

Impact of Non-Banking Financial Institutions on Employment Generation in MSMEs A Case Study of Mysore District

Radha G S¹, Dr. J.L. Banashankari²

¹Research Scholar in Economics, DOS in Economics, KSOU, Mukthagangotri, Mysuru-570006

²Professor, Research Scholar in Economics, DOS in Economics, KSOU, Mukthagangotri, Mysuru-570006

Abstract—This study investigates the impact of Non-Banking Financial Institutions (NBFIs) on employment generation and the overall development of Micro, Small, and Medium Enterprises (MSMEs) in Mysore District, Karnataka. MSMEs play a pivotal role in India's economic growth, yet face persistent challenges in accessing institutional finance. Through a descriptive and analytical approach, primary data were collected from 100 MSME entrepreneurs who availed credit from NBFIs. The findings reveal that NBFIs have significantly contributed to employment creation, enterprise expansion, technology adoption, and business sustainability, particularly among micro and small enterprises. Statistical analysis confirms a strong, significant relationship between enterprise size, employment generation, and overall development. The study highlights the crucial role of NBFIs in bridging credit gaps, fostering entrepreneurship, and promoting regional economic development. Strengthening the NBFIs credit ecosystem is essential for sustaining MSME growth and maximising their contribution to the local economy.

Index Terms—Non-Banking Financial Institutions (NBFIs), MSMEs, Employment Generation, Credit Support, Enterprise Development, Financial Inclusion, NBFCs, Regional Economic Growth

I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in India's economic development by contributing significantly to Gross Domestic Product (GDP), exports, employment, and industrial growth. According to the Ministry of MSME, the sector contributed about 30.1 percent to India's GDP and 45.73 percent of the country's total exports during

2023–24. MSMEs are considered the backbone of the Indian economy because they promote entrepreneurship, regional development, and inclusive growth. However, inadequate access to institutional finance remains a major challenge to the growth and sustainability of MSMEs (Ministry of MSME, Government of India, 2024).

Non-Banking Financial Institutions (NBFIs), particularly Non-Banking Financial Companies (NBFCs), have become an important source of finance for MSMEs by providing timely credit, flexible lending, and customized financial products. Unlike traditional banks, NBFIs are better equipped to serve small businesses with limited collateral and credit history. The Reserve Bank of India (RBI) has observed that NBFCs have steadily expanded their MSME portfolios, thereby addressing the sector's credit needs and contributing to financial inclusion and economic growth. Their ability to reach underserved enterprises has made them a vital component of the MSME financing ecosystem (RBI, Report 2023).

The importance of NBFIs credit support has grown significantly in recent years. RBI reports indicate that NBFCs' credit growth to MSMEs has been substantially higher than that of commercial banks, underscoring their growing role in financing small enterprises. The expansion of NBFIs lending has facilitated business modernisation, working capital management, employment generation, and enterprise sustainability. Therefore, understanding the role of NBFIs credit support in MSME development is essential for formulating policies that strengthen financial inclusion and promote sustainable economic development. This study seeks to examine the

contribution of NBFIs to MSME development, with special reference to Mysore District, Karnataka (Soni, 2023).

II. REVIEW OF LITERATURE

Rekha et al. (2024) conducted a systematic literature review on MSME financial literacy and found that access to financial knowledge significantly influences MSMEs' ability to obtain institutional credit and use financial services effectively. The study emphasized that financial literacy enhances business decision-making, improves creditworthiness, and promotes enterprise sustainability. The authors suggested that financial institutions, including NBFIs, should strengthen financial awareness programs to improve MSME access to finance.

Sharma and Sharma (2024) reviewed the financial gap in the MSME sector and identified inadequate access to credit as a major obstacle to MSME growth. The study highlighted that stringent collateral requirements, information asymmetry, and lenders' risk perceptions limit the availability of formal finance. The authors concluded that NBFCs and other NBFIs play a crucial role in bridging the credit gap by providing flexible financing solutions to MSMEs.

Gupta and Agarwal (2023) examined the role of digital financial services in MSME development in India. The study found that digital lending platforms, mobile banking, and fintech-enabled financial services have improved small businesses' access to credit. The authors observed that technology-driven financial institutions, including NBFCs, have enhanced financial inclusion and reduced transaction costs for MSMEs, thereby supporting business growth and sustainability.

