“Microfinance Bank, A panacea for SME’s sickness”
A Case of Gulbarga District, Karnataka

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Abstract
This study investigated the impact of microfinance on SMEs growth in Gulbarga District, Karnataka. The population of the study consists of the SMEs in Gulbarga. However, the study was restricted to Gulbarga metropolis. Purposive sampling technique was used to select the participating SMEs. Simple random sampling technique was used to select a total of 25 SME operators that constituted our sample size. Pearson correlation coefficient and multiple regression analysis were used to analyze the data. The outcome from this study showed that financial services obtained from Microfinance Banks (MFBs) have positive significant impact on SMEs growth in Gulbarga. The results also revealed that duration of loan has positive impact on SMEs growth but not statistically significant. The results also showed that high interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs in Gulbarga. The paper recommended that MFBs should lighten the condition for borrowing and increase the duration of their customers’ loan and also spread the repayment over a long period of time.

Key words: Microfinance bank, SMEs, Growth, Gulbarga

Introduction
Small and medium enterprises (SMEs) have been the backbone of the Indian economy. SME sector employs close to 40% of India’s workforce and contributing 45% to India’s manufacturing output, SEMs play a critical role in generating millions of job, especially at the low skill level. The country’s 1.3 million SMEs account for 40% of India’s total exports. At 48 million, India has the second largest number of SMEs in the world. China leads with 50 million. Contribution of small and medium enterprises to the country’s gross domestic product (GDP) is expected to increase to 22% by 2020, from the present 17%. Despite its commendable contribution to the nation’s economy SME sector does not get the required support from the concerned Government Department, Banks, Financial Institutions and corporate, which is a handicap in becoming more competitive in the national and international markets. SMEs face a number of problems, absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low production capacity, ineffective marketing strategy, identification of new markets, constraints on modernization and expansion, non-availability of highly skilled labour at affordable cost, follow up with various government agencies to resolve problems etc.

From small efforts of starting informal self-help groups (SHG) to access the much-needed savings and credit services in the early 1980s, the microfinance sector has grown significantly today. The fact that national bodies like Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD) are devoting significant time, energy and financial resources on microfinance is an indication of the reckoning of the sector. The strength of the microfinance organizations (MFOs) in India is in the diversity of approaches and forms that have evolved over a period of time. While India has its home-grown model of SHGs, and mutually aided
co-operative societies (MACS) there is significant learning from other microfinance experiments across the world, particularly Bangladesh, Indonesia, Thailand and Bolivia.

Asia has been leading the global exposure to microfinance: it is estimated that in 2010, 75% of the world’s microfinance borrowers (around 74 million borrowers) were based in Asia (Microfinance Information Exchange, 2012). Seven out of every 10 of such borrowers live in India (32 million) or Bangladesh (22 million). One of the greatest challenges before the Indian subcontinent which accommodates more than one-third of the population is poverty. India, one of the BRICS nations with more than 1.28 billion population is seen by many developed countries as an emerging economy. Furthermore, over the past decade India has become the most dynamic country for microfinance. While the number of borrowers in Bangladesh remained broadly stable in the 2000s, after an earlier period of growth in the 1990s, in India the number of borrowers increased 5-fold in just six years until 2010. In 2011, there was an estimated $4.3 billion given out as loans to around 26.4 million borrowers in India, most of whom (nearly 90%) were concentrated in just two states: Andhra Pradesh and Tamil Nadu.

**Objective of Study**

- To assess the contributions of micro-financing to the survival of small and medium enterprises in India
- To analyze the total capital invested by small and medium enterprises and to identify the contribution of financing through MFIs.
- To study the effective utilization of capital loans provided by MFIs to small and medium enterprises.
- To investigate whether capital loans and services of MFIs to small and medium enterprises lead to the growth and development of the organization.
- To find the awareness level the people about the various schemes and concept of Microfinance.

