

Available online @ <https://jjem.jnnce.ac.in>  
<https://www.doi.org/10.37314/JJEM.SP0407>  
 Indexed in International Scientific Indexing (ISI)  
 Impact factor: 1.395 for 2021-22  
 Published on: 31 May 2025

## **“A Study on Impact of Financial Inclusion on Development & Growth of MSMEs in India”**

**Mr. Devaraju N <sup>1\*</sup>, Dr. Prathap B N <sup>2</sup>, Ms. Ashwinee G<sup>3</sup>**

<sup>1,2,3\*</sup> East West Institute of Technology, Bengaluru

devarajun@ewit.edu.in, prathapbn@ewit.edu.in, ashwineeg10@gmail.com

### ***Abstract***

*This study aims to explore the concept of Financial Inclusion and how it is impacting the Micro, Small & Medium enterprises' (MSMEs) in its development and growth in India. This study also highlights the major improvements that are made to the Ministry of MSMEs over the years to enable the smooth functioning of this sector through various web portals to encourage and ensure ease of access to various services provided online. This study takes into account the schemes launched by the Indian Government under the MSME-D Act 2006, which are majorly contributing to the growth of these MSMEs by way of disbursing funds to various sub-sectors in order to develop and also enhance the overall growth rates in the number of units assisted and employment generated thereof. This study, in a snapshot has revealed the advancements made in these sectors to enable financial inclusion and their performance over the last five years to project the current trend and has used correlation analysis to know the degree of relationship between the growth rates in amount of funds disbursed and the growth of MSMEs. It suggests insights to improve the conditions of MSMEs. The data-analysis is exclusively done based on the secondary sources of data collected from articles, textbooks, journals, websites, annual reports of MSMEs & published press releases made by the Government officially via the Press Information Bureau. A uniform and robust system has to be adopted to ensure the revaluation of the data extracted and published in the reports for producing reliably accurate information. It is suggested that the Ministry must focus more on efficient budgeting and allocation of funds to reduce stagnation or underutilization of the funds across the sector and they enable them to be utilized optimally.*

**Keywords:** MSMEs, Financial Inclusion, Economic Growth, Government schemes, Entrepreneurship development

### **1.Introduction**

Micro, Small & Medium Enterprises (MSMEs) are the most dynamically improving industries in the Indian Economy. It is a major contributor both actively in case of mass-production of goods & services and contributes passively by encouraging the spirit of entrepreneurship among budding entrepreneurs by providing and implementing various initiatives & schemes launched under the ministry by the Government. MSMEs are playing a pivotal

role in handling regional disparities, promoting improved and equitable distribution of the nation's revenue and wealth thereby enabling the creation of employment opportunities with lower cost of capital investments in the underserved and rural areas to inculcate them under the zone of industrialization in terms of generating wealth and revenue. The development and growth of these enterprises have exponentially contributed towards the social and economic growth of the nation by laying a strong foothold for new and

upcoming entrepreneurs and encouraging exports thereby leading to increase in GDP rates almost equitably across all regions in the past five decades.

Financial inclusion is about bringing in different entities under the ministry of finance and enabling their accountability and catering to their needs. Financial Inclusion plays a major role by creating awareness, enabling ease of transactions & encouraging inclusivity of the whole economy. To achieve this level of financial inclusion, a number of schemes, initiatives and policies are introduced by the Government and are in practice. With a constantly growing economy, newer schemes are also being formulated continuously.

Access to Financial Services, affordability, quality services, economic growth & development, broadened tax base, efficient distribution of benefits and better data collection are a few advantages of Financial Inclusion.

## 2. Literature Review

Dr. Asha Shivaji Patil [1] has highlighted that for a country to be developed economically, it must focus more on the entrepreneurs and small businesses in supporting and strengthening them. The researcher focused on understanding the significance of PMMY, the products & services offered by it through the Mudra bank, its progress and status in the state of Maharashtra.

Chandra Mohan Malladi et al [2] have focussed on the effect of Digital India Movement and Pradhan Mantri-Jan Dhan Yojana on Financial- Inclusion in India and the challenge in achieving an inclusive society. This also suggested few measures to address those challenges and have emphasised on the importance of transparent

collaboration among the stakeholders in contributing to the inclusive ecosystem.. The study found that there is still a digital divide between urban population and the semi-urban population in terms of financial literacy.

