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Original Article

Institutional Credit Flow to Micro, Small and Medium Enterprises in Bihar: Credit Deposit Ratio, Formalisation and Policy Response

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Abstract

Bihar receives a significant amount of bank deposits, and provides a relatively small portion of the loan. In March 2025, the state's credit deposit ratio was 59.04 per cent, while the national average was around 82 per cent. This paper highlights the institutional credit flow to the MSMEs in the state and why the credit squeeze has been extremely slow. It is based on the data on State Level Bankers' Committee, NABARD state focus papers, Udyam registration data and recent estimates of the national MSME credit gap by SIDBI, NITI Aayog and others. Three findings emerge. Bihar's registered MSME base is large in employment terms and shallow in enterprise depth, with very few units graduating beyond the micro category. The state's low credit deposit ratio reflects the difficulty of underwriting undocumented enterprises rather than an absence of banking infrastructure. And the scheme architecture built up since 2015, which now includes guarantee cover, subsidised margin money and direct state grants, has increased the number of accounts served without altering the terms on which larger loans are made available. The paper concludes that the measures most likely to raise credit flow are those that change what a lender can observe about a borrower.

Keywords: *MSME finance, Bihar, credit deposit ratio, Udyam registration, priority sector lending, credit guarantee, financial inclusion*

Introduction

Micro, small and medium enterprises are defined in India by the Micro, Small and Medium Enterprises Development Act, 2006. The sector accounts for roughly 30 per cent of gross value added, close to 45 per cent of merchandise exports, and a very large share of non farm employment (Ministry of MSME, 2024). Its financing has been a standing concern of Indian policy since the First Five Year Plan, and the concern has produced a long sequence of instruments: reservation of items for small scale production, priority sector lending targets, refinance through the Small Industries Development Bank of India, credit guarantee cover, and more recently a set of subsidy linked and grant based schemes administered directly by the central and state governments. The results of this effort have been uneven across states. In much of western and southern India the volume of bank credit now exceeds the volume of deposits collected locally. In the eastern states the opposite holds. SBI Research reported in December 2025 that the credit deposit ratio of Odisha, Bihar, Jharkhand and West Bengal remained below 52 per cent on the measure it used, while the national ratio stood at about 82 per cent (SBI Research, 2025). Bihar has closed part of this distance over the past five years, but the state continues to export a substantial part of the savings mobilised within it. This paper examines the flow of institutional credit to MSMEs in Bihar. Section 2 describes the study setting, covering the statutory definition of the sector, its size and composition in the state, and its regional spread. Section 3 reviews the relevant literature. Section 4 states the objectives and hypotheses and Section 5 the data and method. Section 6 presents the findings on credit flow, the credit deposit ratio and the constraints operating on lending decisions. Section 7 surveys the policy response, Section 8 offers an assessment, and Sections 9 and 10 note the limitations and conclude.

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The MSME Sector in Bihar: The Study Setting

1. Statutory definition and the 2025 revision

Until 2020 an enterprise was classified by its investment in plant and machinery alone, and manufacturing and service units were treated under separate schedules. The notification of 26 June 2020 replaced this with a composite criterion applying investment and turnover together, and removed the distinction between manufacturing and services. Registration moved to the Udyam portal, which draws on Aadhaar and permanent account number records and links to the goods and services tax database. The thresholds were raised again by notification S.O. 1364(E) of 21 March 2025, with effect from 1 April 2025. Investment limits were increased to two and a half times their earlier level and turnover limits to twice their earlier level (Government of India, 2025). Table 1 sets out the change. An enterprise must satisfy both criteria to remain within a category; breaching either one moves it into the next category upward.

