

# Impact of micro credit on the business of small entrepreneurs of Dehradun

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**Abstract:** This research paper is based on the impact of micro credit on the business of small entrepreneurs of Dehradun. A survey was conducted on 110 small entrepreneurs of Dehradun using structured questionnaire. Data from the respondents was analyzed and using the statistical package for social sciences (SPSS). Frequency distributions, Crosstabs and Chi square were used to draw conclusions. The study established that 90 entrepreneurs out of 110 entrepreneurs surveyed has taken credit from MFIs. Results show that there is positive relationship between MFIs credit and the development of small entrepreneurs (statistically significant at  $P \leq 0.05$  level of significant).

**Keywords - MFIs, SMEs, Chi square test, SPSS, SHGs..**

## 1. INTRODUCTION

Microfinance is a financial service that offers small loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional source of capital, like bank or investor. These types of financial services are provided to those individual who usually don't get loan approval from the traditional banks. The loans given under microfinance are in small amount. Poor people and small entrepreneurs face various challenges while applying for a loan to traditional banks. Microfinance is only option for poor entrepreneur to raise fund. The ultimate goal of microfinance to create financial inclusion and equality.

Micro finance in India is increasing on a rapid pace. Micro finance is a powerful tool for rural development. It has brought many changes in the lives of many rural poor people. By providing loan to rural people in the rural regions, micro finance are generating positive results and giving promise to the millions of poor through providing credit. The Self Help Groups (SHG) and Micro finance institutions plays a crucial role for poor people to access the financial services.

## MICROFINANCE PRODUCTS

- Credit
- Savings
- Insurance
- Non financial services like training, counselling etc.

## Channels of Micro finance

### SHG - Bank Linkage Programme (SBLP)

A Self Help Group is a small group of 10 to 20 persons of rural poor who come together to jointly contribute to common fund and meeting their emergency requirements.

## MICRO FINANCE INSTITUTIONS

MFIs include NGOs, entrepreneurs who provide small loans to individuals or SHGs. They also provide other services like facility building, technical assistance such as training, marketing of products etc.

## 2. LITERATURE REVIEW

Lack of access to finance has been identified as one of the major factor behind the no development of small entrepreneurs. Commercial banks mainly provide loans to large enterprises which have expertise of doing business. Commercial banks don't provide loan to small entrepreneurs as they considered it as risky investment.

Lawson, (2007) Small entrepreneurs has enough potential for the contribution in economic growth, many studies has done which states that the non availability of fund act as a barrier in the growth of small entrepreneurs.

Prasansa Kumari j.a. (2014) conducted a study on the impact of micro finance on small entrepreneur in Srilanka. The study focus on new entrepreneurs of agriculture, manufacturing and service sectors. The study shows that the micro credit and technical training programme is an important tools for the development of small entrepreneur.

Iidowu Friday Christopher (2010) conducted a study to find the Impact of Microfinance on SMEs in Nigeria-sized Enterprises in Nigeria. The study shows that majority of the SMEs got benefits from the MFIs credit. The findings also show that, the loan offered by MFIs has the positive impact towards the development of SMEs and the enhancement of their market share.

Sam Afrane (2002) directed an examination on Impact Assessment of Microfinance Interventions in Ghana and South Africa Synthesis of Major Impacts and Lessons. This paper audits two examinations led in Ghana and South Africa that concentrated basically on effect results. The results of the two contextual analyses have built up that microfinance intercessions has increased business profit, improved access to life-upgrading offices, and strengthening of individuals, especially women.

## 3. RESEARCH OBJECTIVES

The objectives of this research are:

1. Study the challenges faced by small entrepreneurs in obtaining the funds.
2. Determine the role of MFIs credit on the development of small entrepreneurs.
3. To study the impact of MFIs credit on the business of entrepreneurs.

## 4. RESEARCH METHODOLOGY

To study the research objectives the descriptive research is used. In this research primary data was collected through structured questionnaire. For this research 110 response was collected The sample was collected from the entrepreneurs of Dehradun city. The data collected from the respondents were analyzed through SPSS

### 4.1 Data analysis and interpretation:

**Table 1: Age**

	Frequency	Percent	Cumulative Percent
26 yrs. to 45 yrs.	71	64.54	64.54
46 yrs. and above	20	18.18	82.72
18 yrs. to 25 yrs.	19	17.28	100.0
Total	110	100.0	

**Interpretation:**

From the frequency table, we observe that out of 110 respondents, 71 respondents i.e. 64.54% of respondents belongs the age group of 26 years to 45 years; whereas 20 respondents or 18.18% of respondents are above 46 years of age and 19 respondents or 17.28% of respondents belongs to the age group of 18 years to 25 years

**Table 2: Gender**

	Frequency	Percent	Cumulative Percent
Male	65	59.09	59.09
Female	45	40.91	100.0
Total	110	100.0	

**Interpretation:**

From the above frequency table, we observe that out of 110 respondents, 65 respondents i.e. 59.09% of respondents are male; whereas 45 respondents or 40.91% of respondents are female.

