



“Effect of micro financing on micro and small enterprises in eastern U.P”

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ABSTRACT

The objective of this report is to assess the contribution effect of microfinance in the development of micro, small, medium enterprises in eastern U.P. Microfinance covers a broad range of financial services including loans, deposits, payment services and insurance to the poor and low income households and their micro enterprises.

In various countries micro finance institution have shown a significant contribution towards the poor in rural, semi-urban and urban areas for raising their income level and living standard. The need for business development and financial assistance services for the micro and small enterprises is essential to alleviate poverty for consistent economic growth.

In the year 1996 Cashpor was started and as on 31 march 2009 it has provided credit to 319000 poor women. On a large scale cashpor micro credit is providing micro credit exclusively to poor in the poverty incapacitated areas of eastern region of Uttar Pradesh.

KEYWORDS : Cash-por micro credit, financial assistance, poverty, micro finance.

INTRODUCTION

Micro finance is a broad category of services which include micro credit. Micro credit means to provide credit services to low income people, micro loans to entrepreneurs and small business lacking access to banking and related services. Micro finance have given opportunity to people that they can safely take reasonable small business loans.

Micro finance plays a very important role as day by day increasing because of micro finance the growth in the economy is increasing and getting developed.

Micro credit refers to providing credit and loans to poor people for entrepreneurship development and for self-development. Many microfinance institutions work for social development in the areas in which they operate. For creating development programmes for all micro , small and medium enterprises directly the Government ministry of micro, medium and small enterprises is responsible.

There are the multiple types of micro finance institutions in the state like cashpor micro credit, government bodies like National bank for rural development (NABARD), Utkarsh microfinance limited, the supply of these loans stands lower than the demand as in many specific areas the availability is restricted.

In India Self- Help groups or SHGs represent a unique approach to financial intermediation . SHGs are formed and supported usually by NGOs or increasingly by government agencies. SHGs are seen to confer many benefits , both economic and social . SHGs enable women to grow their savings and access the credit which banks are increasingly willing to lend.

According to NABARD, Uttar Pradesh today stands as one of the emerging states of micros which is leading to 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 lead to existing MFIs in the area giving more



relaxing terms and availability of loans and their availability are restricted only to specific area to lower than the demand supply of these loans are done.

In India MSMEs contribute to economic growth as MSME have the tendency to serve as sources of livelihood to the poor, generate income, create employment opportunities. In India Microfinance industry has become a major backbone in the survival and sustenance.

Microfinance is a programme to support the poor rural people to pay its debt and maintain economic and social satus in the villages.

Definition of micro, small and medium enterprises:-

- In accordance with the provision of micro, small and medium enterprises development (MSMED) Act 2006 the micro, small and medium enterprises classified into two classes:

1) Manufacturing enterprises – The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation act, 1951) or employing plant and machinery in the process of value addition to the final product having a distant name or character or use. The manufacturing enterprise are defined in terms of investment in plant and machinery.

2) Services Enterprises- The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipments.

- The limit for investment in plant and machinery / equipment for manufacturing / service enterprises are as under :-

Manufacturing Sector

Enterprises	Investment in plant and machinery
Micro enterprises	Does not exceed twenty five lakh rupees
Small enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium enterprises	More than five crore rupees but does not exceed ten crore rupees

- **Service Sector**

Enterprises	Investment in Equipment's
Micro enterprises	Does not exceed ten lakh rupees
Small enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium enterprises	More than two crore rupees but does not exceed five crore rupees



Concept and Definition

The government is promoting and setting up new micro, small, medium enterprises by bringing new schemes, plans, day by day to assist the financing, setup process for all the upcoming entrepreneurs.

According to MSME Board of India “ U.P today is on its way to be home to the highest number of micro enterprises with the increase in Microfinance options (MFIs, SHGs) for the entrepreneurs.

- Financial inclusion – Financial inclusion is defined as the equality and availability of opportunities to access financial services. Financial inclusion is where businesses and individuals have access to affordable and useful financial products and services that they can meet with their needs that are delivered in a sustainable and responsible way.
- Micro Credit –Micro credit is a part of micro finance which provides financial services, especially savings account to the poor. The people apply for micro credit are those who are lack of collateral, unemployed and have a credit history which is unsound. Loans are provided to help poor earn their livelihood especially women, who have no collateral but they are willing to start a new business of their own.
- Micro finance Institution - The proposed micro finance 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 extending microfinance services.”
- Self Help Group – Self Help Group promotes small savings among its members it is an association of people to belong to lower economic background often being a part of the same village / geographical region. In India National Rural Livelihood Mission (NRLM) of the government regulate SHGs.

