



Effects of Financial Inclusion on Small Business Development in Sonitpur District of Assam

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ABSTRACT

Financial inclusion is about making sure everyone can access good and affordable financial services. Financial inclusion plays a crucial role in the development of small businesses by enhancing their access to formal financial services, promoting sustainability, and enabling economic growth. This study examines the impact of financial inclusion on small businesses in the Sonitpur District of Assam, India. Using primary data collected from 89 small business owners across five revenue circles of Sonitpur district, the research highlights the role of financial inclusion in addressing challenges like limited access to credit and financial literacy. The findings indicate that while significant strides have been made in promoting financial inclusion, small businesses continue to face barriers such as high interest rates, inadequate financial literacy, and complex documentation processes. The study concludes with suggestions for policymakers and financial institutions to enhance financial accessibility and support small business growth in the region.

1. INTRODUCTION

Financial inclusion normally means a process of covering individual and businesses under the purview of financial system [World Bank]. It is the process of ensuring access to appropriate financial products



and Services needed by all sections of the society in general and vulnerable groups such as weaker Sections and low-income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players [South Indian Bank]. Financial inclusion appears to have been evolved as one of the major developmental thrusts of the present times. In a world of growing disparities, knowingly or unknowingly, a large segment of the people gets excluded from the mainstream financial and societal life. This exclusion leads to ongoing issues like inequality, poverty, and unemployment, which need to be addressed. Financial inclusion has been playing very pivotal role in the development of small businesses in India most particularly in rural areas.

Sonitpur district of Assam, India is an important district among others in north Assam due to its historical background, geographical significance, business perspectives and economic affairs. Sonitpur consists of five revenue circles i.e. Tezpur, Dhekiajuli, Naduar, Chariduar and Thelamara. Financial inclusion in Assam is grown up significantly over the years especially due to digitalization in India.

The promotion of digital payments has also contributed to financial inclusion in Assam, with the adoption of mobile banking, UPI, and digital wallets growing steadily. These digital platforms have helped small businesses and rural populations reduce dependency on cash, making transactions faster and more transparent. Additionally, microfinance institutions and Self-Help Groups (SHGs) have played a vital role in providing small loans to entrepreneurs, especially women, fostering local entrepreneurship and economic growth. Financial system in India has been playing major role in enlistment of individual as well as businesses as a whole. Bank branches in Assam are also growing up simultaneously.

Table 1

Statistics of Bank Branches in Assam, India as on 31.03.2024

Type of Bank	Rural	Semi Urban	Urban	Total
Public Sector Commercial Banks	655	445	368	1468
Private Sector Commercial Banks	441	318	228	957
Small Finance Banks	102	70	30	202
Payment Banks	0	0	26	26
Regional Rural Banks	367	72	26	465
Grand Total	1565	905	678	3118



Source: Adapted from the State Level Bankers Committee, NE Region (2024)

2. REVIEW OF LITERATURE

While undertaking this research, several literatures were taken into consideration.

Siddiqui, A. U. (2018) evaluates how important financial inclusion is for social and economic development. The study looks at how financial inclusion can improve India's economic position globally and the efforts made by the Reserve Bank of India (RBI) to support it. Using data from secondary sources, the study concludes that financial inclusion is crucial for reducing poverty in the country. However, there is still a lot of work to do. Banks need to open more branches and simplify their processes to make it easier for small customers to access services at low costs.

Iqbal B.A. and Sami S. (2017) analysed the effects of financial inclusion on India's economic growth from 2007 to 2014 using secondary data and a multiple regression model. The researchers found that the number of bank branches and the credit-deposit ratio positively impacted the country's GDP. Conversely, the study also revealed that the expansion of ATM networks did not yield a significant impact on GDP.

Dangi N. and Kumar P. (2013) focused on the RBI and Government of India initiatives and policy measures, current status and prospects of financial inclusion in India based on facts and data. The research concluded that financial inclusion showed positive and valuable changes because of changes in strength and technological changes. The study revealed that there should be proper financial inclusion regulation in our country and access to financial services should be made through SHGs and MFIs. The RBI and commercial banks should collaborate with trainers and professionals to launch a coordinated campaign aimed at educating customers about basic financial products, services, and offerings.

3. OBJECTIVES OF THE STUDY

The whole study was revolved around the following objectives:

- i. To assess the level of financial inclusion among small businesses in Sonitpur district.
- ii. To examine the effects of financial inclusion on the growth and sustainability of small businesses in Sonitpur.
- iii. To analyse the challenges faced by small businesses in accessing formal financial services.



- iv. To evaluate the role of financial institutions in promoting financial inclusion for small businesses in Sonitpur district.

4. RESEARCH METHODOLOGY

The study was conducted in five revenue circles of Sonitpur district i.e. Tezpur, Dhekiajuli, Thelamara, Chariduar and Naduar. The sample consists of 89 small business owners from various sectors, including retail, manufacturing, agriculture and services. In this study, small business is defined as businesses having employees in between 10 to 50. The data used in this study are primary data that are collected from the field and secondary data that are collected from journals, articles, government websites as well as books. Tools like Graphs, Pie, Percentage, and Garrett’s Ranking Technique are used in this study for interpretation.

