

# A Study on Role of Microfinance Institutions in the Development of Small-Scale Sectors

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## ABSTRACT

Microfinance is an activity that provides financial assistance to unemployed or individuals and groups as a whole. This study investigated the contribution of microfinance banks to the development of small-scale sectors. This was done because small scale enterprises have been known to play an important role in the development of any country. The key objective of the study was to identify various challenges faced by MSMEs in the sourcing of finance during different stages of their life cycle. The deprived use these loans in a productive manner to create their businesses, assets of their own and get rid of poverty once and for all. Microfinance is becoming a significant buzzword in India. Remarkable progress has been made during the last two decades in innovating techniques to deliver financial services to the poor on a sustainable basis. These loans are aimed at empowering the impoverished people to start their own businesses and to grow their money so that they can achieve long-term financial independence and develop sustainably. Economic growth, sustainable development, and poverty alleviation can be achieved effectively with the help of an instrument like Microfinance. This will focus on suggestive measures for the growth of microfinance in the Indian context for sustainable development.

**Keywords:** Microfinance; Small scale sectors development

### 1. Introduction:

In this modern age of development and technology, small businesses play a large role. Financing such businesses remains a critical factor. Especially in developing countries, it plays a very crucial role in the areas where the financial services are not there. Microfinance's key goal is to help the poor become self-reliant, active participants in the growth of the national economy. Microfinance offering micro-credit also offers other services like insurance, investment, etc.

The microfinance movement started in the late 1970s with Dr. Muhammad Yunus' work in Bangladesh. It spread rapidly to other developing countries because of its unique characteristics. This is mainly intended to serve small-scale manufacturers, small-scale merchants, and entrepreneurs. The micro-enterprises market has been seen as one of the world's main pillars of economic growth. The feature of this is low investment and less operational cost. The role of micro-enterprises is commendable because it funds grass root business, industrial and service community as a whole, Small and medium-sized enterprises (SMEs) thereby creating job opportunities and income generation in many developing economies like India.

### Micro-credit

Credit is one of the economic development's key inputs. Its

easy availability at the right quantity and at an affordable cost is paramount in contributing to people's well-being, especially in the lower rungs of society. Microcredit programs provide small loans to self-employment projects that generate income and livelihood to very poor people.

### Microfinance

Microfinance is a supply to the needy of loans and other financial services. Because of its ability to promote self-employment, it has become influential in helping to alleviate poverty and provide social security. "India has developed its own models of microfinance best suited for Indian rural economy form of bank-linked savings and credit groups called "Self Help Group" (SHGs)". Such SHGs are developed and operated overwhelmingly by women, and this has become a resource that has contributed to empowerment and social change for women.

### 2. Statement of the Problem:

The majority of poor people in the world don't have access to basic financial services which are helpful in managing their assets and create income. To overcome their poverty, they need access to borrowing, saving and investment. Microfinance is one of the main ways to combat poverty in rural areas, where most of the world's poorest people live. This offers investments; insurance, deposits and other financial services that are available to the vulnerable Poor

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people can fulfill their need for small loans and save their savings through microfinance institutions (MFIs), such as financial NGOs, commercial banks, and even credit unions.

In the development of a country like India, financial institutions like government banks, commercial banks, credit bureaus and so on which lends microfinance at a high rate of interest and these financial institutions have intensive marketing facilities only for a few who have been accessing them. Hence there is poor accessibility of credit facilities.

**Need for the Study**

In the sense of the need for credit to grow small-scale sectors and knowing The value of institutions for microfinance, an attempt was made to research the role of microfinance institutions in small-scale sector growth and development.

**3. Objective of the study:**

1. Research Micro-Enterprises' hopes and difficulties in receiving the assets.
2. Determine the role of MFIs in the growth of micro enterprises
3. Understanding the effect of microfinance on micro-enterprise revenue achievement.
4. Understanding the impact of microfinance on micro-enterprise profit achievement.
5. To understand Microfinance's impact on the achievement of Micro-Enterprises Physical Assets.
6. Examine the effects of the services on small business growth

Research Design: The sample size considered for the study is 100 Small scale sectors

A structured interview schedule is prepared and used in collecting data from the members of Small-scale sectors. Percentage analysis is used to analyze the data.

