

The Impact of Microfinance Institutions on MSME Performance: A Case Study of Haveri District

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Abstract:

This research paper examines the role of microfinance institutions (MFIs) in the performance of Micro, Small, and Medium Enterprises (MSMEs) within the Indian economy, specifically in Haveri. The study aims to address a gap in the literature by investigating the impact of MFIs on MSME performance. A survey was conducted involving 100 MSME proprietors using an interview schedule. The data collected from respondents were analyzed and interpreted using the Statistical Package for the Social Sciences (SPSS). Frequency distributions and Chi-square tests were employed to interpret the results. The findings indicate that access to adequate microfinance positively impacts business sales volume, profits, and capital.

Key words: microfinance, micro, SME and microfinance institutions.

Introduction

Microfinance institutions are primarily designed to help poor people overcome poverty and thereby contribute to economic growth and development. These institutions create jobs and facilitate the development of underdeveloped and rural areas. According to the government's Annual Report for the period 2024-25, there is currently 7.02.53.716 micro, small and medium enterprises (MSEs) in India. It is necessary to understand the basic nature of the micro, small and medium-sized enterprises, including their classification, characteristics, role and importance in the socio-economic development of India. Small and medium-sized enterprises (SMEs) are a key mechanism for supporting entrepreneurship. The micro, small and medium-sized enterprises sector has expanded steadily in recent years. The performance of small and medium-sized enterprises (SMEs) is considered to be the backbone of the Indian economy. Many owners start and manage businesses with the support of an MSME, which includes both service and manufacturing businesses. Living standards have improved...

Review of literature

Subina Syal (2020) in the title of this article, *The Role of Microfinance and MSMEs in the Growth of the Indian Economy*, notes that microfinance and MSME performance are at the heart of the three dimensions of poverty, social and environmental performance, and therefore the impact of the microfinance programme on the growth of the event.

Bessant Farghky and colleagues (2021) in their paper called "The Effect of Microfinance on the Sustainable Development of Micro, Small, and Medium Enterprises (MSMEs) - An Empirical Study in Egypt" aim to analyze how a microfinance scheme influences the sustainable growth of MSMEs by looking at three key areas: economic, social, and environmental performance. Layyinaturrobaniyah and others (2023) in their article "Microfinance Institutions and MSMEs Performance in the Framework of Poverty Alleviation" show important findings that indicate microcredit has a harmful and significant effect on poverty levels and the performance of MSMEs. **Jesca Mhoja Nkwabi And Leodgerb.Mboya (2024)** in this article's title "A Review of Factors Affecting the Growth of Small and Medium Enterprises (SMEs) in Tanzania" observed, The paper concludes that financial constraints, capital constraints, poor technology, and tight regulations to be the foremost significant impediments to SME growth in Tanzania.

Micro Credit

Microcredit is a completely small mortgage and it offers to the owners from the microfinance organization and not using collateral. It could be very beneficial to begin a brand new commercial enterprise and advanced an agency additionally. Microfinance establishments to encourage self-employment to expand owners from one level to some other level. The preferred of dwelling additionally improves new small organisations and additionally expanded. Lifestyle modifications, environment additionally advanced. Very enormous Indian monetary improvement every day improvements.

Microfinance

Microfinance refers to financial services to low-income individuals or those who do not have access to typical banking services. Microfinance is not a new concept of microcredit. Small microcredit operations have existed, since the mid1700s. Since then, innovation in microfinance services to the poor continue to evolved microfinance institutions. In the Haveri district, the following institution offers microfinance credit.

- Navachetana Microfinance Services Pvt Ltd
- Suryoday Small Finance Bank ESAF Small Finance
- Muthoot Fincorp Ltd
- HDB Financial Services Ltd
- Manappuram Finance Ltd
- Fedbank Financial Services Ltd

Objectives of the Study

The present research work covers the following objectives To analyses the utilization of Microfinance by MSMEs. To highlights impact of Microfinance credits to achieve sales, profit and capital structure.

Research Methodology This research is empirical covered two types of data as primary and secondary. The primary data are collected mainly from microfinance users in the rural and urban areas of the Haveri district. An Interview schedule was canvassed to the selected users of Microfinance proprietor in the study area to collect the data. Aspects covered in the interview schedule are Profit of enterprise and impact of microfinance credit on sales,profit, and capital structure. For the study, a sample size of 100 has been taken from Five taluks of the Haveri district ($5 \times 20 = 100$). Such as the Simple random sampling structure method. The Secondary data were collected through the published document, journal, magazine, Microfinance reports, and newspaper.

Data Analysis and Findings

Table: 1, Age of the Enterprises

Age	Frequency	Percentage (%)
Below 5years	15	15.00
5-10 years	62	62.00
Above 10	23	23.00
Total	100	100

From Table-1. Observe that, 77 enterprises belong to the age of 5 to 10 years and 18 enterprises belong to the age of below 5 years.

Table:2
Location of the Enterprises

Location	Frequency	Percentage(%)
Rural	55	55.00
Urban	45	45.00
Total	100	100

From Table 2. Observe that,63 enterprises are maximum in rural areas and 57 enterprises are minimum in urban areas.

Table-3 Type of Business

Type of Business	Frequency	Percentage(%)
Manufacturer	58	58.00
Wholesaler	27	27.00
Service Provider	15	15.00
Retailer	12	10.0
R&D - (Technology)		
Total	100	100

From Table 3. Observes that 58 enterprisestype of business are maximum in manufacturer company, and 4 enterprises type of businessare minimum in Research & Development- (Technology).

