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The Impact of Micro Finance on the Development of Small Scale Enterprises in the Gujarat

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ABSTRACT

This study's main goal is to evaluate the effect of microfinance on Small and Medium-Sized Enterprises (SMEs) in Gujarat by using the Gujarat as a case study. The simple random sampling procedure was used to choose the 60 MFIs and 140 SMEs that made up the sample size for the study. A structured questionnaire was created to make it easier to gather pertinent data for analysis. Data presentations and analysis have strategically used descriptive statistics, which uses straightforward percentage graphs and illustrations. The study's conclusions show that a sizable portion of SMEs are aware of MFIs' existence, and some recognize the beneficial effects of MFI loans in encouraging their growth. In addition to providing financial assistance, it is advised that microfinance institutions always offer expert guidance to SMEs since this will help them determine if the amount they are requesting is too much or too little for the project. The microfinance institutions should hold seminars and workshops to inform SMEs about their policies, the wise use of money for SMEs, and the criteria used to evaluate loans. To gain the faith and trust of SME's, the microfinance banks should also start additional development initiatives.

Keywords- Microfinance, Loans, Small and Medium Enterprises (SMEs).

I. INTRODUCTION

Microfinance, which is prevalent throughout the world, is a crucial cog in the machine that aims to provide financial inclusion in the form of accessible financial products. These products include savings, fixed deposits, and other banking services in addition to credit products like personal loans and credit cards. It is one of the methods for achieving overall economic development.

The definition that defines microfinance as a microcredit supplied to unemployed individuals and those who receive minimum wage as salaries is the most widely recognized and inclusive. The organizations that take part in this microcredit system are known as microfinance firms.

The Microfinance Services Bill of India defines microfinance specifically as the service which provides financial assistance to an individual or anyone who is eligible to receive credit. In the same bill, the microfinance institutions in India are organizations or association of individuals and that which has been established for carrying on the business of making credit available for these sections of the population.

II. STATEMENT OF THE PROBLEM.

Small scale businesses in Gujarat continue to be severely constrained by access to financing. Credit restrictions have existed for working capital and raw commodities. According to the research, 38% of the SMEs polled cited credit as a key barrier to their ability to raise capital. This is due in part to the fact that small and medium-sized firms (SMEs) in Gujarat have very restricted access to financial markets due to the high cost of borrowing and rigidity of interest rates. The

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majority of SMEs also struggle to get the appropriate collateral for bank loans, making it difficult for them to access long-term financing to grow and fund their companies.

Besides other constraints on finance, most owners and managers of small enterprises in Gujarat face lack of technical knowledge, skilled labour and managerial skills in handling business enterprises, and also lack of business ideas. Their growth outlook as a result remains stagnant. There is also a problem of having access to modern technology because most businesses have outdated machinery and have problems in locating replacement parts to buy. Microfinance institutions in Gujarat have proven to be a powerful tool to promote inclusive economic growth, particularly in the area Small Scale enterprise development and employment. Initiatives aim at offering Soft Loans to individuals and small enterprises, even when a microfinance institution in Gujarat is actually still in infancy; the sector has proved positive in growth in Gujarat. To answer this question, a question is to be addressed, namely Impact assessment, which is aiming also at helping small & medium enterprises expand to a point of becoming viable ones. This evaluation is used to determine in which micro financial institutions achieve their objectives for the development of Small scale enterprises in Gujarat in Gujarat.

