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The Performance of Microfinance Institutions (MFIs) in the Development of Micro Small and Medium Enterprises the Case of Uttar Pradesh, India

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Abstract: The project aims to see the kind of impact that microfinance institutions (MFIs) have on the growth and development of micro small medium enterprises (MSMEs). This paper tries to do the same by surveying 67 MSME owners in Uttar Pradesh in the scope of 6 villages in the Lucknow and Kanpur district namely, amousi, bakkas, hindukhera, Shivli, Shuklaganj, Afjalganj. The respondents were surveyed on various characteristic variables including age, gender etc. and their view towards MFI credit. The analysis was done looking at the post credit impact on factors such as profitability, physical assets, and capital structure. The analysis was done using statistical software Microsoft Excel, Statistical Package for Social Sciences" using cross tabulation and chi square test. As per the Chi Square test, the results showed a positive relationship between MFI credit and the sales revenue, physical assets and capital structure whereas for profitability there exists an insignificant relationship between the profitability and the MFI credit according to the Pearson "s Correlation factor. Hence, it can be concluded that MFI credit has a positive impact on the development and growth of the MSMEs.

I. INTRODUCTION

The objective of this paper is to assess the contribution of Microfinance Institutions (MFIs) in the development of Micro Small and Medium Enterprises (MSMEs). More specifically, it tries to assess using primary data and secondary data whether Micro Finance Institutions have replaced non-regulated sources of finance into assisting newer businesses with their profitability, sales revenue, physical assets and capital structure, while looking at other unregulated sources as Self Help Groups (SHGs).

MSMEs are a rising trend as they are less investment based enterprises which can employ more people. In states like Uttar Pradesh, Bihar, Jharkhand these are aggressively promoted by state governments as they employ a huge chunk of the population. MSMEs usually are based on developing indigenous product which helps also in retaining the cultural products. The Government Ministry of Micro, Medium and Small Enterprises is directly responsible for creating development programs for all MSMEs.

Most of the MSMEs set up within the state suffer from financial dependence due to lack of funds. This leads to them resorting to unregulated sources of finance which demand high interest rates which leads to eventual failure. This problem was assessed by the government into setting up of various Microfinance Institutions that could provide loans at cheaper rates to these MSMEs that lacked the collateral to take these loans from commercial banks.

While the state has multiple Microfinance Institutions, namely Utkarsh Micro Finance Limited, Cashpor Microcredit along with Government bodies like National Bank for Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) the supply of these loans stands lower than the demand as their availability is restricted only to specific regions. Also, plenty private players are working in this space including Agora Microfinance Ltd, Hindustan Microfinance, power microfinance ltd amongst others which is a good sign for the industry.

According to NABARD, Uttar Pradesh today stands as one of the emerging states for Micros which is leading to the increased number of SHGs starting in the area. The governments' National Rural Livelihood Mission (NRLM) plays the most integral role in the setting up of SHGs. This has led to existing MFIs in the area giving more relaxing terms and availability of loans for smaller amounts along with consultancy services as and if required by the entrepreneurs.

II. OBJECTIVES

1. To study the availability of microfinance with regards to the demand of the MSMEs.
2. To understand the impact of Microfinance on the achievement of Profit of Micro-Enterprises.
3. To understand the impact of Microfinance on the capital structure Micro-Enterprises.

III. CONCEPT AND DEFINITION

1. Micro Small and Medium Enterprises (MSMEs)

MSMEs are an emerging form of business enterprise and have seen an increase in their number after the regulation of the Development Commissioner of MSMEs in India. The government is aggressively promoting the setting up of new MSMEs by bringing in newer schemes to assist the financing, set up process for all the upcoming entrepreneurs. According to the MSME board in India, Uttar Pradesh today is on its way to be home to the highest number of micro enterprises with the increase in Micro Finance Options (MFIs, SHGs) for the entrepreneurs.

2. Financial Inclusion

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." In simpler terms, it can be termed as the number of people having access to banking services via a bank account. Today one of the most integral problems for the policy maker is making the schemes reach the poorest. Only when everyone is a part of the financial structure, would the society be able to move towards development.

