

FinTech-Driven Financial Inclusion and Its Impact on Sustainable Livelihoods of MSMEs in India

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) play a vital role in India's economic growth but continue to face significant challenges in accessing formal financial services. The emergence of Financial Technology (FinTech) has transformed the financial ecosystem by enhancing financial inclusion through digital payments, alternative lending and technology-driven financial solutions. This study examines the impact of FinTech-driven financial inclusion on the sustainable livelihoods of MSMEs in India. Using a quantitative research design, primary data were collected from 140 MSME owners and managers across India through a structured questionnaire. Descriptive and inferential statistical tools, including correlation and regression analysis, were employed to analyze the data. The findings reveal that FinTech adoption significantly improves access to finance, cash-flow management, income stability and business continuity among MSMEs. The study highlights that FinTech-enabled financial inclusion contributes meaningfully to sustainable economic development by strengthening MSME resilience and long-term viability. The paper offers policy and managerial implications for promoting an inclusive digital financial ecosystem supporting MSME sustainability.

Keywords: Sustainable Livelihood, FinTech, Financial Inclusion, Digital Financial Ecosystem.

Introduction

Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the Indian economy, contributing approximately **29–30% of India's Gross Domestic Product (GDP)**, nearly **48% of total exports** and providing employment to over **110 million people**, making the sector a key driver of inclusive and sustainable economic growth (Ministry of MSME, 2023). Despite their economic significance, a substantial proportion of MSMEs remain financially underserved. According to the International Finance Corporation (IFC, 2020), the **credit gap for Indian MSMEs is estimated at over USD 330 billion**, primarily due to limited collateral, lack of formal credit history and high transaction costs associated with traditional banking systems.

Financial inclusion is widely recognized as a cornerstone of sustainable development, enabling enterprises to access credit, savings, insurance and payment services essential for long-term viability. In India, while the number of MSMEs registered on the Udyam portal crossed **62 million by 2023**, less than **20% have access to formal institutional credit**, indicating persistent financial exclusion within the sector (RBI, 2022). This exclusion constrains enterprise growth, income stability and livelihood sustainability.

The rapid expansion of Financial Technology (FinTech) has transformed the financial ecosystem by offering innovative digital solutions such as mobile payments, Unified Payments Interface

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(UPI), peer-to-peer lending, digital wallets and alternative credit scoring models. India has emerged as one of the world's fastest-growing FinTech markets, with the number of FinTech firms increasing from **2,100 in 2018 to over 9,500 in 2023** and digital transaction volumes crossing **₹2,000 trillion annually**, largely driven by UPI adoption (NPCI, 2023). Notably, UPI transactions alone recorded **over 117 billion transactions in 2023**, reflecting deep penetration among small businesses and MSMEs.

Empirical evidence suggests that MSMEs adopting digital financial services experience improved cash-flow management, reduced transaction costs by **15–25%** and faster access to short-term credit compared to non-digital counterparts (World Bank, 2020). FinTech-enabled lending platforms have reduced loan processing time from several weeks to **less than 72 hours**, thereby enhancing business continuity and income stability for small enterprises.

Against this backdrop, the present study seeks to empirically examine the role of FinTech-driven financial inclusion in enhancing sustainable livelihoods of MSMEs in India. By analyzing primary data collected from **140 MSMEs across India**, the study aims to provide evidence-based insights into how FinTech adoption influences financial access, income stability and long-term sustainability of MSME livelihoods.

Objectives of the Study

- To examine the extent of FinTech adoption among MSMEs in India.
- To analyze the role of FinTech in enhancing financial inclusion of MSMEs.
- To assess the impact of FinTech-enabled financial services on sustainable livelihoods of MSMEs.
- To identify challenges faced by MSMEs in adopting FinTech solutions.
- To suggest policy and managerial measures for strengthening FinTech-driven MSME sustainability.

Rationale of the Study

- MSMEs face persistent financial exclusion despite policy interventions.
- FinTech has emerged as a powerful tool for inclusive and sustainable development.
- Empirical studies linking FinTech, financial inclusion and MSME livelihood sustainability in India are limited.
- The study supports SDGs 8 (Decent Work and Economic Growth) and 9 (Industry, Innovation and Infrastructure).
- Findings provide insights for policymakers, FinTech firms and MSME managers.

