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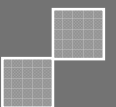
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"Microfinance & its effect on Small Scale Industry in INDIA"*Dr. chetan J lad¹ and Mr. Ronak Mehta²***Abstract:**

Paper aims to measure impact of microfinance in development of small scale industries across the nation. Small scale industries are growth engine for the developing country like India. Microfinance is financing tool to the people who are having entrepreneurship skills but lacking financial capacity & are interested in starting their own business in small scale. Microfinance can help these people by various ways like; by providing a loan, insurance, and deposit-payment. Microfinance has performed well in many countries to uplift socio-economic conditions over the period of time, especially in developing countries. In this paper authors try to measure the impact of microfinance on development of small scale industry, impact on reduction of unemployment rate & improvement in production if any.

Key Word: Microfinance, Medium & Small Scale Industry, Employment

Introduction:

The small scale industries in all over the world have strategic significance in development of socio economic environment of any economy. The developing country like India, the micro, small and medium enterprises (MSMEs) sector contributes significantly to 45% of the total manufacturing output, and 40% of the total exports of the country. The sector is estimated to employ about 595 lakh persons in over 261 lakh enterprises throughout the country.

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India.

Microfinance in India is evolved to bridge up the gap between formal banks and need of society specifically the poor having entrepreneurship skill. The movement had begun in 1970s by ShriMahila SEWA Sahakari bank in Ahmedabad and women

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working forum in Tamilnadu for providing micro level finance to the Poor, Unemployed, Women, and needy people residing in rural initiated with 100 crore rupees had target to serve 250000 women, and ran women empowerment programme Then in 1980s many NGOs has came in to market, having interest in social development. They worked in SHGs at micro level. Then NABARD has started aiming at development of agriculture and rural people as there were 60% people are from such segment. It also has started linkage programmes with SHGs.

The number of self-help groups (SHGs) savings linked increased to about 7.5 million with a member base of 98.1 million. The SHG bank linkage programme (SBLP) and the microfinance institutions (MFIs) put together achieved a growth in their customer base by about 10.8 per cent. The combined borrowing customer base increased to 93.9 million from 86.3 million in the previous year. The SBLP recorded a growth of 4.9 per cent in the number of members of SHGs that had active borrowings from banks. There was an increase of about 4.7 million customers of MFIs. The growth rate of MFIs in terms of customer outreach was of the order of 17.6 per cent per annum. Hence, it becomes apparent that in INDIA MSME had played significant role in employment

generation, improvement in GDP as well As economy as a whole.

Literature Review ;

O.C. Odebiyi and O.J. Olaoye (2012) has focused on measuring impact of Microfinance bank on small and medium scale aquaculture enterprises & found that there is no impact of microfinance bank to beneficiary of small scale fisheries. That may be because the owners of the fisheries in Nigeria may not use the loan to the development of the business. Even microfinance banks are not ready to provide loan to beneficiary, as they know that they can wind up their business anytime. It was noted that cost of loan is one of the reason for taking loan.

Idowu Friday Christopher (2011) concluded that there is positive impact on significance of MFIs on SMEs market share, competitiveness, and investment. Though there has been a problem with MFIs that they are having insufficient balance to grant loan to SMEs. It is recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions. Rahmat, Megananda, Achmad Maulana (2006) stated that Microfinance has positive impact to Improvement of MSE's Performance indicated by sales, The difference of regional

characteristic of MSE also plays role in determining its business scale, since doubling amount of loan has negative impact to the performance, it's very important to allocate the loan to the productive activities, such as investment, in the way to improve the business opportunity.

Whereas, Brown, Earle and Lup (2004), employed panel data techniques to analyze a survey of 297 new small enterprises in Romania containing detailed information from the start-up date through 2001. They found strong evidence that access to external credit increases the growth of both employment and sales, while taxes appears as constrain to growth. The data suggest that entrepreneurial skills have little independent effect on growth, once demand conditions are taken into account. The evidence for the effectiveness of technical assistance is weak: only assistance provided by foreign partners yields a positive effect. A wide variety of alternative measures of the business environment (contract enforcement, property rights, and corruption) are tested, but none are found to have any clear association with firm growth.