The study is descriptive in nature and is based on both primary and secondary data.

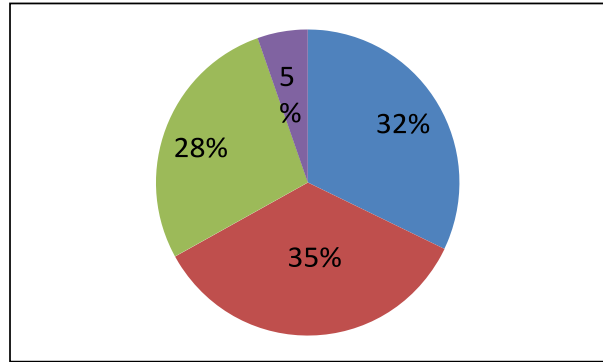
Primary data is collected through the survey method in the form of a structured questionnaire filled by the Small-scale sector beneficiaries of microfinance. Secondary data is collected from various journals, articles, books, etc.

**4. Data Analysis and Interpretation**

**Table 1.1: Age group of the respondents**

Age Group	Number of Respondents	Percentage
18-25	36	32%

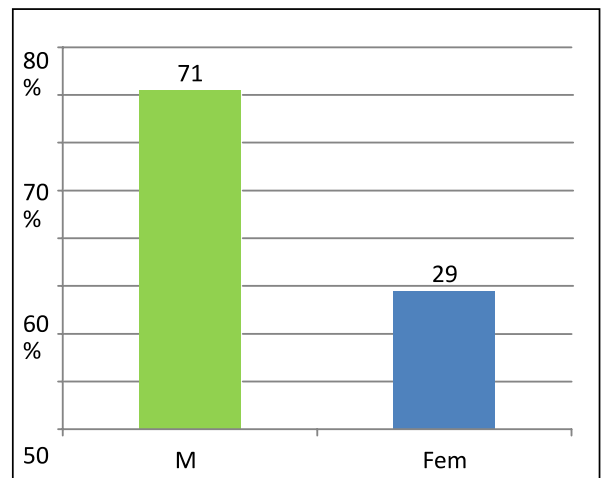
26-30	39	35%
31-40	31	28%
41-50	6	5%
Above 60	-	0%
Total	112	100%



**Analysis:** From the above table and graph, it can be seen that 32% of the opinions are in the age group of 18-25, 35% of the respondents are in 26-30 age group, 28% of them are in 31-40 age group, 5% of the respondents are between 41-50 age group and 0% of the respondents are above 60.

**Table 1.2: Gender of Respondents**

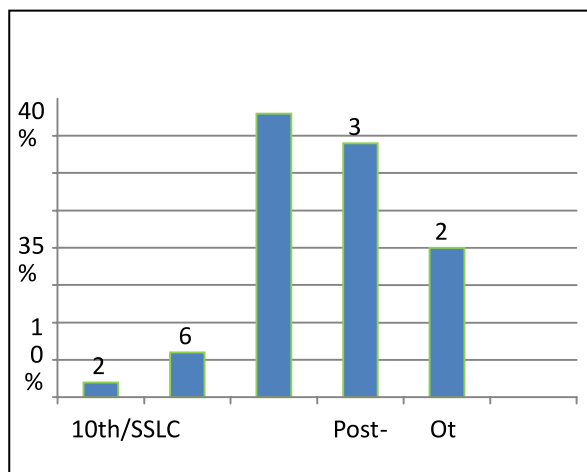
Gender	Number of Respondents	Percentage
Male	80	71%
Female	32	29%
Total	112	100%



**Analysis:** From the above table, it can be seen that 71% of respondents are male, 29% of respondents are female.

**Table 1.3: Education level of the respondents**

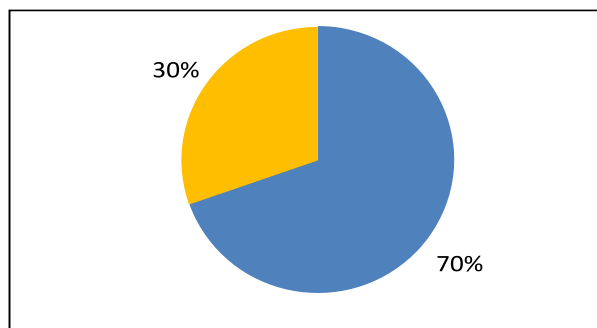
Education	Number of Respondents	Percentage
10th/SSLC	2	2%
12th/PUC	7	6%
Graduation	42	38%
Post-graduation	39	34%
Other	22	20%
Total	112	100%



Analysis: From the above, it can be seen that 2% of the respondents are with education qualification of 10th/SSLC, 6% of respondents are with education qualification of 12th/PUC, 38% of respondents are with education qualification of Graduation, 34% of respondents are with education qualification of Post-graduation, 20% of respondents are with education qualification other.

