

## **DIGITAL BANKING AS A CATALYST FOR ECONOMIC RESILIENCE: A STUDY OF THE MSME SECTOR**

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### **Introduction to the MSME Sector**

Micro, Small, and Medium Enterprises (MSMEs) are key drivers of economic development. They provide essential support to large industries by serving as suppliers, manufacturers, and service providers. They play a crucial role by contributing significantly to GDP, employment generation especially in rural areas, innovations and exports. The sector's widespread presence in rural and semi-urban areas contributes to inclusive growth. The government revised the definition in 2020 to broaden the coverage of enterprises under this category, further strengthening their role in the economy. According to the Ministry of MSME, the sector accounts for approximately 30% of India's GDP, 45% of total exports, and employs over 110 million people. However, MSMEs face challenges such as inadequate access to finance, technological obsolescence, regulatory complexities, and limited market reach. The digital transformation of the sector, especially through digital banking, has been instrumental in addressing these barriers by providing better access to financial services and streamlining operations.

### **Digital Banking in MSMEs**

Digital banking has transformed the MSME sector by facilitating easy access to financial services, reducing dependency on cash, improving credit availability, and enhancing transaction efficiency. Digital payment solutions such as UPI, IMPS, and mobile banking have streamlined cash flow management and reduced operational costs for MSMEs. Fintech innovations, digital wallets, and alternative credit scoring mechanisms have enabled small businesses to secure funding without extensive collateral requirements. Government-backed digital banking initiatives facilitate the subsidy distribution and financial support to MSME sector through various schemes.

## **Role of Digital Banking on the Development of MSME Sector**

The number of DBT beneficiaries and the DBT Amount transferred by the Government, the Volume and Value of Digital Transactions at all offices of the Ministry of MSME (including its attached offices), and the percentage of Digital Transactions in Total Transactions of MSMEs clearly illustrate the role of Digital Banking in MSME development. The following sections analyze these aspects by using secondary data. The data collectively highlights the increasing reliance of MSMEs on digital banking solutions for credit access, subsidy distribution, and payment processing.

### **A. Direct Benefit Transfer in the M/o MSME**

Indian government is transferring certain benefits directly to the MSMEs, through various schemes listed below. They are:

#### **1. ATI Scheme (Training Component)**

The ATI Scheme focuses on providing structured training programs for MSMEs to enhance entrepreneurial and managerial skills for them. The scheme supports capacity-building initiatives through specialized workshops and knowledge-sharing. It plays a crucial role in workforce development and enables the MSMEs to adapt to evolving business challenges. Finally, MSMEs benefit by gaining industry-relevant skills, improving efficiency, and enhancing market competitiveness.

#### **2. MPDA Grant to Khadi Institutions**

The MPDA (Market Promotion and Development Assistance) Grant is aimed at supporting khadi institutions. The scheme ensures sustainability by encouraging modernization and efficiency in khadi industries. It provides financial assistance for production, marketing, and infrastructure development. It supports employment generation and preserves the traditional art of khadi weaving. The scheme also helps in increasing consumer awareness and demand for khadi products.

#### **3. Coir Vikas Yojana**

This scheme promotes the coir industry by providing financial and technical support. It aims to enhance productivity, product diversification, and innovation in coir manufacturing. The scheme also includes skill development programs to train workers

in modern coir processing techniques. It ensures sustainability by integrating eco-friendly and value-added coir products. It has significantly contributed to rural employment and economic growth in coastal regions.

#### **4. SFURTI (Scheme of Fund for Regeneration of Traditional Industries)**

SFURTI aims to develop traditional industries by providing financial support and infrastructure. It provides skill development, market access, and technological upgrades to traditional industries. The scheme focuses on enhancing the competitiveness of artisans and rural clusters. SFURTI has been instrumental in revitalizing industries such as handloom, handicrafts, and coir. The scheme helps in preserving cultural heritage while improving economic opportunities for artisans.

#### **5. Prime Minister's Employment Generation Programme (PMEGP)**

PMEGP is a credit-linked subsidy scheme that promotes self-employment by providing financial assistance for setting up micro-enterprises. The scheme supports entrepreneurs, artisans, and small business owners by facilitating access to bank credit. PMEGP has significantly contributed to employment generation and rural entrepreneurship. Over the years, the scheme has helped in setting up thousands of enterprises, improving economic growth and self-reliance.

