

# FACTORS AFFECTING THE ROLE OF MICRO FINANCE IN THE SUSTAINABILITY OF STARTUPS IN INDIA

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This paper attempts to describe the role of microfinance in the sustainability of start ups in India. Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in 1976. Microfinance sector has shown tremendous growth in the past few decades. The low income group (particularly female) can be benefitted and can start their own small scale businesses with the help of low interest credit program of Microfinance schemes. This programs help in alleviating poverty by spreading financial services to unbanked sections of population, and millions of poor households are served globally. Simultaneously, the Indian Government has gifted the young and creative population with the concept of start ups. The microfinance bridges the gap between the implementation of creative ideas and lack of finances. Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling etc. Although, still start ups are far behind in getting these benefits and there is huge gap between the MFI(s) and the growth of startups and their sustainability. In describing emerging situation, this paper highlights the factors affecting and maintaining sustainability of these start ups in India. Factor analysis techniques has used to identify the factors required for the role of MFI in the sustainability of startups and to reduce poverty through savings programs of it. Micro insurance should be perceived as a key service in the financial needs package of the people and in conjunction with micro savings and micro credit could go a long way in keeping the vulnerable segment away from the poverty trap and could be an integral component of financial inclusion. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low-income borrower without imposing unbearably inflated cost of monitoring its end use upon the lenders.

**Index Terms :- Innovation, Micro finance, Start ups, Sustainability, Poverty alleviation**

## INTRODUCTION

According to GOI, in a microenterprise, the limit of investment in plant and machinery is Rs. 25 lakhs and the investment in equipment does not exceed Rs. 10 lakhs. Several authors have considered microenterprise development (MED) as a tool for poverty alleviation and women empowerment, an engine for growth, etc. (GUHA, 2014) . MFI are helpful tool in alleviating poverty and attaining inclusive financial growth. In north east India, which is considered to be economically backward, MFI(s) are considered as magic wand in catering the financial needs of the inhabitants. Therefore financial prosperity of such MFI(s) is of much importance.

Microfinance plays an important role in the developing country of the world. In India it significantly contributes in the development of employment, output and improving the livings of people especially in rural.

Microfinance institutions fill a needed gap within the financial services industry by offering small loans, or micro-loans, to people unable to access conventional loan services.

Therefore the following points strongly support the more study in the field of Micro finance.

- It is a viable mean for poverty alleviation. (Morduch, 2002)
- Lack of finance /credit is a constraint for existing and potential micro enterprises (GUHA, 2014)
- Poor are able to save despite their low level and sporadic incomes.

## LITERATURE REVIEW

The field of micro finance has grown in size and stature since its humble origins in 1976 in Bangladesh. The Micro Finance world of today is a world of fast growth, changes in the market and most importantly stiff competition. In this environment achieving and staying in tune with the mission is a real challenge. Against such improvement the present study has been carried out to study of review literature in Indian Microfinance sector.

## EVOLUTION OF MFI IN INDIA

Year	Stages of Evolution
<b>Initial Period</b>	
1974	Shri Mahila Sewa Sahakari Bank owned and managed by women to provide financial services to women in the unorganized sector.
1984	Shri Mahila Sewa Sahakari Bank owned and managed by women to provide financial services to women in the unorganized sector.
<b>Change</b>	
2002	The provisioning norm for the unsecured lending to SHG brought on par with other secured loans.
2004	The RBI included MFI lending within the priority sector and recognized MFIs as a tool for financial inclusion.
2006	The Government shut down branches of some microfinance companies due to allegations of high interest rates, unethical recovery practices and poaching clients from SHGs.
<b>Growth and Crisis</b>	

