



“FINANCIAL INCLUSION AND MSME DEVELOPMENT: EVALUATING THE IMPACT OF SIDBI AND MUDRA LOANS ON ECONOMIC PERFORMANCE”

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Abstract

Micro, Small and Medium Enterprises (MSMEs) play a vital role in India's economic development through their significant contribution to GDP, employment generation, and exports. This study reviews existing literature to examine the impact of institutional financial support, particularly through the Small Industries Development Bank of India (SIDBI), on MSME growth and sustainability. Prior studies highlight challenges such as limited financial literacy, procedural complexities in loan approvals, delayed payments, and inadequate access to institutional credit. Research also indicates that government initiatives and SIDBI-assisted schemes have positively influenced entrepreneurial development, though awareness and accessibility gaps persist. The review identifies the need for structured financial education, simplified credit mechanisms, and coordinated policy support to enhance MSME productivity and long-term resilience. Overall, the study underscores that strengthening institutional finance and improving financial awareness are essential for fostering innovation, competitiveness, and sustainable growth within India's MSME sector. Micro, Small and Medium Enterprises (MSMEs) play a vital role in India's economic development through their significant contribution to GDP, employment generation, and exports. The study emphasizes the importance of integrated policy frameworks combining financial assistance with capacity-building programs, digital financial inclusion, and timely credit disbursement. Strengthening collaboration between financial institutions, government agencies, and MSME stakeholders is essential to enhance productivity and competitiveness. Overall, the research concludes that robust institutional finance mechanisms and improved financial literacy are critical drivers for ensuring long-term economic resilience and sustainable growth within India's MSME sector.

Key words: MSME, PMYJ, GDP .

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are not just “small businesses.” They are distributed engines of economic metabolism. In a country as vast and diverse as India, decentralized production matters. When nearly 90% of enterprises fall under the MSME category, it means innovation, risk-taking, and income generation are not confined to large corporations but spread across towns, districts, and rural clusters. Beyond their 27% contribution to GDP, MSMEs strengthen supply chains, support large industries as ancillary units, and enhance regional balance in development. Their role in exports—especially in textiles, handicrafts, engineering goods, and pharmaceuticals—helps stabilize foreign exchange earnings. In economic terms, they improve both productive capacity and employment elasticity, meaning they generate relatively more jobs per unit of investment. The Small Industries Development Bank of India (SIDBI), established under an Act of Parliament in 1990, operates as a refinancing and developmental institution. Its role extends beyond credit. It supports cluster development, digital lending platforms, green finance, and risk-sharing mechanisms. By refinancing banks, NBFCs, and microfinance institutions, SIDBI multiplies credit outreach rather than lending in isolation. Government initiatives such as the Pradhan Mantri Mudra Yojana, Credit



Guarantee Fund schemes, Startup funding mechanisms, and technology upgradation programs aim to reduce structural constraints like lack of collateral, limited financial literacy, and market access barriers. The policy logic is simple: easier credit plus entrepreneurial capability equals higher productivity. However, challenges persist. Many MSMEs face delayed payments, technological gaps, informal operations, and vulnerability to economic shocks. Studying loan disbursement trends over five years provides measurable indicators of financial deepening, but true empowerment also depends on profitability, sustainability, and competitiveness. Understanding MSMEs, therefore, is not merely about numbers. It is about how finance, policy, and entrepreneurship interact to shape long-term economic resilience. This study reviews existing literature to examine the impact of institutional financial support, particularly through the Small Industries Development Bank of India (SIDBI), on MSME growth and sustainability. Prior studies highlight challenges such as limited financial literacy, procedural complexities in loan approvals, delayed payments, and inadequate access to institutional credit. Research also indicates that government initiatives and SIDBI-assisted schemes have positively influenced entrepreneurial development, though awareness and accessibility gaps persist. The review further reveals that MSMEs often face structural constraints, including technological limitations, market access barriers, and vulnerability to economic fluctuations. Institutional interventions, credit guarantee schemes, and refinancing facilities provided by SIDBI have contributed to improving liquidity and fostering innovation among small enterprises. However, the effectiveness of these measures largely depends on entrepreneurs' financial awareness, digital adoption, and regulatory support systems. The study emphasizes the importance of integrated policy frameworks combining financial assistance with capacity-building programs, digital financial inclusion, and timely credit disbursement. Strengthening collaboration between financial institutions, government agencies, and MSME stakeholders is essential to enhance productivity and competitiveness. Overall, the research concludes that robust institutional finance mechanisms and improved financial literacy are critical drivers for ensuring long-term economic resilience and sustainable growth within India's MSME sector.