Micro and Small Enterprises

The micro and small enterprises need to be financed differently and the financing is determined by whether the firm is in the existing or start-up phase and also whether it is growing, unstable and stable. Growth Enterprises are micro and small enterprises with high possibility to grow. Survivors are those who benefit in having access to the financial services provided by MFIs to meet with their consumption and production needs they are the stable survivors.

Groups that are considered business activity of a microenterprise is equally as important as the level of business development. Main three primary sector where an enterprise classified services, agriculture, production. Each of these sectors has its own financing needs and its own risks that are specific to that sector.

Growth and Development of micro and small enterprises

In this Context the term growth can be defined as an increase in size or other objects, a process of changes or improvements. The size of the firm growth over a period of time and it should be noted that firm growth is process while firm size is a state (Penrose 1995).

The growth of a firm can be determined by supply of capital, labour, appropriate management and opportunities for investments that are profitable. Micro finance institutions considering the growth of micro and small enterprises developed large scale operations by offering a few highly standardized products with a few advantages like streamlined loans administration, simplified decision making for field staff, low operational cost.



LITERATURE REVIEW

According to Singh (2001) in a study of Uttar Pradesh at cheaper rate group loans reduced the dependence of the beneficiaries or participants on money lenders and the participant's households are able to face financial crisis and financial risk through their own group loans ,earning and savings.

According to khwari (2004) An umbrella term that refers to the provision of services such as loans, payment services, deposits, moneytransfers and insurance to poor and low income households and their micro enterprises is known as micro finance.

According to Khandker (2003) said that microfinance provides an opportunity for the poor to access a borrowing and saving facility.

According to Ditcher (2006) A way of helping poor people out of poverty microfinance has become a worldwide movement as a development activity.

According to Anyanwu (2004) micro finance refers to financial services insurance, saving including loans available to small business owners who would not qualify for a standard bank loan and who have no collateral.

According to OTERO (1999) for the poor self- employed and low income people microfinance is the provision of financial services to needy people and according to ledgerwood (1999) these financial services including credit and savings and they also include other financial services such as patment services and insurance.

Batra and Sumanjeet (2011) in his working paper concluded that , In India at a tremendous pace in recent years, microfinance is growing , it is achieving significant outreach amongst rural across the country.For delivering microfinance services in India there are two most prominent means which had emerged on the one hand linkage between SHGs and banks supported by NABARD on the other hand MFI'S.

Mahanta, Panda and sreekumar (2012) studied the growth of microfinance in India. Discuss about the factors affecting microfinance programme growth, evolution of microfinance, role in global scenario and theoretical position associated with microfinance also they explained that their problem will not end by lending to, the poor through microcredit but beginning of new era. In the field of poverty alleviation it can create miracle and it will effectively handle with the capacity of building programmes.

Sources of finance for small businesses:-

There are many sources for finance for start-up companies. In every business for start-up capital is needed, without nothing can be done so the first step is to calculate how much capital that would be needed and when the capital would be needed. The source of finance is depend on the type of business and size of business.

The sources of finance accessible to small businesses include:-

- The personal saving of the business owner as well as friends and family who may be business associates.
- Banks and financial Institutions.
- Business partner and associates.
- The small business administration and financial assistance program.
- Members of the trade, wholesalers as well as manufacturers and in some cases customers.



OBJECTIVES OF THE STUDY

- To investigate whether capital loans and services of micro finance institutions to micro and small enterprises lead to the growth and development of the organization.
- To study the capital invested by micro and small enterprises and to identify the contribution of financing through MFI'S.

RESEARCH METHODOLOGY

1. This report use only secondary data that has been collected from various journals, books, articles, websites etc. This has been used to study the conceptual framework of cause related to micro finance and its effect on micro finance on development of micro and small enterprises.
- Research design: - This research is in descriptive in nature.
 - Type of data used: - Secondary data through records of journals, magazines and other sources.