2007	Favorable regulations, economies of scale and significant growth drew players into the market. MFI loan book stood at INR35b.
2009	Microfinance Institutions Network (MFIN) was started, all NBFC-MFIs are eligible for membership.
2010	Andhra crisis unfolded — allegedly coercive debt collection practices led poor borrowers to suicide. This led to an Ordinance from the Government and significant clamp down on MFI activities.
<b>Consolidation and Maturity</b>	
2012	The Malegam committee recommended significant changes in the sector and the RBI issued final notifications. The MFI loan book reduced to INR209b from INR216b.
2014	The RBI issued universal banking license to Bandhan, the largest micro lender in India in terms of assets. MFIN was formally recognized by the RBI as a self regulatory organization (SRO).
2015	The Government launched MUDRA Bank to help finance small businesses.
<b>From Rural to Urban</b>	
FY-15	The industry's outreach to urban clients was increasing every year and in FY15, for the first time in its history, Indian MFIs reported more urban clients than rural ones. The share of rural customers has drastically declined from 69% in FY12 to 33% in FY15.
	A large number of MFIs have shifted to an urban centric business model to cut down operating costs and maximize operational efficiency.

With financial inclusion emerging as a major policy objective in the country, Microfinance has occupied centre stage for extending financial services to unbanked sections of population. At the same time, practices followed by certain lenders have subjected the sector to greater scrutiny and need for stricter regulation.

The conclusions given by the different authors are as follows:-

Author	Year	Conclusion
R.C. Nagaraju and V. Ramesh reddy (reddy, 2016)	2016	to identify the latest issues, problems and challenges in effective implementation of various Microfinance programmes.
V. Vijaya Lakshmi, T. Malathi Latha (V. Vijaya Lakshmi, 2017)	2015	To examine the current status and growth of microfinance in India
Ranjani, K. S. (Ranjani, 2012)	2012	outlines the need for conceptual framework for regulation of MFI in India.
Vetrivel, S. C. <i>et al</i> (Kumarmangalam2, 2010)	2010	get an insight of the role of microfinance on women employment through Self Help Groups (SHGs) Bank Linkage Programs which has been successful not only in meeting financial needs of the rural poor women but also in strengthening collective self help capacities of the poor leading to their empowerment.
Jothi, V. N. (V.N., 2010)	2010	talk about an overview of evolution of microfinance for socio economic development.
Khavul, S. (Garry bruton)	2010	The finding shows microfinance has the appeal of bringing financial power to the people who need it must and whose resourcefulness and ingenuity it will fuel.
Imhanlahimi, E. J. and Idolor, J. E. (SEOGHENE JOSEPH, 2011)	2010	The findings identified vital constraints to the policy as including weak infrastructures and fraudulent persons in the process and some of the recommendations to improve the success of micro financing to reduce poverty in Nigeria are more efforts at institutionalizations of MFBs and financial liberalization.
Hollis, A. and Sweetman, A (Sweetman, Aidan Hollis and Arthur, 1998)	2007	The findings suggest that depositors could assist in controlling expenses in microfinance organization.

## RESEARCH GAP

On the basis of previous literature review, certain gaps have been identified in the research work done on the role of micro finance in the development of start ups in India. . In this research proposal, a total of 40 research articles have been used for literature review. Out of 40 research articles, major research articles have been published between the years 2012-18. The following gaps have been identified.

- 1) Most of the previous research has been done on the growth of micro finance institutions in India.
- 2) There is very less literature available on the role of micro finance in the development of start ups.
- 3) The previous literature doesn't provide ample information about the factors responsible for the developmental role of MFI in the start ups.
- 4) There is very less research on the variables which impact start ups in India.

- 5) The previous literature don't talk about various challenges faced by micro finance in the development of start ups in India
- 6) No research has been done so far that how micro finance as an investment is perceived by investors (start ups)?

## RESEARCH OBJECTIVES

- 1) To identify the factors affecting micro-finance investment in the Sustainability of start ups in India.
- 2) To frame a model of Micro finance institution in managing the credit and Sustainability of start ups in India.

## RESEARCH METHODOLOGY

This research aims to develop a framework that helps both academics and practitioners in understanding the factors that influence the role of Micro finance Institution in the sustainable development of start ups in Delhi-NCR. The primary data is collected, using structured questionnaire.