**Research Scope**

The provisions of Article 371 (J) of the Constitution, aimed at bringing about all-round development in six districts of the Hyderabad-Karnataka region — Gulbarga, Yadgir, Bellary, Bidar, Raichur and Koppal. With the Centre accoring special status to the region, the six districts will have more access to funds from the Union government for human resource development, social welfare programmes, agricultural activities, reservation in government jobs, quick approvals for development projects, and speeding up of irrigation projects in the region. This gives more opportunities for the growth of small and medium enterprises and Microfinance Institutions.

**Literature Review**

Maruthi Ram Prasad, Sunitha and Laxmi Sunitha (2011) conducted a study on Emergency and Impact of Micro-Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs, etc the microfinance scene in India has reached in take off stage. An attempt could be initiated to promote a cadre of new generation micro-credit leaders in order to strengthen the emergence of Micro-Finance Institution (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation.

According to Ranjami (2012) SMEs and entrepreneurship are now recognized worldwide as key source of economic growth and development. Kolawole (2013) contends that small and medium scale enterprises play a very important role in developing economies. This view appears to be supported by Chijah and Forchu (2010) when they argue that the promotion of micro enterprises in developing countries is justified in their abilities to faster economic growth, alleviate poverty and generate employment.

Rahmat, Megananda and Achmad Maulana (2006) conducted a study on The Impact of Microfinance to Small and Medium Enterprise’s Performance and the Improvement of Their Business Opportunity. Results of this study find several interesting issues, such as Microfinance has positive impact to improvement of MSE’s Performance Indicated by sales, the difference of regional characteristic of
MSE is also play 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.

Research Methodology
The population of the study consists of the SMEs in Gulbarga district. However, the study was restricted to Gulbarga metropolis. Purposive sampling technique was used to select the participating SMEs. Simple random sampling technique was used to select a total of 20 SME operators that constituted our sample size. The primary data consists of a number of items in well-structured questionnaire that was administered to and completed by the respondents. To ensure the validity and reliability of the questionnaire, experts in the field of microfinance were consulted to review the questionnaire. A pilot test which took the form of test–retest method was conducted prior to the actual study. Pearson Correlation Coefficient and Multiple Regression Analysis were used to analyze the data.

Research questions
i. Is there any relationship between microfinance bank loan and SME growth?
ii. Does microfinance bank have significant capacity to influence SME growth?

Research hypotheses
H1: There is no significant relationship between Microloan and SME expansion capacity.
H2: Microfinance does not have significant capacity to influence SME growth.

Model Specification
The economic model used in the study (which was in line with what is mostly found in the literature) is given as: Small Business Growth =f(Microfinance variables)
Microfinance variables = (Loan Disbursement, Interest Rate, Loan Duration, Loan Repayment, and Collateral Security). Therefore,
SBC =β0 + β1 LDM+ β2 IRR+ β3 LDR+ β4 LRM + β5COS+ µ i
Where;
SBC = Small business growth
LDM = Loan disbursement
IRR = Interest rate
LDR = Loan duration
LRM = Loan repayment
COS = Collateral security
µ = disturbance term
β = intercept
β1 – β3 = coefficient of the independent variables

Data Analysis
Correlation

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan disbursement</td>
<td>0.905**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate</td>
<td>-0.211*</td>
<td>-0.019</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan duration</td>
<td>0.358**</td>
<td>-0.305**</td>
<td>0.334**</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan repayment</td>
<td>-0.845**</td>
<td>-0.211*</td>
<td>0.298**</td>
<td>0.790**</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Collateral security</td>
<td>-0.764**</td>
<td>-0.329**</td>
<td>0.264**</td>
<td>0.854**</td>
<td>0.729**</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Note: ** P < .01, * P<.05.
The result in table shows that loan disbursement and loan duration have positive significant relationship with SMEs growth (r= 0.905; 0.358; df =54; P<.01) respectively. This result implies that the increase in loan disbursement and loan duration lead to increase in SMEs growth. While the
relationship between interest rate, loan repayment, collateral security and SMEs growth is negative and significant ($r = -0.211; -0.845; -0.764; \text{df} = 54; P<.05$). This result implies that the higher the interest charges, frequency of loan repayment and collateral demanded the lower the expansion of SMEs in Gulbarga District.

