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Metamorphism of financial services beyond the landscape: Bridging the Financing Gap for Emerging Business Enterprises through Financial Inclusion in Developing countries

Dr. Shilpi Kavita [1]
[1]*Assistant Professor, Department of Business Administration, St. Xavier's College of Management & Technology, Patna*

Abstract
The changing market and economic conditions due to erratic market and post pandemic effect, has redefined the role of financial services in the organization. The leaders of finance have to transform their functions and are expected to be as much as business strategist as a financial expert. To respond to this rapidly evolving scenario, the finance sector must undergo a fundamental change and realign it to the changing business environment. There is need to retrospect the Financial Service Industry and actions taken by the industry players to find a remarkable place within sector with the objective of equitable economic growth
This paper is based on an ongoing study on financial inclusion in India with reference to Emerging Business Enterprises. By analysing secondary data, the objectives of this study are to examine (i) the achievement of financial inclusion in India;(ii) the positive impact on Emerging Business Enterprises, particularly their access to formal funding sources; and (iii) the challenges and opportunities in increasing Emerging Business Enterprises 'access to formal funding in the country. The results of the analysis show that since the start of the financial inclusion policy after the 1997/98 Asian financial crisis, public access to formal financial institutions has continued to increase. However, only a small number of Emerging Business Enterprises, especially micro and small enterprises have access to credit for various reasons. This study concludes that much remains to be done so that all Emerging Business Enterprises can have access for smooth and continuous flow of credit.
Keywords: Emerging Business Enterprises, Financial Inclusion, Metamorphism of financial services

1.INTRODUCTION
Financial inclusion emerged as a hot topic in the wake of the 2008 global financial crisis, primarily due to the crisis's impact on those at the bottom of the pyramid , who are typically unbanked and numerous in developing economies. At the G20 Pittsburgh Summit in 2009, G20 members agreed to increase access to finance for this group, which was subsequently reiterated at the Toronto Summit in 2010, by issuing nine Principles for Innovative Financial Inclusion as development guidelines for financial inclusion, namely leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality, and frameworks. Since then, numerous international forums have focused on financial inclusion, such as CGAP World Bank, APEC, Asian Development Bank (ADB), and the Alliance for Financial Inclusion (AFI), as well as international standard-setting bodies, namely the Bank for International Settlements (BIS) and Financial Action Task Force on Money Laundering (FATF), including developing economies like India.
With the Covid-19 pandemic crisis, financial inclusion has become even more important. The World Bank has stated that the COVID-19 pandemic sparked financial inclusion and significantly increased digital payments. Three-quarters of adults now have a bank or mobile money account, as

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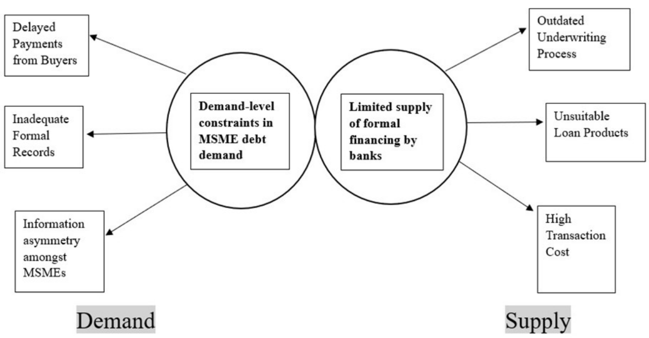
the gender gap in account ownership narrows, according to the Global Findex 2021 database. The pandemic has also led to increased use of digital payments. In low and middle-income economies (excluding China), over 40% of adults who made merchant in-store or online payments used a card, phone, or the internet did so for the first time since the start of the pandemic. The State of Economic Inclusion 2021 (SEI) Report reveals that economic inclusion programs are on the rise in 75 countries around the world, reaching approximately 20 million households and benefitting nearly 92 million individuals

