

# Impact of Microfinance on Micro Enterprises: A Study with Reference to Growth and Financial Literacy of Small Enterprises

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**Abstract:-** Microfinance is considered as one of the most vital tool for the success of most of the small enterprises. The required support for the growth of small enterprise is provided for microfinance. This study tries to found out the impact of microfinance on micro enterprises that are aiming for financial literacy and Growth in Tumakur city of Karnataka. The data has been collected by the structured questionnaire and method of has been adopted by the convenience sampling technique. The 100 respondents are taken as sample size who are operating the small and medium enterprises in Tumakur. By using SPSS Software for analyzed and one Sample t test and mean the statistical tools are used. The results reveal that there is a positive association of Micro finance a growth and financial literacy of small enterprises.

**Keywords:-** Microfinance, Micro Enterprises, Growth, Financial Literacy.

## I. INTRODUCTION

Microfinance is the term used to describe small-scale financial services, mainly credit and savings that are given to individuals who run small and micro enterprises in developing countries. These enterprises produce, recycle, repair, or sell goods, and they also offer services to other individuals and groups at the local level, both in rural and urban areas (Robinson, 2001). Microfinance comprises a variety of products and a system of intermediate roles aimed at low-income consumers, as well as the supply of financial services and small-scale money management. Therefore, microcredit or microfinance has been linked to empowering low-income individuals to independently and correctly account for their small businesses. Most people agree that one of the biggest obstacles to developing in low-income nations is the lack of access to credit.

## II. LITERATURE REVIEW

“Mishra (1984)” aims to analyse the nature of financing and role of the various agencies including commercial banks in meeting the need of finance in North Bengal and to examine the problems faced by entrepreneurs. The researcher has considered the commercial banks have one of the agencies along with the other agency and it is based on secondary source of information. “Singhanian (1998)”

examine the flow of bank credit to small scale industry in India and also evaluates the impact of various packages of measures announced by RBI. “Vimala (2003)” Analyses the performance of different banks groups in their advances to small scale industries in the state of Kerala between 1993 -94 to 2000-01. The author concludes that there is no significant difference between the performances of the different bank groups in their SSI advances. “OECD (2006)” in its study of SME finance gap, identifies weak demand from SME’s and limitation in supply of funds has the indicative of gap. The responsibility is attached to both the financial sector has suppliers of funds and SME’s has the demanders of the fund. “Julius Kakuree (2008)” Aim to explore the experiences of bank officers and SMEs borrower in credit extension to the SME sector in Uganda. “(Smith & Watkins, 2012)” SMEs owner managers are so knowledgeable about their ventures, but are commonly not able to identify all the risk elements that have an impact on their business activities. “Sanath Divakara (2000 to 2017)” The paper examined and categorised all recent facts of SMEs under five hegemonies such as definitions, global opportunities, innovation and R&D, internationalisation, Failures & Constraints of the SMEs. Entrepreneurial activity behind SMEs has been recognised as a major driving force for innovation and economic growth in all economics Audretsch (2001) SMEs have a particularly important role to play in the process of job creation in transition economics since they may generate jobs for those who are dismissed from large firms undergoing restructuring or privatisation. “Monica Verma (2017)” the present study has been undertaken to examine the performance of Micro Finance Institutions worldwide based on the data collected from Micromax web and also tries establishing whether gender diversity imports the financial performance data have been analysed using SPSS. “Muheruk Khan (2017)” he identifies the India is a large country with vast socio cultural diversity in its various regions. The development issues related to women in a large country like India will not only be appropriate but sometimes even misleading, women specific women related legislation have been enacted to safeguard the rights and interest of women beside protecting against discriminations violence and atrocities and also to prevent socially undesirable practices. The Gender Role on Microfinance performance a distinctive trend “Priyanka Priya Darshani (2017)” he has observed the impact of Microfinance on social, economic and capability well being of families below poverty line, with