Table-4
Credit loan is taken from Microfinance.

From Table 4: Observed that 49 enterpriseshavetaken maximum loans below ₹25,000 and 14 enterpriseshavetakennegative loans above ₹ 1,00,000.

Amount	Frequency	Percentage(%)
Below ₹ 25,000	36	40.83
₹ 25,000-₹ 50,000	14	13.33
₹ 50,000-₹ 1,00,000	38	34.17
Above ₹ 1,00,000	12	11.67
Total	100	100

Table-5

Impact of MFIs credit on Sales Revenue of MSMEs

Sales Revenue	Frequency	Percentage(%)
Increased	64	64.00
Stable	36	36.00
Decreased	12	10.00
Total	120	100

From Table 5, observed that to understand the impact of microcredit on the growth of the MSMEs the factors selected were sales revenue. 64 enterprises replied that the sales revenue increased and 12 enterprises showed a negative change in their sales revenue.

Table -6, Impact of MFIs Credit on Profitability of MSMEs

Credit on Profitability	Frequency	Percentage(%)
Increased	72	60.00
Stable	35	29.17
Decreased	13	10.83
Total	120	100

From Table 6, observed that 72 enterprises replied that their profit increased and 13 enterprises replied a negative change in their profit.

Table-7 ,

Impact of MFIs credit on the capital structure of MSMEs

Credit on Capital	Frequency	Percentage
Stable	53	53.00
Increased	47	47.00
Decreased	19	15.83
Total	100	100

From Table 7, 53 enterprises replied that their capital structure remained stable and 19 enterprises replied that their capital structure negative.

Table -8

Impact of MFIs credit on physical assets of MSMEs

Credit on Physical Assets	Frequency	Percentage (%)
Increased	74	61.67
Stable	39	32.05
Decreased	7	5.83

From Table 8, Observed that, 74 enterprises replied that their physical assets increased and 7 enterprises replied that physical assets negative.

Table-9

Role of Microfinance in the achievement of sales revenue using crosstabs

Have you taken a loan from MFIs in Rural and Urban areas* Achievement in sales revenue Crosstabulation

Areas		Achievement in sales revenue			Total
		Decreased	Stable	Increased	
Rural	Yes Count % within have you taken a loan from MFIs	8 9.89%	19 24.18%	53 65.93%	80 100.0%
Urban	No Count % within have you taken a loan from MFIs	5 24.14%	12 58.62%	3 17.24%	20 100.0%
Total	Count % within have you taken a loan from MFIs	14 13.3%	34 32.5%	64 54.17%	120 100.0%

From Table 9, Observed that enterprises who have taken credit from MFIs, 60 enterprises sales have increased in rural areas, 9 enterprises sales have decreased in rural areas, 17 enterprises sales revenue has increased in urban areas, 5 enterprises sales has decreased in urban areas. **Table-10**

Table-10

Role of Microfinance in the achievement of profitability using crosstabs

Have you taken loans from MFIs in Rural and Urban *Achievement in profitability Crosstabulation?

Areas		Achievement in profitability			Total
		Decreased	Stable	Increased	
Rural	Yes Count % within have you taken a loan from MFIs	8 8.70%	18 19.57%	66 71.74%	92 100.0%
Urban	No Count % within have you taken loan from MFIs	6 21.43%	17 60.71	5 17.86	28 100.0%
Total	Count % within have you taken loan from MFIs	14 11.67%	35 29.17%	71 59.16%	120 100.0%

From Table 10 , Observed that, enterprises who have taken credit from MFIs, 66 enterprises profit has increased in rural areas, 8 enterprises profit has decreased in rural areas, 17 enterprises profit has stable in urban areas, 5 enterprises profit has increased in urban areas.

Table-11
Role of Microfinance in achievement of Capital structure using crosstabs
Have you taken loan from MFIs in Rural and Urban*Achievement in Capital Size Cross tabulation:

Areas		Achievement in capital size			Total
		Decreased	Stable	Increased	
Rural	Yes Count % within have you taken loan a from MFIs	16 17.39%	35 38.04	41 44.57	92 100%
Urban	No Count % within have you taken a loan from MFIs	2 1.67%	5 12.5%	11 9.17	28 100%
Total Count		18	50	52	120
% within have you taken loan from MFIs		15.0%	41.67	43.33	100%

From Table 10, Observed that enterprises who have taken credit from MFIs, 41 enterprises capital structure has increased in rural areas, 16 enterprises capital structure has decreased in rural areas, 11 enterprises capital structure has increased in urban areas, 2 enterprises capital structure has decreased in urban areas.

Conclusion

This study looks at how Microfinance Institutions (MFIs) help Micro, Small, and Medium Enterprises (MSMEs) in India. It focuses on small business owners who have borrowed money from MFIs. The study checks different parts of their business: 1. Better owner performance 2. Starting new businesses 3. Creating new types of businesses 4. Effects of microfinance loans on: The study also explores how microfinance affects the growth of the Indian economy. By looking at these areas, the research wants to show how well microfinance helps MSMEs and boosts economic growth in India. To support this study, consider: 1. Setting clear ways to measure each part of business performance 2. Comparing business performance before and after getting microfinance loans 3. Studying a wide range of small businesses in different fields 4. Looking at possible problems or limits of microfinance in helping MSMEs 5. Checking if the improvements from microfinance last over time These points will help understand how microfinance institutions improve MSME performance and their effect on the Indian economy.

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