III. LITERATURE REVIEW

1) Ahiabor - 2013 The main objective of this research is to assess impact of Microfinance on Small and medium enterprises (SMEs) in Gujarat, using a Case Study of the Municipality of Ledzorkuku-Krowor Simple random sampling technique was employed in selecting the 70 SMEs and the 30 MFIs that constituted the sample size of research. Structured questionnaire was designed to facilitate the collection of the relevant data that were used for analyses. Descriptive statistics that involve simple percentage graph charts and illustrations was tactically applied in data presentations and analysis.
2) JK Mallika – 2014 Sri Lankan economy is primarily small and medium enterprises (SMEs) economy. SMEs have been used by successive governments of independence Sri Lanka as a powerful tool to accelerating economic growth, reducing unemployment, income inequality and poverty (Ministry for Enterprise Development 2002). In recent years, Microfinance has developed into a major tool to offer finance to small entrepreneurs in developing and developed countries. The impact of microfinance on development of small scale enterprise will evaluate group saving and loaning, easy accessibility and less or no collateral requirements on Small scale Enterprises. This study will evaluate the impact of Microfinance on the development of Small Scale Enterprises in Hambantota districts
3) EO Oni, I Imam Paiko, O Koholga – 2012 continuing to develop a strategy to promote trade is essential to ensure the country's growth and development. The Nigerian Federal Government's microfinance policy, established in 2005, has three main objectives: promoting entrepreneurship in small and medium-sized businesses, reducing poverty and promoting economic growth. This study evaluates the contribution of microfinance institutions (MFIs) to the growth of SMEs. Data were collected from 360 randomly selected SMEs using a survey tool. The survey gathered information from the interview.
4) The resulting data were analyzed using simple percentage statistics. The analysis shows that small financial companies can and do have an impact on the growth of SMEs in the country. However, the study also revealed that the current programs of MFIs to assist SMEs are weak. The study recommends that the regulatory body, the CBN, regularly review the activities of MFIs for policy purposes.

IV. INDIVIDUAL

This is a direct loan model that provides small loans to direct borrowers. It does not involve forming a gr oup or forming an alliance to secure a refund. Often individual models are part of a larger "Credit Plus" program t hat also provides other healthcare service such as skills development, training and other services.

V. VILLAGE BANKING MODEL

Community banks are community financial and savings institutions established by NGOs to provide financial services, form community self help groups, and help members save money (Holt, 1994). They've been around since the mid1980s. They usually have 25 to 50 members and are low income people who want to improve their lives by working in their own business. These members run the bank, elect their own officers, make their own contracts, distribute loans to individuals, and collect payments and services (Grameen Bank, 2000). These loans are backed by moral principles; behind every loan is a group commitment (Center for Global Development Studies, 2005).

VI. CREDIT UNION

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Credit Union is a unique organization that supports personal financial services. It is formed and created by members of a group or organization who agree to save money together and lend each other money at reasonable interest rates.

Members working jointly for the same employer; same church, organization, fraternity, etc. to join; or living/working in the same community.

Membership in a credit union is open to all members of the group, regardless of race, creed, color, or creed. The Microfinance Triangle includes financial sustainability, access to the poor and organizational impact. Accessing the poor, especially microcredit, has costs (Christabell, 2009). Financial institutions always try to keep this cost to a minimum and the cost of exposure increases when the poor are dispersed in different regions and large areas. Providing financial services to the poor is expensive and requires patience and care to stabilize financial institutions and avoid high costs and risks (Adam & Von Piscke, 1992).

To elaborate, MFIs incur transaction costs when delivering their products and services. Some MFIs reduce customer costs by making more customer visits than physical arrivals. It is very important for microfinance institutions to be satisfied with the interest rate in order to achieve sustainable development. This ratio should be higher in order for the firm's financial income to cover all its expenses (Hulme & Mosley, 1996). Competitive price above the market price is defined as the difference between the price of the good and the demand price for goods and services.

VII. METHODOLOGY

This study uses an inductive approach, collects data and develops theory based on data analysis.

Explains the demographic characteristics, model and application model, data, data collection and analysis process of the research. The main aim is to define the tools used to collect data and to determine the appropriate measurement methods for collecting data.

The student must be defined while determining the dimension.

Study includes 235 Small and Medium Enterprises (SMEs) and Micro Finance Institutions in Gujarat based on data from the Urban Development Agency.

