

A Study on Impact of Microfinance on Micro, Small, and Medium Scale Entrepreneurs with Respect to Dharwad District

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ABSTRACT:

Micro finance playing a vital role in empowering micro, small and medium enterprises in India. This paper aims to study the impact of microfinance institutions on the growth and performance of Micro, Small, and Medium Enterprises (MSMEs) in Hubli-Dharwad, Karnataka India. The objective is to understand the role of MFIs in promoting the growth and development of MSMEs in this specific context to examine the capacity of Micro-finance in enhancing their services to Micro small and medium Enterprises in selected location of Hubli-Dharwad Karnataka state in India and to assess the level of performance of Micro small and medium Enterprises using Micro-finance loan and credit services. A well-structured 100 questionnaires were administered to SMEs owners in the collection of pertinent data for analysis in this study. However, simple random selection procedures were used to choose the SMEs, which comprised the size of the research sample. In the analysis and interpretation of data, descriptive statistics incorporating basic graphical charts and tables were strategically used. The data revealed that a substantial number of SMEs economically empowered from MFI loans, the validity of the data checked by using Student's t- test. Surprisingly, the majority of SMEs acknowledge that MFI loans have helped them advance their market share, economic competitive advantage and achieve market excellence.

Keywords: Micro finance institution, Small and Medium scale enterprise, Economic Empowerment.

Introduction

Micro Finance, in general, refers to the provision of financial services including small value loans to households, small businesses and entrepreneurs who lack access to formal banking services. It is an effective tool for financial inclusion which involves providing micro finance and related services in a sustainable manner to enable the poor and the marginalised to achieve social equity and empowerment. Women constitute a vast majority of users of micro finance facilities. The Indian Micro Finance sector has witnessed a phenomenal growth over the years. A brief overview of evolution of Micro Finance sector in India is enclosed. The number of institutions providing micro finance services has gone up from a few to several hundreds. Micro Finance Institutions (MFIs) currently operate in 29 States, 4

Union Territories and 563 districts in India. The reported 168 MFIs with a branch network of 10,233 and 89,785 employees have reached out to more than 3 crores clients with an outstanding loan portfolio of Rs. 46,842 crores. The average loan outstanding per borrower stood at Rs. 12,751 and 85% of loans were used for income generation purposes. The SHG bank linkage programme has grown equally to touch the lives of people through SHGs with an outstanding loan portfolio of Rs. 61,581 crores.

Microfinance refers to providing small loans and financial services to individuals or small businesses that lack access to traditional banking. For Micro, Small, and Medium Enterprises (MSMEs), microfinance plays a crucial role by offering funds to start or expand their operations. This access to capital helps them improve productivity, hire more staff, and increase their market presence. It also enables MSMEs to manage cash flow, purchase raw materials, and invest in technology. Overall, microfinance fosters financial inclusion, empowering small businesses to grow and contribute to the economy.

Micro, Small, and Medium Enterprises (MSMEs) are businesses categorized based on their investment in plant, machinery, or equipment and annual turnover. Micro enterprises are the smallest, followed by small and medium enterprises. They play a crucial role in economic growth by generating employment and contributing to GDP

Literature Review

- **Francis Lwesya and Adam Beni Swebe Mwakalobo (2023)**

The article by Francis Lwesya and Adam Beni Swebe Mwakalobo (2023) presents a comprehensive literature review on the impact of microfinance on small and medium enterprises (SMEs). It highlights how access to microfinance services—such as credit, savings, and business development support—can positively influence the growth and performance of SMEs. The authors discuss studies that show microfinance helps alleviate financial constraints, enabling SMEs to invest in capital, expand operations, and enhance productivity. However, the article also acknowledges mixed findings in the literature, with some studies suggesting that microfinance can lead to over-indebtedness or misallocation of resources, thus hampering business sustainability. Furthermore, the review emphasizes emerging areas of research, including the role of technology in microfinance delivery and the need for a more nuanced understanding of microfinance's long-term effects on enterprise performance, especially in diverse economic contexts. The literature calls for further exploration of these dynamics to craft policies that maximize the positive impacts of microfinance on SMEs.