special reference to deodar district in Jharkhand. The influence of Microfinance institutions (Micro Finance Institutions) on Micro and Small and Enterprises (MSEs) in Kenya (Albertina Jere) he defines Micro financing has been as a viable alternative to providing financial services to entrepreneurs in the MSEs Sector. The focus of this study was to explore the role of Micro Finance Institutions in the development of MSEs and to see if there are ways in which this role can be enhanced to better support the growth of MSEs. “**Nyathi M, Benedict OH (2017)**” he identify the bookkeeping is regarded as a day to day function of a business operation in tracking cash inflows of a business operation in tracking cash inflows and cash outflows micro entrepreneurs emanate from a wide range of disciplines with or without bookkeeping knowledge. The purpose of this paper was to analyse micro entrepreneurs bookkeeping practices with in the retail clothing industry in Cape Town. “**Leithy W.E (2017)**” the researchers were able to identify several competencies that contribute to achieving entrepreneurs’ success. The statistical results show two most significant competency groups impacting the entrepreneurial success. Ability to attract outside capital, growth in revenues and providing value added products or services towards creating an entrepreneurial competencies model. “**Sanath Divakara (2018)**” the study reviewed previous publications of the social organisations across the world and ranked journal articles published on year 2000 to 2017. The findings were categorised into five hegemonic themes such as definitions global opportunities innovations and R&D internationalisation and constraints. “**Muogbo Uju Sussan Tomala obamuyi (2018)**” the impact of microfinance bank on entrepreneurship development in Nigeria. This study examined the impact of micro finance bank on entrepreneurship development in Anambah state. To achieve stated objectives of the study and there research questions were formulated the descriptive research design was adopted for the study. “**Syed Hussain Haider (2018)**” and yet it has been observed that despite the availability of access to finance the performance of several SMEs is poor which is major hurdle in the growth rate of small and medium enterprise. It has been established that entrepreneurship is a very vital ingredient for job creation as well as economic development as the success of income generation for the major group of the rural and urban inhabitants without recognised paid job highly depends on entrepreneurship. “**Van Praag and Versloot (2007)**” have identified four economic benefits of

entrepreneurship: job generation, innovation, productivity and growth. SMEs are now recognised by researchers, analysts and policymakers as central to economics across the world, through their contributions to wealth creation, income generation.

### III. RESEARCH METHODOLOGY

The study utilized both primary and secondary data. The secondary data was gathered from numerous journals, books, websites, and yearly reports. Primary data was acquired from a field survey using structured questions. The convenience sampling approach is used to acquire primary data. The survey was completed by 100 Tumakur-based small business owners. The data is evaluated using SPSS software, and the statistical tools utilized include one-sample t-test and mean.

#### ➤ *Scope of the Study*

The scope is confined to only micro enterprises operating in Ballari district of Karnataka.

#### ➤ *Objectives of the Study*

- To study the impact of microfinance on growth of micro enterprises.
- To study the association between financial literacy skill and growth of micro enterprises.

#### ➤ *Hypotheses*

- Ho: There is no significant association between microfinance financing and Growth of micro enterprises.
- Ho: There is no significant relationship between provision of financial literacy skills and development of micro enterprises.

#### ➤ *Conceptual Frame work*

The study to examine the impact of microfinance on micro enterprises the study conducted on convincing sample method among study with reference to growth and financial literacy of small enterprises the study also aims to identify the relationship between Growth and Financial literacy therefore the method adopted for this research is micro-finance and micro-entrepreneurs which explains this relationship between the factors.

