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# The Role Of Microfinance In Growth Of Small Scale Enterprise

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## Abstract

India is one of the developing nation and most of the economic activities are governed by agriculture and related activities. In the rural areas of the country education, literacy, poverty, unemployment and other fallacies are spreading their hand and deteriorating the health, hygiene and living hood of the people living in. Micro finances are one of the ways to save the cause, but still rural people are not very much connected to such initiative of the state and central government; they are still facing problems in getting fully acquainted the said avenues of micro finance. This present study evaluates the role of micro finances in developing the small enterprises in the state. This study is a blend of primary and secondary data. MS-Excel is used as a platform to analyze the data.

**Keywords:** Micro Finance, Small enterprise, rural entrepreneur.

## Introduction

Just after India got independence, the respective government was keen to deploy the policies of socialist nature and even got to do so, the country has taken these polices open handed and as a matter of fact these policies were having great influence on the growth of informal business sector and even the micro-enterprise of the country. This policy framework has provided the entrepreneurs with courage and support to develop their business freely and confidently. The expression or the term of micro-finance became popular in the period of late 70s' when the public sector, cooperative and grameen banks became the torch bearer of the movement. Since then NABARD idealized the process and the initiated the system of micro-finance in the country. Then on the other hand SHGs', NGOs', and other related agencies joined hands along with other progressive groups to support the small scale enterprises in the rural and semi urban vicinity of the country.

India is a developing country and as a matter of fact more than 50% of the population resides in rural areas, also this 50% population is dependent on agriculture and related activities. Poverty and unemployment are the major problems in the rural and semi-urban areas of the country; hence the demand of micro-finance is increasing and the same never ending in the said areas. As per the belief of financial institution of the country, if small loans are provided

to people with low income then this may help them for a while but then again there will be no sustainable future for them and even this cannot be considered as profitable activity, as stated in the report from **ILO (2013)** more than 65% of the small entrepreneurs are dependent on own savings/capital for starting small business, on the other hand 32% of the people try to get assistance from micro-finance institutions, then other 3%-4% of the people use to get the same from their friends and relatives or even get the money from nearby money lenders. So it can be stated that this limited access of people to official sources of micro-financing restrained the growth of small enterprise in the country.

In other words it can be stated that shortage of capital is one of the barrier in the socio-economic development and even success of the micro and small business in the country. **ILO (1998;2003;2014)** as a matter of fact the size of business ought to be small and the respective lack of resources may lead to dearth of opportunities of growth and employment. In a way it can be stated that the small and micro business need sources of finance (micro-finance) to start, grow and nurture their business.

### **Background of Micro-Finance**

As stated by **Robinson (1998)**:

“Microfinance refers to small scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or micro enterprise where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas.”

Micro-finance can be considered as a provision of various services in the form of deposits, loans, and payment related services, insurances, etc. to those people that are in need of starting their own enterprise (micro and small business) and improve their standard of income and living hood. Some of the principles related microfinance are:

- Entrepreneurs from rural and semi-urban areas need proper financial support from appropriate financial institution,
- Most of the poor and backward entrepreneurs will be capable enough to repay the loan amount in near future,
- If the said cost of capital is paid then the overall system is supposed to generate profits as well as savings.

**Gallord et al (2013)** stated that the overall system of micro-finance can be considered as an effective tool for poverty alleviation and employment generation.

### **Role of Micro-finance**

Various microfinance institutions are supposed to support the micro entrepreneurs that are having the potential to start a new business and other set of entrepreneurs who are already in business and want to expand or diversify their business. These finances are given from various sources and avenues like rural banks, NGOs' and other related sources. In the name of micro-finance there are two types of related services i.e. financial services and non-financial services. Here the financial services refer to savings, micro credits, insurances, etc. on the other hand the non-financial services refer to services like training activities, education facility, health and hygiene and even counseling. The most valued outcome from the development of small and micro business can be attained in the form of increased employment opportunities, poverty elevation and even capital formation. **Bradford (2014)**.