Mahabub Hossain and Catalina P. Diaz,(1997) compared older borrowers to newer borrowers, finding that productive capital as well as the ability to finance

expansion from borrowers' own funds increased with the number of loans taken from CARD. Income from older borrowers' micro enterprises was 3.5 times higher than newer borrowers' enterprises, and older borrowers also increased income from other sources. Regression results showed that every peso borrowed from CARD yielded 3.03 pesos in income. Looking at the role of informal and formal financial sectors in Ghana, Aryeetey and Gockel (1991) examined the various factors which influence the demand for formal savings and lending facilities and observed that incomes, bank formalities, and banks' preference for large transactions are the major factors. Travel costs and time are considered important factors that determine transaction costs to the entrepreneurs. They also estimated that almost half of all demand deposits held by banks were informally mobilised.

From various literature reviews it has been found that to measure the Microfinance& its effect for MSME sector development, the determinants identified are:

1. Total no. of small scale industries,
2. Employment in small scale industries

3. Fixed investment in small scale industries

4. Production in small scale industries

5. Microfinance loan from Bank-SHG

6. Microfinance loan from Microfinance institutions

Methodology

In this paper researcher has used secondary data of MSME units for the year 2006-07 to 2010-11 from websites of Ministry of MSME & other reports by ministry of finance. Regression has been used to measure whether there is impact of microfinance factor like microfinance loan from Bank-SHG, microfinance loan from

microfinance institutions, and total no. of microfinance account holders, on growth of small scale industry factors like total no. of small scale industries in country, total employment generated due to small scale industries, fixed investment in small scale industries, and production in microfinance.

Objectives

1) To measure an impact of microfinance on growth of MSME Industries.

institution contributes towards growth in MSME Units.

2) Examine the extent to which Microfinance

3) To study the growth of small scale industries in India.

i. The study is on secondary data that had its own limitation

ii. The data of small scale industries and microfinance

Limitations

has taken from the year 2006-2007 as in this year there has been lot of reforms with reference to small scale industries and microfinance.

Data Analysis

For studying Objective No 1 & 2 Hypothesis are framed to test the significant relationship between

Microfinance & growth in Industry, employment & production.

Hypothesis

1.HO: There is no significant relation between Microfinance from SHG /Bank & growth of MSME industry.

2.HO: There is no significant relation between Microfinance from Microfinance Institution& growth of MSME industry.

Regression

Table 1.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.99	0.989	0.989	.0149

a. Predictors: (Constant), Microfinance Account Holder (in lakhs), micro finance loan from MFIs in lakhs, micro finance loan from bank-SHG(in lakhs)

Table 1.2: Co-efficients^a

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	269.329	1.592		169.171	.004
	Microfinance loan from bank-SHG(in lakhs)	1.283	.039	4.773	33.234	.019
	Microfinance loan from MFIs (in lakhs)	-.174	.010	-.657	-16.762	.038

a. Dependent Variable: Total no. of SSIs (In Lakhs)

From table 1.1 & 1.2 it can be seen that P value (Sig.) is less than 0.05. Hence we are failed to accept Null Hypothesis Ho. Hence alternative hypothesis is true that is;

1H1: There is a significant relation between Microfinance from SHG /Bank &

2.H1: There is a significant relation between Microfinance from Microfinance Institution& growth of MSME industry.

The coefficient table is useful to have correlation coefficient between independent and dependent factors. It shown that 1.283 is impact factor between microfinance loan and total no. of small scale industries. It can be better understand in equation form.

Equation No.: 01

$$X = a + B_1y + B_2y_1$$

Total no. of small scale industries = 269.329 + 1.283 (microfinance loan from Bank - SHG) -

0.174 (Microfinance loan from Microfinance institutions.)

The above regression clearly explains the relation between the variable that microfinance from self-help group has

growth of MSME industry.

positive impact on growth of total no. of small scale industry as beta is 4.21. Whereas, microfinance institute's impact is negative on total no. of small scale industries. That could be because of rigid distribution methods of microfinance institutions. The R square value is 0.989 explains 98.9 percentage of relationship between variables which is very good.

Hypothesis

3HO: There is no significant relation between Microfinance from SHG /Bank & employment given by MSME industry.

4.HO: There is no significant relation between Microfinance from Microfinance Institution & employment given by MSME industry.