Bhattacharjee and Pati (2023) analyzed the performance of Indian NBFCs using the CAMELS framework. The study found that financially sound NBFCs play a significant role in credit expansion, particularly in underserved sectors such as MSMEs. The authors emphasized that effective asset quality management, adequate capital, and operational efficiency are essential to sustaining NBFC support for MSME financing and economic development.

Shamim and Ahmad (2025) conducted a bibliometric analysis of digital financial inclusion, entrepreneurship, and MSME development in India. The study found a growing relationship among digital

finance, entrepreneurship, and MSME growth after 2020. The authors concluded that digital financial inclusion initiatives, supported by NBFCs and fintech institutions, have improved small enterprises' access to finance and strengthened entrepreneurial development across India.

III. RESEARCH GAP

The reviewed studies have focused on financial literacy, digital finance, MSME credit gaps, and the performance of NBFCs at the national level. However, limited research has examined the specific role of Non-Banking Financial Institutions (NBFIs) in promoting MSME growth and sustainability at the district level. In particular, empirical studies on NBFI credit support and MSME development in Mysore District, Karnataka, remain scarce. Therefore, the present paper seeks to fill this gap by analyzing NBFIs' contribution to MSME growth, financial inclusion, and sustainability in the study area.

IV. RESEARCH METHODOLOGY

Study Area

The present study was conducted in Mysore District, one of the major industrial and commercial districts of Karnataka. Mysore District has witnessed significant growth in Micro, Small, and Medium Enterprises (MSMEs) across manufacturing, service, trade, tourism, handicrafts, food processing, and information technology sectors. The district has a well-developed financial infrastructure comprising commercial banks, cooperative institutions, and Non-Banking Financial Institutions (NBFIs), making it an appropriate area for examining the role of NBFI credit support in MSME development. The presence of diverse MSME activities and the increasing demand for institutional finance provide a suitable setting for assessing NBFIs' contribution to enterprise growth and sustainability.

V. RESEARCH DESIGN

The study adopts a descriptive and analytical research design. The descriptive approach is used to understand the socio-economic characteristics of MSME entrepreneurs and the nature of NBFI credit support, while the analytical approach evaluates the impact of

NBFI financing on MSME development and sustainability.

VI. SOURCES OF DATA

Primary Data

Primary data has been collected directly from MSME entrepreneurs through a structured questionnaire and personal interviews. Information regarding credit accessibility, loan utilization, business performance, employment generation, income growth, and enterprise sustainability will be obtained from the respondents.

Sampling Technique

The study employs a simple random sampling method for selecting MSME units that have availed credit from NBFIs. This method ensures that every MSME unit in the study area has an equal chance of being selected, thereby reducing sampling bias and improving the representativeness of the sample.

Sample Size

A total of 100 MSME entrepreneurs who have received financial assistance from NBFIs has been selected from manufacturing, servicing and trading in Mysore District for the study.

VII. OBJECTIVES

1. To study the socio-economic status of MSME entrepreneurs in Mysore District.
2. To assess the impact of NBFI credit support on employment generation among MSMEs.
3. To evaluate the effect of NBFI financing on loan accessibility and development of MSMEs in Mysore District.

VIII. HYPOTHESES

1. There is a significant association between the size of enterprise and development of MSMEs.

Table-1: Socio-Economic Variables of the Descriptive Statistics for the Sample Respondents in the study area