### Research Design

The research design for the present study was basically *descriptive and exploratory* in nature. The study started with exploratory research design in order to have a deeper insight of the changing global environment. The descriptive research design was used to describe the relationship between various dependent / Independent variables which were explored during exploratory study.

### Sampling Area

In order to have approximately the same representation of population in the sample, it was decided to collect data through judgemental sampling or purposive sampling method. The Delhi NCR region was divided into different blocks like North Delhi, Central Delhi, South Delhi, East Delhi and West Delhi and NCR are divided like Noida, Ghaziabad, Gurugram etc.

### Sample Size

This alludes to the source rundown from which the specimens were to be taken. It holds the names of every last one of things of the universe. For this research, start ups using funds of MFI and doing their business in Delhi NCR India were the respondents.

*Sample size will be taken for study is approximately 150*

### Sampling Technique

The researcher utilized amount inspecting partitioning into the NCR said above and in each of these zones non-random of purposive/Judgmental testing is utilized with the end goal of review. It is an examining system in which the example is gotten by selecting helpful populace units. With the end goal of the study, essential information was gathered with the assistance of a generally drafted Questionnaire given to MFI and start ups.

Further, Judgmental examining was taken after, as it is suitable for exploratory studies. Further Judgmental or purposive examining strategy was utilized for two reasons firstly respondents are chosen on the grounds that they happen to be in opportune spot at the ideal time and alternate is, comfort inspecting method is not proposed for elucidating or cool research yet they might be in exploratory examination for creating plans

## DATA ANALYSIS AND PRESENTATION

### Demographics

#### (a) Age of Respondent's

Particulars	Frequency	Percent	Cumulative Percent
Less than 30	50	47.6	47.6
31-40	40	25.7	25.7
41-50	30	38.25	38.25
51-60	30	38.25	38.25
Total	150	150.0	100.0

Ages are divided in 4 categories – Less than 30 years total respondents are 50, 31-40 years total respondents are 40, 41-50 years total respondents are 30, 51-60 years total respondents are 30 years

#### (b) Gender of respondents

Particulars	Percent	Percent	Cumulative Percent
Male	67	40.9	40.9
Female	83	59.1	59.1
Total	150	100.0	100.0

Out of the total 150 respondents collected, the male and female respondents were found to be 40.90% and 59.10% respectively. Thus, the total respondents were 150 out of which 67 are males and 83 were females.

### KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.701
	Approx. Chi-Square	292.680
Bartlett's Test of Sphericity	Df	231
	Sig.	.001

The results value of Bartlett's test of sphericity is significant i.e. 0.001 which is less than 0.05. The value of Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.701 which shows that sample size is adequate for the said study.



**Total Variance Explained**

Component	Initial Eigen values			Initial Sums of squared Loadings			Initial Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.059	20.395	20.395	3.059	20.395	20.395	1.863	12.420	12.420
2	1.349	8.993	29.388	1.349	8.993	29.388	1.695	11.299	23.719
3	1.315	8.769	38.157	1.315	8.769	38.157	1.590	10.603	34.322
4	1.172	7.811	45.967	1.172	7.811	45.967	1.357	9.044	43.366
5	1.056	7.040	53.007	1.056	7.040	53.007	1.327	8.845	52.211
6	1.018	6.787	59.794	1.018	6.787	59.794	1.137	7.583	59.794
7	.887	5.913	65.707						
8	.863	5.754	71.461						
9	.761	5.073	76.534						
10	.721	4.809	81.343						
11	.715	4.765	86.108						
12	.622	4.145	90.253						
13	.540	3.601	93.854						
14	.518	3.454	97.308						
15	.404	2.692	100.000						

Extraction Method: Principal Component Analysis This table summarizes the total variance explained by Factor Analysis solution and gives an indication about the number of useful factors. The first part titled Initial Eigen values gives the variance explained by all the possible factors the first column gives the Eigen values for all the possible factors in decreasing order. The total variance explained is equal to the total number of possible factors i.e. 6 in this case. Given the eigen-values, the output helps us to identify 6 factors which explain 59.79% of variance. Based on Varimax Rotation with Kaiser Normalisation, 6 factors have been extracted. Each factor is constitute do fall those variables that have factor loadings greater than 0.4. 6 factors were extracted from the 18 variables used in the study. These 6 extracted factors explained 59.79% of the variability of the factors which affect the Micro-Finance Investment in India.

