



“ROLE OF PUBLIC SECTOR BANKS FOR THE DEVELOPMENT OF MSMEs OF MADHYA PRADESH”

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ABSTRACT:

Micro, Small and Medium Enterprises play a very vital role for economic growth and development of any country. It significantly contributes to GDP, employment generation, exports and import substitution. In order to enhance the contributions of Micro, Small and Medium Enterprises of Madhya Pradesh, Public Sector Banks provide extensive financial support to MSMEs. This conceptual research paper addresses the gap in understanding the specific contribution of Public Sector Banks to Micro, Small, Medium Enterprises of Madhya Pradesh. This paper especially highlights financial inclusion and economic development of Madhya Pradesh.



KEYWORDS: MSMEs, PSBs, Economic Development, Financial Inclusion.

INTRODUCTION:

In order to achieve overall development of any economy of any country, Micro, Small and Medium Enterprises are to be extensively supported and perpetually promoted. For realization of the time bound target of 5 trillion Indian Economy by 2028, MSMEs are projected to grow to 1 trillion by 2027-28. This growth needs a diverse range of considerable investments in MSMEs, including Textiles, Food Processing, agriculture and many other sectors. In addition, MSMEs also offer the opportunities for employment generation, rural development, women empowerment and presents a large potential for rapidly fostering and expanding consumer based disposable income and a vibrant domestic market as well.

Moreover, MSMEs are tapping a great stride towards innovation and digitization of operational procedures. This adoption of new techniques, tools and systems provide a sharper edge to their global competitiveness. A number of schemes such as Digital MSME scheme, which empowers all duly registered MSMEs, Registration of MSMEs is performed with the recently launched “UDYAM REGISTRATION PORTAL” so as to adopt modern system of Information communication and its effective implementation and application.

It has been significantly established that Micro, Small and Medium Enterprises (MSMEs) are playing a pivotal role in India's economic growth and development especially to employment generation, GDP, exports, import substitution and “Make in India Drive”. Public Sector Banks (PSBs)

have a vital role in extensively supporting MSMEs by providing varied financial services which include Credit, Overdraft, Letter of Credit, Bank Guarantees for enhancing entrepreneurship and economic development. The state like Madhya Pradesh which is emerging as an industrial and commercial hub in the country, Public Sector Banks are instrumental in addressing the financial needs of Micro, Small and Medium Enterprises. This exhaustive study has deeply explored the vital role of Public Sector Banks in the development of Micro, Small and Medium Enterprises, focusing on their impact, challenges and opportunities in Madhya Pradesh. Recently, there are 12 PSU Banks in India, which are fostering, enhancing and extending support and assistance to MSMEs.

MSMEs in Madhya Pradesh are important not only for output and trade, but also for employment generation and regional balance. The state's recent financial inclusion agenda shows that banks are the primary channels through which government programs, credit flows, and formal financial access are delivered. Madhya Pradesh had around 9,000 bank branches as of March 2026, and public sector banks constituted approx. 53% of the state's banking network, making them structurally important to rural and semi-urban enterprise finance. For MSMEs, especially micro enterprises and first-generation entrepreneurs, public sector banks often serve as the first formal institutional contact point.

Objectives

1. To examine the contribution of public sector banks to MSME development in Madhya Pradesh.
2. To study the role of public sector banks in credit access, financial inclusion, and scheme delivery.
3. To identify the major barriers faced by MSMEs while borrowing from public sector banks.
4. To suggest policy measures for strengthening MSME lending through public sector banks.

Reasons for selecting PSU Banks

The major reasons for selecting PSU Banks credit and other financial support are enlisted as under:

- 51% shares are in the hands of Government and having an objective of "NOT FOR PROFIT" motto.
- Adopting social justice by extending credit advances, extensive guidance for micro, small and medium enterprises who need support indeed.
- Public sector Banks contribute for the perpetual growth, development, extension, expansion and diversification of micro, small, medium enterprises of Madhya Pradesh.
- Public Sector Banks show great transparency in their operations.
- Bank Service Charges are less as compared to other financial institutions.
- PSUs have easy reachability and accessibility.