The choice of MFIs is controversial in most cases due to lack of information. The following criteria are used in the selection of the sample size:

$$\boldsymbol{n = \frac{N}{(1 + N(e))2}}$$

Where: n= the sample size, N= total population, e= margin of error

With this in mind, 70 SMEs were selected from a group of 100 people with 90% confidence and 10% margin of error, while 60 MFIs were selected by the Gujarat State Assembly based on available data.

Purposive sampling techniques were used to select MFI employees who could respond to the survey. Therefore, for the purpose of this study, questionnaires were distributed to the managers;

The people participating in this study are the actual owners of the business, not the salesperson or salesperson. Section collects good and valuable information for study. Data are taken from primary and secondary sources.

Qualitative and quantitative methods were used in the analysis of the primary and secondary data collected. Quantitative data were analyzed using the Statistical Package for Social Scientists (SPSS). It is presented in the form of tables, pie charts, bar charts.

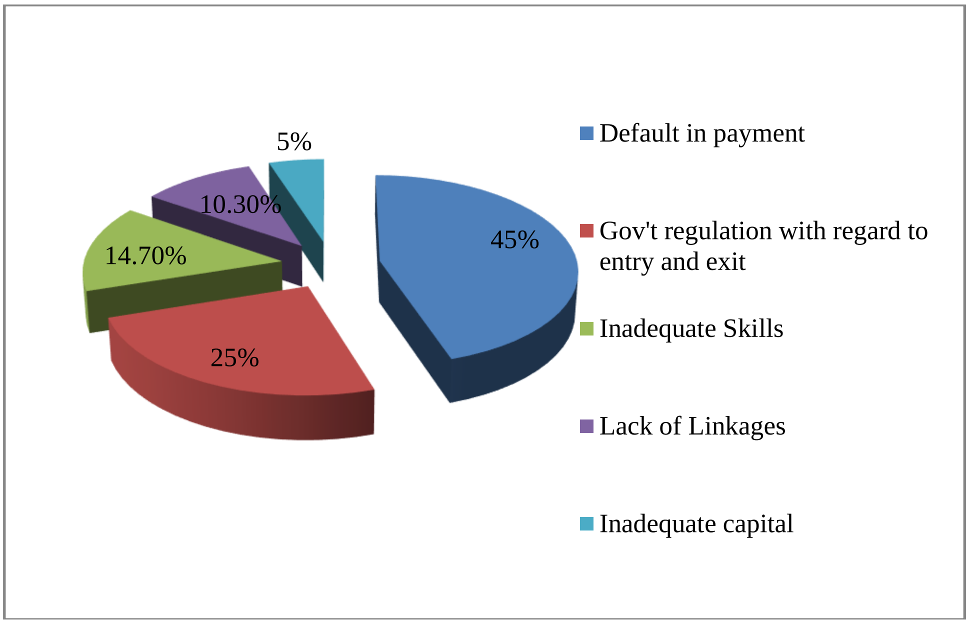
VIII. ANALYSIS

Analysis Of Data Collected From Microfinance Institutions.
Classification of Responses Based On the Challenges Facing Micro Financing In Gujarat

Based on the data collected, Twenty Four (24) out of the Sixty (60) representing 40% microfinance institutions indicated that high rate of default among their customers is their biggest challenge. Twelve (12) respondents representing 25% indicated that regulations regarding entry and exit are a great challenge that fraudulent people can just enter to defraud unsuspecting people and quickly fold up. This is creating the problem of trust of the public. Mismanagement is also a challenge that has bedeviled the institutions as indicated by Ten (10) respondents representing 14.7%. Eight (8) Respondents representing 10.3% indicated that there is a minimal linkage between the formal and informal financial institutions. Three (6) representing 5% of the respondents indicated that inadequate capital is also a challenge.