- SHGs are supposed to help in developing the self sustainability of finances among the poor people in turn their savings and income levels will be increased.
- Micro finance is supposed to foster and develop the official credit culture in the rural areas and raise the level of business activities.
- In a manner the microfinance activities are supposed to help in empowerment of women entrepreneur, here the maximum support is to be provided from the side of SHGs' i.e. they will support the women on social and economical grounds.
- By the way of training and education skills of the said entrepreneurs will be enhanced and they will be able to handle the business related activities in more effective and efficient manner.

## **Literature Review**

**Bedson (2015)** the researcher posed a study report based on the trends of microfinance in Asia, the study also focuses on the NPAs' as generated for the microfinance institutions. The report suggested that safeguarding the interest of debtors is more important and there should be flexible policies for repayment of the loan distributed. The report also stated that the entry level eligibility of the applicants cannot be too harsh rather background check and promoters information should be furnished properly; also the events of corruptions should also be curbed from the overall process.

**Ogden et al (2017)** this study was based on stating the difference between individual credit and group credit activities, the findings of the study stated that there is some amount of strategic variation in between the two processes. The study was based on the secondary data, it also stated that the advent of technology in the lending process has made the same easy but then again there is some gap between the knowledge of creditors and debtors. Efforts should be made to fill the gap and make the process more reliable and transparent.

**Patoliya et al (2018)** the authors produced a book on various linkages between the availability of microfinance and the said aspirants who are willing take the advantage of the same and start a new life. This book is just like a guide to the respective aspirants and other

related stakeholders. The conclusions drawn stated that proper education, training and related activities should make the overall system more strong and maximum of the benefits may be drawn from the same. Specially in the rural areas such activities are more important as they do not know much about the process and approach the local moneylenders for acquiring money, which is available at high rate of interest and finally does not cause any good to the aspirants.

**Karel et al (2019)** the authors proposed a research paper based on the SWOT analysis of micro financing in the country, especially in the rural and semi urban areas. The paper studied the overall process of the money lending, interest rates, eligibility to get loans, sources, training process and other related avenues. The findings of the study stated that this process of micro financing has gained more advantage after the drive of financial inclusion in the country i.e. the people have learned that the whole system is running for their benefit and there is no harm in acquiring money from the said agencies.

**Chmler et al (2020)** stated that in the present scenario many of the micro and small enterprises are conscious enough in their own domain to acquire credit from different government agencies and financial institutions, also in many of the cases people are taking the help of money lenders in open market and paying high rate of interest; this is because of the reason that they use to get the money easily and repayments are on their own terms. Such practices should be curbed and more awareness programs should be run for the betterment of the process.

### **Objective of the Study**

The main objective of this present study is to evaluate the role of microfinance in development of small and micro enterprises in the selected region, also the researcher would try to find the ways and means to make the process more easy and flawless.

### **Hypothesis**

H<sub>0</sub>: There is a significant role of microfinance in the development of micro enterprises.

H<sub>1</sub>: There is a significant role of microfinance in the development of micro enterprises.

### **Research Methodology**

#### **Population and sample selection**

The researcher had tried to keep the track of both the primary and secondary data for the sake of this present study, the main focus was on the data acquired from the secondary sources related to the growth of micro finance institutions, especially in the state of Rajasthan.

On the other hand the researcher has taken a small sample of 100 respondents that have acquired credit from one or the other sources available in the selected area.

### **Sources of Data**

As far as secondary data is concerned, the researcher has considered the following sources:

- Statistical Handbook of Rajasthan (2015-2020)
- Reports available on the website of RBI (MFIs in India)
- Reports available on the website of NABARD along with the regulatory framework

### **Tools of Analysis**

The researcher has considered the basic statistical tools to analyze the data like Percentage, average, etc. and prepared charts on the secondary data collected from various sources. MS-Excel is being used as a platform for analyzing data.