#### **6. Credit Guarantee Fund Scheme for MSMEs (CGTMSE)**

CGTMSE provides collateral-free credit to MSMEs, enhancing their creditworthiness. The scheme is jointly implemented by SIDBI and the Government of India. It offers credit guarantees to lending institutions, reducing the risk of lending to MSMEs. By enabling easy access to credit, CGTMSE promotes the expansion and sustainability of small businesses. The scheme has played a crucial role in empowering MSMEs by reducing financial barriers and improving business prospects.

#### **7. National Awards Scheme**

This scheme recognizes outstanding MSMEs for excellence in business performance and innovation. It aims to motivate MSMEs to adopt best practices in quality management and entrepreneurship. Award-winning enterprises receive financial incentives and promotional opportunities. The scheme helps in enhancing MSMEs' credibility in the market.

## **8. Zero Defect Zero Effect (ZED) Scheme**

The ZED scheme encourages MSMEs to improve product quality while minimizing environmental impact. It promotes the adoption of sustainable and energy-efficient manufacturing practices. The scheme provides certification and financial incentives for MSMEs adopting quality standards. It enhances global competitiveness by aligning MSMEs with international quality benchmarks. The scheme contributes to economic sustainability and fosters innovation-driven manufacturing.

## **9. Entrepreneurship and Skill Development Programme (ESDP)**

ESDP is designed to promote entrepreneurship through skill development initiatives. It provides training programs focused on business management, financial literacy, and technology adoption. The scheme helps MSMEs by fostering innovation, competitiveness, and business sustainability. It supports aspiring entrepreneurs in developing viable business models and accessing financial resources.

## **10. International Co-operation (IC) Scheme**

The IC Scheme facilitates global exposure for MSMEs by supporting international business interactions. It provides financial assistance for participating in trade fairs, exhibitions, and business delegations. The scheme enhances market access, export potential, and networking opportunities for MSMEs. It enables small businesses to integrate with global supply chains and attract foreign investments.

## **11. PM Vishwakarma Scheme**

This scheme is designed to support artisans and craftspeople in traditional occupations. It provides financial assistance for skill upgradation, infrastructure development, and market linkages. It enables artisans to access credit, technology, and business development services. The program contributes to the socio-economic development of rural artisans and micro-enterprises.

**Table 1: Direct Benefit Transfers to MSME Sector under Various Schemes - Total Number of Beneficiaries**

Type of Scheme	Year					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>ATI Scheme (Training Component)</b>	3720	2184	1279	170	1674	7290
<b>MPDA Grant to Khadi Institutions</b>	218597	155856	200827	127328	86990	149045
<b>Coir Vikas Yojana</b>	70	2748	89	168	775	4057
<b>SFURTI SI</b>	759	194	7523	1821990	2082765	0
<b>Prime Ministers Employment Generation Programme (PMEGP)</b>	73427	32227	22977	52002	46808	89118
<b>Credit Guarantee Schemes</b>	433520	415000				
<b>National Awards</b>			45			
<b>Zero effect-zero defect</b>	12555					
<b>Entrepreneurship and Skill Development Programme (ESDP)</b>	2678	37250	14357	15599	6312	347041
<b>International Co-operation (IC) Schemes</b>	590	411	68	18	56	567
<b>PM Viswakarma Scheme</b>						847256
<b>Total</b>	745916	645870	247165	2017275	2225380	1444374

(Source: MSME Annual Reports)

Table 1 presents the number of beneficiaries across various MSME schemes for the study period from 2018-19 to 2023-24. It demonstrates how digital banking has streamlined financial aid distribution to MSMEs through direct benefit transfers (DBT). It is observed from the table that there are increasing number of beneficiaries across various schemes such as MPDA Grant to Khadi Institutions, Coir Vikas Yojana, PMEGP, SFURTI and ESDP. A significant trend is the sharp increase in beneficiaries from 2021-22 onward, reflecting policy shifts favouring digital transactions and financial inclusion efforts.

The trend suggests that digital banking has enhanced efficiency in fund disbursement, ensuring that financial aid reaches eligible businesses without unnecessary delays or intermediaries. It has enhanced financial inclusion, minimized bureaucratic delays, and improved the accessibility of government support for MSMEs. Digital banking has also reduced leakages, increased transparency, and strengthened the financial ecosystem for small businesses especially in rural areas by enabling them to focus on expansion and sustainability. The data affirms that digital banking significantly contributes to MSMEs development by ensuring transparency, efficiency, and timely fund transfer to MSMEs, eliminating delays and reducing operational costs.