Although many parties have their definition, in general, it can be said that financial inclusion means that individuals, including working-age adults, and businesses, including Micro and small enterprises and Emerging business enterprises have effective access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance- from formal service providers. Effective access involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options .It is strongly believed that financial inclusion, which is part of inclusive economic development, will accelerate economic growth and reduce poverty in developing countries, including India. There are many supply- (service providers) and demand-side (consumers) reasons for those languishing at the bottom of the pyramid to remain unbanked, including price, information, product design, and channel barriers. In response, financial inclusion overcomes those barriers by providing a wealth of benefits to be enjoyed by consumers regulators, the government, and the private sector as follows: (i) increasing economic efficiency; (ii) supporting financial system stability; (iii) reducing shadow banking and irresponsible finance; (iv) supporting financial market deepening; (v) providing potential new markets for the banking industry; (vi) raising the Human Development Index (HDI); (vii) contributing to sustainable local and national economic growth; and(vii) reducing inequality and low-income trap rigidity, thus ameliorating public prosperity and ultimately alleviating poverty

After the Asian financial crisis in 1997–1998, India changed its national development strategy in all areas, including in the financial sector, from an “exclusive” orientation toward a more “inclusive” one. The country has a strong reason for adopting financial inclusion as its new national development policy objective, given that (i) the financial sector is highly concentrated, i.e., dominated by banks (most profitable, with low levels of intermediation), with growing capital markets, although they are still concentrated in a few big companies, and with low penetration of pension funds, insurance, and other nonbank financial institutions;(ii) only a small part of India’s total population has access to banking services; and (iii) poverty is still a serious problem in India. This paper is based on a study on inclusive economic development in India with a focus on the benefit of financial inclusion for EBEs in the form of greater access to funding from formal sources such as banks



2.Objectives of Study:

By analysing secondary data, the objectives of this study are to examine (i) the achievement of

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financial inclusion in India;(ii) the positive impact on Emerging Business Enterprises, particularly their access to formal funding sources; and (iii) the challenges and opportunities in increasing Emerging Business Enterprises 'access to formal funding in the country.

3.Literature Review:

The financial sector is undergoing rapid transformation due to fluctuating market conditions and post-pandemic economic recovery. Studies have highlighted that financial leaders are now expected to act as both business strategists and financial experts to ensure sustainable growth (PWC, 2021). According to Deloitte (2022), organizations that integrate financial services with business strategy can better navigate economic uncertainty. Financial inclusion has been a key priority for India since the 1997/98 Asian Financial Crisis. Various policy measures, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Digital Payment Initiatives, have contributed to increased access to formal financial institutions (Reserve Bank of India, 2020). However, Kumar & Singh (2019) argue that financial inclusion has been uneven, with rural and marginalized sectors still facing challenges in accessing credit. New financial technologies, alternative lending models, and government policies offer opportunities for enhancing financial inclusion. The adoption of AI-driven credit scoring models and blockchain-based lending platforms can help reduce risk and expand credit availability to underserved businesses (KPMG, 2022). Strengthening regulatory frameworks and fostering public-private partnerships can further accelerate financial inclusion efforts (IMF, 2021). Emerging Business Enterprises (EBEs), particularly Micro, Small, and Medium Enterprises (MSMEs), are essential drivers of economic growth. Research by Sharma & Gupta (2020) indicates that improved access to financial services leads to business expansion, job creation, and higher economic output. However, many MSMEs continue to struggle due to high collateral requirements, lack of financial literacy, and bureaucratic lending processes (World Bank, 2021). Despite financial reforms, credit access remains limited for small businesses. A study by Mishra (2022) highlights that banks often hesitate to provide loans due to perceived high risks and lack of credit history among MSMEs. Digital lending platforms and FinTech solutions are seen as potential game changers in addressing these challenges.

4.Methodology

It is an exploratory study based on available secondary sources such as research papers, books, and reviews. Based on the study of available literature, a model has been derived to show linkages between financial services and Emerging Business Enterprises in India leading to sustainable development. This paper is based on an ongoing study on financial inclusion in India with reference to Emerging Business Enterprises. By analysing secondary data, the objectives of this study are to examine the achievement of financial inclusion in India both from Demand and Supply aspect; the positive impact on Emerging Business Enterprises, particularly their access to formal funding sources; and the challenges and opportunities in increasing Emerging Business Enterprises 'access to formal funding in the country.