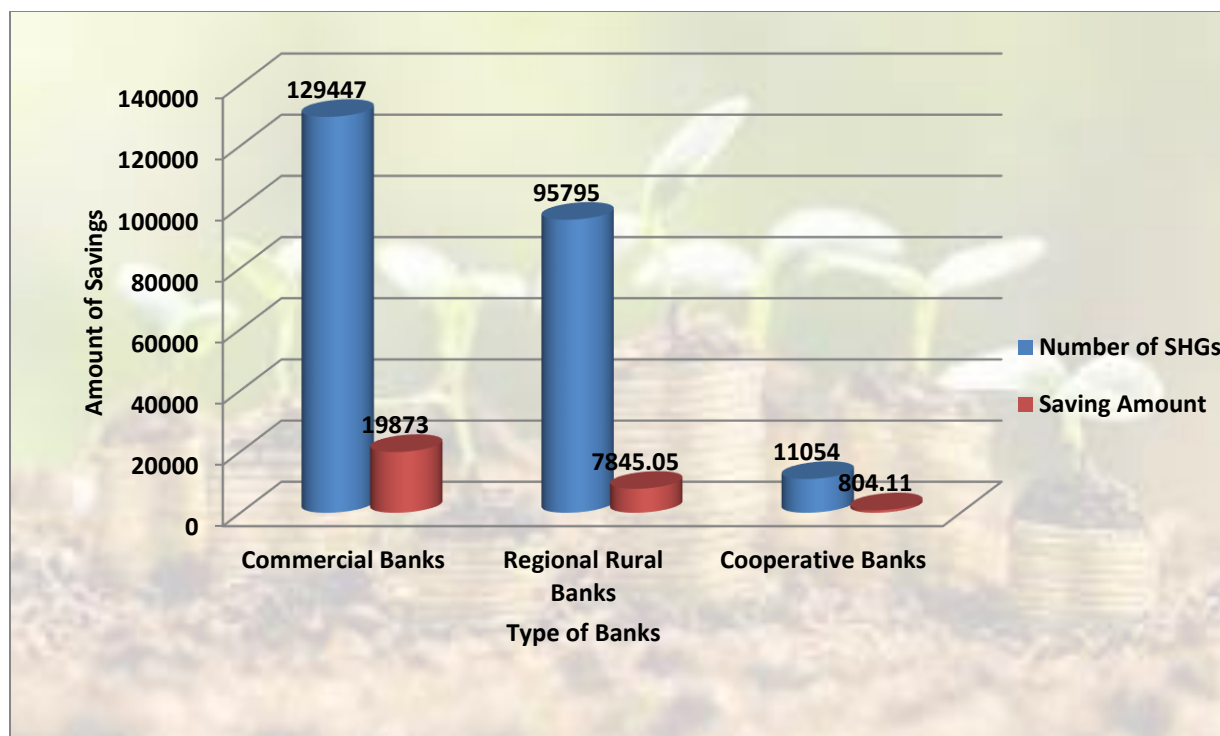
### **Data Analysis and Interpretation**

**Table 1: Savings at the level of SHGs (in Lakhs)**

| <b>Commercial Banks</b> |                      | <b>Regional Rural Banks</b> |                      | <b>Cooperative Banks</b> |                      |
|-------------------------|----------------------|-----------------------------|----------------------|--------------------------|----------------------|
| <b>Number of SHGs</b>   | <b>Saving Amount</b> | <b>Number of SHGs</b>       | <b>Saving Amount</b> | <b>Number of SHGs</b>    | <b>Saving Amount</b> |
| 129447                  | 19873                | 95795                       | 7845.05              | 11054                    | 804.11               |

### **Interpretation**

As can be seen from the above table that the commercial banks were on top as far as savings are concerned then second comes the regional rural banks followed by the cooperative banks, on the basis of above data it can be stated that people had given preference to the commercial banks; here it is important to mention that most of the respondents were from semi-rural areas and this may be the reason that they preferred commercial banks for the purpose. Most of the respondents from rural areas use to prefer the regional rural bank and cooperative banks. In case of commercial banks ICICI topped the list and Jila Sehkari Banks in different districts solve the purpose.