In broader sense, Public Sector Banks tailor credit products, loans and other advantages to address the special and specific needs of Micro, Small and Medium Enterprises. Public Sector Banks have an extensive competence, capacity and capabilities to assess, help and extend financial assistance to micro, small and Medium Enterprises for innovations and developing new products and services as well.

Research and Development and faster adoption of foreign or indigenous technology is greatly supported by PSB Banks for enhancing capacity building and fostering competitiveness of Micro, Small and Medium Scale Enterprises of Madhya Pradesh and ultimately contribute in the development of enterprise and the state of Madhya Pradesh.

During the study, it was observed that PSBs really play a crucial, significant and pivotal role in the Economy of Madhya Pradesh by providing varied financial services to micro, small and medium sector Industries. A large segment of the population, rural areas, low income groups associated with Micro, Small, Medium Enterprises as employees, vendors and buyers etc.

Fintech partnerships to boost lending MSMEs amid a government push is also being strengthened by Public Sector Banks. Large Public sector Banks are exploring stronger partnerships with financial technology start-ups as they require to step up loans to Micro, Small and Medium

Enterprises. This is followed by a government enhancement and driving force in the budget for accelerating credit flow to micro, small and medium enterprises and priority loans.

In addition, a slowdown in unsecured consumer lending, which saw the most Financial Technology partnership has led to a sharpened focus by these banks on supply chain finance, loan against property and term loans for business, industry insider laid. Micro, small and medium enterprises and business generating loans extended by Public Sector Banks have a highly effective and more significant impact on the economy than consumer lending. There is a strong momentum from regulations, policy makers and industry stakeholders to scale "Public Sector Banks Financial Technology" co-lending partnerships. Public sector Banks can play a crucial role in securing MSME customers, providing this immensely needed digital infrastructure and managing these loans effectively and efficiently. Public sector Banks are not interested to perform a lot of "FIRST LOSS DEFAULT GUARANTEE" specifically, PSBs prefers to adopt co-lending arrangement now-a-days. Willing the co-lending programmes in the micro small and medium enterprises space, there is significant business being done by Public Sector Banks for commercial vehicles, agricultural loans, and loans against property. It is observed that supply chain financing is a very small segment among lenders, who are trying to expand in space, specifically Public Sector Banks. Co-lending markets in MSMEs is more than Rs. 1 Lakh Crore in general and especially claim financing appetite among Public Sector Banks at Rs. 8000/- to Rs. 10000 Cr.

In view of the significance of very vital contribution of Micro, Small and Medium Enterprises in the growth and development of Madhya Pradesh and important role played by the Public Sector Banks in supporting and promoting these MSMEs, this research paper throws some light on this aspect. This study highlights that Reserve Bank of India (RBI) has mandated the norms that 40% of adjusted net bank credit (ANBC) must be directed towards priority sector which predominantly include MSMEs. PSB, to promote financial inclusion and supporting priority sectors like MSMEs facilitate capital formation, provide credit to unreserved sectors. PSBs rigorously implement Government schemes like Pradhan Mantri Mudra Yojana, Credit Guarantee Fund Trust for Micro, Small and Medium Enterprises (CGTMSE). However effectiveness of this implementation by PSBs is challenged by NPAs, bureaucratic loan processes and competition from private banks and Non-Banking Financial Companies (NBFCs). As per the published data by Department of MSME, PSBs and Rural Banks hold 57% of the state's 8034 bank branches and provide 31% of business loans to micro enterprises.

Average loan ranges from Rs. 1.5 Lakh at 8-12% interest. Total state credit was Rs. 4 lakh crores approximately with MSMEs receiving 9.45%. Only 26% of entrepreneurs applied for loans and 33% succeeded, which limit the growth of credits. Public Sector Banks support Government Schemes like Mudra Loans. PSB provided COVID relief as well.

