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

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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 Ghaziabad and Baghpat district namely,Khurrumpur, Suhana, Khindaura, Patla, Salemabad, Mavikala. 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 Sales Revenue* of Micro-Enterprises.
3. To understand the impact of Microfinance on the *achievement of Profit* of Micro-Enterprises
4. To understand the impact of Microfinance on the *achievement of Physical Assets* of Micro-Enterprises
5. To understand the impact of Microfinance on the *capital structure Micro-Enterprises*
6. To see if the MFIs have *directly led to the development* of the MSMEs

III.   CONCEPTS 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 peoplehaving 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.   MicroCredit

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 Eastern Uttar Pradesh* region namely, *Khurrumpur, Suhana, Khindaura, Patla, Salemabad, Mavikala in the Districts Ghaziabad and Baghpat.*

- **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.*

- **Data Analysis:**

The analysis of the data has been done using statistical software including *Microsoft Excel and SPSS Software for data analysis.*

V. DATA ANALYSIS AND FINDINGS

Characteristic Analysis

Theproject starts its analysis bylooking at various individual characteristic and demographics ofthe people surveyed.

Ageofthe respondent-Therespondents weredivided into threedivisions namely18-25years, 26-45years and 46years andabove. Theresults can be seen in thetablebelowas:

	Frequency	Percent	Valid Percent	Cumulative Percent
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 ourgiven set of respondents, it is clear that themaximum numberof respondents belongto thegroupof 26-45year olds i.e. 42(62.7%), followed by46-year-oldand above(22.4%)and finallythose in therangeof 26-45 years (14.9%).

Genderofthe respondent-Thegenders oftherespondent was analysed to know theratio of MSMEs per theirgenders**. **The results can beseen in the tablebelow 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 ourgiven set of respondents, it is clear to seethat thenumberof maleMSMEs owners i.e.48(71.6%) clearlyexceeds thenumberof femaleowners which stand ameagre19(28.4%). This can bepertained to the hugegenderdivide which can beseen in thevillages ofUttar Pradesh and exists even today.

Marital Status-Themarital status of allthe respondents wasassessedfrom allthe MSME owners.Theresults can beseen in thetablebelowas:

	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 ourgiven set of respondents, it is clear to seethat thenumberof married respondentsi.e.52(77.6%) exceedthe numberof Single MSME owners 15 (22.4%).

TypeofBusiness-Thebusinesses ofthe MSMEs weredividedinto Manufacturing, Retail, Service and Wholesaletoanalysewhich form of business indulges the most in takingMFI credit. Theresults can beseen in the tablebelow 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 meagre 4.5%.

Interaction withMicrofinanceCredit
Afterunderstandingthebasic characteristics of theindividuals, wenowmove on to understandingtheir experiencewith microfinanceinstruments.
Status ofCredit-Thepeople aredivided based onthem takingor not takingaMicrofinanceloan.

	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 thegiven setof people, 45 out 67 (67.2%) individuals havetaken amicrofinanceloan, while theothers havetaken no loan.

Credit Rationale-In this part, peoplewho havenot taken anyloanare asked for the reasons as to whytheyhavenot taken the loanto be able to betteranalysethe demand for theseloans.Thesurveyassessed thepossible 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 Internal Funds	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 ofthe 22 people that choseto nottakethe MFI credit,around8 did so becausetheyhad alreadytaken loans fromSHGs. Thesecondlybiggest reason forthe rejection was thesufficiencyof internalfunds (7 people)followed bythe fear of rejection (4 people)and finally3(High interest rates).It must be noted that SHGs arean option bypeoplelookingforalower amount in loan.

c) *Level ofsatisfaction ofthe borrowers ofMicrofinance*-The analysisis madeto tryand understand if takingMicrocredithas turned out to beprofitable forthe MSME owners.Itcan beseen in thefollowingtablewherethe comparison is doneusing aLikert 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 theLikert scale, most peoplearesatisfiedforthe Microfinanceloan in duetime as around16 people aresatisfied with the credit whereas 9 individualsare highlysatisfied. 12 individuals areseen to have responded with beingneutral about the resultof theirMFI credit. Whereas6 individuals areseen to bedissatisfied

with theMFI creditwith 1 individual who is highlydissatisfiedwith theMFIcredit.Overall, wecan seemost people aresatisfied or neutral whereas veryfew who aredissatisfied with the MFI credit.