**Table 1.4: Marital status of the respondents**

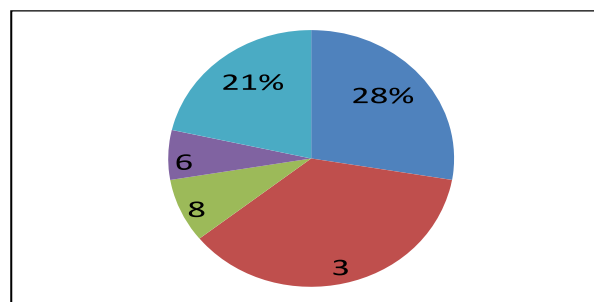
Marital Status	Number of Respondents	Percentage
Single	78	70%
Married	34	30%
Total	100	100%



Analysis: It can be seen from the above table and graph, that 70% of respondents are single and 30% are married.

**Table 1.5: Occupation level of the respondents**

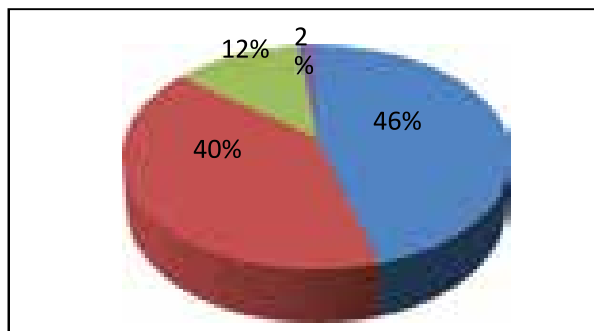
Occupation	Number of Respondents	Percentage
Student	31	28%
Self-employed	41	37%
Business	9	8%
Government employee	7	6%
Private employee	24	21%
Total	112	100%



Analysis: From the above, it can be seen that 28% of the respondents are students, 37% of respondents are self-employed, 8% of respondents are business, 6% of respondents are Government employee and 21% of respondents are Private employees.

**Table 1.6: Annual income level of the respondents**

Annual income	Number of Respondents	Percentage
Below 2,00,000	51	46%
2,00,001-5,00,000	45	40%
5,00,001-10,00,000	14	12%
More than 10,00,001	2	2%
Total	122	100%

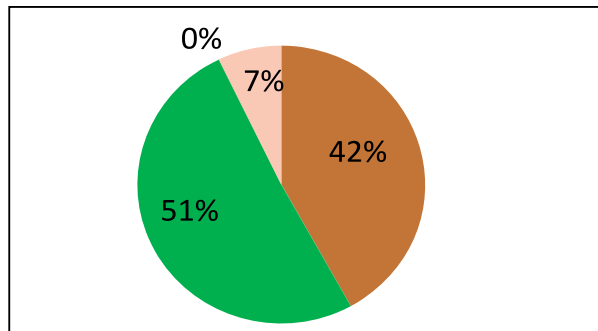


**Analysis:** From the above table, it can be seen that 46% of the respondent's yearly income below 2,00,000, 40% of respondent's yearly income is between 2,00,001-5,00,000, 12% of respondent's yearly income is between 5,00,001-10,00,000 and 2% of respondent yearly income is more than 10,00,000

**Microfinance Bank Contribution Towards SSI Development:**

**Table 1.7: Respondents from the microfinance bank have made any contribution to the improvement of small-scale businesses,**

	Number of Respondents	Percentage
Strongly Agree	47	42%
Agree	57	51%
Strongly disagree	0	0%
Disagree	8	7%
Total	112	100%