Gaurav Kumar Saxena [3] has analyzed that MSMEs are contributed significantly by private-sector and foreign-banks when compared to the PSBs in India in terms of bank-credit and suggested that, for improved interdependence of MSMEs and Financial inclusion in India are to be reviewed by the Government for its investment and inclusion plans. This study concluded that the performance of the banks directly impact the performance of the MSMEs and vice versa.

Dr Lasya K R et al [4] have aimed and understood the effect of microfinance institutions on the MSMEs in Bangalore, India. It has specifically focussed on examining the capacity of microfinance and how its enhanced services like loans and credit facilities have resulted in the growth & development of MSMEs. It has also analysed the factors that influenced the perception level of MSMEs on the contribution aspects of microfinance loans and credit facilities. It is found that emphasis had to be placed on the need of providing support and encouraging collaboration between micro-finance institution policymakers and other stakeholders to promote the region's sustainable and inclusive economic development.

Mahesh K.M.et al [5] have focused to know the efficiency of digital-transactions and government digital-innovative schemes for the sustainable development of SMEs, understood the credit-lending schemes by various Financial Institution and banks for small & medium enterprises that have contributed to GDP of the Country and also

emphasized on the significance of digital start-ups in developing new-products rendering services payment-credit accessibility. This study used secondary data to analyze and interpret the role played by the initiatives that are rolled-out by the Indian Government & digital innovation in the achieving sustainable and inclusive growth in economy.

Dr Poonam Pravinbhai Radadiya [6] has conducted exploratory research with primary data to identify, understand and evaluate the role MSMEs in India's economy. The study investigated how the operations and development of MSMEs in the sectors of production and manufacturing have contributed to the nation 's economy. It is found in this study; the growth of this sector is due to the availability & accessibility of the financial resources with reference to Maharashtra.

Dr Pritha Chaturvedi [7] The researcher has reviewed the significance of small finance banks, importance of Financial inclusion, the level of influence SFBs have on the financial inclusion and also the effect of Covid on SFBs. It is found that, formal-banking institutions are scarce in number and the concept of SFBs are novel to them. Therefore, SFBs were not able to function with full efficiency citing the lack of awareness about the credit needs of rural population. It was also stated that the country and the government should place more prominence on training the existing employees of SBFs on marketing the institutions and accepting deposits by using technology to reach the remote and underserved areas in the rural regions.

Saman Zameer<sup>1</sup>, Dr. ShujaUddin Khan<sup>2</sup> [8] have studied and analyzed the concept of financial-inclusion in India and have attempted to investigate the role of Pradhan Mantri-Jan Dhan Yojana in reaching a wider

population through the number of financial services launched through the scheme. This paper studies the different levels, choices and patterns of savings adopted by individuals in accordance to the alternatives available so as to be financial inclusive.

Dr.Sarika Srivastava [9] attempted to understand the sector of MSMEs in the present condition, its role in the growth of economy, importance of Gujarat in developing the MSME sector and analysing the same. It is found in the State of Gujarat that it has actively taken steps in the form of policies and initiatives that it contributes to the growth of economy of both Gujarat and India subsequently. It is clear that MSMEs is the sector that has significantly contributed in accelerating exports, innovation and employment generation resulting in inclusive growth of the nation's economy and more attention is to be paid to this sector to maintain and improve the current status such that the country's economy will be more powerful and stronger.

Shwetha Kulshrestha[10] has focussed on evaluating the current situation of financial-literacy and financial-inclusion in India mainly aiming to understand the number of challenges faced by low-income households to access the financial-services and achieving financial literacy, analysing the potential of Fintech, examining the Fintech solutions and platforms that are already in existence to cater the underserved communities, identifying the challenges & opportunities that are linked with the adoption of Fintech .This paper also aims to provide recommendation on the same to the policy makers.