Literature Review

Janani M and Jayanthi (2022) explored how demographic and socio-economic characteristics influence the financial literacy levels of MSME entrepreneurs. Their study categorized entrepreneurs based on financial awareness and revealed that a significant proportion possess limited financial knowledge. The authors emphasized the need for structured financial education programs and government-supported advisory services to enhance entrepreneurial decision-making and sustainability.

Keshav Mishra and Jai Shanker Shukla (2022) examined various schemes implemented by the Small Industries Development Bank of India and assessed its contribution to MSME development in India. The study concluded that while MSMEs significantly contribute to employment and output, they continue to struggle with delayed payments and insufficient institutional credit support.

Hemalatha K J and Ravichandre Reddy (2021) analysed youth perceptions toward entrepreneurship and SIDBI-assisted loans. Their findings indicate procedural complexities, limited awareness of credit schemes, and delayed approvals as major deterrents to young entrepreneurs.

Dipak Kumar Das (2021) highlighted MSMEs' substantial contribution to GDP, manufacturing output, and exports, stressing the importance of coordinated government support.



Mohd Arif and Kaushal Kishore Shukla (2021) evaluated SIDBI's performance and observed consistent growth trends, projecting continued effectiveness in MSME promotion.

Govindaraja (2020) reviewed SIDBI's operational mechanisms and challenges, concluding that institutional financial assistance remains crucial for MSME expansion and innovation.

Research Objectives

1. To analyse the role of the Small Industries Development Bank of India (SIDBI) and major government initiatives such as the Pradhan Mantri Mudra Yojana in enhancing financial access, credit flow, and overall performance of MSMEs in India.
2. To examine the contribution of MSMEs to India's GDP, employment, and exports, and to evaluate how institutional financial support influences their productivity, sustainability, and long-term economic resilience.

Methodology

The present study adopts a descriptive and analytical research design based entirely on secondary data. The research relies on authenticated and publicly available sources to ensure reliability and accuracy. Data were collected from annual reports, statistical bulletins, policy documents, and official publications of the Reserve Bank of India, Small Industries Development Bank of India, Micro Units Development and Refinance Agency, Ministry of MSME, and the Press Information Bureau.

The study also incorporates data from research journals, government notifications, economic surveys, and credible financial magazines relevant to MSME performance and financial assistance schemes. The collected data cover a five-year period and were analysed using percentage growth rates, comparative tables, and trend analysis to evaluate the performance of MSME-related schemes. This methodological approach enables systematic assessment of institutional support, financial inclusion measures, and their impact on MSME growth and economic development.

Data Analysis

The data analysis section employed secondary data analysis techniques, utilizing previously collected information for insights. Secondary data analysis provides valuable insights, researchers must ensure there liability and validity of the data to enhance the credibility of their findings.

Table1: Data Analysis and Interpretation

PARAMETERS		2020-21	2021-22	2022-23	2023-24	2024-25
Financial assistance in the form of Loans	Sanctions	58,768	73,946	1,08,289	1,04,852	1,48,550
	Growth rate(%)	100%	125.82%	184.26%	178.41%	252.77%
	Disbursements	58,690	75,463	1,04,852	97,542	1,46,402
	Growth rate(%)	100%	128.57%	178.65%	166.19%	249.44%
	% of Disbursement to sanction	99.86%	(-2.05%)	96.82%	93.02%	98.55%
	Sanctions	1,135.70	2,265.70	3,798.20	5,409.45	7,225.45



Funds of Funds for Startups	Growth rate(%)	100%	199.49%	334.43%	476.30%	636.21%
	Disbursements	570	431.84	1,025	1,484.75	2,492.24
	Growth rate(%)	100%	75.76%	179.82%	260.48%	437.23%
	%of Disbursement to sanction	50.18%	19.05%	26.98%	27.44%	34.49%
Lendings through Praya as Scheme	Sanctions	-	-	161.11	172.21	417.70
	Growth rate(%)	-	-	100%	106.88%	259.26%
	Disbursements	-	-	126	128.02	342.25
	Growth rate(%)	-	-	100%	101.60%	271.62%
	%of Disbursement to sanction	-	-	78.20%	74.33%	81.93%
Loans through Pradhan Mantri Mudra Yojana	Sanctions	2,53,677	3,21,722	3,37,495	3,21,759	3,39,110
	Growth rate(%)	100%	126.82%	133.04%	126.83%	133.67%
	Disbursements	2,46,437	3,11,811	3,29,715	3,11,754	3,31,402
	Growth rate(%)	100%	126.52%	133.79%	126.50%	134.47%

Interpretation

The data indicates a consistent expansion of financial support to startups and micro enterprises during 2020–21 to 2024–25. Financial assistance in the form of loans shows strong growth in sanctions, rising from 58,768 crore to 1,48,550 crore, reflecting more than double increase over five years. Disbursements closely follow sanctions, with a high disbursement-to-sanction ratio (above 93% in most years), indicating efficient fund utilization.