Table 1: Classification of micro, small and medium enterprises before and after 1 April 2025 (₹ crore)

Category	Investment (old)	Investment (new)	Turnover (old)	Turnover (new)
Micro	1.00	2.50	5.00	10.00
Small	10.00	25.00	50.00	100.00
Medium	50.00	125.00	250.00	500.00

Source: Ministry of Micro, Small and Medium Enterprises, Notification S.O. 1364(E) dated 21 March 2025, superseding S.O. 2119(E) dated 26 June 2020.

The revision was intended to remove the disincentive to growth created by fixed thresholds. An enterprise that expanded past the old ceiling lost access to guarantee cover, procurement preference and the delayed payment protections of the Act, which gave some owners a reason to hold output down or to split operations across separate registrations. Raising the ceilings addresses that problem at the upper end of the distribution. It has no effect at the lower end, where the great majority of Bihar's enterprises are located and where the binding constraint has never been the threshold.

2. Size and employment

In the financial year 2025-26, Bihar had 55.54 lakh individuals engaged in business registered on the Udyam portal. This ranked it fifth among the states after Uttar Pradesh with 1.18 crore, Maharashtra with 67.97 lakh, Tamil Nadu with 61.47 lakh and Telangana with 60.56 lakh (Ministry of MSME, 2026). Reported employment under Udyam nationally increased to 6.91 crore in 2024-25 and 8.04 crore in 2025-26, an increase primarily due to the rate of new registration as opposed to growth in existing units. The structure of this work is noteworthy. The greatest share in the country was trading enterprises with 2.98 crore, followed by services (2.57 crore) and manufacturing (2.50 crore). The profile of Bihar is skewed more towards trade and services as compared to the national average. The state is concentrated in manufacturing, which is mainly agro processing, which is mainly rice and flour milling, extraction of edible oils and food preparation, and is complemented by brick making, stone crushing along the Kaimur belt, and small fabrication and repair units that are concentrated around the district towns.

3. Enterprise depth

It is not the size of the base but its shape that is more revealing. In India, there are approximately 99 per cent micro enterprises, 1 per cent small enterprises, and less than a tenth of 1 per cent medium enterprises. The national average of graduation, when the states are ranked in terms of the number of small and medium units in every thousand micro units, is approximately eleven. Delhi documents about thirty, Gujarat twenty and Haryana eighteen. The records of six in Bihar put it close to the bottom of the distribution. This counts to credit. The amount that a micro enterprise will borrow is below the threshold at which a bank will make an investment in a proper appraisal, and the borrower borrows against no collateral and no audited accounts. A small or medium enterprise is an entirely different lending proposition: it possesses tangible assets, a recognizable purchaser and typically a tax history. A state in which there are very few of the latter possesses but few borrowers of the type to which commercial credit systems are designed to cater. The shallow pyramid of enterprises in Bihar is thus not merely a result of low access to credit. It is also among its causes.

4. Regional distribution within the state.

The distribution of enterprise activity is not even in Bihar. The density of registration is the greatest in and around Patna, and in the industrial belt of Muzaffarpur, Begusarai and Bhagalpur. The second level of activity occurs after the agricultural belts, whereby processing facilities are concentrated around the raw material sources instead of markets. The Shahabad region in the southwest, including Bhojpur, Buxar, Rohtas and Kaimur, is a region of relatively high agricultural productivity, derived through the Sone canal system, and a relatively thin industrial base, a trend in part due to the shutdown of the large integrated complex at Dalmianagar in the 1980s. The Kosi and Seemanchal districts of the northeast have the lowest registration densities, and on the per capita standard of NABARD, the most drastic credit deficiency. This difference applies to any interpretation of the aggregate of the state. The proportion of credit deposits in Bihar as a whole, 59 per cent, masks district proportions, which in the Patna area stand above the indicative floor of the Reserve Bank, and in some parts of the north and northeast, are well below half of this. The

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improvement may be made in aggregate as the districts that are the most behind do not improve at all and the reporting on the state level does not show which one of the two is occurring.

