Industrial Engineering Journal
ISSN: 0970-2555
Volume : 53, Issue 1, No. 5, January : 2024

ROLE OF FINANCIAL INSTITUTIONS IN THE GROWTH OF MICRO ENTERPRISES

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Abstract:
The economic landscape of developing nations is significantly shaped by the presence and effectiveness of micro enterprises, which play a pivotal role in poverty alleviation and economic development. This paper explores the indispensable role of financial institutions in fostering the growth of micro enterprises and their contribution to sustainable development. Financial institutions, ranging from traditional banks to microfinance institutions, act as catalysts by providing access to crucial financial services such as credit, savings, and insurance. Through tailored financial products, these institutions empower micro entrepreneurs to initiate and expand their enterprises, thereby contributing to job creation and income generation at the grassroots level.
Keywords: Financial institutions, growth, micro enterprises

1. Introduction

India is a country with a population of over 1.3 billion people, and yet, a significant portion of its population remains unbanked. This means that they do not have access to basic financial services such as savings accounts, loans, and insurance. Micro financial institutions (MFIs) have emerged as a solution to this problem, providing financial services to the unbanked population.MFIs are organizations that provide financial services to low-income individuals and small businesses. These institutions offer small loans, savings accounts, insurance products, and other financial services to people who do not have access to traditional banking services. MFIs operate in both rural and urban areas and have become an important part of the financial landscape in India.The growth of MFIs in India can be traced back to the 1970s when the government launched various poverty alleviation programs. These programs aimed to provide credit to small businesses and farmers who did not have access to formal banking services. In the 1990s, the government introduced policies to encourage the growth of MFIs, which led to the emergence of new players in the market.Despite their many benefits, MFIs face several challenges. One of the biggest challenges is the lack of regulation in the sector. This has led to some MFIs engaging in unethical practices, such as charging high interest rates and using aggressive debt collection methods. Another challenge is the difficulty in accessing funding, as many banks are hesitant to lend to MFIs due to their perceived risk.

Technology has played a significant role in the growth of MFIs in India. Many MFIs have adopted digital technologies such as mobile banking and online loan applications to reach more customers and streamline their operations. These technologies have also helped to reduce costs and improve efficiency, making it easier for MFIs to provide financial services to the unbanked population.Financial inclusion is the process of providing access to financial services to all members of society, regardless of their income level or location. It is an important goal for governments and financial institutions around the world, as it promotes economic growth and reduces poverty. MFIs play a crucial role in achieving financial inclusion in India, as they provide financial services to those who are excluded from the formal banking system.The future of MFIs in India looks promising. The government has recognized the importance of financial inclusion and has launched various initiatives to support the growth of MFIs. The Reserve Bank of India has also introduced regulations to govern the sector, which will help to promote ethical practices and protect consumers.

The COVID-19 pandemic has had a significant impact on the Indian economy, and MFIs have not been immune to its effects. Many MFIs have reported a decline in business due to the economic slowdown caused by the pandemic. However, some MFIs have adapted by offering loan moratoriums and other relief measures to their customers.Responsible lending is an important concept in the microfinance industry. It involves providing loans to customers who have the ability to repay them, and ensuring that the loans are used for productive purposes. Responsible lending practices help to prevent over-indebtedness and protect consumers from predatory lending practices.MFIs have emerged as an important solution to the problem of financial exclusion in India. They have helped to reduce poverty, promote economic growth, and support small businesses. However, they face several challenges, including a lack of regulation and difficulty in accessing funding. The future of MFIs in India looks promising, and with the right policies and regulations in place, they can continue to play a crucial role in achieving financial inclusion and promoting economic development.

2. Literature review

Gopal and Schnabl (2023)employed both descriptive and explanatory designs and a quantitative research approach. The study targeted 352 women clients of Assosa Woreda Microfinance Institution, and 165 samples were selected using a simple random sampling technique. The data were collected through a questionnaire and analyzed through the statistical package for social science (SPSS) 26 software. The findings from the descriptive mean analysis indicate that the microfinance institution financial and non-financial services offered were found unable to significantly empower disadvantaged and poor women by improving their livelihood and development of their business. The correlation result also indicated a positive and significant association between saving practice, access to credit, skill development training, and the development of women entrepreneurs. Finally, the regression result saving and the credit or loan services of the microfinance institution service have the most decisive influence on women's entrepreneurship development.