5.Financial Inclusion in India

From 1997 to 1998 India was badly affected by the Asian financial crisis and, following that, by social and political disturbances and conflicts. Following India's recovery from the recession, the country has undergone a profound transformation. Wide reforms have been carried out in all areas of economic, social, and political policy, and a new development strategy, "inclusive" economic development and growth, has been adopted. In this inclusive development, the Indian government has adopted a triple-tracked strategy, i.e., "pro-growth," "pro-job," and "pro-poor." This strategy is considered important for India, given that despite robust
economic growth after the 1998 crisis.
Financial inclusion is an important element of "inclusive" development, which means broad access

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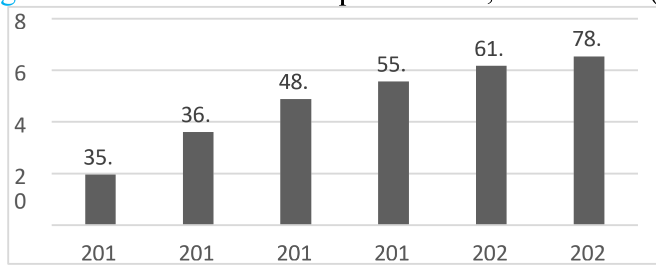
to financial services. This implies an absence of price and non-price barriers that might deter people from obtaining financial services. The financial inclusion policy in India is linked to poverty alleviation and financial stability. The Government of India strongly believes that improving access to finance and improving the use of financial services will raise people's welfare.

Inclusive finance is defined by the Indian government as a condition when people have access to various quality formal financial products and services in a timely, smooth and secure manner, at an affordable cost by the needs and capabilities to improve public welfare. The level of financial inclusion can be seen in the percentage of adults who use formal financial products and services that can be seen from how the population saves, borrows money, makes payments, insurance, etc. This inclusion will reduce the gap of Demand and supply of Financial services ultimately metamorphizing the entire business environment which will ultimately lead to sustainable development of any developing economies like India

As can be seen in Figure 1, the share of the adult population with a bank account in India continued to increase annually

Figure 1: Account Ownership in INDIA, 2011-2021 (%)



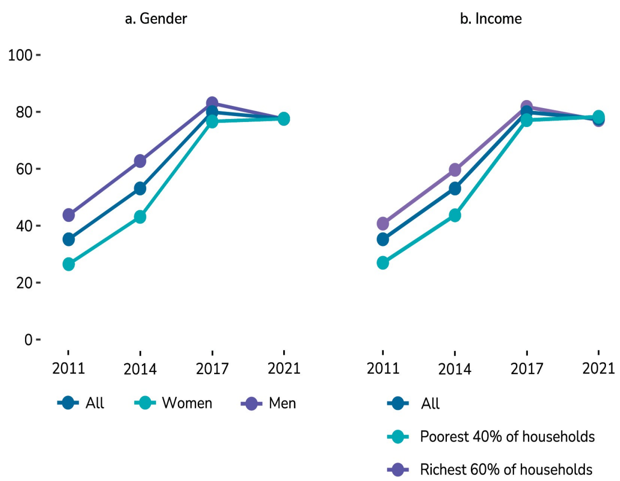
Source: World Bank (2022a)

But India is still behind some other ASEAN countries such as Malaysia, Thailand, and Singapore

According to the Global Findex Database 2021, account ownership among adults (aged 15 and above) in the specified countries is as follows: Singapore: 97.9%,Malaysia:85.3%Thailand:81.6%India:78%

These figures indicate that India has made significant progress in financial inclusion but still lags behind Singapore, Malaysia, and Thailand in terms of account ownership. It's also noteworthy that India has a relatively high rate of account inactivity.

FIGURE 2



Source: Global Findex Database 2021.

6.Metamorphism of EBEs and MSMEs: Financial Inclusion in developing Economies

It has been recognized worldwide that Emerging Business Enterprises and among it specially