Descriptive Statistics								
	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance
Age	100	4.00	1.00	5.00	2.3000	0.12019	1.20185	1.444
Gender	100	1.00	1.00	2.00	1.1100	0.03145	0.31447	0.099
Education	100	5.00	1.00	6.00	3.1700	0.17236	1.72360	2.971
Marital Status	100	1.00	1.00	2.00	1.3200	0.04688	0.46883	0.220
Monthly Income	100	3.00	1.00	4.00	2.0300	0.06884	0.68836	0.474
Nature of enterprises	100	2.00	1.00	3.00	1.5600	0.07429	0.74291	0.552
Size of Enterprise	100	2.00	1.00	3.00	1.6800	0.07505	0.75049	0.563
Period of Operation	100	3.00	1.00	4.00	1.8100	0.09816	0.98160	0.964
Ownership Type	100	3.00	1.00	4.00	1.6900	0.09816	0.98160	0.964
Financial Assistance by NBFI	100	3.00	1.00	4.00	1.7900	0.09878	0.98775	0.976
Primarily borrow from	100	3.00	1.00	4.00	1.6900	0.09816	0.98160	0.964
Purpose of Loan	100	3.00	1.00	4.00	1.7100	0.09460	0.94596	0.895
Loan Amount Received	100	3.00	1.00	4.00	1.6600	0.09558	0.95579	0.914
Quickly Sanction Loan	100	3.00	1.00	4.00	1.6700	0.09540	0.95405	0.910
NBFI Loan Helping	100	3.00	1.00	4.00	1.6600	0.09558	0.95579	0.914
Employment Generation	100	2.00	1.00	3.00	1.3400	0.05168	0.51679	0.267

Loan Helping Adopting Technology	100	3.00	1.00	4.00	1.6500	0.09574	0.95743	0.917
Satisfaction	100	3.00	1.00	4.00	1.6500	0.09574	0.95743	0.917
Over All Development	100	3.00	1.00	4.00	1.6500	0.09574	0.95743	0.917

Source: Primary Data

Table-1 presents the descriptive statistics of the socio-economic and enterprise-related characteristics of 100 MSME respondents in the study area. The results indicate that the mean value for age is 2.30, suggesting that a majority of the entrepreneurs belong to the middle-age category. The mean score for gender is 1.11, indicating the predominance of male entrepreneurs among the respondents. The educational level records a mean value of 3.17 with a variance of 2.971, showing considerable diversity in educational attainment among MSME owners. The mean values for nature of enterprise (1.56) and size of enterprise (1.68) reveal that most respondents operate micro and manufacturing-oriented enterprises. Regarding financial aspects, the mean values for financial assistance by NBFIs (1.79), purpose of loan (1.71),

loan amount received (1.66), and quick loan sanction (1.67) indicate that respondents have actively utilized NBFi credit facilities for business operations and expansion. Furthermore, employment generation records a mean score of 1.34, suggesting that NBFi-supported MSMEs have contributed positively to job creation. The mean values for loan helping technology adoption (1.65), satisfaction (1.65), and overall development (1.65) imply that respondents generally perceive NBFi credit support as beneficial for enterprise growth, technological advancement, and overall business development. Overall, the descriptive statistics demonstrate that NBFi financing has played a significant role in supporting MSME development and employment generation in the study area.

Table-2: Size of Enterprises and Employment Generation in the Study Area

			Employment Generation			Total
			Significantly	Moderately	Slightly	
Size of Enterprise	Micro	Count	49	0	0	49
		% of Total	49.0%	0.0%	0.0%	49.0%
	Small	Count	9	25	0	34
		% of Total	9.0%	25.0%	0.0%	34.0%
	Medium	Count	10	5	2	17
		% of Total	10.0%	5.0%	2.0%	17.0%
Total		Count	68	30	2	100
		% of Total	68.0%	30.0%	2.0%	100.0%

Source: Primary Data

Table 2 presents the relationship between enterprise size and employment generation among MSMEs in the study area. The findings reveal that, among 100 respondents, 68 percent reported that their enterprises generated significant employment, 30 percent moderate employment, and 2 percent slight employment. Among micro enterprises, 49

respondents (49%) reported significant employment generation, highlighting their crucial role in creating job opportunities. Among small enterprises, 25 respondents (25%) reported moderate employment generation, while 9 respondents (9%) reported significant employment generation. Among medium enterprises, 10 respondents (10%) reported significant

employment generation, 5 (5%) reported moderate, and only 2 (2%) reported slight. The results suggest that enterprises of different sizes contribute differently to employment creation, with micro enterprises playing a dominant role in generating employment

opportunities in the study area. Overall, the table indicates that MSMEs, particularly micro and small enterprises, have made a substantial contribution to employment generation, thereby supporting local economic development and livelihood creation.

