

THE IMPACT OF MICROFINANCE ON THE MSME'S SECTOR

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ABSTRACT

Finance for micro, small and medium size enterprises (MSME'S) has been a concern for all stakeholders including entrepreneurs, financial institutions and government organisations. (Charan et al., 2016) The key objective of this present study is to identify various challenges faced by MSME's in sourcing finance. The Micro Finance Institution has been conducting a variety of services to assist the financial and non- financial needs of the MSME's entrepreneurs including credit, saving, leasing, insurance facilities and training programs. This survey was conducted in Ahmedabad and Mehsana covering a wide range of sectors like jewellers, retailers, metal works, textiles, book shop, tailor and small manufacturing units. The researcher has used both primary and secondary data. The primary data were collected with the help of a questionnaire in the Google form. The sample size of this particular study is 34 respondents. This little research exists that examines the role of financial institutions, banks and microfinance institutions, on the growth of micro, small and medium enterprises in Gujarat, especially Ahmedabad and Mehsana. The study found that the main challenges faced by MSME's in underutilization are lack of financial awareness and lack of the tools to evaluate projects that need to be implemented by MSME'S.

Keywords: Microfinance, MSME, microfinance institution, entrepreneur

INTRODUCTION

The Micro, Small and Medium Enterprises sector are identified as a low-investment sector with high operational flexibility and location mobility. The current paper attempts to study the challenges faced by MSME's related to financing in detail. This paper focused on the sources of finance used by MSMEs during the different stages of the enterprise life cycle, and on the awareness and usage of different financial schemes made available by the government. Microfinance Institutions are the financial intermediaries that provide a link between the savers and users of the funds in the market. Most of the microfinance institutions generally offer loans for income generating activities to individuals and business organisations.

Microfinance

Microfinance is also called microcredit. Microfinance is a like one type of banking service which is provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. Microfinance allows people to take on reasonable small business loans safely, and in a manner that is compatible with ethical lending practices. In many cases, people seeking help from microfinance organisations are first required to have a basic knowledge of money-management. Lessons cover understanding interest rates, to understand the concept of cash flow, how financing agreements and savings accounts work, how to budget, and how to manage debt.

History of Microfinance

Microfinance is not a new concept. Small operations have existed since the 18th century. India's SKS Microfinance also serves a large number of poor clients. Formed in 1998, it has grown to become one of the biggest microfinance operations in the world. There are other microfinance operations around the world. Some larger organizations work closely with the World Bank, while other smaller groups operate in different nations. Some organizations enable lenders to choose exactly who they want to support, categorizing borrowers with criteria such as level of poverty, geographic region, and type of small business (Kagan, 2022).

OBJECTIVE OF THE STUDY

- 1) To Analyse of The Government Schemes for MSMEs.
- 2) To Analyse the Major Limitation in The Identification and Utilisation of Sources of Finance.

3) To Identify Various Challenges Faced by MSMEs in Sourcing of Finance.

SCOPE OF STUDY

This Is an Empirical Study of The Effect on MSMEs Residing in Different Cities in Gujarat to Obtain Finance. The Study Is Conducted to Identify the Problem Faced by The Memes to Get Microfinance Loans. The Points Considered for The Study Includes It Is About Uplifting Poor and Low Income Economically Active People from Poverty by Providing Them with Comprehensive and Suitable Financial Services.

SIGNIFICANCE OF STUDY

Number of studies have been done on the impact of microfinance on the MSME's sector previously in India. This particular study covers which kind of challenges faced by MSMEs residing in Gujarat. This study will help MSME to get credit for start-up from micro finance institutions and also get acquainted with various schemes of the government. This study will also be helpful to the researchers who will carry out their research in the area of growth of micro, small, medium enterprise with multidimensional aspects in the future.

RESEARCH METHODOLOGY

Research Design: Descriptive Research Is Chosen for This Particular Study in Order to Obtain Complete and Accurate Information.

Sources of data: Data were collected using structured questionnaire.

Sampling Area: Gujarat

Sample Size: Sampling size of this particular study is of 34 respondents.

Sampling Technique: Structured questionnaire was sent to MSMEs by circulation of google form of different cities of Gujarat.