Ayalu et al. (2023) revealed that MSEs contributed to economic growth, employment formation, and income generation for the local community. In addition, the study indicated that the MSEs were significantly affected by different determinant factors such as infrastructures, raw material, working premises, and human capital. The study clearly showed that there was a gender gap over participation in different MSE sectors. In addition, many sectors which can employ more people are still managed by men. This shows that the bodies involved, such as the MSE Development Offices, Bureau of Cooperatives, and Bureau of Works and Social Affairs, should join their hands and allow women to enter traditionally male-dominated sectors such as construction, manufacturing, and urban farming. Above all, greater efforts should be made to consider both female- and male-owned businesses.

Erukude and Ibiamke (2022) found that the success of microfinance interventions in promoting the growth of microenterprises is influenced by a number of factors, such as the level of interest rates, the repayment period and the loan size. The study highlights the importance of improving access to finance for microenterprises in Nigeria, particularly through the development of microfinance institutions and other alternative financial service providers. The authors suggest that policymakers should support the development of the microfinance sector to promote inclusive economic growth and reduce poverty.

Alemu and Kouser (2022) found that the impact of microfinance on women's empowerment varies depending on various factors, including the type of microfinance institution, the level of education and skills of the women, and the type of economic activity they engage in.The authors suggest that microfinance institutions should focus on enhancing the impact of microfinance on women's empowerment by providing more comprehensive services, such as business training, financial education, and social support. The study highlights the importance of taking a multidimensional approach to women's empowerment, which considers the interrelated nature of economic, social, and political empowerment.

Alzoubi (2022) concludes that microfinance can be a powerful tool for empowering women in Jordan, but this requires a more comprehensive approach that considers the multidimensional nature of empowerment. The authors suggest that microfinance institutions should provide more comprehensive services, such as business training, financial education, and social support, to enhance the impact of microfinance on women's empowerment. Additionally, they recommend that policymakers should work to address the structural and cultural barriers that limit women's empowerment in Jordan.

Agarwal and Kanojia (2022) conducted a study in India to assess the impact of inclusive microfinance on rural development. The study was based on a survey of 300 rural households, with a focus on the use of microfinance services, the extent of financial inclusion, and the impact of microfinance on household welfare and development.The study found that microfinance services are crucial for rural households in India, as they provide access to credit, savings, and insurance services that are otherwise unavailable. The use of microfinance services has a positive impact on household welfare, with increased income, savings, and asset ownership.Moreover, the study highlights the role of microfinance in promoting financial inclusion in rural areas.

3. Research Methodology

3.1 Research design

1. Purpose of the study: This study analyze the role of financial institutions in developing micro enterprises during different stages of their life cycle.
2. Type of Research Design: This study attempts to gain insight into the role of financial institutions in developing micro enterprises during different stages of their life cycle. Thus, this research is descriptive in nature as it aims to ascertain the degree to which relationships exist between a set of variables.
3. The Study Setting: As this research is a correlational study, it was conducted in non-contrived settings whereas rigorous causal studies are done in contrived lab settings.
4. Time Horizon of the Study: This research is basically a single cross-sectional study as only one sample of respondents is drawn from the target population, and information is obtained from this sample only once (Malhotra and Birks, 2006). Also, the data was collected just once over a period of months in order to achieve the research objectives.
5. Data Collection: It helps to define the marketing research problem and develop an approach. It refers to the process of collecting data associated with the variables that are considered in the study. This study is based on primary sources of data / information. In the present study, a structured close-ended questionnaire was designed specifically for conducting the survey and acquiring primary data. Self-administered questionnaire method chosen for obtaining responses.
6. Data Analysis: All the collected data was subjected to appropriate analytical tools for a comprehensive, descriptive and inferential statistical analysis on various parameters using SPSS software.

3.2 Sampling Design

Target population: The population/universe for this study consists of micro enterprises from Bhopal.
Sampling frame: For the purpose of this research, respondents were selected from India. The questionnaire has been prepared by adapting estimator scales directly from the literature. The measurement items have been adapted from the previous studies to ensure that validity and reliability are maintained while carrying out the research.
Sample size: This research has a sample size of 500 owners of micro enterprises. A questionnaire with far too many missing values and replies that have been entirely unengaged was rejected.
Sampling Technique: Because the participants of the study are indeed a specific segment of the population instead of a general cross-section, a convenience-sampling approach was used instead of a probability sampling procedure. Participants in convenience sampling among us are readily available and willing to engage in research. Random sampling technique has been used for collecting information from customers.

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4. Results and discussion

4.1 Demographic Profile

Table 1. Demographic profile of respondents

Variable	Frequency (%)
Gender (n=472)	
Male	335(70.9)
Female	137(29.0)
Age (n=472)	
31-35	121(25.6)
36-40	166(35.1)
Above 40 years	185(39.1)
Qualification (n=472)	
Graduate	278(58.9)
Postgraduate	194(41.1)

From Table 4.1, it can be observed that the majority of respondents were male (70.9%). On the basis of age, the majority of respondents belonged to the age group above 40 years (39.1%). On the basis of qualification,the majority of respondents are graduate (58.9%).These statistics provide valuable insights into the composition of the surveyed population, offering a comprehensive overview of the gender, age, and educational diversity among the participants. Such demographic information is crucial for researchers, policymakers, and organizations aiming to understand and cater to the specific needs and characteristics of different groups within the population.