- **Santhosh Samuel Putta (2023),**

In his 2023 study, Santhosh Samuel Putta explores the influence of microfinance on the growth of micro and small enterprises (MSEs), offering empirical evidence of its positive impact on business performance. The literature highlights that access to microfinance services, including loans and financial resources, helps MSEs overcome capital constraints, leading to improved productivity, business expansion, and increased revenue. However, Putta also notes that while microfinance generally supports enterprise growth, its success depends on factors like financial literacy and effective resource management by business owners.

- **According to Aditya Bhan (2024)**

According to Aditya Bhan (2024), while microfinance has proven beneficial in supporting MSMEs, various challenges remain. High-interest rates and insufficient collateral requirements often prevent MSMEs from fully accessing the benefits of microfinance. These barriers can significantly hamper the growth and sustainability of

small enterprises. Studies suggest that addressing these issues could enhance the microfinance sector's ability to support MSMEs more effectively and contribute to their broader economic upliftment

- **International Finance Corporation (2012)**

The literature indicates that microfinance plays a crucial role in supporting Micro, Small, and Medium Enterprises (MSMEs) in India, which contribute significantly to economic growth. According to the International Finance Corporation (2012), this sector represents 45% of industrial output and provides employment for approximately 69 million individuals. Microfinance institutions (MFIs) offer essential capital that allows MSMEs to invest in advanced technologies and expand their operations, thereby enhancing profitability and fostering job creation.

- **Hailu Abebe Wondirad (2020)**

Research by Hailu Abebe Wondirad (2020) highlights a significant gap in understanding the moderating effects of competition on the social and financial performance of microfinance institutions (MFIs) in relation to Micro, Small, and Medium Enterprises (MSMEs). While the impact of microfinance on MSMEs has been widely studied, addressing these specific gaps is essential for optimizing microfinance services. The importance of microfinance in empowering MSMEs in India underscores the need for continued research to develop effective financial strategies for small businesses.

Research Design & Research methodology

Objective

1. Investigate Entrepreneurial Skill Development through Microfinance Programs
2. To Evaluate the Social Impact of Microfinance on MSME Owners and Communities
3. Identify Challenges Faced by MSMEs in Utilizing Microfinance
4. To study the economic impact after receiving Microfinance

Source of data

The Primary data were collected through questionnaire. The primary data was collected by means of self-constructed questionnaire and the response was collected with the help of Google form.

Sample size

The sample size of 100 respondents were selected from some of the areas in the state of Karnataka. The data collected have been analyzed with the help of percentage analysis.

Hypothesis

T-test:

H0: There is no significant Difference between revenue before and after taking Micro-Finance support.

H1: There is a significant Difference between revenue before and after taking Micro –Finance support.

Tools for data

Data Analysis and Interpretation

Table.1: Demographic Structure of Respondent.

Age	N	Cumulative %
20-25	18	18
25-35	45	63
35-45	29	92

45-55above	08	100
Gender	Male	Female
	59	41
Education	No.of Respondents	Cumulative %
SSLC	11	11
Undergraduates	33	44
Post -Graduates	35	79
Others	21	100

Interpretation

Age Group:

The table shows the distribution of responses across different age groups. The largest group of respondents, at 45%, are aged between 25 and 35 years. This is followed by the 35 to 45 age group, which makes up 29% of the responses. Those aged 20 to 25 account for 18% of the responses, while respondents aged 45 and above represent the smallest group, at only 8%. This suggests that the majority of responses come from individuals in their mid-career stages, particularly in the 25-35 age range.

Gender

The table provides a breakdown of responses by gender. Males make up the majority, with 59 responses, accounting for 59% of the total respondents. Females represent 41 responses, making up the remaining 41%. This shows that there is a slightly higher participation from males compared to females in this survey.

Education

The table displays the educational background of respondents. The largest group, at 35%, consists of postgraduates, indicating that a significant portion has advanced education. Undergraduates make up 33% of the responses, while 21% of respondents have other types of education. Those with only an SSLC (Secondary School Leaving Certificate) form the smallest group at 11%. This suggests that most respondents have completed higher education, with a strong presence of both undergraduates and postgraduates.