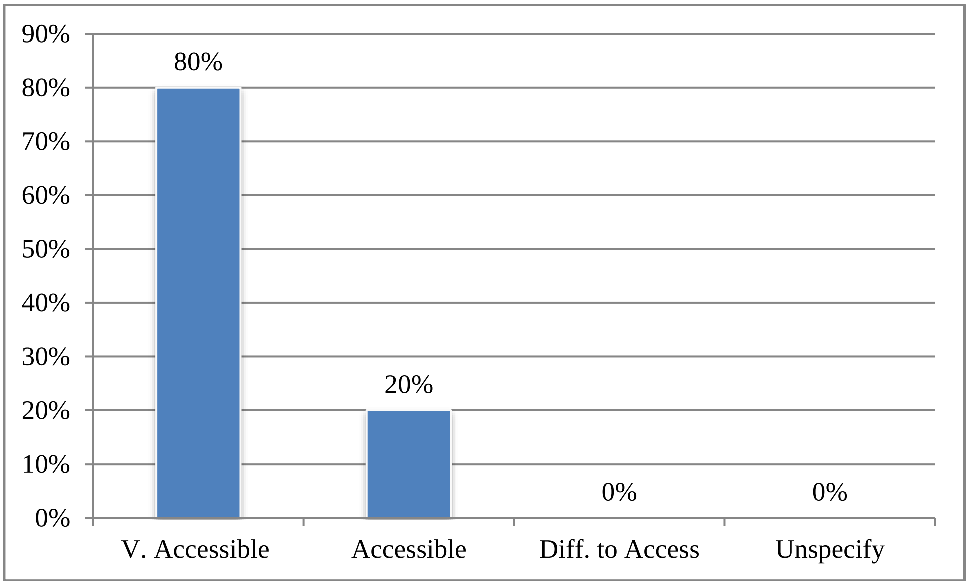
This is depicted in the figure below.

Challenges facing MFIs



Classification of Responses Based On Accessibility of Funds to Small Scale Enterprises from Microfinance Institutions.

Access to credit is a major problem facing SMEs in Gujarat. The idea behind the creation of small financial companies is to support SMEs, especially those who do not have access to bank loans.



Classification of Responses Based On Criteria for Financing SME's

Most SMEs in Gujarat need small loans to purchase basic equipment and supplies or working capital to develop their operations.

The credit worthiness of MFIs is evaluated based on many factors. The table below shows responses based on criteria used by MFIs to extend loans to SMEs.

Thirty Two (32) out of the Sixty (60) respondent representing 50.33% indicated that MFI's do require collateral before giving out credit to their client. It has been observed that the demand for collateral security by banks and other financial institutions stifled the growth of the SME's in the country. Ten (10) out of the Sixty (60) respondents representing 14.67% indicated that before they grant you a loan, one have to be saving with them for at least three (3) months which will then serve as collateral. The type of project undertaken by SME's does

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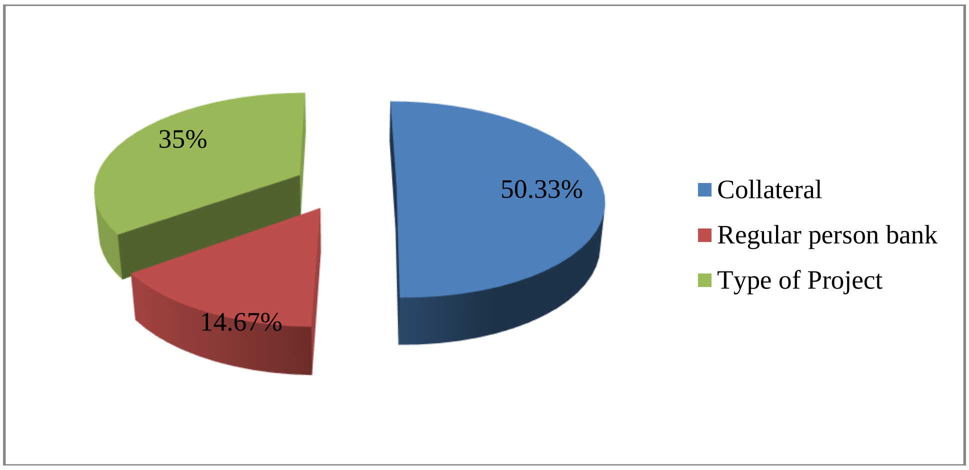
guarantee them a loan. The table indicates that 35% of the respondents do give out credit based on one's project. This is diagrammatically shown below.