**Identification of the core factors**

The Rotated Factor Matrix represents the rotated factor loadings, which are the correlations between the variables and the factors. The factor column represents the rotated factors that have been extracted out of the total factor. These are the core factors, which have been used as the final factor after data reduction. As per the grouping of the factors, each group of factors is named which will represent the grouped factor and represent the factors.

**Table: Total Variance Explained**

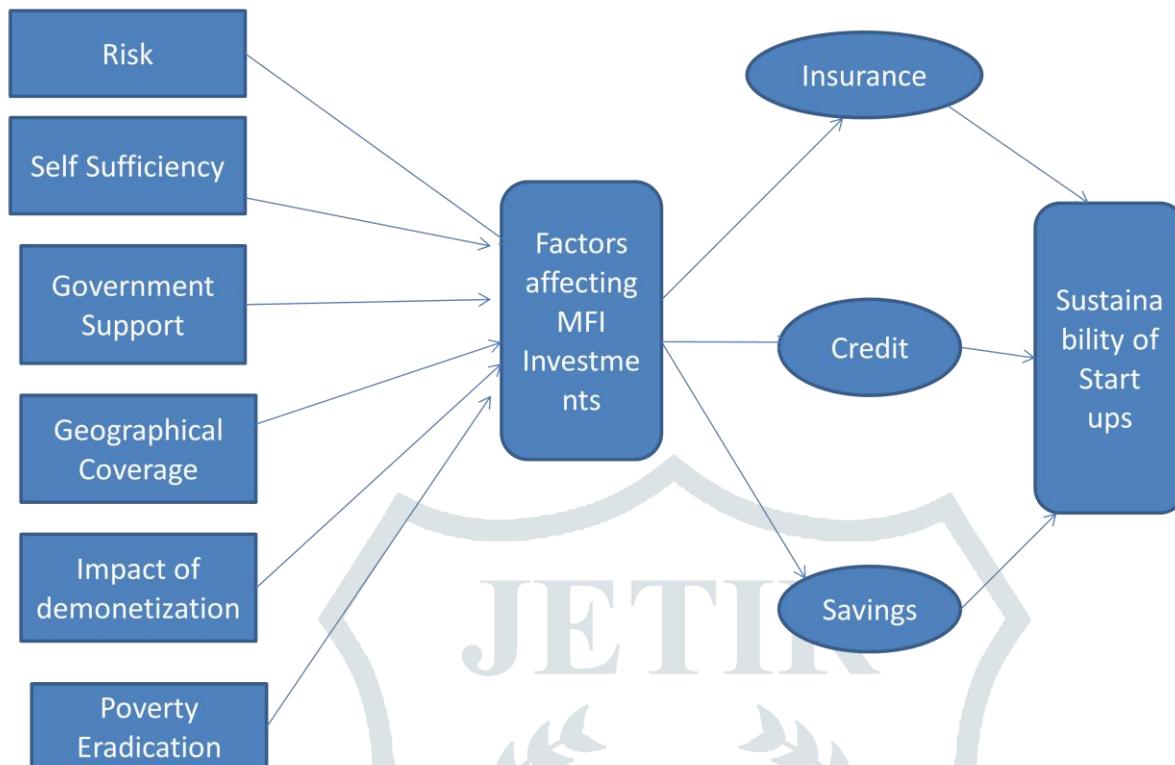
	Component					
	1	2	3	4	5	6
S1-Eradicating poverty	.148	.066	.110	-.076	-.040	<b>.791</b>
S4-Micro-Finance credit under privileged	.001	<b>.585</b>	-.078	.281	.335	.170
S5-sustainability assistance to the people	.255	<b>.479</b>	.229	-.118	.093	-.447
S7-Underprivileged not been assisted	-.132	.235	.131	<b>.811</b>	-.027	.044
S8-Investment reduces risk	.532	.002	.151	.065	<b>.455</b>	.276
S9-Long-term Investment is riskier	<b>.601</b>	.065	-.024	.080	.204	.106
S11-Inflation	.290	.213	<b>.636</b>	.041	.048	.211
S12-Risk of expensiveness	.172	.220	<b>.451</b>	.093	.137	.304
S13-Provide tax benefits to its investors	.488	-.126	.261	<b>.541</b>	-.147	-.064
S14-Competition reduces cost of services	<b>.736</b>	.225	.174	-.054	-.209	-.003
S16-Political interference harm their growth	.290	<b>.582</b>	.211	-.028	.068	-.090
S18-Impact of Demonetization	.030	.030	.092	-.012	<b>.885</b>	-.102
S19-Attainment of self-sufficiency level?	-.031	<b>.747</b>	.041	.101	-.149	.087
S20-Geographical coverage	.360	.008	-.217	<b>.521</b>	.240	-.110
S22- Government secure environment for growth of Micro-Finance Institutions	-.071	-.031	<b>.820</b>	.026	.020	-.121