### 3. Research Gap

Studies are carried out to understand the concept of Financial inclusion, Financial technologies and digital financial inclusion in view of demographic boundaries. They have also emphasised about how various institutions and organisations took steps to promote financial inclusion in India among different sectors of the economy. Studies have also mentioned the schemes and initiatives that are launched to enable common man to be financially inclusive in the country and its impact in the long run. The past, present and the future prospects of how Financial inclusion has emerged and how it has transformed have been noted by

various authors using a huge variety of tools and techniques of research. Along with this, various research have also been carried out to know, understand and point out the meaning of MSMEs, its definitions, benefits, challenges and performance in the Indian Economy. Major initiatives and schemes have been evaluated to know its progress and effectiveness in different parts of the country based on multiple factors. This study wishes to highlight other schemes, policies and initiatives that were implemented to understand its impact on the MSME sector in the current scenario.

#### **4. Statement of the Problem**

This study analyses the current scenario of the MSME sector, its growth and development with intervention of digitization and financial inclusion. The objective of the study is to know the effectiveness of financial inclusion schemes, policies and initiatives launched in India to promote an overall inclusive society.

#### **5. Need for the Study**

The study is to be carried out to understand the situation of MSMEs with reference to the schemes and initiatives taken by the government in boosting its growth. This study aims to analyse the growth and development of MSMEs as an impact of financial inclusion.

#### **6. Methodology**

This study has used secondary sources of data collected extensively from the websites of MSMEs, PIB and UDYAM portals. Annual reports from the Ministry of MSMEs, articles from journals and magazines are included for this study as applicable to the subject under review.

This study exclusively uses the data relevant to the last 5 years spanning from financial years 2018-19 to 2020-23 only. This allows the study to project the recent data to match the relevance of the current scenario which is being examined at a glance. This approach is implemented to have a contemporarily comprehensive view of the patterns and trends specific to the time frame across various aspects under study to ensure rationality and reliability of the same.

Correlation analysis is applied to know the degree of relationship between the amount of funds disbursed and growth of MSMEs

#### **7. Objectives of the study**

- To understand concept of Financial Inclusion and its significance on MSMEs.
- To identify the various Financial Inclusion schemes and initiatives that affects the performance of MSMEs.
- To analyse the performance of various schemes and initiatives implemented to facilitate financial inclusion of MSMEs.

#### **8. Hypotheses**

##### **H0 (Null Hypothesis):**

There is no Relationship between the Amount of Funds Disbursed and Growth of MSMEs

### H1 (Alternative Hypothesis):

There is a Relationship between the Amount of Funds Disbursed and Growth Of MSMEs

## 9. Data Analysis

(₹ in cr.)

SCHEMES & PARAMETERS		2018-19	2019-20	2020-21	2021-22	2022-23
PradhanMantri Employment Generation Programme (PMEGP)	Margin Money Disbursed	₹2,070.00	₹1,950.82	₹2,188.80	₹ 2,977.41	₹ 1,505.72
	Growth Rate %	100.00%	94.24%	105.74%	143.84%	72.74%
	Estimated Employment Generated	5,87,416	5,33,224	5,95,320	8,25,752	3,74,464
	Growth Rate %	100.00%	90.77%	101.35%	140.57%	63.75%
Scheme Of Fund for Regeneration of Traditional Industries (SFURTI)	Funds Disbursed	₹ 86.03	₹ 60.05	₹ 127.41	₹ 154.81	₹ 1.11
	Growth Rate %	100.00%	69.80%	148.10%	179.95%	1.29%
	Total No of Beneficiaries	759	1.94	7,523	18,21,990	20,82,765
	Growth Rate %	100.00%	0.26%	991.17%	240051.38%	274409.09%
MPDA Grant To Khadi Institutions	Funds Disbursed	₹ 241.02	₹214.99	₹ 54.52	₹54.03	₹29.45
	Growth Rate %	100.00%	89.20%	22.62%	22.62%	12.22%
	Total No of Beneficiaries	2,18,597	1,55,856	2,00,857	1,27,328	86,990
	Growth Rate %	100.00%	71.30%	91.88%	58.28%	39.79%
Coir VikasYojana	Funds Disbursed	₹82.03	₹73.00	₹80.69	₹79.81	₹73.75