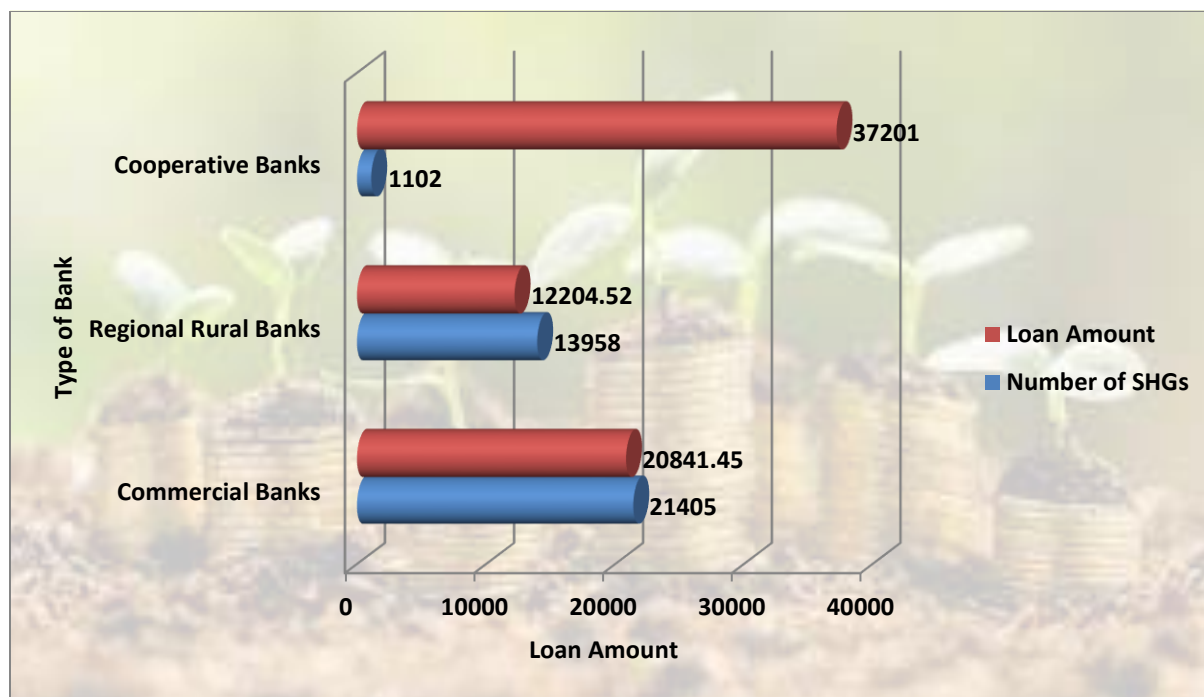
**Figure 1: Savings at the level of SHGs (in Lakhs)**

**Table 2: Distributed Bank Loans (in Lakhs)**

| Commercial Banks |             | Regional Rural Banks |             | Cooperative Banks |             |
|------------------|-------------|----------------------|-------------|-------------------|-------------|
| Number of SHGs   | Loan Amount | Number of SHGs       | Loan Amount | Number of SHGs    | Loan Amount |
| 21405            | 20841.45    | 13958                | 12204.52    | 204               | 37201       |

### Interpretation

In case of Rajasthan, as far as micro finance is concerned, it is lacking in case of micro financing as compared to other North Indian states like UP, Delhi, Madhya Pradesh, etc. in such a scenario agencies like NABARD are going to save the day by promoting right kind of policy framework and running awareness programs. This is a truth that regional rural banks are taking all the care of distributing loans to micro entrepreneurs in the vicinity but then again as compared to commercial and other types of banks the value is less. Here it is important to mention and Union Bank of India is the most preferred bank in case of commercial banks.