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

#### Naming of the factors along with its Cronbach's alpha value

S. No	Factors responsible for sustainability of Start ups	Statements	Cronbach's Alpha
1.	Risk Evaluation	S-14, 9	.737
2.	Self sufficiency	S-19, 4, 16, 5	.801
3.	Government Support	S-22, 11, 12	.798
4.	Geographical Coverage	S-7, 13, 20	.824
5.	Impact of Demonetization	S- 8, 18	.801
6.	Poverty Eradication	S-19	.767



**Proposed model****SUMMARY & CONCLUSION**

- 1) MFI has played a significant role in Indian economy. It started in rural area, but now it has shown a remarkable presence in urban area also which shows that MFI are playing a major role in the sustainable development of nation.
- 2) The microfinance bridges the gap between the implementation of creative ideas and lack of finances. Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty and put them on the path of sustainable development.
- 3) Major factors identified in affecting the role of MFI in the development of start ups are RISK, SELF SUFFIECIENCY, GOVERNMENT SUPPORT, GEOGRAPHICAL COVERAGE, IMPACT OF DEMONET.IZATION and POVERY ERADICATION.
- 4) Both financial and non-financial services provided by microfinance banks and institutions have provided great assistance to the small businesses and have enhanced their business skills and the sharing of innovative ideas.
- 5) Micro-financing significantly promotes businesses by reducing the resource gap for small businesses. Micro-financing has a huge potential for increasing the performance of small businesses through the frequent contributions in micro-financing and provision of non-financial services.

- 7) For supporting start ups, MFI need to understand their unique requirements and to tailor financial services and build appropriate structure to them. Small businesses need access to funding for their businesses to flourish on a sustainable basis.