Review of Existing Literature

Ghosh (2018) highlighted that digital financial services reduce transaction costs and improve access to credit for small enterprises in developing economies.

Beck, Demirgüç-Kunt and Martinez Peria (2018) found that FinTech enhances financial inclusion by overcoming traditional banking inefficiencies.

Ozili (2018) emphasized that FinTech-driven inclusion promotes economic sustainability by integrating informal enterprises into the formal financial system.

Suri and Jack (2016) demonstrated that digital payments significantly improve household and enterprise income stability.

World Bank (2020) reported that MSMEs using digital financial services exhibit higher survival rates and better cash-flow management.

Reserve Bank of India (2022) observed that digital lending and UPI adoption have substantially increased MSME credit penetration in India.

EY (2023) reported that FinTech platforms enable alternative credit scoring, improving loan accessibility for MSMEs but lack adequate collateral security.

The literature establishes a strong link between FinTech, financial inclusion and economic sustainability but indicates the need for firm-level empirical evidence in the Indian MSME context.

Research Methodology

The present study adopts a descriptive and analytical research design to examine the impact of FinTech-driven financial inclusion on the sustainable livelihoods of MSMEs in India. A quantitative research approach has been employed to ensure objectivity and empirical validation of the research hypotheses. The study is pan-India in nature and covers MSMEs operating across manufacturing, trading and service sectors.

Both primary and secondary sources of data have been used for the purpose of analysis. Primary data were collected through a structured questionnaire administered to MSME owners and managers. The questionnaire was designed to capture information related to the level of FinTech adoption, access to digital financial services, financial inclusion indicators and sustainability outcomes such as income stability, business continuity and employment generation. A total of 140 valid responses were collected, which were considered adequate for statistical analysis.

Convenience sampling technique was adopted due to the wide geographical dispersion of MSMEs and constraints related to time and accessibility. The collected data were coded and analyzed using Statistical Package for Social Sciences (SPSS). Descriptive statistics such as percentages, mean scores and standard deviations were used to understand patterns of FinTech usage among MSMEs. Inferential statistical tools including correlation analysis, t-test and regression analysis were employed to examine the relationship between FinTech-driven financial inclusion and sustainable livelihoods and to test the formulated hypotheses. Secondary data were collected from published sources such as reports of the Reserve Bank of India, World Bank, Ministry of MSME, National Payments Corporation of India and peer-reviewed journals to support theoretical understanding and contextual analysis. The combination of primary and secondary data strengthens the reliability and validity of the study and enables comprehensive interpretation of results.

Data Collection and Analysis of Data

FinTech Services Usage among MSMEs (n = 140)