4.2 Hypothesis testing

H1o. There is no significant impact of financial Institutions on the growth of Micro Enterprises
H1a. There is a significant impact of financial Institutions on the growth of Micro Enterprises
To test the above hypothesis, Regression is applied.

Table 2: Impact of financial Institutions on the growth of Micro Enterprises

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.051	0.135		15.198	0.000
	Financial Institutions	0.37	0.04	0.387	9.368	0.000

From the above table,financial Institutions has an impact on the growth of micro enterprisesas p value is less than 0.05. Thus, null hypothesis is rejected and alternate hypothesis is accepted.Their impact is felt through various channels that provide essential financial resources, support, and expertise to these small-scale businesses.Firstly, financial institutions offer accessible and tailored financial products and services designed to meet the specific needs of micro enterprises. This includes microloans, lines of credit, and other forms of financing that may not be readily available from traditional banks. These funds enable micro entrepreneurs to invest in equipment, inventory, marketing, and other critical areas of their businesses, spurring growth and expansion.Furthermore, financial institutions provide valuable financial advice and expertise to micro entrepreneurs. This guidance helps them make informed decisions about managing their finances, optimizing cash flow, and strategically allocating resources. By offering financial literacy programs and advisory services, these institutions empower micro enterprises with the knowledge

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H2o. There is no significant difference in challenges faced by micro enterprises with respect to demographic of owners
H2a. There is a significant difference in challenges faced by micro enterprises with respect to demographic of owners
To test the above hypothesis, ANOVA is applied.

Table 3: Significant difference in challenges faced by micro enterprises with respect to demographic of owners

		Sum of Squares	df	Mean Square	F	Sig.
Age	Between Groups	0.127	1	0.127	10.108	0.000
	Within Groups	556.797	470	1.175		
	Total	556.924	471			
Occupation	Between Groups	0.319	1	0.319	11.287	0.000
	Within Groups	117.368	470	0.248		
	Total	117.687	471			

Based on the above table, it is observed, challenges faced by micro enterprises with respect to demographic of owners is significant. Therefore, there is a significant difference in the challenges faced by micro enterprises with respect to demographic of owners.

5. Conclusion

Based on the testing of hypothesis H1 results showed that financial Institutions has an impact on the growth of micro enterprises. Thus, null hypothesis is rejected and alternate hypothesis is accepted.Their impact is felt through various channels that provide essential financial resources, support, and expertise to these small-scale businesses.Firstly, financial institutions offer accessible and tailored financial products and services designed to meet the specific needs of micro enterprises. This includes microloans, lines of credit, and other forms of financing that may not be readily available from traditional banks. These funds enable micro entrepreneurs to invest in equipment, inventory, marketing, and other critical areas of their businesses, spurring growth and expansion.Furthermore, financial institutions provide valuable financial advice and expertise to micro entrepreneurs. This guidance helps them make informed decisions about managing their finances, optimizing cash flow, and strategically allocating resources. By offering financial literacy programs and advisory services, these institutions empower micro enterprises with the knowledge and skills needed to navigate the complexities of running a successful business.
Based on the testing of hypothesis H2 results showed that challenges faced by micro enterprises with respect to demographic of owners is significant.The challenges encountered by micro-enterprises are indeed significantly influenced by the demographics of their owners, particularly in terms of age and occupation. Younger entrepreneurs often face hurdles associated with limited industry experience, a smaller professional network, and potential skepticism from clients and investors due to their relatively shorter track record. On the flip side, older entrepreneurs may grapple with adapting to rapidly changing technologies, staying abreast of evolving market trends, and ensuring the continued relevance and innovation of their enterprises. Additionally, the occupation of the micro-enterprise owners plays a crucial role. Those in traditional sectors may struggle with the adoption of digital technologies, marketing in the online landscape, and attracting younger consumer demographics. Meanwhile, owners in tech-driven occupations may face challenges in scaling their ventures, managing increased competition, and ensuring sustained growth. These age- and occupation-related

challenges underscore the need for targeted support mechanisms, mentorship programs, and educational resources that address the specific needs of diverse micro-enterprise owners. Recognizing and addressing these demographic nuances is essential for creating an inclusive entrepreneurial ecosystem that empowers individuals across various age groups and occupational backgrounds to overcome challenges and thrive in their respective ventures.

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