2. **Social Empowerment:** Stand-Up India promotes entrepreneurship among women and Scheduled Caste and Scheduled Tribe communities through targeted bank lending.

3. **Risk Mitigation:** Credit guarantee mechanisms encourage lenders to finance eligible borrowers by sharing a portion of the credit risk.

4. **Employment Generation:** Improved access to finance supports enterprise creation, local economic activity and livelihood diversification.

Persistent Challenges

1. **Unequal Credit Distribution:** Regional disparities, gender barriers and limited access in rural areas restrict equitable distribution of institutional finance.

2. **Loan-Size Mismatch:** Small-ticket loans may not adequately meet the working-capital and expansion requirements of growing enterprises.

3. **Repayment Stress:** Irregular cash flows, delayed payments and market uncertainty can increase defaults and discourage future borrowing.

4. **Non-financial Constraints:** Limited financial literacy, inadequate market access, technology gaps and complex documentation affect enterprise sustainability.

Way Forward

1. Strengthen credit assessment using cash-flow-based lending and reliable business records.
2. Improve access to timely working capital and formalise delayed-payment redressal.
3. Combine credit with entrepreneurship training, mentoring, digital literacy and market linkages.
4. Monitor loan utilisation, enterprise survival and employment outcomes rather than merely measuring disbursements.

Conclusion

Government-backed credit is an important instrument of inclusive growth, but access to loans alone cannot ensure entrepreneurial success. An integrated approach combining affordable finance, institutional support and market opportunities is essential for sustainable MSME development.