Impact of MFIs credit on sales revenueofSMEs-People were asked how has the MFIcreditaffected theirsales revenue.Here,even thoseindividuals who have not taken the creditareincludedto evaluatetheirchangeto 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, thesales revenuehas seen aspikewhile for24(35.8%) individuals thesales revenuehas onlystabilised. Whereas 9(13.4%) individuals haveobserved declinein their salesrevenue**.**

Impact of MFIs credit on profitability ofSMEs-Theprofitabilityis assessed for allthe individuals to havearelative assessment ofthose who took theloan to those who havenot takenanyform ofMFIloanwhatsoever.

	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, theprofitabilityhas seenaspikewhile for26(38.8%) individuals theprofitabilityhas onlystabilised. Whereas11 (16.4%)individuals haveobserved declinein their profitability.

*Impact of MFIs credit on capital structureof SMEs***-**The capital structurefor allindividuals is assessed to seethe impact of MFIcrediton 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 structurehas seen aspike while for 39(58.2%) individuals the capital structurehas onlystabilised.Whereas9 (13.4%) individuals haveobserved declinein theircapital structure.

Impact of MFIs credit of physical assets of SMEs-Thephysicalassetsfor all individuals is assessed to seethe impact of MFI crediton 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, thephysicalassets haveseen aspike while for 34(50.7%) individuals thephysical assets haveonlystabilised. Whereas4 (6.0%) individuals haveobserved declinein theirphysicalassets.

Role ofMicrofinanceinachievement ofprofitability using crosstabs

			Achievement In Profitability			Total
			Decline	Increase	Stable	
Have you taken MFI credit	No	Count	6	9	7	22
		% within have you taken MFI credit	27.3%	40.9%	31.8%	100.0%
	Yes	Count	5	21	19	45
		% within have you taken MFI credit	11.1%	46.7%	42.2%	100.0%
Total		Count	11	30	26	67
		% within credit	16.4%	44.8%	38.8%	100.0%

*Interpretation***-**Out of45 respondents who havetaken creditfrom MFIs,21 respondents or 46.7%ofrespondents' profit haveincreased dueto thecredit taken from MFIs, whereas19 or 42.2% respondent'sprofit remained stable. Whilefor5 or 11.1%respondentsprofit declined.

RoleofMicrofinanceinachievement ofsales revenueusing crosstabs

			Achievement in Sales Revenue			Total
			Decrease	Increase	Stable	
Credit	No	Count	4	6	12	22
		% within have you taken MFI credit	18.2%	27.3%	54.5%	100.0%
	Yes	Count	5	28	12	45
		% within have you taken MFI credit	11.1%	62.2%	26.7%	100.0%
Total		Count	9	34	24	67
		% within have you taken MFI credit	13.4%	50.7%	35.8%	100.0%

Interpretation-Out of45 respondents who havetaken creditfrom MFIs,28 respondents or 62.2%ofrespondents' sales revenue haveincreased duetothe credit taken from MFIs, whereas12 or26.7%respondent'ssales revenueremained stable. Whilefor5 or11.1% respondent's sales revenuedeclined.

RoleofMicrofinanceinachievement ofCapital Structure

			Achievement of Capital Structure			Total
			Decrease	Increase	Stable	
Credit	No	Count	3	0	19	22
		% within credit	13.6%	0.0%	86.4%	100.0%
	Yes	Count	6	19	20	45
		% within credit	13.3%	42.2%	44.4%	100.0%
Total		Count	9	19	39	67
		% within credit	13.4%	28.4%	58.2%	100.0%

*Interpretation-*Out of 45 respondents who have taken credit from MFIs, 19 respondents or 42.2% of respondents' Capital Structure have increased due to the credit taken from MFIs, whereas 20 or 44.4% respondent's Capital Structure remained stable. While for 9 or 13.4% respondent's Capital Structure declined.

Role of Microfinance in achievement of physical assets

			Achievement of Physical Assets			Total
			Decrease	Increase	Stable	
Credit	No	Count	1	3	18	22
		% within credit	4.5%	13.6%	81.8%	100.0%
	Yes	Count	3	26	16	45
		% within credit	67.7%	57.8%	35.6%	100.0%
Total		Count	4	29	34	67
		% within credit	6.0%	43.3%	50.7%	100.0%

*Interpretation-*Out of 45 respondents who have taken credit from MFIs, 26 respondents or 57.8% of respondents' Physical Assets have increased due to the credit taken from MFIs, whereas for

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 Sales	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 H0 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 microcredit at a level of 5%. This implies that increases on profitability might because 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 Microfinance 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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