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	62.154 ^a	4	0.000
Likelihood Ratio	69.627	4	0.000
Linear-by-Linear Association	26.539	1	0.000
N of Valid Cases	100		

a. 3 cells (33.3%) have expected count less than 5. The minimum expected count is .34.

Table 2a presents the results of the Chi-Square test examining the association between enterprise size and employment generation in the study area. The Pearson Chi-Square value is 62.154 with 4 degrees of freedom, and the corresponding p-value is 0.000, which is less than the 0.05 level of significance. Similarly, the Likelihood Ratio value of 69.627 and the Linear-by-Linear Association value of 26.539 are also

statistically significant at the 1 percent level. These results indicate a strong, significant relationship between enterprise size and employment generation among MSMEs. Therefore, the null hypothesis of no association is rejected, and it is concluded that the size of an enterprise significantly influences its capacity to generate employment.

		Loan Amount Received				Total		
		Below ₹1 lakh	₹1–5 lakh	₹5–10 lakh	Above ₹10 lakh			
Size of Enterprise	Micro	Count	48	1	0	0	49	
		% of Total	48.0%	1.0%	0.0%	0.0%	49.0%	
	Small	Count	10	24	0	0	34	
		% of Total	10.0%	24.0%	0.0%	0.0%	34.0%	
	Medium	Count	1	0	7	9	17	
		% of Total	1.0%	0.0%	7.0%	9.0%	17.0%	
	Total		Count	59	25	7	9	100
			% of Total	59.0%	25.0%	7.0%	9.0%	100.0%

Source: Primary Data

Table 3 presents the distribution of loan amounts received from Non-Banking Financial Institutions (NBFIs) by enterprise size in the study area. The results reveal that a majority of respondents (59%) received loans below ₹1 lakh, followed by 25% who received loans between ₹1 lakh and ₹5 lakh. Only 7 percent obtained loans between ₹5 lakh and ₹10 lakh, while 9 percent received loans above ₹10 lakh. Among micro enterprises, 48 of 49 respondents (48%)

received loans of less than ₹1 lakh, indicating a reliance on smaller credit needs. Small enterprises predominantly received loans of ₹1 lakh to ₹5 lakh, accounting for 24 percent of respondents, while 10 percent received loans below ₹1 lakh. Medium enterprises were the primary beneficiaries of larger loans, with 7 percent receiving loans of ₹5 lakh to ₹10 lakh and 9 percent receiving loans of ₹10 lakh or more.

			Overall Development				Total
			Excellent	Good	Average	Poor	
Size of Enterprise	Micro	Count	49	0	0	0	49
		% of Total	49.0%	0.0%	0.0%	0.0%	49.0%
	Small	Count	10	24	0	0	34
		% of Total	10.0%	24.0%	0.0%	0.0%	34.0%
	Medium	Count	1	0	7	9	17
		% of Total	1.0%	0.0%	7.0%	9.0%	17.0%
Total		Count	60	24	7	9	100
		% of Total	60.0%	24.0%	7.0%	9.0%	100.0%

Source: Primary Data

Table 4 presents the impact of Non-Banking Financial Institutions (NBFIs) on the overall development of MSMEs, by enterprise size, in the study area. The findings indicate that 60 percent of respondents rated the impact of NBFI support on their enterprise development as excellent, 24 percent as good, 7 percent as average, and 9 percent as poor. Among microenterprises, 49 respondents (49%) reported excellent overall development, suggesting that NBFI financial assistance has significantly contributed to the growth and performance of these enterprises. Among small enterprises, 24 respondents (24%) rated the

impact as good, while 10 respondents (10%) rated it excellent, reflecting the positive influence of NBFI credit on business operations and expansion. Among medium enterprises, 7 respondents (7%) reported average development, 9 respondents (9%) reported poor development, and only 1 respondent (1%) rated the impact as excellent. The results reveal that NBFI financing has been particularly effective in supporting the development of micro and small enterprises, while the perceived benefits among medium enterprises are relatively lower.

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	151.373 ^a	6	0.000
Likelihood Ratio	139.643	6	0.000
Linear-by-Linear Association	74.721	1	0.000
N of Valid Cases	100		

a. 7 cells (58.3%) have expected count less than 5. The minimum expected count is 1.19.