5. RESULTS AND DISCUSSION

The data obtained from primary sources are analysed in this chapter in order to find out the objectives.

Table: 2

The nature of businesses taken for consideration under the study

Nature	Number of Respondents	Percentage (%)
Retail	68	76
Manufacturing	5	6
Service	8	9
Agriculture	8	9
Total	89	100

Source: Field Survey, November 2024

Interpretation:

From the table 2, it is observed that the majority of respondents (76%) are engaged in retail businesses. Smaller proportions are involved in services (9%), agriculture (9%), and manufacturing (6%), indicating a limited presence of non-retail business activities among the 89 respondents.

**(i) TO ASSESS THE LEVEL OF FINANCIAL INCLUSION AMONG SMALL BUSINESSES IN SONITPUR DISTRICT.**

Table: 3

Level of financial inclusion among small businesses in Sonitpur

Particulars	Percentage of Businesses (Yes)	Percentage of Businesses (No)
Formal Bank Account in the name of business	60%	40%
Using of Financial Services	98%	2%
Taken Business Loan from financial institutions	66%	34%
Adequate supports from financial institutions	90%	10%

*Source: Field Survey, November 2024****Interpretation:***

From the table 3, it is found that

- 60% of small businesses have formal bank accounts registered in the name of their business, while 40% do not. The presence of formal bank accounts is critical for financial transparency, access to formal credit. The 40% without formal bank accounts may face difficulties in accessing formal financial services.
- 98% of small businesses is using financial services, while only 2% businesses do not which indicate significant access to financial services in the region by small businesses.
- 66% of businesses have accessed business loans, while 34% have not. The majority of businesses accessing loans reflects a reasonable level of credit accessibility. However, the 34% who have not accessed loans indicate challenges such as high interest rates, complex documentations, lack of awareness about available loan products. The researcher have found that few businesses have not availed business loans due to availability of own capital.
- 90% of businesses believe they receive adequate support from financial institutions, while 10% feel otherwise, which indicates positive engagement between financial institutions and small businesses. However, the concerns of the 10% dissatisfied businesses must be addressed to enhance trust.

**(ii) TO EXAMINE THE EFFECTS OF FINANCIAL INCLUSION ON THE GROWTH AND SUSTAINABILITY OF SMALL BUSINESSES IN SONITPUR**

Table: 4

Effects of financial inclusion on growth and sustainability of small businesses

Particulars	Percentage of Businesses (Yes)	Percentage of Businesses (No)
Helps in the growth of businesses	91%	9%
Business become stable and sustainable	75%	25%
Diversification of product or services	84%	16%

*Source: Field Survey, November 2024****Interpretation:***

From the table 4, it is found that

- 91% of businesses report growth in revenue or customer base due to financial services, while 9% do not share this experience.
- 75% of businesses feel they have become more stable and sustainable due to access to financial services, while 25% do not experience such benefits, indicating that financial services play a key role in enhancing business stability and sustainability for most businesses.
- 84% of businesses have diversified their products or services with access to financial services, while 16% have not; indicating that financial access largely supports diversification efforts.

(iii) TO ANALYSE THE CHALLENGES FACED BY SMALL BUSINESSES IN ACCESSING FORMAL FINANCIAL SERVICES

Table: 5

Challenges faced by small businesses in accessing formal financial services



Challenges	Number of Businesses	Percentage of Businesses
High Interest Rates	58	65%
Complex Documentations	38	43%
Lack of Collateral	5	6%
Limited Information	4	5%
Others	16	18%

Source: Field Survey, November 2024

RANKING CHALLENGES USING GARRETT'S TECHNIQUE

Assign Ranks based on percentage:

- ❖ High Interest Rates: Rank 1
- ❖ Complex Documentation: Rank 2
- ❖ Others: Rank 3
- ❖ Lack of Collateral: Rank 4
- ❖ Limited Information: Rank 5

Percent Position Formula:

$$\text{Percent Position} = \frac{100(R-0.5)}{N}$$

Table: 6

Calculation of Percent Position and Garrett Scores

Rank	Challenge	Percentage	Percent Position	Garrett Scores
1	High Interest Rates	65	$\frac{100(1-0.5)}{5} = 10$	81
2	Complex Documentation	43	$\frac{100(2-0.5)}{5} = 30$	68
3	Others	18	$\frac{100(3-0.5)}{5} = 50$	56



4	Lack of Collateral	6	$\frac{100(4 - 0.5)}{5} = 70$	44
5	Limited Information	5	$\frac{100(5 - 0.5)}{5} = 90$	30

Source: Garrett's Ranking Technique

Interpretation:

From the table 6, it is found that

- The major challenge faced by small businesses in accessing loans is high interest rates (65%), followed by complex documentation (43%). Smaller issues include lack of collateral (6%), limited information (5%), and other factors (18%), indicating multiple barriers to obtaining business loans.
- Garrett Scores are found out by matching with the Garrett Rank list. As per Garrett's Ranking Technique, High Interest Rates are the top challenge, followed by Complex Documentation.

