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Evaluating the Effectiveness of FINTECH in Addressing MSME Credit Gaps.

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Abstract: This study examines how Financial Technology (FinTech) is helping Micro, Small, and Medium-Sized Businesses (MSMEs) in India close the credit gap. MSMEs, which employ more than 110 million people and account for 30% of India's GDP and roughly 45% of exports, are essential to economic growth. Nevertheless, because of their short credit history, lack of collateral, and complicated documentation, MSMEs continue to confront obstacles accessing formal financing. With its ability to facilitate digital financing, mobile payments, automated accounting, and alternative credit scoring through the use of big data and artificial intelligence, fintech has become a disruptive force. FinTech's contribution to improving MSME finance access, operational effectiveness, and long-term sustainability is examined in this study using secondary data. In order to promote inclusive digital transformation, it also assesses adoption barriers, particularly in rural areas, and makes policy recommendations

Keywords: Digital Lending, Credit Gap, Operational Efficiency, FinTech, MSMEs, Digital Transformation

I. INTRODUCTION

The foundation of the Indian economy is made up of Micro, Small, and Medium-Sized Enterprises (MSMEs). The Ministry of MSME (2023) estimates that the industry employs over 110 million people in both urban and rural areas and makes up around 30% of the GDP. However, because traditional financial institutions have strict regulations, MSMEs continue to confront barriers to timely and affordable loans. Their robustness, formalization, and scalability are all hampered by this constraint. Traditional banking methods are being challenged by the emergence of FinTech, or technology-driven financial services. Financial services are becoming more accessible to everybody because to innovations like blockchain-based contracts, digital wallets, AI-powered credit scoring, and peer-to-peer lending platforms. This study explores the ways in which FinTech might improve financial inclusion, close MSME credit gaps, and spur sustainability and growth.

II. BACKGROUND OF STUDY

FinTech provides individualized and affordable financial services by utilizing cloud computing, mobile technology, artificial intelligence, and data analytics. Its capacity to get over the restrictions of traditional finance makes it relevant for MSMEs. More than 65% of MSMEs have embraced digital payment platforms like Paytm, BharatPe, and UPI, according to SIDBI (2023). Faster credit access is offered by digital lending companies like LendingKart, FlexiLoans, and Indifi; these services frequently use transaction history and alternative credit scores in place of collateral. Adoption is still skewed, though. FinTech helps urban MSMEs, while rural businesses fall behind because of low connectivity, lack of knowledge, and digital illiteracy. For inclusive economic growth, this digital divide must be addressed.

III. REVIEW OF LITERATURE

By increasing financial access and transaction efficiency, P2P lending and mobile payments are reshaping MSME ecosystems, according to Karanasios et al. (2023).

In their analysis of FinTech's function in China, Chen & Zhang (2022) discovered that alternative data-driven credit scoring enhanced rural MSMEs' access to credit.

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The effectiveness of peer-to-peer lending in Vietnam, which lessened reliance on traditional banks, was emphasized by Nguyen & Nguyen (2021).

Digital payment systems in India have greatly improved the cash flow and transaction transparency of MSMEs, according to **Gupta & Kumar (2023)**.

By including underprivileged MSMEs into digital credit ecosystems, FinTech has the potential to close financial gaps for them, as demonstrated by **Sharma (2024)**.

The literature lacks long-term effect studies on Findoption across several MSME sectors and region-specific analysis, despite strong findings.

IV. RESEARCH GAP

- Despite the wealth of research on FinTech and MSME growth, there are still several significant gaps:
- There is little data on the use of FinTech by rural MSME
- The efficacy of government programs in promoting digital credit is not adequately assessed.
- Insufficient sectoral analysis (e.g., retail MSMEs versus agricultural)
- There aren't many long-term research on how FinTech affects MSME sustainability. Through a secondary data-driven investigation of FinTech's efficacy in resolving credit and operational restrictions for Indian MSMEs, this study aims to close these gaps.