3. Micro Credit

Microcredit is defined as "the credit facility provided to the needy people with low earning capacity looking to raise small amounts. The borrowers applying for microcredit are those who are unemployed, lack collateral and have a credit history

which is unsound. The loan is mainly granted to help people earn their livelihood, especially, women who currently have no collateral but are willing to start a business of their own.

4. Micro Finance

Micro Finance refers to the whole set of banking services which are available to the lower strata of the economy who cannot avail the services of a normal bank. As per the RBI master circular on micro finance is defined as “A provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards”.

5. Micro Finance Institutions

Micro Finance Institutions(MFIs) pertain to those institutions which provide the whole array of microfinance services acting as an independent entity. The proposed Microfinance Services Regulation Bill defines Microfinance Institutions as “an organisation or association of individuals including the following if it is established for carrying on the business of extending microfinance services.”

6. Self Help Groups (SHGs)

Self-Help Group (SHG) is an association of people who belong to the lower economic background, often being a part of the same village/geographical region. These associations are often made to promote savings and further lending to individuals at the discretion of the members. The SHG promotes small savings among its members. The savings are kept with a bank. In India, SHGs are regulated under National Rural Livelihood Mission (NRLM) of the government.

IV. RESEARCH DESIGN AND METHODOLOGY

The following survey follows a descriptive analysis since it questions phenomenon of truism which are relevant to their life. The following research was found most suitable as it tried to gage the responses of the individuals with the respect of impact of MFIs in the development and growth of MSMEs. For its analysis, the various techniques employed use tabular techniques such as Ratios, Percentages, Frequency Distribution, Crosstab and Chi square. It is done using Statistical Package Social Sciences (SPSS).

Coverage:

The study tries to gage the responses of over 67 MSMEs spread over six villages in the Uttar Pradesh region namely, amousi, bakkas, hindukhera, Shivli, Shuklaganj, Afjalganj in the Districts Lucknow & Kanpur.

Data Collection:

The data has been collected using both primary and secondary sources of data collection. Primary Sources: These include door to door surveys done via a personal interaction with the business owners or their representatives.

Secondary Sources: These include data found on multiple sources online include government sources, journals and reports.

V. DATA ANALYSIS AND FINDINGS

Characteristic Analysis

The project starts its analysis by looking at various individual characteristic and demographics of the people surveyed.

Age of the respondent-There spondents were divided into three divisions namely 18-25years, 26-45years and 46years and above. The results can be seen in that able below as:

Frequency	Percent	Valid Percent	Cumulative Percent
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18 years-25 years	10	14.9	14.9	14.9
26 years-45 years	42	62.7	62.7	77.6
46 years and above	15	22.4	22.4	100.0
Total	67	100.0	100.0	

Interpretation-In our given set of respondents, it is clear that the maximum number of respondents belong to The group of 26-45 year olds i.e. 42(62.7%), followed by 46-year-old and above(22.4%) and finally those in the range of 18-25 years (14.9%).

Gender of the respondent-The genders of the respondent was analysed to know the ratio of MSMEs per their genders. The results can be seen in the table below as:

	Frequency	Percent	Valid Percent	Cumulative Percent
Female	19	28.4	28.4	28.4
Male	48	71.6	71.6	100.0
Total	67	100.0	100.0	

Interpretation-In our given set of respondents, it is clear to see that the number of male MSMEs owners i.e. 48(71.6%) clearly exceeds the number of female owners which stand at a meagre 19(28.4%). This can be pertained to the huge gender divide which can be seen in the villages of Uttar Pradesh and exists even today.

Marital Status-The marital status of all the respondents was assessed from all the MSME owners. The results can be seen in the table below as:

	Frequency	Percent	Valid Percent	Cumulative Percent
Married	52	77.6	77.6	77.6
Single	15	22.4	22.4	100.0
Total	67	100.0	100.0	

Interpretation-In our given set of respondents; it is clear to see that the number of married respondents i.e. 52 (77.6%) exceed the number of Single MSME owners 15 (22.4%).