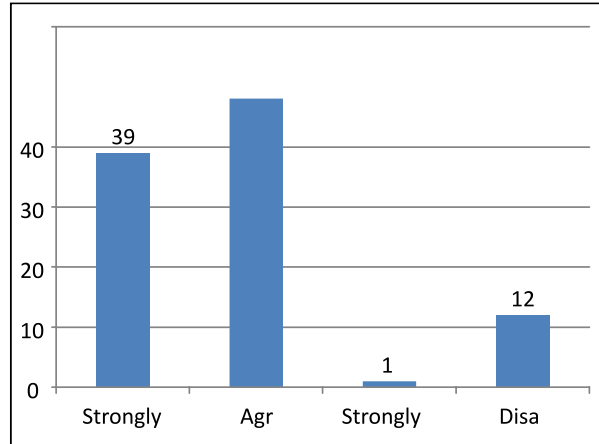


**Analysis:** From the above table 1.7 it can be seen that 42% of the respondents strongly agree that microfinance banks have made contributions in improving small scale businesses and 51% of the respondents agree with the same whereas, 7% of the respondents disagree.

**Achievements of Microfinance Banks:**

**Table 1.8: Microfinance banks have achieved the purpose for the establishment.**

	Number of Respondents	Percentage
Strongly Agree	44	39%
Agree	54	48%
Strongly disagree	1	1%
Disagree	13	12%
Total	112	100%

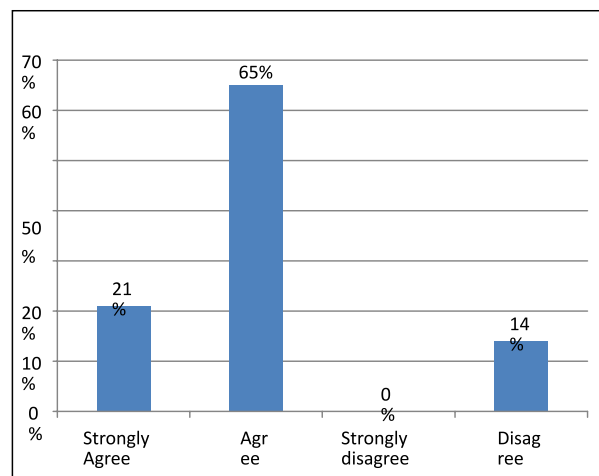


**Analysis:** From the above table it can be seen that 39% of the respondents are strongly agreeing, 48% of the respondents are agreeing that the microfinance bank has achieved the purpose for the establishment whereas 1% of the respondents are strongly disagreed and 12% of the respondents disagree.

**Credit Facility of Micro Finance Banks:**

**Table 1.9: Microfinance institutions have adequate credit facilities to meet their demand.**

	Number of Respondents	Percentage
Strongly Agree	23	21%
Agree	73	65%
Strongly disagree	0	0%
Disagree	16	14%
Total	120	100%

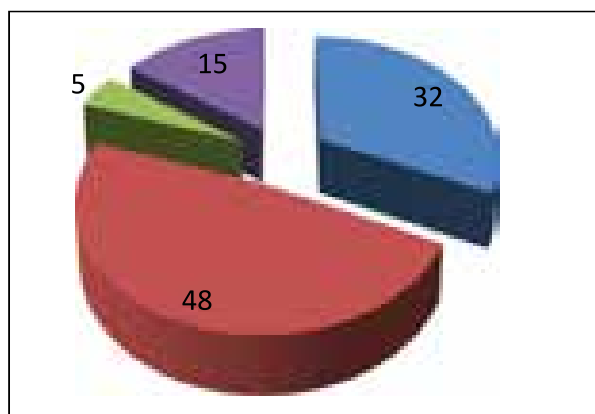


Analysis: From the data collection it was observed that, out of 122 respondents seen that 23 of the respondents are strongly agreeing, 73 of the respondents are agreed for the Microfinance institutions have adequate credit facilities to meet their demand, 0 of the respondents are strongly disagreed and 16 of the respondents have disagreed.