Criteria for Financing



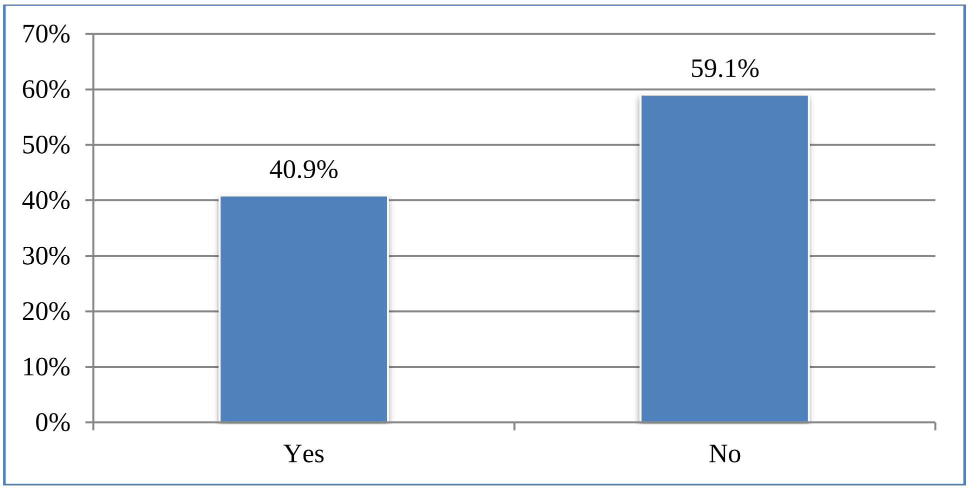
Analysis Of Data Collected From Small Scale Enterprise.

Classification of responses as to whether SMEs have business plans before commencing business

The answers of those who answered the question of whether there is a business plan before starting a business can be summarized as follows:

Business Plan:

Information gathered revealed that most SMEs do not have business plans before commencement. From the diagram Ten (10), Sixty (60) respondents constituting 40.9% attested to the fact that they did have business plans before commencement of business whilst fifty (50) out of the Sixty (60) respondents indicated 59.1%, they did not have business plans before commencing business.



Classification of responses Based on Type of Business

Data has been collected from different types of businesses run by SMEs in Gujarat.

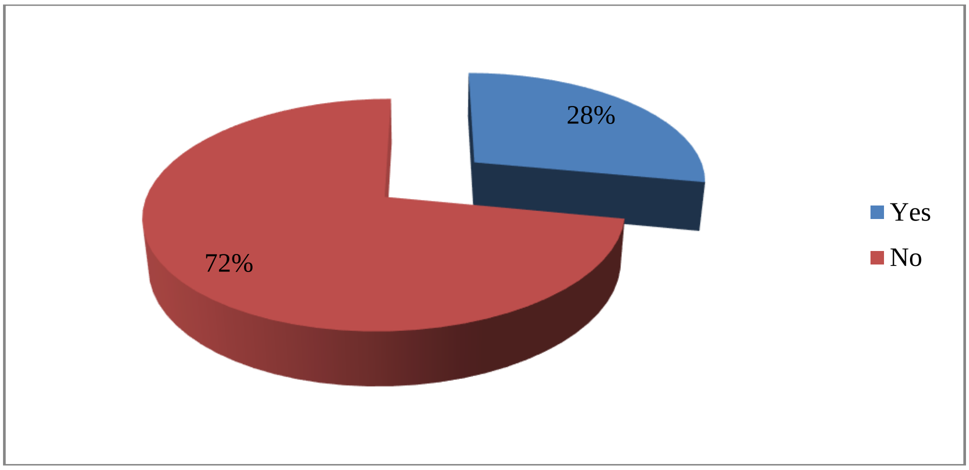
Type of business you operate

RESPONSE	**FREQUENCY**	**VALID PERCENT (%)**
Service ManufacturingAgriculture **Total**	**37**	**46.25**
	25	**31.25**
	18	**22.50**

	80	**100**

This table shows that most SMEs are actively engaged in the service sector. Thus from the table Thirty Seven (37) out of the Eighty (80) representing 46.25% shows that most SMEs are in the service sector whilst 31.25% and 22.50% in the manufacturing and Agricultural sector respectively. This is depicted diagrammatically below.