Under the Funds of Funds for Startups (FFS), sanctions increased significantly from 1,135.70 crore to 7,225.45 crore, demonstrating strong policy thrust. However, disbursement ratios remain comparatively lower (19–34%), suggesting slower fund deployment. The Prayaas Scheme, introduced in 2022–23, shows promising growth with rising sanctions and improved disbursement ratios above 74%. Loans under the Pradhan Mantri Mudra Yojana exhibit steady growth with consistently high disbursement levels, highlighting its major role in supporting micro and small enterprises across the country.



Table2: Refinance provided by SIDBI

PARAMETERS		2020-21	2021-22	2022-2023	2023-24	2024--25
Refinance provided by SIDBI to banks & financial institutions in the form of loans & advances	Amount (in Cr)	72,622	1,16,277	1,43,232	1,31,664	1,66,832
	Growth rate(%)	100%	160.11%	197.22%	181.30%	229.72%
Refinance provided by SIDBI to micro finance institutions in the form of loans & advances	Amount (in Cr)	1,579	1,171	1,821	1,672	3,118
	Growth rate(%)	100%	74.16%	115.32%	105.88%	197.46%
Refinance provided by SIDBI to NBFC in the form of loans & advances	Amount (in Cr)	11,411	9,369	10,374	11,292	17,935
	Growth rate(%)	100%	82.10%	90.91%	98.95%	157.17%
MSME's benefited by SIDBI Through direct loans	Growth rate(%)	100%	241.56%	306.31%	367%	426.14%
MSME's contribution to Employment in India	Growth rate (%)	100%	74.71%	83.44%	172.23%	180.73%
MSME's contribution to GDP	Growth rate(%)	29.34%	29.48%	29.25%	29.75%	29.75%
	Growth Rate(%)	100%	120.71%	127.70%	94.16%	97.77%
KISHOR Scheme	No of Beneficiaries	46,53,874	66,06,009	64,71,873	94,86,160	1,10,88,206
	Growth Rate (%)	100%	141.94%	139.06%	203.83%	238.25%
TARUN Scheme	No of Beneficiaries	8,06,924	17,56,871	12,85,116	10,68,771	9,86,166
	Growth Rate(%)	100%	217.72%	159.26%	132.45%	122.21%

Interpretation

The above tables highlight the expanding role of the Small Industries Development Bank of India (SIDBI) and the Pradhan Mantri Mudra Yojana (PMMY) in strengthening the MSME sector. Refinance support by SIDBI to banks and financial institutions increased significantly from 72,622 crore in 2020–21 to 1,66,832 crore in 2023–24, indicating strong institutional credit expansion.



Refinance to microfinance institutions and NBFCs also shows recovery and sharp growth in 2024–25, reflecting improved credit flow to grassroots enterprises.

The growth rate of MSMEs benefiting through direct loans demonstrates consistent upward momentum, while MSMEs' contribution to GDP remains stable around 29–30%, underlining their structural importance to the economy. Employment contribution also shows recovery after fluctuations.

Under PMMY, the Shishu category records the highest number of beneficiaries, highlighting support for small entrepreneurs, while Kishor loans show strong growth. Tarun loans display moderate but steady participation. Overall, the data reflects enhanced financial inclusion and MSME empowerment.

Conclusion

SIDBI is the data reflects strong institutional commitment toward startup and MSME financing. Rising sanctions and high disbursement efficiency indicate effective credit delivery. While Funds of Funds show slower deployment, schemes like Prayaas and the Pradhan Mantri Mudra Yojana significantly enhance financial inclusion, entrepreneurship growth, and economic development in India. In SIDBI is the data demonstrates the significant contribution of the Small Industries Development Bank of India and the Pradhan Mantri Mudra Yojana in promoting MSME growth. Rising refinance support, expanding beneficiary coverage, and stable GDP contribution underline the sector's economic importance. Increased participation across loan categories reflects improved financial inclusion, employment generation, and grassroots entrepreneurship development, strengthening India's MSME ecosystem and overall economic resilience.

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