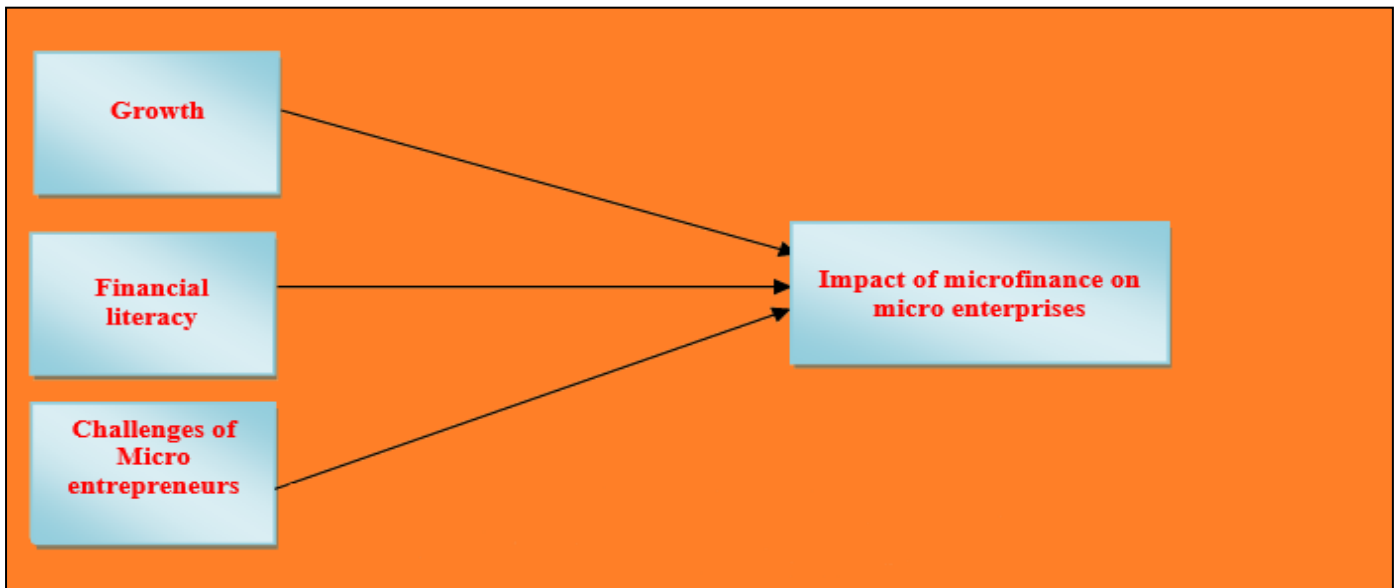


Fig 1 Conceptual Frame Work Impact of Microfinance on Micro Enterprises

Table 1 Demographic Variable

Age Group	Frequency	Gender	Frequency	Level of Education	Frequency	Marital Status	Frequency
Valid				Valid			
15-25	04(4%)	Male	44 (44%)	Illiterate	12(12%)	Married	86(86%)
25-35	18(18%)	Female	56(56%)	Upto 10 <sup>th</sup> std	32(32%)	Un married	14(14%)
35-45	40(40%)			Upto 10+2	24(24%)		
45-55	34(34%)			Graduate	14(14%)		
55 and above	04(4%)			Post Graduate	18(18%)		
<b>Total</b>	<b>100</b>	<b>Total</b>	<b>100</b>	<b>Total</b>	<b>100</b>	<b>Total</b>	<b>100</b>

**(Table 1) Demographical Variable:** The above table analyses the demographic traits of the research participants in terms of gender, age, marital status, and educational attainment. The majority of these business owners, or 40% of the study population, are between the ages of 35 and 45, according to the statistics. This indicates an increase in the number of middle-aged individuals engaged in small-scale entrepreneurial ventures. It may be inferred that the majority

of respondents were married; indicating that married, mature individuals are capable of giving insightful answers and frequently consult when conducting business. According to the gender statistics, 44% of respondents are men and 56% are women, indicating that women are more likely to be visible and responsive to researcher questionnaires and interviews. Regarding.

Table 2 One-Sample Statistics

<b>Growth of Micro Enterprises through Microfinance</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Std. Error Mean</b>
Use of mobile banking has reduced operational costs in our business	100	4.1000	.99488	.14070
Ability to adopt though trading environments	100	3.1400	.94782	.13404
Business groups facilitated by Micro enterprises has increased marketing for our products	100	4.4400	.81215	.11486
We are able to Sustain our business in a better way due to management skills provided by Micro Finance Institutions	100	4.0400	.90260	.12765
Micro Finance Institutions have increased the level of financial literacy among micro enterprises owners	100	4.2400	1.1168	.15795
Providing micro enterprises suitable loan products had decreased financial challenges among micro entrepreneurs	100	4.8000	.67006	.09476
Favorable interest rate among many Micro Finance Institutions has facilitated easy loan repayment among micro enterprises	100	4.6800	.74066	.10474
Follow up programmes has ensured that micro enterprises use the loans for the provided services	100	4.0200	1.0971	.15516

Table 3 One-Sample Test

Growth of Micro Enterprise through Microfinance	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Use of mobile banking has reduced operational costs in our business	31.983	99	.000	4.1000	4.2173	4.7827
Ability to adopt though trading environments	23.425	99	.000	3.1400	2.8706	3.4094
Business groups facilitated by micro enterprises has increased marketing for our products	38.657	99	.000	4.4400	4.2092	4.6708
We are able to Sustain our business in a better way due to management skills provided by Micro Finance Institutions	31.610	99	.000	4.0400	3.7835	4.2965
Micro Finance Institutions have increased the level of financial literacy among micro enterprises owners	26.845	99	.000	4.2400	3.9226	4.5574
Providing micro enterprises suitable loan products had decreased financial challenges among micro entrepreneurs	100.65	99	.000	4.8000	4.6096	4.9904
Favorable interest rate among many Micro Finance Institutions has facilitated easy loan repayment among micro entrepreneurs	44.680	99	.000	4.6800	4.4695	4.8905
Follow up programmes has ensured that micro entrepreneurs use the loans for the provided services	25.909	99	.000	4.0200	3.7082	4.3318

**Growth of Micro entrepreneurs through Micro finance** ( Table 2 and 3) it has been found from the above table that growth of micro entrepreneurs has happened due to interventions of Micro Finance Institutions, and it is observed that use of mobile banking has reduced operational costs in our business has significance value of .000 and a mean value of 4.1000, followed by ability to adopt through trading environments has a p value .000 and a mean value of 3.1400 , business groups facilitates by the Small business has increased marketing of our products have p value .000 and a mean value of 4.4400, it is also found that we are able to sustain our business in a better way due to management skills provided by MFIs has a p value is 000 and a mean value is