Table 2: Type of business run By the Respondents

Type of business	No of Response	Cumulative %
Manufacturing Business	30	30
Service Business	21	51
Creative Industry	26	77
Other Business	23	100

Interpretation

The table outlines the types of businesses among respondents. Manufacturing businesses make up the largest portion at 30%, suggesting a strong presence in production industries. Creative industries account for 26% of respondents, while other types of businesses make up 23%, showing diverse areas of operation. Service businesses represent the smallest segment at 21%. Overall, there is a balanced distribution across different business types, with a slight emphasis on manufacturing and creative sectors.

Table 3 :The Duration of business operations among Respondent

Business been operating	No of Response	Cumulative %
1 – 3 Years	26	26%
3 – 5 Years	47	73%
5 – 10 Years Above	27	100%
Total	100	

Interpretation

The table shows the duration of business operations among respondents. A large portion, 47%, have been operating for 3 to 5 years, suggesting that many businesses are in an early growth phase. Additionally, 27% have been running for more than 5 years, indicating a group with greater experience and stability. Meanwhile, 26% have been in operation for only 1 to 3 years, representing newer businesses still in the initial stages. Overall, most businesses are in the early to mid-development stages, with a smaller portion being more established.

Table 4: Number of employees in the respondents' businesses

No of Employees	No of response	Percentage of respondent
1-10	31	31%
10-20	48	79%
20-30	11	90%
More than 30	10	100%

Interpretation

The table shows the number of employees in the respondents' businesses. Nearly half (48%) of the businesses employ between 10 and 20 people, making it the most common employee range. Smaller businesses with 1 to 10 employees make up 31% of the responses, while only 11% of businesses have between 20 and 30 employees. Just 10% of respondents operate larger businesses with more than 30 employees. This suggests that most of the businesses are small to medium-sized, with a focus on teams of 10 to 20 employees.

Table 5:Any training or skill development program received s as part of the microfinance services

Training or skill development programs	No of response	Percentage of respondent
Yes	82	82%
No	18	18%

Interpretation:

The table indicates that 82% of respondents have participated in training or skill development programs, highlighting a strong emphasis on enhancing their skills. In contrast, 18% of respondents have not engaged in such programs. This suggests that most individuals value and utilize training opportunities to improve their business capabilities.

Table 6: The training helps to improve business skills (such as accounting, marketing, or planning)

Training help improve your business skills	No of response	Percentage of respondent
Yes	76	76%
No	24	24%

Interpretation

The table shows that 76% of respondents believe that training has helped improve their business skills, indicating a positive impact on their capabilities. In contrast, 24% do not feel that training has made a difference. Overall, this suggests that most individuals find training valuable for enhancing their business skills.

Table 7: Microfinance helped improve personal financial situation

MF helped improve your personal financial situation	No of response	Percentage of respondent
Yes	84	84%
No	16	16%

Interpretation

The table reveals that 84% of respondents feel that microfinance has positively impact on their personal financial situation, indicating significant benefits from the support they received. In contrast, 16% do not believe that microfinance has improved their finances. This suggests that most individuals have experienced a positive change in their personal financial well-being due to microfinance.

Table 8: Microfinance allowed you to hire more employees in your business

Hire more employees	No of response	Percentage of respondent
Yes	81	81%
No	19	19%

Interpretation

The table shows that 81% of respondents plan to hire more employees, indicating a strong willingness to expand their workforce. In contrast, 19% do not intend to hire additional staff. This suggests that most businesses are experiencing growth or increased demand, prompting them to consider expanding their teams.

Table 9: The annual revenue of businesses before and after they received microfinances

Revenue Before			Revenue After		
Business's annual revenue before receiving microfinance (Rs)	No of response	Cumulative %	Current business annual revenue after receiving MF (Rs)	No of response	Cumulative %
1,00,000-4,00,000	20	20%	1,00000-4,00,000	2	2%

400000 - 800000	31	51%	400000 – 800000	12	12%
800000 – 1200000	27	78%	800000 – 1200000	19	31%
1200000 – 1600000	22	100%	1200000 – 1600000	47	78%
1600000 – 2000000	-	100%	1600000 – 2000000	22	100%

Source: Field work

Interpretation

The table presents the annual revenue of businesses before they received microfinance. Most respondents (31%) reported annual revenues between 400,000 and 800,000, followed by 27% with revenues ranging from 800,000 to 1,200,000. Businesses with annual revenues of 1,200,000 to 1,600,000 make up 22% of the responses, while 20% reported revenues between 100,000 and 400,000. This suggests that the businesses had moderate revenue levels before receiving microfinance, with the majority falling within the mid-range revenue categories.