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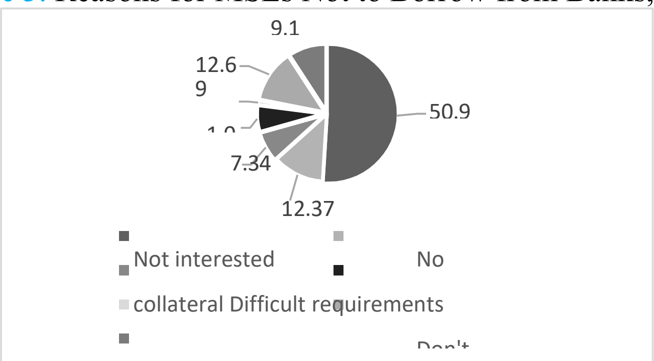
MSMEs play a vital role in the economic development of all countries in the world. Especially in developing and least developed countries, as they are the majority of enterprises, MSMEs have a crucial role to play because of their potential contributions to poverty reduction, improvement of the income distribution, employment creation, industrial development, rural development, GDP growth, and export diversification and growth. They also provide business opportunities to women, unemployed, and less educated youths. The growth of MSMEs is also strategic in achieving resilience and stronger recovery in these countries after the COVID-19 crisis.
By extrapolating data from the World Bank's Enterprise Surveys, a report from the International Finance Corporation shows that there are close to 162 million formal MSMEs in developing and least developed countries, of which 141 million are microenterprises (MIEs), and 21 million are small and medium enterprises (SMEs), Three countries, i.e Brazil, China and Nigeria, contribute 67 percent to the total number of MSMEs, which is equivalent to 109 million enterprises. There are close to 12 million SMEs in China alone, which represents 56 percent of all MSMEs in developing countries. China also has 44 million MIEs, which represents 31 percent of all MIEs in developing countries. There is a large concentration of enterprises in the East Asia region (64 million), followed by Sub-Saharan Africa, which has 44 million MSMEs, the majority of which (97 percent) are microenterprises.
Inadequate access to finance is a long-standing structural problem that MSMEs face in developing/least developed countries. A study of the International Finance Corporation (IFC) estimated that MSMEs in developing/least developed countries suffer from a financing shortfall over US $2 trillion, reducing their ability to contribute to employment and economic growth.IFC estimates that up to 70 percent of formal MSMEs in developing/least developed countries are unserved or underserved by the formal financial sector. There are many reasons, and the most important one is that smaller firms, by their nature, are less likely than larger firms to have the collateral required for banks to make sound lending decisions. MSMEs in developing/least developed countries also typically lack formal credit histories, business plans, and other forms of documentation that banks require to assess credit risk. Apart from being obtained from financial institutions such as banks and microfinance institutions, which are quite a lot in India, business loans are also obtained from individuals, including family, friends, and even moneylenders. In addition, business loans can also come from government assistance programs that are intended for MSEs, although the number of recipients is still very small. The role of the government is urgently needed to overcome these capital problems, especially to break the ties of MSEs to loans from moneylenders, which occurs a lot, especially in the rural area.
The reason for more than half of MSEs not borrowing from banks (50.14 percent) is mostly because they are not interested (50.96 percent). The main difficulty of MSEs apart from marketing is capital. This is understandable because obtaining a bank loan requires certain conditions which may not be met by MSEs. This condition is supported by several reasons for MSEs as shown in Figure 3.

Figure 3. Reasons for MSEs Not to Borrow from Banks, 2020



Source: BPS (2020)

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7.Challenges and Opportunities

The main challenges facing India regarding EBEs and MSMEs finance are of three sizes. From the government size: national financial market infrastructure reform with the priority reform measures: (i) improvements of the credit reporting framework for MSMEs, reforms that allow banks and non-banks to lend to MSMEs against movable collateral that reaches all MSMEs, especially MSEs, all over the country, including rural backward areas, and insolvency reforms; (ii) continued with removing all constraints for innovative MSME finance policies and instruments, addressing MSME data gaps, and MSME long term financing (i.e. the role of different instruments); and (ii) promoting e-procurement, particularly by all government departments and other government agencies, to identify good practices and how it can improve MSMEs' access to markets, and e-payments.
From the financial technology (FinTech) size, to strengthen their role in helping MSMEs to (i) reduce the costs of getting critical information on such clients by banks (e.g. alternative data); (ii) provide alternative channels to reduce costs of service delivery (e.g. cell phones, cards, internet); and help MSMEs manage their business better through real-time, responsive, and adapted support services delivered affordably through

information and communication technology (e.g. financial management, marketing); and (iii) create digital platforms for supply/value chain financing, receivables discounting.
From the EBEs side is to make financial reports that are accepted by financial institutions, have a business license that can be obtained at no cost, prepare a good business profile, and proactively in taking advantage of all existing financial instruments including online loans such as Fintech.