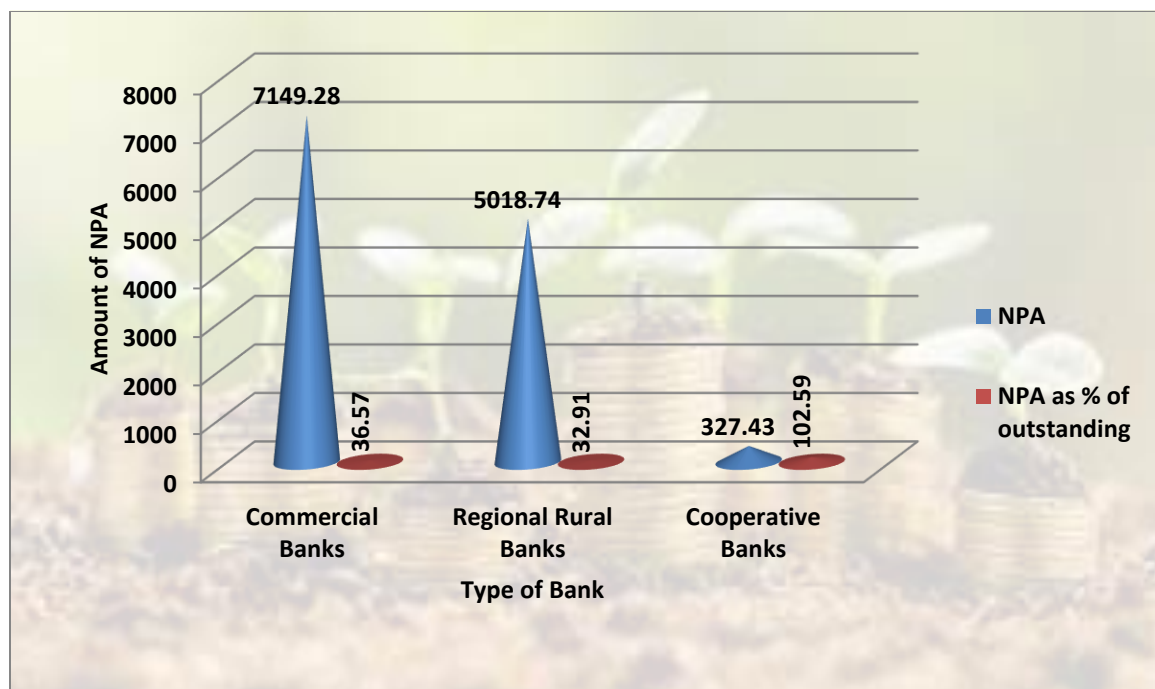
**Figure2: Distributed Bank Loans (in Lakhs)**

**Table 3: Non Performing Assets (in Lakhs)**

| Commercial Banks |                         | Regional Rural Banks |                         | Cooperative Banks |                         |
|------------------|-------------------------|----------------------|-------------------------|-------------------|-------------------------|
| NPA              | NPA as % of outstanding | NPA                  | NPA as % of outstanding | NPA               | NPA as % of outstanding |
| 7149.28          | 36.57                   | 5018.74              | 32.91                   | 327.43            | 102.59                  |

### Interpretation

As it is visible from the above given table that highest amount of NPAs are generated from Commercial banks and specifically in public sector, the reason for the same can be the reach of such banks are regional and rural level and their role in the drive of financial inclusion. As per the norms of RBI, the NPAs for any given bank should be below 3% of total loan outstanding but in MP this rate is higher than expected. If we consider the regional rural banks then Central M.P. Gramin Bank is showing the highest percentage of NPAs and JilaSahkari Bank, Jhabua is at the second level of NPAs.