**Table 2: Direct Benefit Transfers to MSME Sector under Various Schemes - DBT Amount Transferred (Rs. in Crores)**

Type of Scheme	Year					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
<b>ATI Scheme (Training Component)</b>	3.31	7.99	0.86	0.63	0.87	9.89
<b>MPDA Grant to Khadi Institutions</b>	241.02	214.99	54.52	54.03	29.45	113.16
<b>Coir Vikas Yojana</b>	0.33	1.7	0.04	0.6	45.79	2.52
<b>SFURTI SI</b>	0.03	0.01	0	8.01	384.51	0
<b>Prime Ministers Employment Generation Programme (PMEGP)</b>	2070	1002.58	707.16	1601.92	1505.61	3093.88
<b>Credit Guarantee Schemes</b>	822.59	27192				
<b>National Awards</b>			0.45			
<b>Zero effect-zero defect</b>	8.5					
<b>Entrepreneurship and Skill Development Programme (ESDP)</b>	0	33.7	0	1.83	2.55	62.84
<b>International Co-operation (IC) Schemes</b>	4.8	3.44	1.25	1.98	6.87	19.17
<b>PM Viswakarma Scheme</b>						55.66
<b>Total</b>	3150.58	28456.41	764.28	1669	1975.65	3357.12

(Source: MSME Annual Reports)

Table 2 shows the DBT Amount transferred to MSMEs under various schemes from the year 2018-19 to the year 2023-24. It is observed from the table that there is increasing trend in the DBT Amount transferred through various schemes like ATI Scheme, MPDA Grant to Khadi Institutes, PMEGP, and ESDP. It demonstrates the government's commitment to strengthen the sector through digital fund transfers. The sharp rise in DBT Amount transfers in post-2020 suggests a greater reliance on digital banking mechanisms in ensuring the efficient disbursement of financial support to MSMEs promptly without administrative hurdles and also by reducing bureaucratic delays.

## **B. Digital Payments in MSMEs**

All the offices of Ministry of Micro, Small and Medium Enterprises, including its attached offices have been digitally enabled. The following are the attached offices.

- **Khadi and Village Industries Commission (KVIC):** It Supports rural and small-scale industries by promoting khadi and village industries through various financial aid and development programmes.
- **National Small Industries Corporation (NSIC):** It facilitates the credit access, technology transfer, and market assistance to MSMEs.
- **DC Office (Tool Room + DI Offices + HQ):** It refers to the Development Commissioner (MSME) Office, overseeing Tool Rooms, District Industries (DI) Offices, and Headquarters (HQ). It supports MSMEs through skill development, technology support, policy implementation, and infrastructure development. It makes efforts to enhance industrial growth and entrepreneurship across various sectors in India.
- **Coir Board:** It encourages the development of the coir industry through skill development, financial support, and technological advancements.
- **National Institute for Micro, Small and Medium Enterprises (NIMSME):** It focuses on entrepreneurship development and capacity building through training programmes.
- **Mahatma Gandhi Institute for Rural Industrialization (MGIRI):** It works towards promoting sustainable rural industries and innovation.

Here the secondary data regarding the volume and value of digital transactions in MSME sector, and also about the percentage of digital transactions in total MSME transactions is presented.

**Table 3: Total Number of Digital Transactions in MSME Sector**

Year	No. of Digital Transactions based on Type of Scheme						Total	Yearly Growth %
	KVIC	NSIC	DC Office (Tool Room + DI Offices + HQ)	COIR BOARD	NIMS ME	MGIRI		
2018-19	4601023	224474	84999	20855	3051	1076	4935478	-
2019-20	3964381	122329	85675	19071	4245	1250	4196951	-14.96
2020-21	3202965	69938	88450	12884	1658	726	3376621	-19.55
2021-22	3412686	88640	89483	17805	2089	659	3611362	6.95
2022-23	4877445	115798	94971	11777	3462	823	5104276	41.34
2023-24	7072898	140502	7380637	23264	7732	1560	14626593	186.56
<b>CAGR</b>								<b>19.85</b>

(Source: MSME Annual Reports)

Table 3 gives the total number of digital transactions in MSME Sector over the period from 2018-19 to 2023-24. It highlights the increasing adoption of digital transactions by MSMEs, and marking a significant shift from cash-based transactions to digital payment solutions. This transition has improved financial transparency, reduced transaction costs, and enhanced security for small businesses. Up to the year 2020-21, it shows negative growth in the number of digital transactions. It indicates potential disruptions, possibly due to the economic slowdown or pandemic effects. But later onwards it shows positive growth. Especially the sharp rise in 2023-24 (186.56% growth) suggests an accelerated adoption of digital financial solutions. This aligns with the expansion of fintech services and government initiatives such as Digital India, reinforcing MSMEs' reliance on secure, efficient digital transactions. Overall, the volume of digital transactions in MSMEs is shown a positive growth with a CAGR of 19.85%.