Type of Business-The businesses of the MSMEs were divided into Manufacturing, Retail, Service and Wholesale to analyse which form of business indulges the most in taking MFI credit. The results can be seen in the table below as:

	Frequency	Percent	Valid Percent	Cumulative Percent
Manufacturing	3	4.5	4.5	4.5
Retail	16	23.9	23.9	28.4
Service	38	56.7	56.7	85.1
Wholesale	10	14.9	14.9	100.0
Total	67	100.0	100.0	

Interpretation: The Service sector has clearly been the largest consumer of the MFI products with 56.7% followed by Retail at 23.9%, Wholesale at 14.9% and finally manufacturing at a meagre 4.5%.

Interaction with Micro finance Credit

After understanding the basic characteristics of the individuals, we now move on to understanding their experience with microfinance instruments.

Status of Credit-The people is divided based on them taking or not taking a Microfinance loan.

	Frequency	Percent	Valid Percent	Cumulative Percent
No	22	32.8	32.8	32.8
Yes	45	67.2	67.2	100.0
Total	67	100.0	100.0	

Interpretation-It is seen that from the given set of people, 45 out of 67 (67.2%) individuals have taken a microfinance loan, while the others have taken no loan.

Credit Rationale-In this part, people who have not taken any loan are asked for the reasons as to why they have not taken the loan to be able to better analyse the demand for these loans. The survey assessed the possible reasons and tabulates the same.

	Frequency	Percent	Valid Percent	Cumulative Percent
Missing	45	67.2	67.2	67.2
Fear of Rejection	4	6.0	6.0	73.1
High Interest Rates	3	4.5	4.5	77.6
Sufficient Funds	Internal 7	10.4	10.4	88.1
Loans taken from SHGs	8	11.9	11.9	100.0
Total	67	100.0	100.0	

Interpretation-Out of the 22 people that chose to not take the MFI credit, around 8 did so because they had already taken loans from SHGs. These coldly biggest reason for the rejection was the sufficiency of internal funds (7 people) followed by the fear of rejection (4 people) and finally 3 (High interest rates). It must be noted that SHGs are an option by people looking for a lower amount in loan.

c) Level of satisfaction of the borrowers of Microfinance-The analysis is made to try and understand if taking Microcredit has turned out to be profitable for the MSME owners. It can be seen in the following table where the comparison is done using a Likert scale.

	Frequency	Percent	Valid Percent	Cumulative Percent
Missing	23	34.3	34.3	34.3
Dissatisfied	6	9.0	9.0	43.3
Highly Dissatisfied	1	1.5	1.5	44.8
Highly Satisfied	9	13.4	13.4	58.2
Neutral	12	17.9	17.9	76.1
Satisfied	16	23.9	23.9	100.0
Total	67	100.0	100.0	

Interpretation- On the Likert scale, most people are satisfied for the Microfinance loan in due time as around 16 people are satisfied with the credit where as 9 individual sure highly satisfied. 12 individuals are seen to have responded with being neutral about the result of their MFI credit. Whereas 6 individuals are seen to be dissatisfied with the MFI credit with 1 individual who is highly dissatisfied with the MFI credit. Overall, we can see most people are satisfied or neutral whereas very few who are dissatisfied with the MFI credit.

Impact of MFIs credit on sales revenue of SMEs-People was asked how has the MFI credit affected their sales revenue. Here, even those individuals who have not taken the credit are included to evaluate their change to that of those who have taken credit.

	Frequency	Percent	Valid Percent	Cumulative Percent
Decrease	9	13.4	13.4	13.4
Increase	34	50.7	50.7	64.2
Stable	24	35.8	35.8	100.0
Total	67	100.0	100.0	

Interpretation- for 34(50.7%) individuals, the sales revenue has seen as pike while for 24 (35.8%) individuals the sales revenue has only stabilised. Whereas 9 (13.4%) individuals have observed decline in their sales revenue.

Impact of MFIs credit on profitability of SMEs-The profitability is assessed for all the individuals to have is native assessment of those who took the loan to those who have not taken any form of MFI loan whatsoever.

	Frequency	Percent	Valid Percent	Cumulative Percent
Decrease	11	16.4	16.4	16.4
Increase	30	44.8	44.8	61.2

Stable	26	38.8	38.8	100.0
Total	67	100.0	100.0	

Interpretation- For 30(44.8%) individuals, the profitability has seen as pike while for 26 (38.8%) individuals the profitability has only stabilised. Whereas 11 (16.4%) individuals have observed decline in their profitability.