Regression .2

Table 2.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.998	0.976	0.989	.0485

a. Predictors: (Constant), Microfinance Account Holder (in lakhs), microfinance loan from MFIs (in lakhs), microfinance loan from bank-SHG(in lakhs)

Table 2.2 : Coefficients^a

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	628.893	5.185		121.280	.005
	Microfinance loan from bank-SHG(in lakhs)	3.615	.126	4.958	28.760	.022
	Microfinance (in lakhs)	-.462	.034	-.642	-13.645	.047

a. Dependent Variable: Employment (in lakh person)

From table 2.1 & 2.2 it can be seen that P value (Sig.) is less than 0.05. Hence we are failed to accept Null Hypothesis Ho. Hence alternative hypothesis is true that is;

3H1: There is a significant relation between Microfinance from SHG /Bank & employment given by MSME industry.

4.H1: There is a significant relation between Microfinance from Microfinance Institution & employment given by MSME industry.

The coefficient table is useful to have correlation coefficient between independent and dependent factors. It shows that 3.615 is correlation coefficient between microfinance loan and total employees in small scale industries. It better understand in equation form.

$$X = a + B_1y + B_2y_1 + \dots + 2$$

total employees in small scale industries = 628.893 + 3.615 (microfinance loan from Bank –

SHG) -0.462 (Microfinance loan from Microfinance Institutions).

6.HO: There is no significant relation between Microfinance from Microfinance

The R square value is 0.989 explains 98.9 percentage of relationship between variables which is very good.

The above regression is supporting that, total employment in small scale industry and microfinance from SHG, microfinance from Microfinance institutions having significant relations with beta values of 3.615 & -0.462. Though there has been negative relation between employment of small scale industries and loan from microfinance institutions which may happen because of technological enhancement of small scale or not having skilled employees.

Hypothesis

5.HO: There is no significant relation between Microfinance from SHG /Bank & fixed investment for MSME industry.

Institution & fixed investment for MSME industry.

Regression .3

Table No. 3,1 : Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0.965	0.955	0.971		0.176

a. Predictors: (Constant), Microfinance Account Holder (in lakhs), microfinance loan from MFIs (in lakhs), microfinance loan from bank-SHG(in lakhs)

Table No. 3.2 :Co-efficients^a

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	628462.897	3862.579		162.706	.004
	Microfinance loan from bank-SHG(in lakhs)	8541.562	93.627	5.875	91.230	.007
	Microfinance loan from MFIs(in lakhs)	-1106.646	25.207	-.771	-43.903	.014

a. Dependent Variable: Fixed investment (in crores)

From table no; 3.1 & 3.2 it can be seen that P value (Sig.) is less than 0.05. Hence we are failed to accept Null Hypothesis Ho. Hence alternative hypothesis is true that is;

5.H1: There is a significant relation between Microfinance from SHG /Bank & fixed investment for MSME industry.

6.H1: There is a significant relation between Microfinance from Microfinance Institution & fixed investment for MSME industry.

The coefficient table is useful to have correlation coefficient between independent and dependent factors. It shows that 8541.562is correlation

The above regression is supporting that, total investment in small scale industry and

coefficient between microfinance loan and fixed investment in small scale industries. It better understand in equation form.

$$X= a+ B1y+B2y1 \dots\dots 3$$

Fixed investment in small scale industries = 628462.897+ 8541.562 (Microfinance loan from

Bank - SHG) -1106.646 (Microfinance loan from Microfinance institutions)

The R square value is 0.971 explains 97.1 percentage of relationship between variables which is very good.

microfinance from SHG, microfinance from Microfinance institutions and

microfinance account holders are having significant relations with beta values of 8541.5 & -1106.6.

Hypothesis

7.HO: There is no significant relation between Microfinance from SHG /Bank & production of MSME industry.

8.HO: There is no significant relation between Microfinance from Microfinance Institution & production of MSME industry.

