International Journal of Finance and Commerce
www.commercejournals.com
Online ISSN: 2664-715X
Received: 26-07-2026, Accepted: 25-08-2026, Published: 09-09-2026
Volume 8, Issue 3, 2026, Page No. 95-97

Post-pandemic fiscal support and MSME recovery in India

Dr. Asaraf Unnisa L
Assistant Professor, Department of Business Administration, Government First Grade College, Mysore, Karnataka, India
DOI: https://doi.org/10.66856/ijfc.2026.8.3.8063

Abstract
The COVID-19 pandemic inflicted severe liquidity and demand shocks on India’s Micro, Small and Medium Enterprises (MSME) sector, threatening widespread enterprise closures and job losses. In response, the Government of India deployed fiscal stimuli and credit-guarantee mechanisms, particularly the Emergency Credit Line Guarantee Scheme (ECLGS), to stabilise enterprises and accelerate recovery. This article evaluates the role of post-pandemic fiscal support and government credit guarantees in India, with emphasis on credit access, enterprise survival, employment preservation and financial stability. The available evidence suggests that ECLGS substantially expanded emergency liquidity for borrowers, although the benefits were uneven because many informal and very small firms remained outside formal credit networks. Sustainable MSME recovery therefore requires credit support to be combined with timely-payment enforcement, market access, digital capability and stronger monitoring of outcomes.

Keywords: ECLGS, MSME, COVID-19 pandemic & fiscal support

Introduction
India’s MSME sector was especially exposed to the economic disruption caused by the COVID-19 lockdowns of 2020 and subsequent waves of the pandemic. Reduced sales, disrupted supply chains and fixed operating expenses quickly created working-capital shortages. The Government of India responded through the Aatmanirbhar Bharat package and the ECLGS, which offered government-backed additional credit through eligible lending institutions. The policy objective was not merely to increase lending, but to prevent viable enterprises from failing because of a temporary liquidity shock. This article examines whether these interventions helped MSMEs recover and identifies the limits of a recovery strategy that relies primarily on debt and guarantees. All monetary figures are presented in Indian rupees.

Literature Review and Policy Context
Credit guarantee schemes are commonly used when lenders hesitate to lend to smaller firms because of limited collateral, information asymmetry and high transaction costs. A public guarantee lowers a lender’s expected loss and can therefore increase the supply of credit. International evidence, however, cautions that programme design matters: eligibility, lender incentives, targeting, additionality and post-loan monitoring affect whether guarantees reach viable credit-constrained firms rather than borrowers who would have received credit anyway.
In India, ECLGS was launched in May 2020 as an emergency response to the pandemic. The original programme provided a 100% guarantee for specified additional credit facilities. It was subsequently modified and expanded to cover segments including stressed sectors. The scheme complemented other measures such as collateral-free lending support through the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), revised MSME classification thresholds, the Udyam registration system and public-procurement initiatives.

Methodology
The article uses a descriptive policy-evaluation approach. It synthesises official government releases, Reserve Bank of India publications, Ministry of MSME reports, parliamentary responses and selected scholarly literature on MSME finance and credit guarantees. The approach identifies trends in guarantees, beneficiary counts and programme design, but it does not claim a definitive causal estimate of the employment or output effects of ECLGS. Causal attribution is difficult because pandemic shocks, monetary policy, sector-specific conditions and other recovery measures operated simultaneously.

Results and Analysis
The ECLGS provided a large emergency credit channel during the period of acute stress. As reported by the Government of India, guarantees worth ₹3.61 lakh crore had been issued to 1.19 crore borrowers by 31 January 2023. MSMEs accounted for approximately 1.13 crore borrowers and ₹2.39 lakh crore of the guarantee amount. These figures indicate broad reach by borrower count, although a lower MSME share by guarantee value is expected because larger non-MSME borrowers could access higher loan amounts.

Table 1: Pandemic-to-Recent MSME Support Data

Period / date	Policy or indicator	Data / value
May 2020	Aatmanirbhar Bharat package announced	₹20 lakh crore headline economic package
May 2020	ECLGS launched	Initial guarantee envelope: ₹3 lakh crore
FY 2020–21	Ministry of MSME budget estimate	₹7,572.20 crore
FY 2021–22	Ministry of MSME budget estimate	₹15,699.65 crore
31 January 2023	Cumulative ECLGS guarantees issued	₹3.61 lakh crore; 1.19 crore borrowers

31 January 2023	MSME beneficiaries under ECLGS	1.13 crore MSME borrowers; ₹2.39 lakh crore guarantees
January 2023	SBI Research assessment	About 14.6 lakh MSME accounts estimated saved from stress; ₹2.2 lakh crore in MSME credit protected
FY 2022–23	Ministry of MSME budget estimate	₹21,422.00 crore
FY 2023–24	Ministry of MSME budget estimate	₹22,137.95 crore
FY 2024–25	Ministry of MSME budget estimate	₹22,137.95 crore

The most important contribution of the scheme was liquidity preservation. By reducing lender risk, the guarantee enabled banks and non-banking financial companies to extend additional working-capital and term-loan support at a time when private credit conditions could otherwise have tightened. SBI Research estimated that ECLGS helped prevent stress in a substantial number of MSME loan accounts; such estimates should nevertheless be treated as indicative rather than as conclusive proof of causal impact.

The fiscal effect of a guarantee differs from a direct grant. A guarantee creates a contingent liability for the government, while the immediate financing is supplied by lenders. This makes guarantees a scalable crisis instrument, but it can also add debt to firms whose post-pandemic demand recovery is weak. Hence, the scheme is best understood as a liquidity bridge rather than a complete solution to structural MSME constraints.

Discussion

The evidence supports three conclusions. First, ECLGS was timely and large enough to reduce the risk of a broad credit freeze among formal-sector MSMEs. Second, it likely protected viable firms and employment by allowing them to finance wages, inventory, rent and other operating expenses during the recovery phase. Third, access was not uniform. Informal enterprises, firms without prior borrowing relationships and micro units lacking documentation were less likely to benefit fully from bank-led support.

The limitations point to a broader policy agenda. Delayed payments from buyers, particularly large corporates and public entities, remain a major working-capital problem. Credit support should therefore be accompanied by credible enforcement of payment timelines, wider invoice-financing adoption, procurement opportunities, business-development services, digitisation and financial-literacy support. Future evaluations should use firm-level data to compare beneficiary and non-beneficiary firms on survival, jobs, investment, turnover and repayment performance.

Policy Implications

Retain a well-designed, time-bound emergency credit-guarantee facility for future shocks, with transparent eligibility and disclosure of guarantee claims.

Target micro and informal enterprises through simplified documentation, Udyam registration support and partnerships with fintech lenders and NBFCs.

Strengthen enforcement of the 45-day payment requirement under the MSMED framework and expand Trade Receivables Discounting System (TReDS) participation.

Combine credit with demand-side support, including public procurement, export facilitation, quality certification and technology upgradation.

Publish periodic independent evaluations covering enterprise survival, jobs, repayment, geographic distribution and sectoral access.

Conclusion

Post-pandemic fiscal support and government credit guarantees were important stabilisation instruments for India’s MSMEs. ECLGS expanded access to emergency credit at a critical point and helped reduce the immediate risk of enterprise failures among formal borrowers. However, guarantees alone cannot resolve chronic issues of delayed payments, weak demand, informality and uneven financial inclusion. A durable recovery strategy must combine accessible finance with institutional reforms that improve cash flow, market participation and productivity.

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