	Growth Rate %	100.00%	88.99%	98.37%	97.29%	89.91%
	Total No of Beneficiaries	70	2,748	89	168	775
	Growth Rate %	100.00%	3925.71%	127.14%	240.00	1107.14%
<b>Entrepreneurship and Skill Development Programme (ESDP)</b>	Funds Disbursed	₹13.46	₹33.70	₹0.63	₹1.83	₹34.21
	Growth Rate %	100.00%	250.37%	4.68%	13.60%	254.16%
	Total No of Beneficiaries	10,089	9,250	50	15,599	66,502
	Growth Rate %	100.00%	91.68%	0.50%	154.61%	659.15%
<b>Assistance to Training Institutions scheme (ATI Scheme)</b>	Funds Disbursed	₹3.31	₹7.99	₹0.86	₹0.625	₹0.871
	Growth Rate %	100.00%	241.39%	25.98%	18.88%	26.31%
	Total No of Beneficiaries	3,720	2,184	1,279	170	1,674
	Growth Rate %	100.00%	58.71%	34.38%	4.57%	45.00%

Table 1: Data Analysis &amp; Interpretation

Scheme	Correlation value	Result
<b>PMEGP</b>	0.9947	H0 IS REJECTED
<b>SFURTI</b>	-0.1974	H0 IS REJECTED
<b>MPDA grants to Khadi institutions</b>	0.5921	H0 IS REJECTED
<b>COIR VIKAS YOJANA</b>	-0.8199	H0 IS REJECTED
<b>ESDP</b>	0.6028	H0 IS REJECTED
<b>ATI SCHEME</b>	0.4757	H0 IS REJECTED

Table 2: Hypothesis Testing – Correlation Analysis

## 10. Findings of the Study

Over the years, there is an increasing trend seen in most of the schemes which highlights the growth in the MSME sector although there is a significant dip seen during the years 2020-21 citing the COVID-19 situation across the globe.

PMEGP has been the major wagon that is carrying the overall employment rates in an increasing trend with highly positive growth in terms of employment generated subsequently adding up to the financial inclusion rates in the sector

SFURTI has shown an overly fluctuating trend with abnormal growth rates which might be due to inaccurate data produced by the Ministry in its reports. This also shows a negative relationship between the funds disbursed and the number of beneficiaries.

The MPDA grants to Khadi institutions has projected a decreasing trend in the amount of funds disbursed but a fluctuating trend is noticeable in the beneficiaries growth rate. Khadi institutions are given more importance in order to improve the Khadi industries.

Coir Vikas Yojana has projected a relatively increasing trend except during the COVID19 situation and has been bouncing back in the post-pandemic time. Yet there exists a significantly low correlation between the growth-rates emphasizing the misappropriate recording of data.

ESDP- known for its skill development programmes is considered to play a key role in developing entrepreneurship skills and helping them achieve entrepreneurial expertise through workshops and activities. ATI scheme has been a major initiative that has been responsible for providing assistance to technical institutions to aid the

MSMEs to upgrade technologically and to achieve a competitive advantage in the market.

## 11. Suggestions & Conclusion

As the study explores the sector of MSMEs in the aspect of Financial-Inclusion, a number of schemes are identified to have significant contribution in development and growth of these enterprises. This study has highlighted the importance of MSME sector in the country and the impact of financial inclusion on them. With the growth in the country's economy, MSMEs are also gaining momentum and are contributing greatly to the revenue of the nation.

Along with the recognition and performance of these schemes, there are a few key points which raise certain concerns that are to be seriously viewed to enhance the reliability of studies that are conducted solely based on secondary data. The financial data in the annual reports that is used for the study needs revaluation as data mismatch is found in between consecutive yearly reports deems to be a major limitation in this area of research as it does not help the study to achieve the needed accuracy as expected.

It can be said that all these schemes although not exclusively categorized as schemes for financial inclusion are working to enable and accelerate the financial inclusivity by bringing the beneficiaries under the it and subsequently impacting the development and Growth of MSMEs in India significantly.

Therefore, it is crucial for the Government to take into considerations these aspects for the sector to furnish reliable and accurate data such that the future planning of policies and strategies can be more efficiently developed and implemented with ease and it

can be established that each and every scheme that is in practice today ultimately results in the entities to be included in the financial spectrum and are reaping the benefits as intended. This scenario has also helped the sector to create a cohesive environment for entrepreneurs to thrive and achieve greater heights and contribute efficiently to the overall growth and development of the nation.