**Figure 3: Non Performing Assets (in Lakhs)**

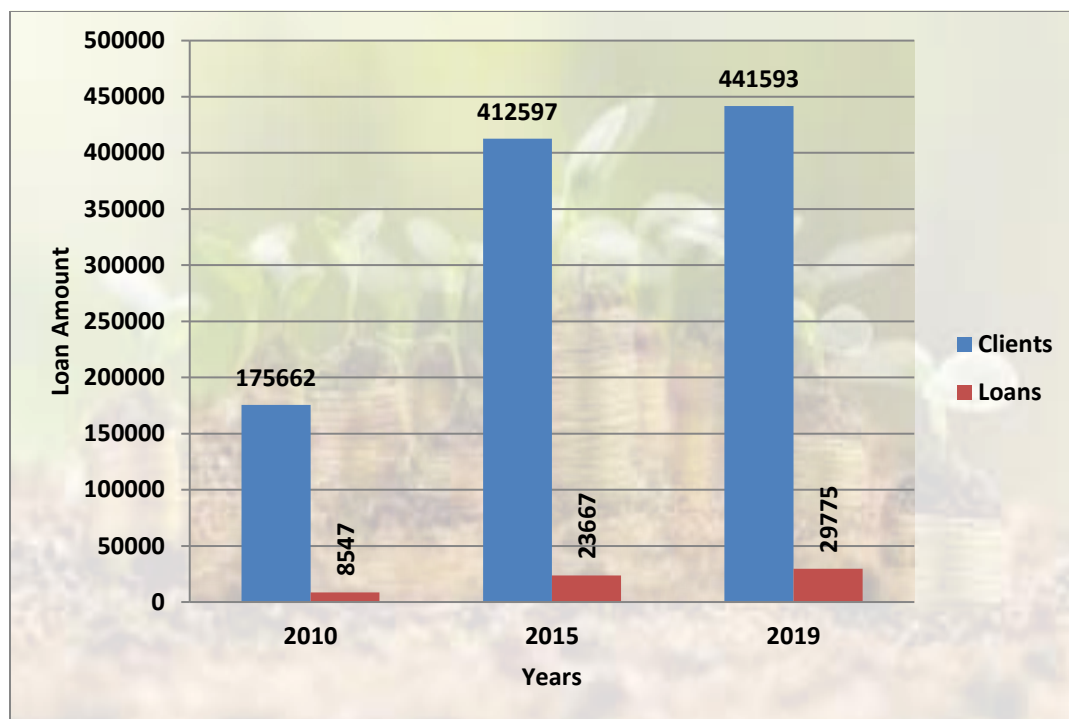
**Table 4: Performance of MFIs in Madhya Pradesh**

| 2010    |       | 2015    |       | 2019    |       |
|---------|-------|---------|-------|---------|-------|
| Clients | Loans | Clients | Loans | Clients | Loans |
| 175662  | 8547  | 412597  | 23667 | 441593  | 29775 |

### Interpretation

The state of Rajasthan is basically indulged in the activities related to business and in such a scenario MFIs are going to take the stride in its own way, and the same is visible from the above table and chart as well. The results show that all the related agencies are making great efforts to join hand with local people and proving them with all the assistance required, as far as small loans are concerned. The above said data stated that there is a vital growth in the avenues of disbursing loan but then again the number of clients are decreasing with every passing year, this means that people are finding other avenues for taking loans like local moneylenders, etc. respective steps should be taken to spread the awareness about the benefits of taking credits from government agencies. .





**Figure 4: Performance of MFIs in Rajasthan**

## Result

On the basis of above given analysis and interpretation it can be stated that the microfinance institutions are playing a major role in the development of entrepreneurs at small levels, hence the null hypothesis is accepted and the alternate hypothesis is rejected.

## Conclusion

In case of Rajasthan, there is a severe need of avenues like Microfinance as because this will certainly provide boost to the small entrepreneurs at the rural level and even the aspirants from the semi rural and semi urban areas of the state. As a matter of fact the stride of agriculture is not covering the whole state and business is one of the activities that is providing support to the economic development of the state, hence in the present scenario credits and finances are going to support the cause. This is going to help in two ways, on one had it will provide assistance to the new and willing entrepreneur and on the other hand it will support the existing businesses of the state. SHGs', cooperatives, NGOs', etc. are working in this regards and spreading awareness about the benefits coming in by taking the financial assistance from government agencies and fallacies of taking credits from local money lenders and other illegal avenues. The distribution of credits is one thing, but then again NPAs are also increasing in the region, although the level of NPA is in regard to amount and number of loans taken from the respective banks i.e. RRB, Commercial bank and cooperative

banks. Central Bank of India, Union Bank of India and ICICI are the most preferred bank in this regard.

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