Regression.4

Table 4.1: Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0.977	0.998	0.985		0.0511

a. Predictors: (Constant), Microfinance Account Holder (in lakhs), microfinance loan from MFIs (in lakhs), microfinance loan from bank-SHG(in lakhs)

Table 4.2: Coefficients^a

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	890310.865	5472.681		162.683	.004
	Microfinance loan from bank-SHG(in lakhs)	12100.431	132.655	5.875	91.218	.007
	Microfinance loan from MFIs (in lakhs)	-1567.755	35.714	-.771	-43.898	.014

a. Dependent Variable: Production (in Rs. Crore)

From table 4.1 & 4.2 it can be seen that P value (Sig.) is less than 0.05. Hence we are failed to accept Null Hypothesis Ho. Hence alternative hypothesis is true that is;

7.H1: There is a significant relation between Microfinance from SHG /Bank & production of MSME industry.

8.H1: There is a significant relation between Microfinance from Microfinance Institution & production of MSME industry.

The coefficient table is useful to have correlation coefficient between independent and dependent factors. It shows that 8541.562 is correlation coefficient between microfinance loan and fixed investment in small scale industries. It better understand in equation form.

$$X = a + B_1y + B_2y_1 \dots \dots 4$$

Productions from small scale industries =
890310.865 + 12100.431 (microfinance
loan from

Bank - SHG) -1567.755 (microfinance
loan from Microfinance institutions) .

The R square value is 0.985 explains 98.5
percentage of relationship between
variables which is very good.

Above regression suggest that, total
production in small scale industry and
microfinance from SHG and microfinance
from Microfinance institutions are having
significant relations with beta values of
12100.4 & -1567.7 respectively. Though
there has been negative relation between
total production of small scale industries
and loan from microfinance institutions
which may happen because of global
competition.

Results and Findings

From the data analysis it can be found that
for Hypothesis No;1 to 8 P value is less

than 0.05 hence we fail to accept Null
hypothesis, Hence alternate Hypothesis are
accepted which suggest for the significant
relationships between variables as below:

1. Microfinance from self-help group has positive impact on growth of total no. of small scale industry as beta is 4.21. Whereas, microfinance institute's impact is negative on total no. of small scale industries. That could be because of rigid distribution methods of microfinance institutions.
2. Total employment in small scale industry and microfinance from SHG, microfinance from Microfinance institutions having significant relations with beta values of 3.615 & -0.462. Though there has been negative relation between employment of small scale industries and loan from microfinance institutions which may happen because of technological enhancement of small scale or not having skilled employees.
3. Total investment in small scale industry and microfinance from SHG, microfinance from Microfinance institutions and microfinance account holders are having significant relations with beta values of 8541.5 & -1106.6 respectively. The negative correlation between total cost of investment & microfinance may be due to high rate/cost of loan by MFIs.

4. Total production in small scale industry and microfinance from SHG and microfinance from Microfinance institutions are having significant relations with beta values of 12100.4 & -1567.7 respectively. Though there has been negative relation between total production of small scale industries and loan from microfinance institutions which may happen because of global competition.
5. For objective No;3 finding is The number of self-help groups(SHG)s savings linked increased to about 7.5 million with a member base of 98.1 million. The SHG bank linkage programme (SBLP) and the microfinance institutions (MFIs) put together achieved a growth in their customer base by about 10.8 per cent. The combined borrowing customer base increased to 93.9 million from 86.3 million in the previous year. The SBLP recorded a growth of 4.9 per cent in the number of members of SHGs that had active borrowings from banks. There was an increase of about 4.7 million customers of MFIs. The growth rate of MFIs in terms of

customer outreach was of the order of 17.6 per cent per annum. Hence, it becomes apparent that in INDIA MSME had played significant role in employment generation, improvement in GDP as well as economy as a whole.

Conclusion

To conclude it can be said that there is a considerable impact of microfinance on growth of small scale industries. It is observed that Microfinance from SHG has significant positive impact for growth of MSME industry, increase in employment, Production by MSME units & it is also observed that as the total investment requirement is high there is a tendency to take microfinance from SHG/Banks. While there is a significant negative correlation between Microfinance from Microfinance Institutions & growth of MSME industry, production of Industry, increase in employment, finance in case of total investment. This might be due to various reasons like rigid distribution norms, high rate/cost of loan, up gradation of small scale units , technological up gradation due to lack of skilled person & global competition. fixed investment in technology, cultural differences between employee and employer,

improper use of fund received from MFIs or SHGs, Various cost of acquiring microfinance loan which need further research. This study has made effort to develop regression line to predict for the future and to say up to what extent small scale industry factors are having impact of microfinance factors.

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