Review of Literature

The theoretical account of why small firms are underserved rests on the credit rationing model of Stiglitz and Weiss (1981). Where a lender cannot distinguish safe borrowers from risky ones, raising the interest rate attracts a worse pool of applicants, since borrowers willing to pay the highest rates are those with the riskiest projects. The lender's optimal response is to limit the quantity of lending rather than to clear the market by price. Small firms are the natural casualties: they are the borrowers about whom least is known, and the cost of finding out is highest relative to the size of the loan.

Berger and Udell (2006) reframed the question in terms of lending technologies. Financial statement lending, asset based lending, factoring, credit scoring and relationship lending each require a different kind of information about the borrower. Whether credit reaches a firm depends less on the presence of lenders than on whether a technology exists that matches the firm's information environment. On this reading the relevant question for a state such as Bihar is not how many branches operate there but what those branches are equipped to underwrite. Empirical work supports both propositions. **Beck and Demirgüç-Kunt (2006)** found access to finance to be a binding constraint on small firm growth across a large cross country sample, and found the constraint eased more by institutional arrangements that lower information and enforcement costs than by subsidised lending. **Ayyagari, Demirgüç-Kunt and Maksimovic (2010)** reported that firms using formal finance grow faster than comparable firms relying on informal sources. For India, **Banerjee and Duflo (2014)** used a change in priority sector eligibility to show that firms gaining bank access expanded output rather than merely substituting cheaper credit for costlier credit, which indicates genuine credit constraint rather than satiation. **Nikaido, Pais and Sarma (2015)** examined determinants of informal credit use among Indian micro enterprises and found registration status to be among the strongest predictors of formal access. Studies of banking in Bihar have converged on a common explanation for the state's low credit deposit ratio, attributing it to risk aversion in branch level decision making, weak land records that impede the creation of mortgage security, and a limited flow of appraisable project proposals rather than to any deficiency in deposit mobilisation. What this literature has largely lacked is disaggregated evidence at the level of the district or the size class, a gap that reflects the way the underlying data are published rather than any want of interest.

Objectives and Hypotheses

The study pursues four objectives:

1. To describe the size, composition and regional spread of the registered MSME sector in Bihar;
2. To trace the movement of deposits, advances and the credit deposit ratio in the state between March 2020 and March 2025;
3. To situate the state within the national estimates of the MSME credit gap and to identify the constraints that operate on lending decisions; and
4. To review the central and state policy instruments in force and to assess what they have and have not altered.

Two hypotheses are examined against the data assembled:

H1: The improvement in Bihar's credit deposit ratio between 2020 and 2025 reflects a proportionate expansion of advances rather than a slowing of deposit growth, and the absolute gap between deposits and advances has therefore narrowed.

H2: The expansion of scheme based lending since 2015 has widened the coverage of institutional credit without a corresponding deepening, measured by the graduation of micro units into the small and medium categories.

Data and Methodology

The study is based on secondary data and is descriptive and analytical in design. The reference period is the financial years 2019-20 to 2024-25, with policy developments traced to March 2025 and registration data to the latest available reporting. Data on deposits, advances and the credit deposit ratio are taken from the review papers of the State Level Bankers' Committee for Bihar. District classification by credit deficiency and the projection of priority sector credit potential are taken from NABARD's State Focus Paper for the state. Registration and employment figures are drawn from the Udyam portal as reported in replies placed before Parliament by the Ministry of Micro, Small and Medium Enterprises. Classification thresholds are taken from the notifications issued under the MSMED Act, 2006. Estimates of the national credit gap are drawn from the assessment prepared by SIDBI with CRISIL, the review of financial services published by Deloitte, and the report on MSME competitiveness prepared by NITI Aayog with the Institute for Competitiveness. Portfolio and delinquency figures are taken from the MSME Pulse series published by TransUnion CIBIL with SIDBI, and comparative state level ratios from SBI Research. The analysis uses simple ratio and trend techniques: year on year growth rates for deposits and advances, the movement of the credit deposit ratio against the Reserve Bank's indicative benchmark and the national average, and comparison of Bihar with other states on registered enterprise counts and on the ratio of small and medium units to micro units. No primary data were

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collected. Where a series is available only at the national level, this has been stated at the point of use and the inference drawn accordingly.