**Service Satisfaction:**

**Table 1.10: The response rate of small business to their service is satisfactory.**

	Number of Respondents	Percentage
Strongly Agree	36	32%
Agree	54	48%
Strongly disagree	5	5%
Disagree	17	15%
Total	112	100%

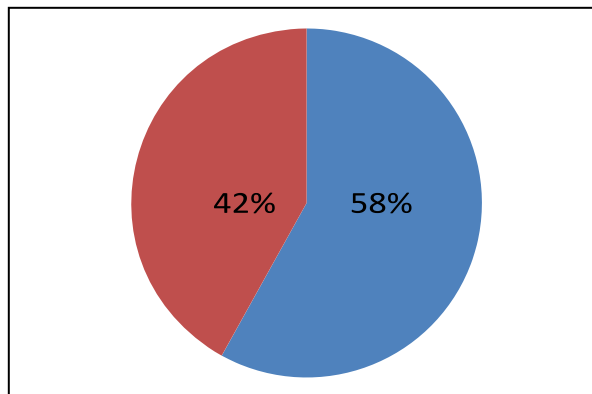


Analysis: From the above table 1.10 it can be seen that 32% of the respondents are strongly agreeing, 48% of the respondents are agreed for the small business to microfinance service is satisfactory, 4% of the respondents are strongly disagreed and 15% of the respondents have disagreed.

**Problems in Small Scale Sectors:**

**Table 1.11: Problem faced while communicating with small scale sectors.**

	Number of Respondents	Percentage
Yes	65	58%
No	47	42%
Total	112	100%

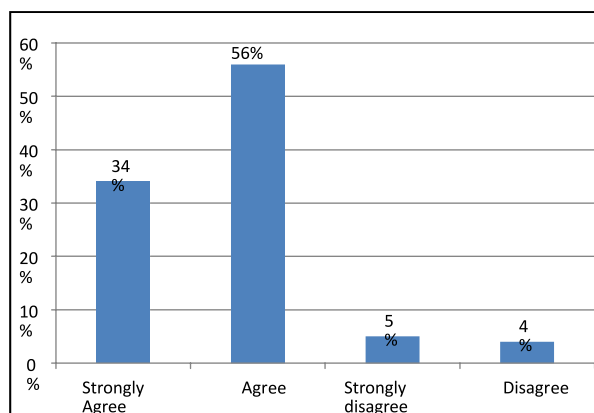


Analysis: From the above table 1.11 it can be seen that 58% of the respondents are faced problems while communicate with small scale sectors , 42% of the respondents are not facing any problem while communicating with small scale sectors.

**Application of Loan:**

**Table 1.12: Small businesses are making good use the loan given to them.**

	Number of Respondents	Percentage
Strongly Agree	38	34%
Agree	63	56%
Strongly disagree	6	5%
Disagree	5	4%
Total	112	100%

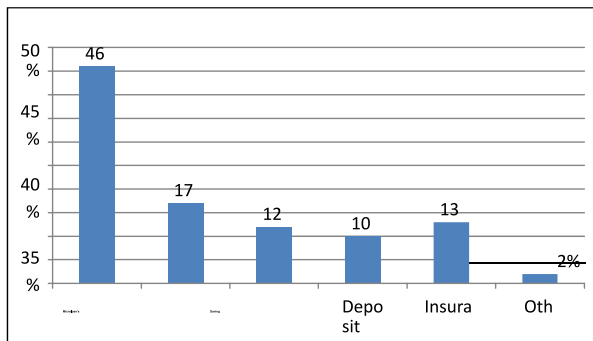


Analysis: From the above table it can be inferred that 34% of the respondents are strongly agree, 56% of the respondents are agree for the Small businesses are making good use the loan given to them , 5% of the respondents are strongly disagree and 4% of the respondents are disagree.

**Help Derived from Product of Microfinance:**

**Table 1.13: Product of microfinance that helped small business.**

	Number of Respondents	Percentage
Micro loan's	52	46%
Saving	19	17%
Payment service	14	12%
Deposit product	11	10%
Insurance	14	13%
Other	2	2%
Total	112	100%

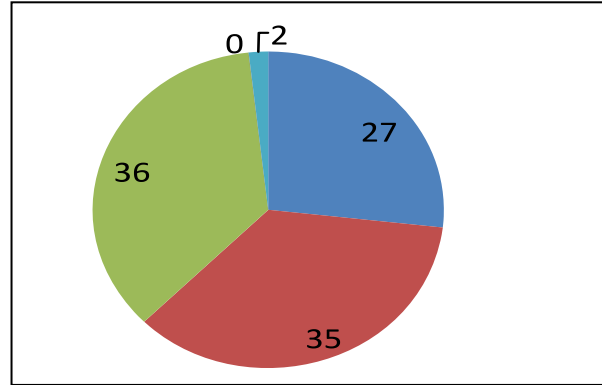


**Analysis:** From the above table no 1.13 it can be seen that 46% the respondents are micro loans helped small business, 17% of the respondents are saving, 12% of the respondents are Payment service, 10% of the respondents are deposit product ,12% of the respondents are Insurance and 2% of the respondents are other.