These data has been taken from the research paper “ Impact of microfinance institutions in the development of micro, small and medium enterprises in case of Uttar Pradesh, India (An empirical study) by Vani Kapoor, Vatsal Dhaka Volume 22 Issue 9 Ver.1 (September 2017)PP 01-08

DATA ANALYSIS AND FINDINGS

Age of the respondents - There respondents were divided into three category namely 18-25 years, 26-45 years and 46 years and above. The result is shown in the table :

	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	

Observation- In a given table set of respondents , there maximum number of respondents belong to the group of 26-45years old that is 42 (62.7%) followed by 46 year old and above (22.4%) and finally those in the range of 18-25 years (14.9%)

Gender of the respondents- To know the gender of the respondents and analyse the ratio of MSMEs per their genders.

	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	

observation :In the given table it is clearly shown that the number of male MSMEs owners i.e. 48 (71.6%) clearly exceeds the number of female owners which stand 19 (28.4%). In the table this can be seen that the huge gender divide which can be seen in the villages of Uttar Pradesh and exists even today.

Marital Status – The result has been shown in the table below the status of the martial of all respondents assessed from all the MSME owners.

	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	



Observation – In the given table it is shown clearly that the number of married respondents is 52(77.6%) exceed the number of single MSME owners 15 (22.4%).

Type of Business- MSMEs business are divided into manufacturing, Retail, service and wholesale to analyse which form of business indulges the most in taking MFI credit. The result can be shown in the table

	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	

Observation : In the given chart it is clearly shown that the service sector has the largest consumer of the MFI products with 56.7% followed by retail at 23.9%, manufacturing at meagre 4.5%, wholesale at 14.9%.

Interaction with microfinance Credit –

	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	

Status of Credit – The people are divided on the basis of who have taken microfinance loan and who have not taken microfinance loan .

Observation - In the chart it is clearly shown that 45 out 67 (67.2%) People have taken a microfinance loan, while the others have taken no loan.

Level of satisfaction of the borrowers of Microfinance – It is seen in the chart that whether the microcredit has turned out to be profitable for the MSMEs owners.

	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	

Observation- In the given chart it is clear that most of the people are satisfied for the microfinance loan and as around 16 people are satisfied with the credit , 12 individuals are seen to have responded with being neutral about the result of their MFI credit , 9 individuals are highly satisfied ,6 people are seen to be dissatisfied with the MFI credit . we can see that overall most of the people are satisfied or neutral whereas very few who are dissatisfied with the MFI credit.

Impact of MFIs credit on Profitability of SMEs – Profitability is assessed for all the individuals to have relative assessment of those who took the loan to those who have not taken any from MFI loan whatsoever.



	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	

Observation – 30 (44.8%) individuals, the profitability has been seen for 26(38.8%) individuals the profitability has only stabilised . 11 (16.4%) individuals have observed decinen their profitability.

Impact of MFIs credit on capital structure of SMEs – All individuals assessed the capital structure to see the impact of MFI credit on 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.	100.0

Observation- For 19 (28.4%) individuals, capital structure has been aspiked while for 39 (58.%) individuals capital structure has only stabilised. Whereas 9 (13.4%) individuals have observed decline in their capital structure.

FINDING AND CONCLUSION

- NGO'S are also now a days operating inactively, they are not participating as most of the (SHG'S) are formed by the government agencies like district rural development agencies (DRDAS) and child development project officers (CDPOS)
- The loans or the schemes which are sanctioned are not properly reached to the poor section of society because of illiteracy among as well as so many cumbersome paper work and formalities are involved in seeking loans or schemes so in order to make avail of the schemes the government, the government should properly give the education to the villagers of the formalities involved in sanctioning of new schemes of loans.
- The government should formulate more plans, schemes, programmes etc. to aware the people and these plans are very beneficial for the poor section of society and it also raise the income level of people and increase the living standard in various countries.
- The government should side by side also provides some infrastructural and develop a good facilities of roadways, railways so that the villages should not face any problem while doing any business.
- MUDRA was started in 8 April 2015 it worked well for some time but at last it did not work effectively and efficiently.
- Microfinance banks should support their clients by offering training on credit maximization.
- The result indicate that those who access microfinancing show improved income levels, education levels, family growth and house.
- Small Help Group's can also promote saving and yield moderate economic benefits that reduce the dependence on moneylenders. Without finance small scale enterprises cannot grow or compete in the turbulent business environment.
- Cashpor Micro credit is providing microcredit on a large scale exclusively to poor in the poverty- incapacitated areas of eastern region of Uttar Pradesh. Cashpor was started in 1996 and as on 31 march 2009 it has provided credit worth to 319000 to poor women.
- Banks should organize training campaign for the rural youth to develop entrepreneurial skills among them.



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