Results and Discussion

1. The banking network in Bihar

Bihar is served by public sector banks, private banks, three regional rural banks operating under sponsor bank arrangements, cooperative institutions, and a growing number of non banking financial companies and small finance banks. The State Bank of India acts as convenor of the State Level Bankers' Committee. Branch density in the state remains below the national average, but the introduction of business correspondents, the expansion of Jan Dhan accounts and near universal acceptance of digital payment has substantially reduced the transactional distance between a small enterprise and a bank. Physical access is no longer the principal obstacle it was in the 1990s.

2. Movement of the credit deposit ratio

The credit deposit ratio measures the proportion of deposits that a banking system converts into advances. The Reserve Bank of India treats 60 per cent as an indicative floor at the district level. Bihar has remained below that floor throughout the period for which recent State Level Bankers' Committee data are available, although the gap has narrowed. Table 2 gives the series.

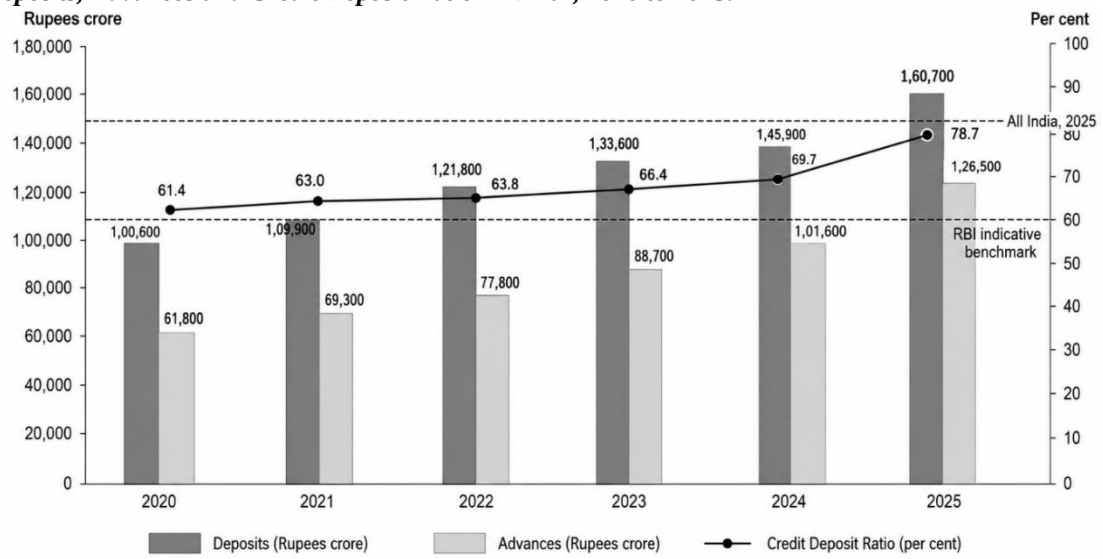
Table 2: Deposits, advances and credit deposit ratio of banks in Bihar, March 2020 to March 2025

As on 31 March	Deposits (₹ crore)	Advances (₹ crore)	C-D ratio (%)
2020	3,71,783	1,59,987	43.03
2021	3,96,471	1,83,973	46.40
2022	4,31,417	2,28,480	52.96
2023	4,66,583	2,59,633	55.64
2024	5,10,646	2,99,796	58.71
2025	5,91,417	3,44,017	59.04

Source: State Level Bankers' Committee, Bihar, review meeting papers, September 2025.