(iv) TO EVALUATE THE ROLE OF FINANCIAL INSTITUTIONS IN PROMOTING FINANCIAL INCLUSION FOR SMALL BUSINESSES IN SONITPUR DISTRICT

Table: 7

Role of financial institutions in promoting financial inclusion for small businesses

Particulars	Percentage of Businesses (Yes)	Percentage of Businesses (No)
Awareness on specific banks program	21%	79%
Benefits from any govt or banks program	17%	83%
Financial institutions have enough outreach efforts	75%	25%

Source: Field Survey, November 2024

Interpretation:

From the table 7, it is observed that

- 79% of businesses are not aware of specific programs or initiatives by banks or financial institutions aimed at small businesses, while only 21% are aware, indicating a significant gap in awareness of available financial support.



- Only 17% of small businesses have benefited from specific programs or initiatives by banks or financial institutions, while a significant 83% have not. This highlights the need for better implementation, outreach, and accessibility of such programs to ensure more small businesses can avail their benefits.
- 75% of small businesses believe financial institutions have made adequate outreach efforts, such as workshops and awareness programs, to engage them. However, 25% feel these efforts are insufficient, highlighting the need for more targeted and inclusive initiatives to reach all businesses effectively. It is also significant that despite enough outreach efforts have taken but still small businesses are not or very minimal aware of specific business centric programs, initiative taken by banks or financial institutions.

Table: 8

Small businesses benefitted from different government and banks initiatives

Type of Banks Initiative	Number of Businesses	Percentage (%)
Pradhan Mantri Jan Dhan Yojana (PMJDY)	4	5
Stand-Up India Scheme (SUIS)	0	0
Mudra Yojana (MY)	9	10
Kisan Credit Card (KCC)	11	12
Subsidy Loans (SL)	6	7

Source: Field Survey, November 2024

Interpretation:

The table 8 depicts that the **Kisan Credit Card (KCC)** program has benefited the highest percentage of small businesses (12%), followed by **Mudra Yojana (10%)** and **Subsidy Loans (7%)**. Only 5% have benefited from the **Pradhan Mantri Jan Dhan Yojana (PMJDY)**, while no businesses reported benefiting from the **Stand-Up India Scheme (SUIS)**.

6. SUGGESTIONS

However, as the findings of this study reveal, there are areas of concern that adversely affect the process of financial inclusion. To this effect, the following suggestions are put forward and the researcher hopes



that the implementation of the same will enhance the level of financial inclusion in developing small businesses in the region. Following are the suggestions:

- i. Conduct more targeted workshops, campaigns, and awareness drives in all revenue circles, especially for lesser-known initiatives like the Stand-Up India Scheme and Mudra Yojana.
- ii. Disseminate information about financial services and programs through local media and digital platforms.
- iii. Simplify loan application procedures to address the concerns of 38% of businesses finding the process complex.
- iv. Collaborate with financial institutions to offer more competitive and affordable interest rates for small businesses.
- v. Introduce government-subsidized interest rates for startups and businesses in critical sectors like agriculture and manufacturing.
- vi. Encourage financial institutions to increase the availability of collateral-free loans or credit guarantee schemes to overcome the barriers faced by small businesses lacking sufficient assets.
- vii. Introduce financial literacy programs to help business owners understand and utilize financial tools effectively, such as digital payments, insurance, and overdraft facilities.
- viii. Conduct regular feedback surveys from small businesses to identify barriers and opportunities for improvement in financial services.

7. CONCLUSION

The study provides valuable insights into the current state of financial inclusion and its impact on small business development in Sonitpur district of Assam. The study highlights the positive role of financial inclusion in supporting small business growth and stability. Many businesses have benefited from improved access to financial tools and services, which have enabled them to expand, diversify, and operate more sustainably.

However, challenges persist, such as barriers to credit access and limited awareness of supportive programs, which suggest the need for more targeted efforts to simplify processes, reduce costs, and improve outreach to ensure all businesses can fully benefit from available opportunities.

The concept, nature, causes and findings discussed in this research need not be uniform across the world. There can be variations according to the prevailing economic system, financial structure, spread of financial and other institutions, regulatory framework, etc. India has come a long way on the



road to financial inclusion. Taking hints from the analysis of this research and taking note of various recommendations made, the researcher sees a light shining at the end of the tunnel.

8. LIMITATIONS

The scope of research is confined to the Sonitpur district of Assam, which conclusions may not be broadly generalizable to the entirety of Assam. Furthermore, the reliability of the collected data is inherently linked to the respondents' state of mind during the data collection period, potentially introducing variability in their responses. The small sample size of only 89 small business owners also raises concerns about its representativeness of the overall business population. Lastly, the study exclusively focused on small businesses, thereby excluding micro and medium enterprises from the study.

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