Furthermore, the result shows that loan disbursement is a key for expansion of SMEs in Gulbarga with highest ($r = 0.905$). This indicates that microfinance loan contributes 98.5% to the expansion capacity of SMEs in Gulbarga. Therefore, hypothesis I which says that there is no significant relationship between Microloan and SME expansion capacity is rejected.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.975</td>
<td>0.951</td>
<td>0.948</td>
<td>0.108</td>
</tr>
</tbody>
</table>

a. Dependent Variable: sales growth
b. Predictors: (Constant), loan repayment, interest rate, loan duration, collateral security, loan disbursement

Coefficients

a. Dependent Variable: sales growth

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-.202</td>
<td>.146</td>
<td></td>
<td>-1.383</td>
</tr>
<tr>
<td>loan disbursement</td>
<td>.456</td>
<td>.058</td>
<td>.456</td>
<td>7.901</td>
</tr>
<tr>
<td>interest rate</td>
<td>-.034</td>
<td>.016</td>
<td>.059</td>
<td>-2.166</td>
</tr>
<tr>
<td>loan duration</td>
<td>.006</td>
<td>.017</td>
<td>.010</td>
<td>.355</td>
</tr>
<tr>
<td>collateral security</td>
<td>-.120</td>
<td>.051</td>
<td>.121</td>
<td>-2.349</td>
</tr>
<tr>
<td>loan repayment</td>
<td>-.449</td>
<td>.067</td>
<td>-.449</td>
<td>-6.721</td>
</tr>
</tbody>
</table>

Table 2,3,4 show that microfinance variables (loan disbursement, interest rate, loan duration, loan repayment and collateral security) were significant joint predictors of small and medium enterprises (SMEs) growth with $R^2 = 0.951$; $F (56, 76) = 295.318; P <.01$. The predictor variables jointly explained 95.1% variance of SMEs growth, while the remaining 4.9% could be due to the effect of extraneous variables. From table 4 it can be deduced that loan disbursement has the highest beta ($\beta = 0.456$) this implies that the amount of loan being disbursed by MFBs has strong influence on SMEs expansion in Gulbarga. This indicates that loan on MSMEs growth shows that a unit increase in loan will increase SMEs growth by 45.6%. Duration of loan shows that it has positive impact on SMEs growth but not statistically significant, this means that the duration of the loan is too short for any meaningful impact SMEs growth. On repayment of asset loan, the result obtained shows a negative impact on SMEs growth, this indicate that as frequency of repayment is increased, SMEs growth will decrease by 44.9%. Interest rate being charged by FMBs, the result obtained shows as native correlation with SMEs; this indicates that as interest rate is increased, SMEs growth will decrease by 5.5%. The result reveals that collateral security has negative impact on SMEs growth. This indicates that as demand of collateral security increase, SMEs growth will decrease by 12.1%. Therefore, hypothesis II which says that microfinance does not have significant capacity to influence SME growth. is rejected.
Conclusion and Recommendations

This study investigated the impact of microfinance on SMEs growth in Gulbarga. The results from this study showed that financial services obtained from MFBs have positive significant impact on MSEs growth in Gulbarga. The results also revealed that duration of loan has positive impact on SMEs growth but not statistically significant, which means that the duration of the loan is too short for any meaningful impact SMEs growth. The results also showed that high interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs in Gulbarga. Based on this conclusion, it is therefore, recommended that MFBs should lighten the condition for borrowing and increase the duration of their customers’ loan and also spread the repayment over a long period of time. In order to achieve this, MFBs should recapitalize and assist their customers by providing training on credit utilization and provide information on government programmes to MSE operators in the country.

References

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