Deposits grew by about 59 per cent over the five years while advances grew by about 115 per cent, which is why the ratio improved. The improvement slowed sharply in the final year, however. Between March 2024 and March 2025 deposits rose by roughly ₹80,000 crore while advances rose by roughly ₹44,000 crore, and the ratio moved by only a third of a percentage point. The absolute gap between deposits and advances widened in that year even as the ratio held steady.

Fig 1: Deposits, Advances and Credit Deposit Ratio in Bihar, 2020 to 2025.



Source: SLBC Bihar

NABARD's assessment of the same period was that twenty eight of the state's thirty eight districts qualified as credit deficient, using per capita credit availability below ₹6,000 as the criterion (NABARD, 2024). The projected priority sector credit potential for Bihar in 2024-25 was placed at ₹2,43,093 crore in the State Focus Paper for that year. Actual priority sector disbursement has consistently fallen short of the annual credit plan targets set on the basis of these projections, with the shortfall concentrated in the industry and MSME segments rather than in agriculture, where Kisan Credit Card lending has provided a well established delivery channel.

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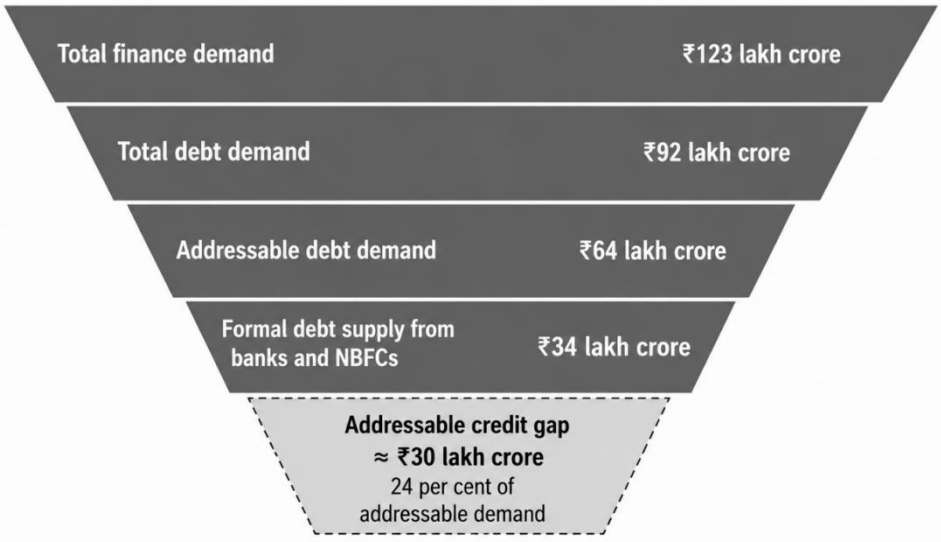
3. Sanction and utilisation

Two versions of the credit deposit ratio are reported, one by place of sanction and one by place of utilisation. The distinction matters in Bihar. Credit sanctioned by branches in Delhi or Kolkata but utilised in Bihar appears in the utilisation series and not in the sanction series, and the utilisation figure for the state is accordingly higher. Metropolitan branches often serve large borrowers in the state, such as the small number of large industrial units in the state. This implies that the sanction based ratio overstates the amount of credit actually reaching the state, and at the same time is a pointer of something real, that is, that local branches have little lending discretion over larger accounts.

4. The credit gap in national perspective

The estimates of the gap between the MSME credit demand and formal supply vary depending on the definition of demand. In 2025, a study commissioned by SIDBI together with CRISIL estimated total finance demand of around INR 123 lakh crore where debt demand was estimated to be around INR ₹92 lakh crore. Of that, roughly ₹64 lakh crore was treated as addressable through formal channels, against a formal supply from banks and non banking financial companies of about ₹34 lakh crore. The residual addressable gap was therefore about ₹30 lakh crore, or 24 per cent of demand (SIDBI, 2025). The same study found the gap wider in services, at 27 per cent, and wider still for enterprises owned by women, at 35 per cent.