The rise in digital transactions signifies the successful penetration of digital banking infrastructure within the MSME sector. By utilizing UPI, IMPS, and mobile banking, MSMEs can conduct transactions more efficiently, maintain better financial records, and access formal credit. The data confirms that digital banking has streamlined financial management and expanded market opportunities for MSMEs.

**Table 4: Value of Digital Transactions in MSME Sector (Rs. in Crores)**

Year	Value of Digital Transactions based on Type of Scheme						Total	Yearly Growth %
	KVIC	NSIC	DC Office (Tool Room + DI Offices + HQ)	COIR BOARD	NIMSME	MGIRI		
2018-19	6494.0	47308.0	2838.0	160.0	17.0	14.0	56831.00	-
2019-20	4877.3	14235.48	956.29	230.42	26.18	13.38	20339.05	-64.21
2020-21	4059.54	12705.74	891.61	272.5	6.56	10.63	17946.58	-11.76
2021-22	4343.45	13512.74	8824.323	180.9	24.25	5.552	26891.215	49.84
2022-23	5760.59	13527.14	540.596	226.586	54.14	6.1	20115.152	-25.20
2023-24	8310.55	30602	44766.06	298.195	58.27	11.909	84046.984	317.83
<b>CAGR</b>								<b>6.74</b>

(Source: MSME Annual Reports)

Table 4 presents the value of digital transactions in MSME sector for the period from 2018-19 to 2023-24. It is observed from the table that the annual growth is negative up to the year 2020-21. Later it shows a positive growth. Mainly in the year 2023-24, the yearly growth is 317.83%. Overall, the value of digital transactions for the period is increased with the CAGR of 6.74%.

The data reflects the growing confidence of MSMEs in conducting high-value transactions through digital platforms. This increase helps in streamlining business operations, reducing costs, and enhancing operational efficiency for MSMEs.

**Table 5: Percentage of Digital Transactions in Total MSME Transactions**

Year	Volume of Transactions of MSMEs			Value of Transactions of MSMEs (Rs. in Crores)		
	Total	Digital	% of Digital Transactions Volume in Total Transactions Volume	Total	Digital	% of Digital Transactions Value in Total Transactions Value
2018-19	5984171	4935478	82.48	59200.00	56831.00	96.00
2019-20	4957869	4196951	84.65	21662.16	20339.05	93.89
2020-21	3861529	3376621	87.44	18284.67	17946.58	98.15
2021-22	4135997	3611362	87.32	27292.98	26891.22	98.53
2022-23	5758260	5104276	88.64	20595.27	20115.15	97.67
2023-24	16620118	14626593	88.01	98396.45	84046.98	85.42

(Source: MSME Annual Reports)

Table 5 presents the percentage of digital transactions in the total transactions within the MSME sector for the period from 2018-19 to 2023-24. It is observed that around 85% of the volume of transactions are performed digitally by the MSMEs. In the same way, it is shown that mostly the receipts and payments amount are digitally transacted by the MSMEs, as around 98% of the value of the transactions are digitally done. This helps to MSMEs in reducing reliance on cash, improving transparency, and enhancing financial management.

### Overall Summary/ Conclusion

From the above, it is observed that government-backed digital banking initiatives and latest fintech initiatives have successfully facilitated MSME growth by ensuring smooth financial transactions and timely credit disbursement through streamlined DBT mechanism. Digital payment solutions like UPI, IMPS, and mobile banking have streamlined transactions, reducing operational delays and reliance on cash. Digital banking has significantly reduced bureaucratic inefficiencies, and transparent financial aid distribution to MSMEs.

A significant increase in digital transactions post- pandemic (2021) highlights the growing trust in digital platforms, driven by the Digital India initiative and fintech advancements. Moving forward, strengthening cybersecurity, expanding financial education, and integrating AI-driven fintech solutions will be crucial in further empowering MSMEs. By leveraging digital banking, MSMEs can enhance competitiveness, expand market access, and accelerate economic growth, making them key drivers of India's self-reliant economic vision (Atmanirbhar Bharat).

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