**Need to use Microfinance:**

**Table 1.14: Reason for small business avail service from microfinance.**

	Number of Respondents	Percentage
Easy to access service	30	27%
Convenient	39	35%
Low interest rate	41	36%
Area of availability	0	0%
Other	2	2%
Total	112	100%

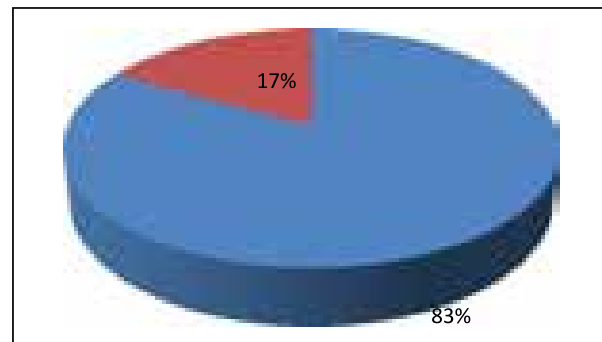


**Analysis:** From the above table, it can be seen that 27% of the respondents are small business avail service from microfinance, 35% of the respondents are convenient, 36% of the respondents are avail service from microfinance for low interest rate, 0% of the respondents are area of availability and 2% of the respondents are other.

**Training Services to Customers:**

**Table 1.15: Microfinance banks to continue offering the training services they offer in their area.**

	Number of Respondents	Percentage
Yes	93	83%
No	19	17%
Total	112	100%

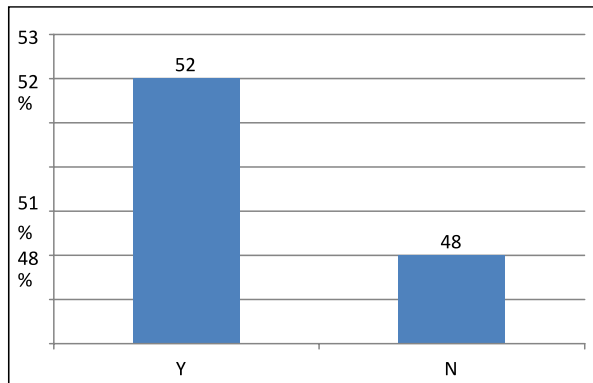


**Analysis:** From the above table it can be inferred that 83% of the respondents are like microfinance bank to continue offering the training services in their area and 17% of the respondents do not like microfinance bank to offering the training service in their area.

**Use of Microfinance for Investment:**

**Table 1.16: The services of the microfinance banks in their small scale investments other than credit loans.**

	Number of Respondents	Percentage
Yes	58	52%
No	54	48%
Total	122	100%

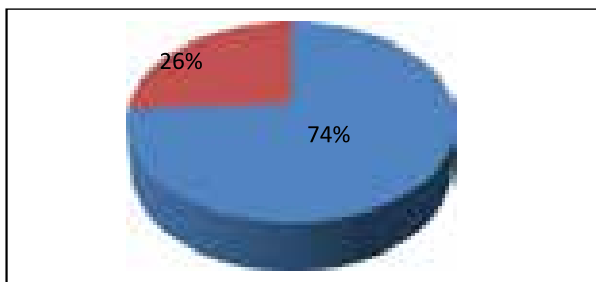


**Analysis:** From the above table no 1.16 it can be seen that 52% of the respondents are sought the services of microfinance banks in small scale investments, 48% of the respondents are