Fig. 2 : Estimated MSME Finance Demand and Formal Supply in India, 2025



Source: SIDBI and CRISIL, 2025

Other assessments arrive at figures of a similar order by different routes. A 2025 review of financial services placed the gap at about ₹25 lakh crore as of March 2025 and observed that only around 14 per cent of MSMEs access formal credit at all (Deloitte, 2025). NITI Aayog, working from firm level data, reported that the share of micro and small enterprises borrowing from scheduled banks rose from 14 per cent in 2020 to 20 per cent in 2024, and the share of medium enterprises from 4 per cent to 9 per cent, while noting that only about 19 per cent of MSME credit demand had been met formally as of the financial year 2020-21 (NITI Aayog and Institute for Competitiveness, 2025). These are national figures and no equivalent district level or state level decomposition is published. Their bearing on Bihar is nonetheless direct. The gap is reported to be widest for micro enterprises, for services, for women owned units and for unregistered firms, and Bihar's enterprise base is disproportionately composed of exactly those categories. It follows that the state's share of the unmet demand is almost certainly larger than its share of registered enterprises. Aggregate credit quality has meanwhile improved. The outstanding MSME portfolio nationally reached ₹35.2 lakh crore by March 2025, growing 13 per cent over the year, while delinquency in the ninety to seven hundred and twenty day bucket fell to 1.79 per cent, a five year low (TransUnion CIBIL and SIDBI, 2025). The combination of a persistent volume gap with improving asset quality is consistent with lenders rationing by quantity rather than adjusting price, which is the pattern predicted by the credit rationing literature (Stiglitz and Weiss, 1981).

5. Constraints: informality and documentation

The most frequently cited obstacle is the absence of the records against which a loan is normally appraised. A large share of India's enterprises remain outside any registration system, and estimates of the unregistered proportion have ranged from 35 per cent in survey based work to considerably higher in earlier assessments (SIDBI, 2025). An unregistered unit has no Udyam number, is often outside the goods and services tax net, and typically maintains no accounts beyond a purchase and sales register. A branch that is offered such an applicant has no grounds of evaluating repayment capacity other than the security being offered. This is an observable information issue and not an issue of credit worthiness. Most of the businesses involved yield constant cash flow. What they are not producing is a record of

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it in a form which can be read by a credit committee. Cash flow based underwriting with data retrieved through the Account Aggregator framework in the form of goods and services tax returns and bank statements has been found to be the most straightforward solution, and its scaling has been suggested in subsequent evaluations (Deloitte, 2025). Its penetration in states like Bihar is weak, in part because the businesses which would benefit most of it are the ones least likely to be filing returns in the first place.

6. Constraints: collateral and land records.

In the absence of documentary appraisal, lenders resort to security. In 2000, the Credit Guarantee Fund Trust of Micro and Small Enterprises was created specifically to enable collateral free lending and its coverage has been expanded many times, most recently to INR 10 crore of micro and small enterprises. Guarantee cover is however not compulsory but permissive. A branch official still has discretion to invoke it, and the in-house repercussions of a guaranteed loan that subsequently fails are not comparable to the repercussions of refusing the application initially. Guarantee schemes thus increase the amount of collateral free lending without necessarily altering the decision made on a particular file. A second difficulty is specific to the state. Agricultural land is the most frequently owned asset by a small entrepreneur in Bihar, and it may be jointly owned by an extended family, often lacking complete mutation records. Property of great market value might not be mortgageable due to the inability to clean up title. This is the reason why the land record modernisation and survey programme of the state has a direct bearing on credit availability but it is not normally considered a measure of the financial sector.