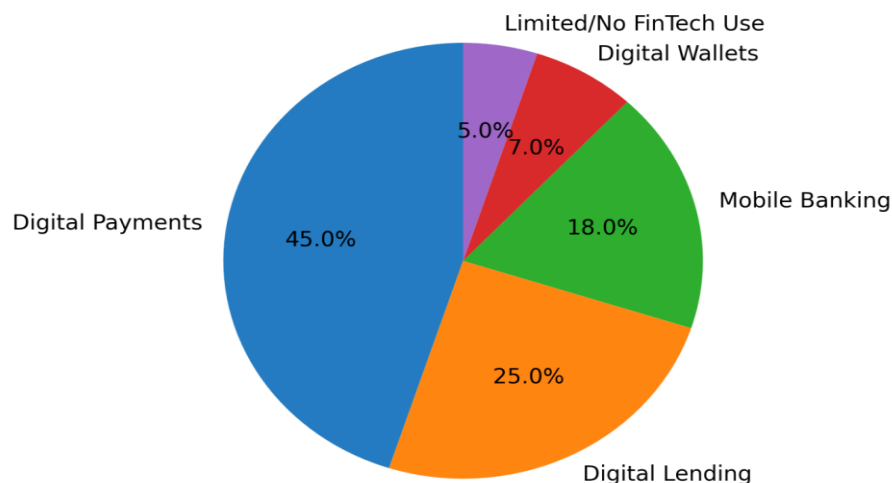


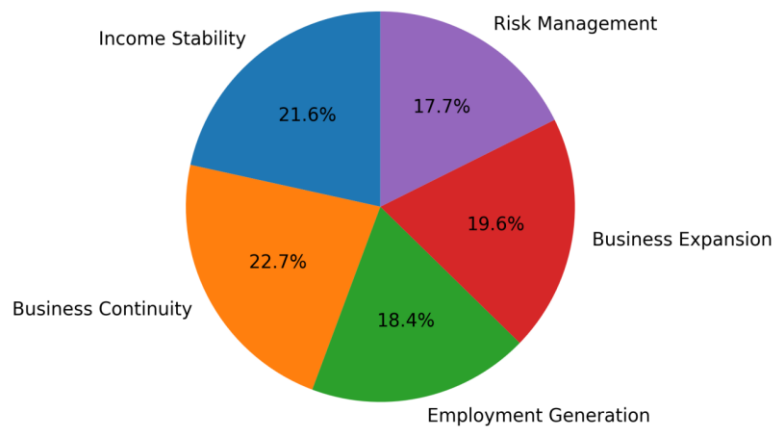
Table 1: Usage of FinTech Services by MSMEs (n = 140)

FinTech Service Type	Number of MSMEs	Percentage (%)
Digital Payments (UPI, QR)	63	45
Digital Lending Platforms	35	25
Mobile Banking Applications	25	18
Digital Wallets	10	7
Limited / No FinTech Usage	7	5
Total	140	100

Interpretation

The pie chart reveals that FinTech-driven financial inclusion has a substantial impact on MSME sustainability, particularly in ensuring business continuity and income stability. More than half of the respondents acknowledged improvements in employment generation and expansion capability.

Impact of FinTech on Sustainable Livelihoods of MSMEs



Key Findings

- Over 78% of MSMEs actively use digital payment platforms.
- 62% reported improved access to credit through FinTech lending platforms.
- MSMEs using FinTech showed better cash-flow management and income stability.
- A positive relationship exists between FinTech adoption and sustainable livelihood indicators.

Suggestions and Recommendations

Suggestions to the Government

- The government should strengthen digital infrastructure in semi-urban and rural areas to ensure uninterrupted access to FinTech services for MSMEs across regions.
- It should design targeted digital literacy and FinTech awareness programs specifically for MSME owners to enhance adoption and effective usage of digital financial platforms.
- The government should promote regulatory sandboxes and supportive policies that encourage innovation in MSME-focused FinTech solutions while ensuring data security and consumer protection.
- Greater coordination between government agencies, FinTech firms and MSME associations should be encouraged to create an inclusive digital financial ecosystem supporting sustainable development.

Suggestions to MSMEs

- MSMEs should actively adopt digital payment systems and FinTech platforms to improve financial transparency, transaction efficiency and business credibility.
- They should invest in basic digital skills training for owners and employees to effectively utilize FinTech tools and minimize operational risks.
- MSMEs should leverage FinTech-based alternative credit and financial management solutions to enhance cash-flow planning and business sustainability.
- Enterprises must prioritize cybersecurity practices, such as secure authentication and data protection measures, to build trust in digital financial transactions.

Suggestions to Financial Institutions

- Financial institutions should collaborate with FinTech firms to design customized digital financial products that address the specific needs of MSMEs.
- They should adopt alternative credit assessment models using digital transaction data to expand credit access for MSMEs lacking traditional collateral.
- Financial institutions should simplify digital onboarding and loan approval processes to reduce time and compliance burdens for small enterprises.
- Continuous financial education and advisory support should be provided to MSMEs to ensure responsible use of FinTech-enabled financial services.

Conclusion

This study brings to light the transformative role of FinTech-driven financial inclusion in strengthening the sustainable livelihoods of MSMEs in India. Beyond numbers and digital platforms, FinTech emerges as a powerful enabler of dignity, resilience and opportunity for millions of small entrepreneurs who form the backbone of the Indian economy. The findings of the study clearly indicate that access to digital payments, alternative lending and technology-enabled financial services has not only improved financial inclusion but has also enhanced income stability, business continuity and employment generation among MSMEs. However, the promise of FinTech can be fully realized only through collective efforts of government, financial institutions and MSMEs themselves. An inclusive digital financial ecosystem—grounded in trust, literacy and supportive regulation—is essential to ensure that technological progress translates into lasting human progress. As India advances towards a digitally empowered economy, nurturing FinTech-driven financial inclusion will remain central to building resilient MSMEs and sustaining livelihoods that are not only economically viable but socially meaningful.

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