It is found that limited finance affects the "missing middle". The state of Madhya Pradesh comprises approximately 30 lakhs MSMEs out of which 95% are micro enterprises. These units contribute 4% to India's total, but only 14% of banking credit goes to them. Demand-side issues (e.g., lack of awareness, complex processes) and supply-side barriers, reduce effectiveness. 80% of Public Sector Bank MSMEs loans are under Government schemes, leading to subsidy misuse. Recommendations for 2026-27 are made to develop dedicated schemes for Rs. 1-5 lakhs loans, partner with Public Sector Banks for digital platforms and allocate more in Annual Credit Plans to boost penetration in MSME sector.

MSME Development Institute, Madhya Pradesh outlines that Madhya Pradesh's economic landscape, with sections on banking and MSMEs that PSBs dominance is possessing underscores in supporting priority sectors which includes MSMEs, via schemes like the Prime Minister's Employment Generation Programme (PMEGP). According to the research study conducted, more than 4500 PSB branches contribute directly to net bank credit to priority sector like MSMEs to the tune of 40%. The state level Bankers' Committee coordinates this promoting financial inclusion. MSMEs benefit from PSB-facilitated loans for technology adoption and market access. The figures related to "Udyam", it is observed that the "Udyam Registrations" have crossed approx 20-25 lakhs registration till January 2025 with highest registrations in Indore (approximately 2 lakhs) which shows the strong growth.

Hence, on the basis of an exhaustive and detailed study and research on Public Sector Banks for the development of Micro, Small and Medium Scale Industries/Enterprises, it can be concluded that PSBs are the vital and crucial players in MSMEs ecosystem in the light of GST 2.0 reforms, for providing the adequate financial assistance, implementing government policies and addressing some of key challenges faced by these enterprises. The perpetual focus on financial inclusion, technology adoption and innovation, along with Government support, is essentially required for fostering and thriving and sustainable MSMEs in Madhya Pradesh and the country as a whole.

Role of Public Sector Banks in MSMEs

PSBs dominate lending with government-backed objectives of social justice and priority sector focus (40% of adjusted net bank credit to priority sectors including MSMEs).

Public sector banks support MSMEs through four main functions. First, they provide formal credit, which enables business expansion and reduces dependence on moneylenders and family borrowing.

Second, they support inclusion by opening accounts, enabling digital payments, and linking businesses to formal transaction histories.

Third, they implement government schemes such as PM Mudra, CGTMSE-linked lending, and other credit support programs for small enterprises.

Fourth, they act as information and counseling institutions, especially in rural and semi-urban areas where entrepreneurs may lack financial literacy or documentation capacity.

Key Advantages of PSBs:

- Lower service charges
- Easy accessibility and reach
- Tailored credit products (overdrafts, guarantees, term loans)
- Support for innovation, R&D, and technology adoption

Government Schemes Supported by PSBs:

- Pradhan Mantri Mudra Yojana (PMMY)
- Credit Guarantee Fund Trust for MSMEs (CGTMSE)
- PMEGP
- Digital MSME Scheme
- Udyam Registration Portal

Challenges:

- High NPAs
- Bureaucratic processes
- Limited awareness among entrepreneurs
- Competition from private banks and NBFCs
- "Missing middle" – finance gap for ₹ 2-10 lakh loans

Presentation Recommendations:

- Dedicated low-ticket loan schemes (₹ 1-5 lakh)
- Stronger PSB-Fintech partnerships for digital lending
- Enhanced financial literacy and simplified processes
- Increased allocation in Annual Credit Plans
- Focus on supply chain finance and co-lending models

CONCLUSION

Public Sector Banks are vital players in the MSME ecosystem of Madhya Pradesh. With continued focus on financial inclusion, technology, and government support, PSBs can drive sustainable growth and contribute to India's economic ambitions.

Public sector banks are central to the development of MSMEs in Madhya Pradesh because they combine branch outreach, government scheme delivery, and formal credit access in a state where many enterprises remain small and financially constrained. Their contribution is strongest in inclusion, small-ticket lending, and formalization, but weaker in converting first-time borrowers into scalable enterprises. The future role of PSBs should focus on bridging the missing middle, improving loan accessibility, and building a more specialized MSME credit ecosystem. If that happens, public sector banks can become a true catalyst for balanced industrial and rural enterprise growth in Madhya Pradesh.

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