7 Constraints: delayed payments

The MSMED Act mandates a buyer to make payment to a micro or small supplier within forty five days under section 15 and suggests compound interest on late payment to three times the bank rate. In 2017, the portal of Samadhaan was developed to enable suppliers to submit claims. The number of recourse under the provision is still low in comparison to the magnitude of the issue and the cause is not legal, but commercial. The cost of initiating a statutory action against a buyer on whom the supplier relies to make repeat orders is apparent. The receivable accordingly functions as an unremunerated advance from the smaller party in the transaction to the larger one, and the working capital it absorbs is precisely the working capital that the supplier would otherwise have to borrow. The Trade Receivables Discounting System, introduced in 2017, was designed to convert such receivables into cash by allowing them to be discounted competitively on an electronic platform. Participation requires the buyer to be on boarded, and buyer participation in Bihar is negligible outside a small number of central public sector undertakings.

8. Constraints: risk perception

Lending behaviour also reflects experience with default. The non performing asset rate on outstanding loans under the Pradhan Mantri Mudra Yojana rose from 5.47 per cent in March 2018 to 9.81 per cent in March 2025 for scheduled commercial banks, although the rate measured against cumulative disbursement was 2.19 per cent (Ministry of Finance, 2025). The higher figure is regularly cited in discussion of collateral free lending. Its interpretation is contested, since a scheme designed to serve borrowers with no credit history and no security will necessarily record higher delinquency than conventional secured lending, and the relevant comparison is with the alternative of not lending at all rather than with the general MSME portfolio.

Policy Response

1. Central schemes

The principal central instruments now operating in Bihar are the Pradhan Mantri Mudra Yojana, which provides loans up to ₹20 lakh in graded categories after the limit was doubled in 2024; the Credit Guarantee Fund Trust for Micro and Small Enterprises, which provides guarantee cover to lenders on collateral free advances; the Prime Minister's Employment Generation Programme, which offers margin money subsidy of 15 to 35 per cent on projects up to ₹50 lakh in manufacturing and ₹20 lakh in services; Stand Up India, which supports loans between ₹10 lakh and ₹1 crore for enterprises promoted by scheduled caste, scheduled tribe and women entrepreneurs; and PM Vishwakarma, which extends collateral free credit to traditional artisans. Bihar has been among the largest users of the Mudra scheme by number of accounts, which is consistent with an enterprise base concentrated at the smallest end of the size distribution. The number of accounts, however, is a poor proxy for the adequacy of financing. A scheme that disburses many small loans can register very high coverage while leaving the demand for medium sized working capital and term finance untouched, and it is that intermediate segment, roughly between ₹20 lakh and ₹2 crore, where Bihar's enterprises report the greatest difficulty.

2. State interventions

The Government of Bihar has supplemented these with instruments of its own. The Mukhyamantri Udyami Yojana, administered by the Industries Department, provides project assistance of up to ₹10 lakh to eligible entrepreneurs for setting up manufacturing or service units, with a component provided as grant and the remainder as an interest free loan repayable in instalments. The Bihar Laghu Udyami Yojana, launched following the state's caste survey of 2022-23, provides a grant of up to ₹2 lakh to identify poor families for establishing a small enterprise, disbursed in instalments and covering a defined list of trades. These schemes differ from the central instruments in an

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important respect. They transfer capital directly rather than working through the banking system, which sidesteps the appraisal problem entirely. That is their strength and also their limitation. A grant based scheme can create an enterprise but cannot supply the working capital that the enterprise will need in its second and third years, and the beneficiary who has never held a bank loan acquires no credit history from the grant. Whether such schemes function as a route into the formal credit system or as a substitute for it is an open empirical question and one that the state's own monitoring data are not presently designed to answer.

3. Structural measures

Alongside these, the Union Budget of 2025 announced an increase in guarantee cover for micro and small enterprises from ₹5 crore to ₹10 crore, and for startups from ₹10 crore to ₹20 crore in twenty seven identified sectors, together with the customised credit card facility for registered micro enterprises. The Reserve Bank has continued to treat MSME lending as priority sector for computation of targets. The Standing Committee on Finance has recommended a cash flow based lending product for the sector on the model of the Kisan Credit Card, on the reasoning that more than 60 per cent of India's enterprises do not borrow from the formal system at all.