Impact of MFIs credit on capital structure of SMEs-The capital structure for all individuals is assessed to see the impact of MFI credit on them.

	Frequency	Percent	Valid Percent	Cumulative Percent
Decrease	9	13.4	13.4	13.4
Increase	19	28.4	28.4	41.8
Stable	39	58.2	58.2	100.0

Interpretation-For 19(28.4%) individuals, the capital structure has seen a spike while for 39(58.2%) individuals the capital structure has only stabilised. Whereas 9 (13.4%) individuals have observed decline in their capital structure.

Impact of MFIs credit of physical assets of SMEs-The physical assets for all individuals is assessed to see the impact of MFI credit on them.

	Frequency	Percent	Valid Percent	Cumulative Percent
Decrease	4	6.0	6.0	6.0
Increase	29	43.3	43.3	49.3
Stable	34	50.7	50.7	100.0
Total	67	100.0	100.0	

Interpretation- For 29(43.3%) individuals, the physical assets have seen a spike while for 34(50.7%) individuals the physical assets have only stabilised. Whereas 4 (6.0%) individuals have observed decline in their physical assets.

Chi-Square Test

Now, to analyse the impact of taking MFI on variables of profitability, sales revenue, physical assets and capital structure using Chi Square analysis. The hypothesis for the same is seen as:

Testing of Hypothesis-

H0a: Increase in Sales Revenue is independent of MFI Credit

H1a: Increase in Sales Revenue is dependent of MFI Credit

H0b: Increase in Profitability is independent of MFI Credit

H1b: Increase in Profitability is dependent of MFI Credit

H0c: Increase in Capital Structure is independent of MFI Credit

H1c: Increase in Capital Structure is dependent of MFI Credit

H0d: Increase in Physical Assets is independent of MFI Credit

H1d: Increase in Physical Assets is dependent of MFI Credit

Chi Square	Dependent Variables			
	Increase in Profit	Increase in Physical Assets	Increase in Capital Structure	
Value	7.313	2.872	12.995	13.751
Df	2	2	2	0.026
Asymp. Sig. (2-sided)	0.026	0.238	0.002	0.001

Interpretation-The Pearson Chi-Square value for the increase in sales, increase in physical assets and increase in capital

structure is .026, .002 and .001 respectively and it is less than α which is 0.05, so we reject H_0 but for the increase in profitability hypothesis the Pearson Chi-square value is 0.238, which is greater than α so we accept the null hypothesis. The above table indicates that there is significant association between increase in sales, capital structure and physical assets and microcredit at a level of significant 5% ($P \leq 0.05$). But profitability had insignificant association with the micro credit at a level of 5%. This implies that increases on profitability might be caused by other variables out of credits. Although, it is not necessary always that credit will lead to increase in profitability. Thus, it can be concluded that the increase in sales, capital structure and physical assets are all dependent on Micro finance but profitability is independent of Microfinance credit/loan.

VI. CONCLUSION

Statistically, there seems enough evidence to prove that Micro-Enterprises that received loan from Microfinance Institutions succeeded than those that did not receive. The study concludes that accessibility to the products offered by Microfinance Institutions affects financial performance of Micro -Enterprises positively.

Additionally, it was also seen that SHGs or Self Help Groups though are only seen as a limited tool in providing Microfinance options; they are on their way to be an option of microfinance. It was seen that most SHGs were pro investment in the female enterprises which required an inherently low investment.

Limitations

The research right now gages only a set of 67 respondents from the eastern Uttar Pradesh region while leaving a huge set of SME owners out of the scope of its analysis. Also, the literature lack proper analysis of the reasons why Microfinance has been successful and how the qualitative reasons which effect the situation.

Future Scope

Currently, the only literature available of MSMEs is outdated and is found from the 2006 census report making it unusable for any analysis. Secondly, the research must assess more on the qualitative aspects of how MSMEs act towards using their credit towards businesses. Thirdly, emphasis must be paid on the growth of SHGs and how they can move into the lending scenario from being a mere tool to promote savings.

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