## References

1. Dr AshaShivajiPatil, 2024, A Study Of PradhanMantri Mudra Yojana's Progress With Special With Reference To Maharashtra, International Journal Of Progressive Research In Engineering Management And Science (IJPREAMS), e-ISSN: 2583-1062, Vol. 04, Issue 03, March 2024, PP: 363-367, [https://www.ijprems.com/uploadedfiles/paper/issue\\_3\\_march\\_2024/32852/final/fin\\_ijprems1710698680.pdf](https://www.ijprems.com/uploadedfiles/paper/issue_3_march_2024/32852/final/fin_ijprems1710698680.pdf)
2. Gaurav Kumar Saxena, 2023, Financial Inclusion And The Growth Of Micro And Small Businesses, Management Journal for Advanced Research ISSN (Online): 2583-1747, Volume-3 Issue-3, June 2023 PP. 23-27. DOI: 10.54741/mjar.3.3.4 <http://mjar.singhpublication.com>
3. Chandra Mohan Malladi1, Rupesh K. Soni1, Sanjay Srinivasan1, 2021, Digital Financial Inclusion: Next Frontiers-Challenges And Opportunities, CSIT (June 2021)9(2):127-134, <https://doi.org/10.1007/s40012-021-00328-5>
4. Dr Lasya.KR 1, Dr.Shalini H S2, Dr. Anu Krishnamurthy3, Dr. RangaRaju M S4, 2023, Impact Of Microfinance on Growth And Performance Of Msmes In Bangalore, European Economic Letters, ISSN: 2323-5233, Volume 13, Issue 5 (2023), <https://www.eeet.org.uk/index.php/journal/article/view/922>
5. Mahesh K. M.1, P. S. Aithal, & Sharma K. R. S.3, 2023, Government Initiatives And Digital Innovation For AtmaNirbharMSMEs/SMEs: To Achieve Sustainable And Inclusive Economic Growth, International Journal of Management, Technology, and Social Sciences (IJMTS), 8(1), 68-82. ISSN: 2581-6012
6. Dr PoonamPravinbhaiRadadiya, 2023, Establishment And Operation Of MSMEs And Their Role In Financial Development, NIU International Journal of Human Rights, ISSN: 2394 – 0298 Volume 10, (IV) 2023 [https://www.researchgate.net/profile/Poonam-Radadiya/publication/371574891\\_Establishment\\_and\\_operation\\_of\\_MSMEs\\_and\\_their\\_role\\_in\\_financial\\_development/links/648aa9ca9bc5e436682fbbca/Establishment-and-operation-of-MSMEs-and-their-role-in-financial-development.pdf](https://www.researchgate.net/profile/Poonam-Radadiya/publication/371574891_Establishment_and_operation_of_MSMEs_and_their_role_in_financial_development/links/648aa9ca9bc5e436682fbbca/Establishment-and-operation-of-MSMEs-and-their-role-in-financial-development.pdf)
7. Dr PrithaChaturvedi, 2022, The Role Of Small Finance Banks In Promoting Financial Inclusion In India, Research Review International Journal of Multidisciplinary e-ISSN: 2455-3085, Vol.07, No.05, May 2022, pp. 08-15, <https://rrjournals.com/index.php/rrjm/article/view/174>
8. Saman Zameer1, Dr. ShujaUddin Khan2, 2024, Financial Inclusion In Economic & Financial Growth In India With Special Reference PradhanMantri Jan DhanYojana (PMJDY), Migration Letters Volume: 21, No: S3 (2024), pp. 719-734 ISSN: 1741-8984 (Print) ISSN: 1741-8992 (Online) [www.migrationletters.com](http://www.migrationletters.com)
9. Dr. SarikaSrivastava, 2020, Role Of MSME Sector In Indian Economy: A Study With Special Reference To Gujarat, Pacific Business Review International Volume 13, issue 3, September 2020
10. ShwethaKulshreshtha, 2022, The Role Of Financial Technology In Enhancing Financial Literacy & Inclusion Among Low-Income Households In India, International Journal of Research in Marketing Management and Sales 2023; 5(1): 25-30, E-ISSN: 2663-3337 P-ISSN: 2663-3329 <https://doi.org/10.33545/26633329.2023.v5.i1a.118>.