4.0400 and also MFIs have increased the level of financial literacy among micro enterprises owners has p value is .000 and a mean value is 4.2400, providing micro enterprises suitable loan products had decreased financial challenges among micro entrepreneurs p value is .000 and a mean value is 4.8000, and it also observed favorable interest rate among many MFIs has facilitated easy loan repayment among the micro entrepreneurs has significance value is .000 and a mean value is 4.6800, and followed by the programmes has ensured that Small business use the loans for the provide services have p value is .000 and a mean value is 4.0200, on the whole Null Hypothesis can be rejected and Alternative Hypothesis is accepted.

Table 4 One-Sample Statistics

Financial Literacy Skills and Growth of Micro Enterprise	N	Mean	Std. Deviation	Std. Error Mean
Most micro enterprise owners/mangers are able to do basic accounting for their business	100	4.8200	.66055	.09342
There is high level of documentation of business activities among micro entrepreneurs	100	3.7600	1.00122	.14159
Poor financial skills among micro enterprise has been a major hurdle towards their development	100	4.3800	.94524	.13368
Most micro enterprise have changed their view on adopting of financial innovation among banks	100	3.4600	1.03431	.14627
Majority of micro enterprise are able to manage business finance and personal finance and grow	100	4.1800	1.18992	.16828

Table 5 One-Sample Test

Financial Literacy Skills and Growth of Micro Enterprise	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Most micro enterprise owners/mangers are able to do basic accounting for their business	51.597	99	.000	4.8200	4.6323	5.0077
There is high level of documentation of business activities among micro entrepreneurs	26.555	99	.000	3.7600	3.4755	4.0445
Poor financial skills among micro enterprise has been a major hurdle	32.766	99	.000	4.3800	4.1114	4.6486

towards their development						
Most micro enterprises have changed their view on adopting of financial innovation among banks	23.654	99	.000	3.4600	3.1661	3.7539
Majority of micro enterprise are able to manage business finance and personal finance and grow	24.839	99	.000	4.1800	3.8418	4.5182

**Financial Literacy Skills and Growth of Micro Enterprises -** (Table 4 and 5) The table shows that provisions of financial literacy skills has significance influence on Growth and financial literacy of Small entrepreneurs, it's found from the above table that most of owners or managers are able to do basic accounting for their business has significance value less than .05 its p value is .000 and mean value is 4.8200, followed by high level of documentation of business activities among Micro entrepreneurs have p value of .000, and mean value is 3.7600, and it is also identified that poor financial skills among Micro entrepreneurs has been

major hurdle towards their development has p value of .000 and a mean value is 4.3800, and it is also observed that most of the Small Entrepreneurs have changed their view on adopting of financial innovation among banks has p value of .000 and a mean value is 3.4600, and it is also found that majority of Small Entrepreneurs are able to manage business finance and personal finances and grow also has an significance value less than .05 (p value .000) and a mean value is 4.1800, On the whole Null Hypothesis is rejected and Alternative Hypothesis is accepted.

Table 6 Descriptive Statistics

Challenges preventing growth of Small Enterprises	N	Mean	Rank
Lack of finance	100	2.4800	4
Business Management skills	100	1.7800	5
Lack of Market for products	100	2.7400	3
Poor financial literacy	100	3.3600	1
Lack of Information for growth	100	2.7700	2
Valid N (list wise)	100		

**Challenges preventing growth of small Entrepreneurs( Table No 6)** The above table shows the under challenges preventing growth of Small enterprises the factors have been ranked as follows, poor financial literacy ranks first as the mean is highest having the value of (3.3600) followed by Lack of information for growth ranks second having mean of (2.7700), Lack of market for products ranks third having mean of (2.7400), Lack of finance ranks fourth having mean of (2.4800) and Business management skills ranking least with mean of (1.7800).

#### IV. CONCLUSION

The various programs that surround the microfinance institution are all geared at giving poor households, various business organizations, and small business owners in general financial literacy and growth and growth services. According to Morduch (2000), the Micro Finance Institutions' operational focus seems to be adequate for a range of programs, with entrepreneurship development serving as a primary focus. According to a review of the research, microfinance institutions are clearly useful tools for the growth of small businesses because of the roles they play in the Tumakur, Karnataka, and economy. Through their services and functions, such as deposit mobilization at consumers, micro finance institutions have been acknowledged as one of the major players that positively affects individuals, small company owners, business organizations, the government, and the economy at large.

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