**Use of Loan for Financing Business:**

**Table 1.17: Taken a microfinance loan to finance their business.**

	Number of Respondents	Percentage
Yes	83	74%
No	29	26%
Total	112	100%

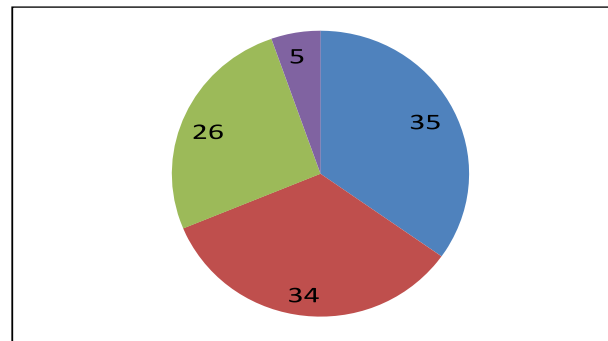


**Analysis:** From the above table 1.17 it can be seen that 74% of the respondents are taken a microfinance loan to finance their business, 26% of the respondents are not taken a microfinance loan to finance their business.

**Purpose of Micro Credit:**

**Table 1.18: The main purpose for the micro credit.**

	Number of Respondents	Percentage
Modernization	39	35%
Entering new market	38	34%
Expansion	29	26%
Working capital	6	5%
Total	112	100%

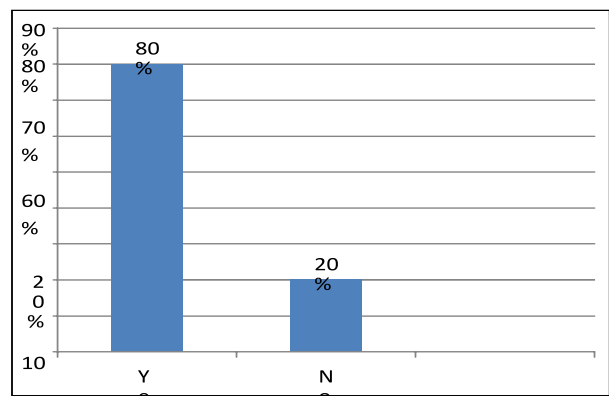


**Analysis:** From the above table no 1.18 it can be seen that 35% of the respondents are taken micro credit for modernization, 34% of the respondents are taken micro credit to Entering new market, 26% of the respondents are taken micro credit to Expansion of business and 5% of the respondents are taken micro credit to Working capital.

**Seeking Help from Bank for Business Ideas:**

**Table 1.19: Seeking Help from Bank**

	Number of Respondents	Percentage
Yes	90	80%
No	22	20%
Total	122	100%



**Analysis:** From the above table it can be seen that 80% of the respondents are seeking the services of microfinance banks on business idea generation, 20% of the respondents have not sought the services of microfinance bank on business idea generation.

### 5. Summary offindings

1. The respondents consist of 71 males and 29 females.
2. A majority of the respondent is of the age group 26-30 and 18-25years.
3. 65% of the respondents have expressed their opinion that microfinance institutions have adequate credit facilities to meet their demand which shows that the microfinance institutions are working to the tunes of the consumers
4. Regarding problems in communicating with small scale sector, 58% response were positive and 42% negative, which shows that there is need to improve communication system between the microfinance institutions and consumers.
5. Consumers are making good use of the loans extended by Microfinance institutions, which is encouraging and indicates that the very purpose of the banking institutions are met.
6. Amongst the microfinance products, the customers found that micro loan product was very helpful to them in their business compare to other products.
7. Nearly 36% of the respondents opined that they availed loan from microfinance institutions because of the low interest
8. Nearly 83% of respondents like to have the training services offered by microfinance banks which indicates the eagerness of customers to more about banking services
9. Nearly 52% of the respondents opined that they have avail the services of the microfinance banks in their small scale investments which shows the banks of not only for extending loan but also for investments

### 6. Conclusion:

The microfinance institutions are best suited for Indian rural and semirural areas. for the financial needs of small business communities, thereby generating employment, infrastructure, wealth and a stronger national economy. It works and cherishes Mahatma Gandhi's vision to have a stronger nation by a stronger rural economy. The microfinance institutions are working hard to fulfill the MAHATMA GANDHI JI vision, Because of these institutional support lots of small businesses have come up in rural areas and have become self-reliant. We can very well notice the progress taken place in rural areas from the days of independents to date. These institutions are also otherwise contributing the brain drains by holding the rural and semi-rural youths in the local areas itself financing and engaging them in small business sectors.

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