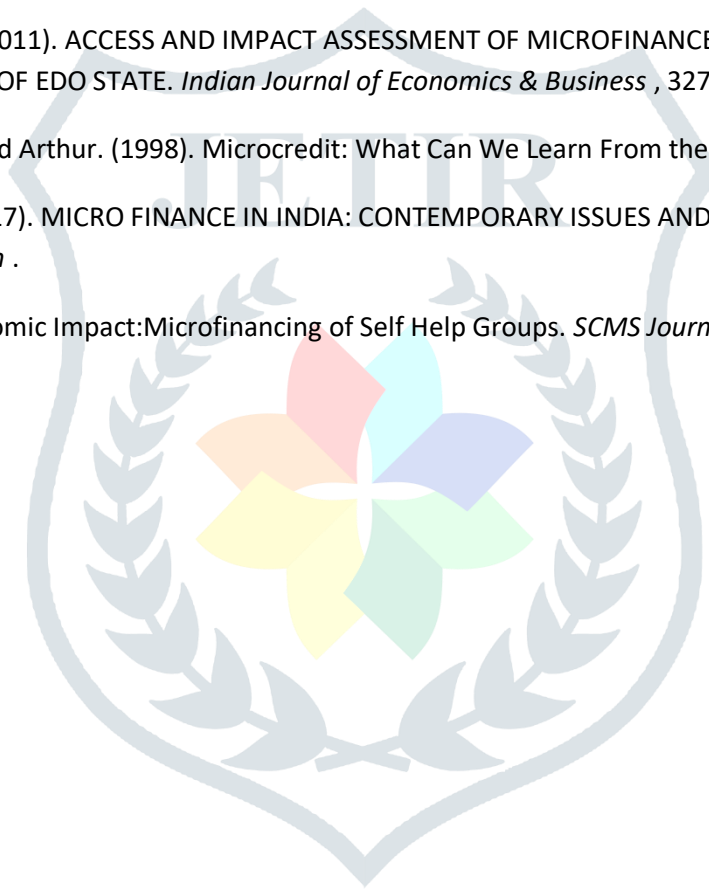
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## QUESTIONNAIRE

Micro finance is a source of finance to the poor segments of society. It includes loans, savings, credit, insurance services, money transfer and other basic financial services to the economically weaker section of society. I am currently conducting a survey for my research paper on the topic; — Factors Affecting Micro- Finance Investment in the sustainability of Start Ups in India. The purpose of this questionnaire is to measure the level of financial accessibility in Delhi region. I would be most grateful with your corporation. I assure you that none of the statement requires any personal information that could be detrimental to you. Thank you so much for your corporation and participation.

### SECTION A: GENERAL INFORMATION

Please fill in the spaces provided with information that is as accurate as is practicable.

NAME:.....

AGE:

- Less Than 30years
- 30-40 years
- 41-50 years
- 51-60 years
- Above 60 years
- Other: \_\_\_\_\_

GENDER:

- Male
- Female

MARITAL STATUS:

- Married
- Single



MAIL ID: .....

**SECTION B: FACTORS AFFECTING MICRO-FINANCE INVESTMENT IN THE SUSTAINABILITY OF START UPS IN INDIA**

S.no.	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Micro-Finance plays a very important role in eradicating poverty in India.					
2.	Micro-Finance provides credit to poor people.					
3.	Micro-Finance only help rural people to improve their lives in India.					
4.	Micro-Finance credit programs reached the underprivileged.					
5.	Micro-Finance provides sustainability assistance to the people.					
6.	Micro-Finance policy leads to entrepreneurial development in India.					
7.	Micro-Finance still have uneven coverage with large number underprivileged not been assisted yet.					
8.	Micro-Finance investment reduces risk.					
9.	Long-term Micro-Finance investment is riskier in India.					
10.	Advertising campaigns of Micro-Finance investment schemes make them popular.					



11.	Inflation attaches the Micro-Finance investment objective.					
12.	Micro-Finance investment objective attaches risk of expensiveness.					
13.	Micro-Finance institutions provide tax benefits to its investors.					
14.	Healthy competition among Micro-Finance institutions will decrease the cost of services.					
15.	The potential for growing Micro-Finance institutions is very high in India.					
16.	Too much political interference in Micro-Finance institutions may harm their sustainable growth.					
17.	Micro-Finance institutions contribute to the process of economic development.					
18.	Demonetization impacted the growth of Micro-Finance institutions in India.					
19.	Micro-Finance institutions provide adequate resources to needy people to attain self-sufficiency level.					
20.	Geographical coverage by Micro-Finance institutions in India influences their sustainability.					



21.	Government plays a proactive role in lending Micro-credit to alleviate poverty in rural areas.					
22.	Government plays a vital role to create a secure environment in which Micro-Finance institutions can flourish.					