Assessment

Neither hypothesis is sustained in the form stated. H1 holds for the period as a whole, since advances grew by about 115 per cent against deposit growth of about 59 per cent, but it fails for the final year, in which deposits rose by roughly ₹80,000 crore against an advance increase of roughly ₹44,000 crore. The ratio held steady while the absolute gap between deposits and advances widened. H2 is supported in substance but requires qualification: coverage has widened, as the growth in registered enterprises and in the number of scheme linked accounts indicates, while graduation remains weak at about six small and medium units per thousand micro units against a national average of eleven. The available data do not permit the second half of the proposition to be attributed to scheme design rather than to the underlying structure of the state economy.

Three further observations follow from the material above.

First, Bihar's low credit deposit ratio is more accurately read as a measure of how visible local enterprise is to the formal financial system than as a measure of enterprise activity itself. Deposits are abundant. Branches exist. What is missing is the documentary basis on which a branch can appraise a small borrower, and the collateral it falls back on when appraisal is impossible. Interventions that lower the price of credit or increase the number of branches address neither condition. Second, the scheme architecture has been more successful at widening coverage than at deepening it. The number of enterprises with some form of institutional account has risen substantially since 2015. The number able to obtain a term loan of ₹50 lakh against a genuine expansion plan has risen far less. The shallowness of Bihar's enterprise pyramid, six small and medium units per thousand micro units against a national average of eleven, is the visible consequence. Third, several of the measures most likely to matter lie outside the financial sector as conventionally defined. Completion of land survey and mutation would release collateral that already exists. Extension of the goods and services tax net to smaller units would generate the transaction record that cash flow lending requires. On boarding of state government departments and public institutions onto a receivables discounting platform would convert invoices into liquid assets without requiring the supplier to litigate. None of these is a credit measure in form. Each is a credit measure in effect.

Limitations of the Study

A limitation of the present analysis should be stated. Bihar specific data on MSME credit are reported at the state level and rarely disaggregated by district, size class or activity, and much of the evidence on the composition of the credit gap is national. District level primary enquiry remains necessary to establish how the constraints described here operate in particular local economies, and to distinguish those that are common to the state from those that arise from the industrial history of a specific region. A second limitation concerns the registration data. Udyam figures record enterprises that have registered and the employment they report at the point of registration. They do not record closures, and reported employment is self declared and unverified. Growth in the registered base therefore overstates growth in actual enterprise activity to an unknown degree. A third limitation is that the credit deposit ratio itself is a coarse indicator, since it aggregates lending to agriculture, housing, education and personal consumption alongside enterprise credit, and a movement in the ratio cannot be attributed to the MSME segment without the sectoral decomposition that published returns do not supply.

Conclusion

Bihar's credit deposit ratio rose from 43.03 per cent in March 2020 to 59.04 per cent in March 2025. The improvement is real and it reflects sustained effort by the state government, the State Level Bankers' Committee and NABARD. It nevertheless leaves the state roughly twenty three percentage points below the national figure, with twenty eight of its thirty eight districts classified as credit deficient and the gap between deposits and advances still widening in absolute terms. The evidence assembled here suggests that the residual gap is sustained by an information problem rather than by a shortage of loanable funds or of banking infrastructure. Enterprises that keep no accounts, hold no clean title and issue no invoices into a formal supply chain cannot be appraised by lending methods built

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around accounts, title and invoices. Guarantee cover and interest subvention leave that difficulty intact because they operate on the lender's balance sheet rather than on what the lender can observe. The instruments that address it directly are cash flow based underwriting, digitised and mutated land records, and receivables platforms with meaningful buyer participation. These are unglamorous administrative measures, and they are the ones on which the pace of MSME credit growth in the state is likely to depend.

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