The table shows the current annual revenue of businesses after receiving microfinance. The largest group, at 47%, reports revenues between 1200000 and 1,600,000, indicating significant growth. This is followed by 22% of businesses earning between 1600000 and 2,000,000. Additionally, 19% of respondents fall within the 800,000 to 1,200,000 range, while only 12% have revenues between 400,000 and 800,000. Overall, many businesses have experienced an increase in revenue after receiving microfinance support.

T-test:

H0: There is no significant Difference between revenue before and after taking Micro-Finance support.

H1: There is a significant Difference between revenue before and after taking Micro –Finance support.

To check the validity of the data , applied student's t-test :The result of the test is:

T-test-value	dof	T-Critical value	Level of Significance	H0	p-value
14.28	(4+5-2)=7 dof	2.99	0.01	Rejected	0.000

As per the T-test , (two-tailed test),at 1% Level of significance, t- value is 14.28 ,means, it is greater than critical value 2.99. Hence , H0 is Rejected.

There is a significant difference between before and after taking Micro-Finance Support on micro and small enterprises.

Table 10: Challenges have you faced in using microfinance services

MF Services challenges	No of response	Percentage of respondent
Complicated process	53	53%
high interest rates	44	44%
lack of support	0	0

Interpretation

The table highlights the challenges respondents face with microfinance services. The most common iss-

ue, cited by 53% of respondents, is the complicated application process. High interest rates are also a concern for 44% of respondents. Notably, none reported a lack of support as a challenge. This indicates that the complexity of the process and cost are the primary obstacles to using microfinance services effectively

Table 11: Difficulty repaying a microfinance loan

Difficulty repaying a microfinance loan	No of response	Percentage of respondent
Yes	66	66%
No	34	34%

Interpretation

The table indicates that 66% of respondents have experienced difficulty repaying their microfinance loans, highlighting a significant challenge for many. In contrast, 34% do not face repayment issues. This suggests that a majority of borrowers are struggling with their loan obligations, which could impact their financial stability.

Table12: Impact on micro finance before and after investment

Micro finance before and after investment	No of response	Percentage of respondent
Yes	85	85%
No	15	15%

Interpretation

The table shows that 85% of respondents believe that microfinance has made a positive difference in their business before and after receiving the investment. In contrast, 15% do not feel that microfinance has had an impact. This indicates that most individuals recognize the benefits of microfinance in enhancing their business operations.

Findings

As per the above analysis respondents feel that microfinance has positively impact on their personal financial situation, indicating significant benefits from the support they received. The data shows increased revenue after microfinance, with 47% of businesses now earning 1,200,000-1,600,000. Higher revenue ranges have grown, indicating that microfinance helped many businesses boost their earnings. The data shows 77% of respondents believe microfinance improved their social network in the community, highlighting its positive role.

The data shows that 91% of respondents have their businesses registered as Micro, Small, and Medium Enterprises (MSMEs), indicating most are officially recognized and can access benefits and support. The data shows that after receiving microfinance, 33% of businesses have sales between 2,000,000 and 4,000,000, indicating strong growth. Overall, many businesses saw increased sales turnover after support.

The data shows that after receiving microfinance, 33% of businesses have sales between 2,000,000 and 4,000,000, indicating strong growth. Overall, many businesses saw increased sales turnover after support. The data shows that 82% of respondents have taken part in training or skill development

programs, indicating a strong focus on improving skills. Most individuals see the value in these training opportunities.

Conclusion:

In conclusion, the survey results reveal important insights about the needs and preferences of mid-career adults aged 25-45, many of whom work in manufacturing and creative industries. By focusing marketing efforts on women, enhancing educational content for those with higher qualifications, and addressing the specific challenges faced by early-stage businesses, it's essential to support small to medium-sized enterprises with tailored financial solutions, promote the benefits of microfinance, and share success stories to inspire participation. Offering training programs, simplifying application processes, and providing resources for effective recruitment will help businesses grow and manage their operations better. Finally, by addressing concerns about loan repayments and emphasizing the positive impacts of microfinance, it can encourage more consistent use of these services and enhance overall satisfaction among respondents.

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