REVIEW OF LITERATURE

(Singh and Wasdani, 2016), The main challenges faced in underutilization of formal sources were inadequacy of collateral assets and lack of financial awareness of entrepreneurs. Based on the conclusion that the requirement of finance differs with the life-cycle stage of the MSME, recommendations have been proposed for entrepreneurs, financial institutions, and policy makers. The study further explores whether the financial awareness of MSME entrepreneurs is a major limitation in the identification and utilisation of sources of finance.

(Pooja, 2021), In study found that, various aspects are revealed which are related to problems of finance, marketing, technology, human resource, operations and export potential based on secondary data. Difficulty to acquire timely funds for working capital needs, lack of consultancy support complicated documentation, lack of the latest technological skills, need-based research programs, low ICT literacy, lack of motivation and presence of high employee turnover, inefficient logistics, low-quality products, poor bargaining power, informational gap, infrastructural gaps, complicated laws, lack of foreign quality certifications, regularity policy uncertainty, etc. are few of such problems. It also presents some policy-based suggestions to resolve such issues which hinders the growth potential of MSME units.

(Bali and Rathod, 2019), Finance for micro, small, and medium sized enterprises (MSMEs) have been a concern for all stakeholders including entrepreneurs, financial institutions, and government organisations. The key objective of the study was to identify various challenges faced by MSMEs in sourcing of finance during different stages of their life cycle. The objective of this study was to investigate the role of financial institutions on the growth of small and medium enterprises and to give recommendations based on the problems. Despite the tremendous increase in number of SMEs, little research exists that examines role of financial institutions; banks and microfinance institutions; on the growth of small and medium enterprises in developing countries, especially India.

(Farhana, 2015), A study showed that micro entrepreneurs not only have financial obstacles but also, they lack many business skills and knowledge regarding market, technologies, and other information required for the sustainable development of their businesses. First, entrepreneurial training including basic business skills, opportunity identification, and product positioning and product differentiation in the market should be considered either through direct providing or through facilitating. The principles of Jugaad in India and Shanghai innovation in China can also be transmitted to these micro entrepreneurs in order to organize these unorganized sectors to enhance sustainable entrepreneurship and economic growth.

(Rathnayake et al., 2019), The findings revealed the positive relationship between Microfinance services and

growth of MSMEs. Study recommends to government implement different tax policies for this sector, increase the investment on infrastructure in rural areas and this enable MFIs to maintain lowest rate of interest, increase their outlets in rural areas and to deliver more effective on training programs in order to empower the MSMEs in Sri Lanka to achieve long term sustainability in Sri Lanka.

(Parikh, 2020), The Government of Gujarat is acknowledged for its healthy and conducive climate in conducting business and industrial operation. Further, it can be stated that the sustainable growth strategy is following the 'Make in India' policy to promote the domestic manufacturing and local business programs. The focus of this program is to improve the manufacturing scenario of the country by leveraging the demographic dividend of a young and working population (Dhore, 2015). India is targeting to become the youngest country by 2020, comprising 28% of the world's workforce, with an average age of 29 years.

(Nichter and Goldmark, 2009), Although the vast majority of small firms in developing countries never expand beyond a few employees, some experience rapid and substantial growth. This study explores factors associated with small firm growth. We discuss key findings for four types of factors: (1) individual entrepreneur characteristics; (2) firm characteristics; (3) relational factors (such as social networks or value chains); and (4) contextual factors (such as the business environment). We conclude by suggesting implications for development practitioners.

DATA ANALYSIS AND INTERPRETATION

All The Respondents Are MSMEs Located in The Ahmedabad and Mehsana. Out of the 34 Respondents, 12% micro, 47% small and 41% medium enterprise.