V. OBJECTIVES

- To investigate how financial technology can enhance MSMEs' access to financing.
- To evaluate how FinTech solutions improve MSMEs' operational effectiveness and financial management.
- To assess how FinTech adoption affects MSMEs' expansion and long-term viability.
- To determine the main obstacles and difficulties MSMEs encounter when implementing FinTech solutions.

VI. METHODOLOGY

This study's descriptive analysis is based on secondary data from the following sources:

- SIDBI MSME Pulse Reports.
- Reserve Bank of India Bulletins.
- Ministry of MSME Reports (2022–2023).
- Research articles from journals and Google Scholar.
- Paytm, Razorpay, KPMG, and McKinsey reports.

Data collection methods include:

- FinTech platform usage statistics.
- Sector- and region-specific adoption data.
- Government databases (CGTMSE, Udyam Portal).
- Digital literacy and regulatory framework literature.

Analyzing Data:

To interpret the effect of FinTech on MSME performance, descriptive statistics, trend analysis, and correlation evaluation were employed.

Indicator	Value
Digital Lending Use	48% of MSMEs (RBI, 2022)

VII. DATA ANALYSIS & INTERPRETATION

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Digital Payment Adoption	65% of MSMEs (SIDBI, 2023)
Accounting Automation	35% (KPMG, 2022)
Policy Awareness	40% aware of schemes like ECLGS

According to McKinsey, SIDBI, and the World Bank,

- The correlation between digital lending and revenue growth is 0.65 (p < 0.01).
- Operational Efficiency versus Digital Payments: 0.69 (p < 0.01)
- Adoption of FinTech against Digital Literacy 0.72 (p < 0.01)
- These numbers imply that the use of FinTech greatly enhances corporate efficiency and financing availability.

Sectoral Insights:

- Manufacturing: 51% adoption of digital accounting
- Retail & E-Commerce: 72% FinTech penetration
- FinTech is used in agriculture 33% of the time, primarily for DBT and subsidies.

Regional Perspectives:

- 70% of urban MSMEs have adopted
- Adoption rate for rural MSMEs: 42%

VIII. FINDINGS

- Better Credit Access: FinTech platforms lessen the need for collateral and documentation.
- Operational Gains: Automation tools lower manual mistake rates and improve accuracy.
- MSMEs that use FinTech platforms are more linked into international supply chains, which contributes to export growth.
- Low Awareness: Just 40% of MSMEs are aware of the digital credit programs that are currently in place.
- Rural Lag: Adoption in rural areas is hampered by poor infrastructure, low literacy, and trust difficulties.
- Gender Inclusion: Fintech solutions, particularly digital lending and invoice finance, greatly help women-led MSMEs.

IX. SUGGESTIONS

- Extend Digital Literacy Programs: Focused instruction in regional languages through online and local institutions.
- Develop Rural Infrastructure: To promote digital platforms, increase broadband and mobile connectivity.
- Encourage Digital Adoption: Provide tax breaks to MSMEs who use FinTech and accounting software.
- Policy Integration: Establish a digital site with a single gateway for loan applications and MSME scheme registration.
- Cybersecurity Frameworks: Boost FinTech regulatory monitoring to shield MSMEs from online fraud.
- FinTech Hubs: Create innovation hubs in business clusters to test small company-specific solutions.

X. CONCLUSION

For Indian MSMEs, fintech is starting to shift the game. It provides a new model of inclusive finance and operational agility by tearing down the conventional boundaries of collateral, documentation, and credit history. However, structural interventions—from digital education and infrastructure upgrades to financial incentives and simplified policies—are required if MSMEs are to fully profit from this revolution. To make sure that FinTech develops into more than simply a convenience tool but also a basis for inclusive and sustainable economic transformation, it will be

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essential to close the gap between rural and urban areas, foster trust in digital platforms, and allow for increased engagement by excluded groups.

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