Opportunities

There is an opportunity to expand the product offering for EBEs & MSMEs beyond the standard working capital and investment loans: (i) banks can position themselves to treat MSMEs as a core and strategic business. In terms of products to increase MSMEs' access to finance, it may be that leasing, factoring, and venture capital offer the best prospects. Among the new products, leasing may be especially appropriate. At present, leasing of machinery or other equipment is more common for corporates and individuals than for MSMEs; (ii) the business potential for MSME lending applies across the banking spectrum (ILO, 2019); (iii) other forms of collateral are now available. IFC (2016) suggests that many MSMEs could provide machinery or equipment, accounts receivables, or stock of merchandise as collateral than they are doing now. Greater use of movable collateral would help increase the pool of potential borrowers and in countries like INDIA this has been facilitated by the online movable asset register established by the government; (iv) there is also an opportunity for fintech) to expand into the MSME space; (v) the banking sector has the opportunity to compete with these developments by offering MSMEs services intrinsic to it, such as long-term loans and saving facilities (ILO, 2019).

8.Conclusion and Policy Recommendations

Following the Asian financial crisis of 1997–1998, India adopted a financial inclusion strategy as part of its "inclusive national development policy" in order to increase economic growth and the welfare of the population. One of the great expectations of achieving financial inclusion is the ease of access for MSMEs, especially MSEs, to formal financial sources. However, as has been shown in this paper, only a small number of MSMEs have obtained loans from banks; although the portion shows an increase every year. Indeed, the positive impact of financial inclusion on MSMEs' access to formal funding does not only depend on the supply side of banks, but also on the demand side of MSMEs, including the financial literacy of MSMEs owners, their market prospects, and the neatness of their administration such as having a good financial report and business license. In this case, both the government and private parties such as business associations, small business associations, universities, or the chamber of commerce have an important role in helping MSME

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actors prepare themselves as prospective debtors who can meet all banking requirements.
Meanwhile, from the banking side, loan requirements should be simplified while maintaining prudence in lending. Also, the coverage of banks and microfinance programs should be expanded into other parts of the country, especially rural communities or those living in less developed, isolated, or border regions.

The above actions should be added with the following actions:
(i)financial inclusion should focus on (a) regulations so that banks maintain their sound risk management without pursuing non-competitive and non-inclusive business practices, and (b) the composition of lending, namely to increase the share of the poor or MSMEs in total credits, not only at the national level but, more importantly, at the provincial or district level, by increasing the aggregate level of financial intermediation. They should not focus on artificially pumping out and administratively allocating more credit;(ii)local organizations, both formal and informal, that have the potential (based on their current activities: human resources capacity, especially with reference to financial management; past experience with microfinance; and their business relationship with banks as microfinance providers) should be given the first priority to be selected and promoted as local microfinance providers. Such organizations can include local cooperatives, post offices, pawnshops, retail outlets, businesses and MSMEs, associations, foundations, NGOs, or even arisans. The introduction or implementation of mobile banking should also be considered as a distribution channel;(iii)existing local microfinance institutions, including those in the informal sector, need to become more efficient and competitive. This would help them to bring down the interest rates on loans and capitalize on this exceptional opportunity to profitably tap into a large base of people with deposits to offer. For this, local banks, chambers of commerce, and universities should provide technical assistance and capacity-building support;
(iv)as there are too many microfinance services providers with overlapping targets, coverage, and regulations, reorganization of microfinance services at both the national and regional levels is needed;
(v)the government should provide a conducive environment, supported by law, to ensure the security of the microfinance institutions and to instill confidence in them;
(vi)a credit information bureau should be established with offices in all cities and towns in the main districts. This could prevent the risk of over-indebtedness in areas of strong competition among microfinance institutions.

However, the overall success of programs or policies to increase financial inclusion does not only depend on the quality of the policies themselves but, also on at least two other factors that should be considered to be the preconditions of success. These are first, better income or employment opportunities for those in society targeted for financial education to enable them to save their money or to open a bank account; and second, easy access to financial tools and institutions, together with their supporting infrastructure, for all Indians, even those in remote or less-developed areas

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