Table I: Frequency Distribution of Forms of Participant MSMEs

FORM	Frequency	Percent	Valid Percent	Cumulative Percent
Private Limited Company	10	29.4	29.4	29.4
Partnership	3	8.8	8.8	38.2
Sole Proprietor	12	35.3	35.3	73.5
Family-Owned Business	6	17.6	17.6	91.2
HUF	1	2.9	2.9	94.1
HUF	2	5.9	5.9	100.0
Total	34	100.0	100.0	

As can be seen from table I, the bulk of the respondents MSMEs are registered as sole proprietors. They accounted for 12 out of 34 respondents, representing 35%. 29% of the respondents were Private Limited Company. 6 respondents, representing 18%, were family-owned businesses with 6 being HUF. The remaining 9% of the respondents MSMEs were registered as partners.

Table II: Major constraint to the growth of MSMEs

FORM	Frequency	Percent	Valid Percent	Cumulative Percent
lack of finances	9	26.5	26.5	26.5
lack of financial/business management skills	11	32.4	32.4	58.8
lack of market for products	6	17.6	17.6	76.5
poor financial literacy	6	17.6	17.6	94.1
no of the above	2	5.9	5.9	100.0
Total	34	100.0	100.0	

The above study shows MSMEs rankings of the major challenge facing the growth of their businesses in order on importance. 32% of the MSMEs ranked lack of finance/management skills as the major challenge facing to the growth of their business.

TABLE: III AGE OF MSME

FORM	Frequency	Percent	Valid Percent	Cumulative Percent
Less than one (1) year	4	11.8	11.8	11.8
Between 1 TO 5 years	11	32.4	32.4	44.1
Between 6 TO 10 years	8	23.5	23.5	67.6
Over 10 years	11	32.4	32.4	100.0
Total	34	100.0	100.0	

Majority (12%) of the MSMEs under this study are less than one years old. The MSMEs in the study were analysed

in terms of the age where the majority (32%) were found to be between 1- to 5-year-old.

TABLE: IV Education and obtained finance for MSME's start-ups.

Null Hypothesis (H0): Financing Activity of MSME Is Influence by Entrepreneurs Level of Education.

Alternate Hypothesis (H1): Financing activity of MAMEs is not influence by Entrepreneurs Level of Education.

Chi-Square Tests

FORM	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.803 ^a	9	.658
Likelihood Ratio	9.086	9	.429
Linear-by-Linear Association	.240	1	.624
N of Valid Cases	34		

a. 14 cells (87.5%) have expected count less than 5. The minimum expected count is .06.

Interpretation : Here, the value of Chi-square P -value/ Likelihood ratio (0.429) is more than value of alpha (0.05). Thus, H0 is accepted. Hence, we can say that Financing activity of MAMEs is not influence by Entrepreneurs Level of Education.

TABLE: V gender and faced challenges for MSME's start-ups.

Null Hypothesis (H0): Gender Has No Impact on Problems Faced by MSME's Entrepreneur

Alternate Hypothesis (H1): Gender Impact on Problem Faced by MSME's Entrepreneur

Chi-Square Tests

FORM	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.808 ^a	4	.308
Likelihood Ratio	3.616	4	.460
Linear-by-Linear Association	.211	1	.646
N of Valid Cases	34		

a. 6 cells (60.0%) have expected count less than 5. The minimum expected count is .06.

Interpretation: Here, the value of Chi-square P -value/ Likelihood ratio (0.460) is more than value of alpha (0.05). Thus, H0 is accepted. Hence, we can say that it means there is no association relationship among gender and challenges faced by MSMEs.

FINDINGS

This Research Study Is Mainly Concerned with The Challenges Faced by MSME To Obtained Finance Credit. Majority Of the MSME Has Faced Challenges to Get Microcredit.

MSMEs Prefer Microfinance Institutions the Most to Get Finance. Hence Consider Micro Finance Institutions as A Primary Requirement of the MSMEs.

Majority Of MSMEs Have No Idea About Any Government Scheme and Very Less MSMEs Have Some Information About the Government Schemes.

CONCLUSION

As the title of Study Is "The Challenges Faced by MSMEs in Obtaining Finance" To Highlight Challenges Faced by These MSMEs in Accessing Credit from The Micro Financial Institution to Operate and Grow Their Businesses. Based On the Responses Received Through the Questionnaires Circulated, This Study Found That the MSMEs in Gujarat Like Most MSMEs in Other Countries Are Faced with Major Challenges in Accessing Finance.

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