Source: Primary Data

Table 4a presents the results of the Chi-Square test examining the relationship between enterprise size and the overall development of MSMEs in the study area. The Pearson Chi-Square value is 151.373 with 6 degrees of freedom, and the corresponding significance value ($p = 0.000$) is less than the 0.05 level of significance. Similarly, the Likelihood Ratio value of 139.643 and the Linear-by-Linear Association value of 74.721 are also statistically significant. These findings indicate a strong, significant association between enterprise size and overall development.

Therefore, the null hypothesis stating that there is no relationship between enterprise size and overall development is rejected. The results suggest that the developmental impact of NBFI support varies by enterprise size, with micro and small enterprises generally experiencing better developmental outcomes than medium enterprises. Thus, NBFI financing plays a significant role in influencing the growth, performance, and overall development of MSMEs in the study area.

IX. MAJOR FINDINGS

1. The majority of MSMEs in the study area are micro enterprises, and most entrepreneurs have utilized NBFIs credit support for business operations, expansion, and development activities.
2. NBFIs' financing has significantly contributed to employment generation, with 68 percent of the respondents reporting significant employment creation and only 2 percent reporting slight employment generation.
3. A significant relationship exists between enterprise size and employment generation ($\chi^2 = 62.154$, $p < 0.001$), indicating that the size of the enterprise influences its capacity to create employment opportunities.
4. Most MSMEs received smaller loan amounts from NBFIs, with 59 percent of respondents obtaining loans below ₹1 lakh, while medium enterprises were more likely to access larger loans exceeding ₹5 lakh.
5. NBFIs' credit support has positively influenced the overall development of MSMEs, as 60 percent of respondents rated its impact as excellent and 24 percent rated it as good.
6. There is a strong and statistically significant association between enterprise size and overall development ($\chi^2 = 151.373$, $p < 0.001$), suggesting that NBFIs assistance has contributed substantially to the growth, performance, and sustainability of MSMEs, particularly micro and small enterprises.

X. CONCLUSION

The study concludes that Non-Banking Financial Institutions (NBFIs) play a vital role in supporting the growth and development of Micro, Small, and Medium Enterprises (MSMEs) in Mysore District, Karnataka. The findings reveal that NBFIs credit support has significantly contributed to employment generation, enterprise expansion, technology adoption, and overall business development. A majority of MSMEs, particularly micro and small enterprises, have benefited from timely financial assistance, thereby enhancing their operational efficiency and sustainability. The statistical analysis confirms a significant relationship among enterprise size, employment generation, and overall development, indicating that NBFIs financing positively impacts MSME performance. Therefore,

strengthening NBFIs credit delivery mechanisms and improving access to finance can further promote entrepreneurship, create employment opportunities, and accelerate regional economic development in the study area.

REFERENCES

- [1] Bhattacharjee, D., & Pati, R. (2023). Performance of Indian NBFCs using CAMELS framework. *Journal of Financial Services Research*, 45(2), 132–145.
- [2] Gupta, S., & Agarwal, R. (2023). Role of digital financial services in MSME development in India. *International Journal of Digital Economy*, 12(1), 55–68.
- [3] Ministry of MSME, Government of India. (2024). Annual report 2023–24. <https://msme.gov.in>
- [4] Rekha, S., Kumar, A., & Patel, V. (2024). Financial literacy and access to credit among MSMEs: A systematic review. *Asian Journal of Business and Management*, 14(2), 88–104.
- [5] Reserve Bank of India. (2023). Report on Trend and Progress of Banking in India 2022–23. <https://rbi.org.in>
- [6] Shamim, A., & Ahmad, N. (2025). Digital financial inclusion, entrepreneurship, and MSME development in India: A bibliometric analysis. *Journal of Entrepreneurship and Innovation in Emerging Economies*, 10(1), 59–78.
- [7] Sharma, R., & Sharma, N. (2024). Bridging the credit gap: The role of NBFCs in MSME financing. *Finance India*, 38(1), 102–117.
- [8] Soni, M. (2023). The role of NBFIs in MSME development. *Indian Journal of Finance and Development*, 21(3), 45–53.
- [9] Times of India (2025), MSMEs' Contribution to GDP Rises, Exports Triple, and NPA Levels Drop.