Type of Business



Approximately 98% of respondents are aware of the existence of MFIs, but their ability to borrow from and do business with these MFIs is often hampered by factors such as high interest rates, collateral debt, banking regulations, and MFIs' bureaucratic processes and procedures. Interest Due to these conditions, most SMEs do not borrow from them, but start a business based on their personal savings, family money, which becomes a challenge for SMEs to grow. It is visually presented as a chain.

IX. SUMMARY OF FINDINGS

The main purpose of this study is to analyze the impact of microfinance on the development of small businesses in Gujarat and the following conclusions were reached:

SMEs have enough products to secure when they continue to lend money to businesses. Because of this, they do not provide financial advice and care to their clients. This confirms available data from Tucker and Lean (2003) and OECD (2006).

SMEs often take short-term loans even when they take out loans, so they have no choice but to rely on short-term and informal sources to meet their long-term needs, such as purchasing new goods.

The available literature (Riding & Short, 1987) also proves this fact.

Financial institutions do not take into account the opinions of SMEs when creating their credit policies, therefore SMEs do not want to participate. For this reason, it is not suitable for the interests of small and medium-sized enterprises and is one of the biggest reasons for the failure and failure of credit management.

High interest rates and other costs make it difficult for small and medium businesses to make good profits to pay off their loans.

The type of collateral preferred by MFIs prevents some SMEs from obtaining loans. Also, most SMEs cannot provide the required collateral and therefore cannot apply for loans from MFIs.

X. CONCLUSION

When it comes to managing defaults and defaults, repayment schedule and refinancing are not recommended as this will only hide the problem from you, which means you will face larger defaults. It is worth noting that even with good regulatory policies and procedures in place, loans to MFIs can still lead to bad debt. Therefore, it is necessary to be careful and choose the best way to get the debt back while maintaining a good relationship with the customer.

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MFIs should not receive collateral in lieu of proper consideration of loan applications. Security should be the last consideration when evaluating loan options. In practice, however, it tends to be at a higher level because sometimes it's the fuse that allows MFIs to sleep at night. It receives as additional protection and also their SMEs cannot repay their loans. This suggests that MFIs do more harm than good.

Credits should be used for production purposes, not for situations that will not increase the efficiency of SMEs.

Repayment of a non-production-oriented loan will be very difficult for SMEs because it does not generate the money that can be used to repay the loan.

RECOMMENDATIONS

Based on the findings and analysis of the impact of the loan obligation, the researchers would like to make the following recommendations:

1- Management The relevant MFI should incorporate SME ideas or strategies into the policy development or review process. Financial order. This will enable them to understand the specific needs and issues of SMEs as MFIs suffer and need special attention.

2- Small and medium businesses should have lower loan interest rates than commercial companies because interest rates for small and medium businesses have been eliminated and this difference should be too. This will encourage them to apply for more loans and be able to repay them in a timely manner to ease their situation.

3- Financial institutions should closely monitor the borrowing SMEs whether the loans are used for their intended purpose. This will keep SMEs vigilant, work hard and be successful in the business they invested in to be able to pay back the loan.

4- MFIs should always provide professional advice to SMEs. This will help them understand whether the loan they are applying for can complete the project. The appropriate strategy is to evaluate the loan, which will tell the MFI lender whether the money the SME is asking for is too much or too little for the project.

5- MFIs should hold meetings and workshops to educate SMEs on their rights and the effective use of SME finance and the need to evaluate loans. In addition, MFIs should do more development work to gain the trust and confidence of SMEs.

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