**Table 3: Type of Business**

	Frequency	Percent	Cumulative Percent
Manufacturer	59	53.64	53.64
Wholesaler	24	21.82	75.46
Service Provider	15	13.64	89.1
Retailer	11	10	99.1
R&D - (Technology)	1	0.90	100.0
Total	110	100.0	

**Interpretation:**

From the above table, we observe that out of 110 respondents, 59 respondents i.e. 53.64% of respondents are manufacturer, 24 respondents or 21.82% of respondents are wholesaler, 15 respondents or 13.64% of respondents are providing services, 11 respondents or 10% of respondents are retailers and 1 respondents or 0.90 % of respondents provide R&D services.

**Table 4: Ever taken credit from MFIs**

	Frequency	Percent	Cumulative Percent
Yes	90	81.82	81.82
No	20	18.18	100.0
Total	110	100.0	

**Interpretation:**

It is observe that out of 110 respondents, 90 respondents i.e. 81.82 % of respondents have taken credit or loan from MFIs; whereas 20 respondents or 18.18 % of respondents have not taken any credit from MFIs.

**Table 5: Reasons for not taking the credit/loan from MFIs**

	Frequency	Percent	Cumulative Percent
Internal funds are sufficient	8	7.27	40
loan taken from banks	4	3.61	60.0
because of possible rejection	3	2.70	75.0
rate of interest is high	5	4.54	100.0
Total	20	18.12	
Missing System	90	81.88	
Total	110	100.0	

**Interpretation:**

In order to understand the reason behind lack of credit demand, they were asked to provide the reasons for not seeking loan. In response to this question 40% of them responded that they have sufficient internal fund and there is no need to raise finance from bank or other sources. 20% of them prefer taking loan from banks. 15% have not applied for any finance due to a belief that their loan application will be rejected by MFIs. 25% did not applied to MFIs due to high interest charged by MFIs.

**Table 6: Level of satisfaction of the borrowers of Microfinance****Satisfaction with Microfinance Products**

		Frequency	Percent	Cumulative Percent
	Satisfied	42	38.18	46.67
	Dissatisfied	23	20.91	72.22
	Very Satisfied	12	10.91	85.55
	Neutral	5	4.55	91.10
	Very dissatisfied	8	7.28	100.0
	Total	90	81.82	
Missing	System	20	18.17	
Total		110	100.0	

**Interpretation:**

Out of 110 respondents, 90 respondents have taken credit or loan from Microfinance Institutions. These respondents were asked to their satisfaction on the 5 point Likert scale. 1 being very satisfied and 5 being very dissatisfied. 46.67 % of respondents are satisfied with the products offered by Microfinance Institutions and 13.33 % of respondents are very satisfied. 25.55% of respondents are dissatisfied and 8.89 % of respondents are very dissatisfied, whereas 5.55 % of respondents are neutral.

**Table 7: Impact of MFIs credit on the development of business.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Increased	67	60.9	60.9	60.9
Stable	32	29.1	29.1	90.0
Decreased	11	10.0	10.0	100.0
Total	110	100.0	100.0	

**Interpretation:**

From the above table it is observed that out of 110 respondents, 67 respondents or 60.9% of respondents replied that their profit increased whereas 29.1% of respondent's profit remained stable. 10% respondents showed a negative change in their profit.

**Table 8: Impact of MFIs credit on the development of small entrepreneurs****Have you taken credit from MFIs \* Impact Cross tabulation**

			Impact			Total
			Increased	Decreased	Stable	
Have you taken credit from MFIs	yes	Count	72	6	12	90
		Expected Count	59.7	7.4	22.9	90.0
	no	Count	1	3	16	20
		Expected Count	13.3	1.6	5.1	20.0
Total		Count	73	9	28	110
		Expected Count	73.0	9.0	28.0	110.0

**Interpretation:**

Out of 90 respondents who have taken credit from MFIs, 72 respondents or 80 % of respondents business is increased due to the credit taken from MFIs, whereas 12 % respondent's business remained stable. 6.67 % respondent's has negative impact of MFIs credit.

**Relationship between MFIs credit and its impact on the business of small entrepreneurs using chi square:**

Chi Square is used to measures is there is any relationship between MFIs credit and the business of small entrepreneurs. The hypotheses are as under

**Testing of Hypothesis:**

**H<sub>0a</sub>:** There is a significant relationship between MFIs credit and the business of small entrepreneurs.

**H<sub>1a</sub>:** There is no significant relationship between MFIs credit and the business of small entrepreneur

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	43.830 <sup>a</sup>	2	.000
Likelihood Ratio	44.043	2	.000
Linear-by-Linear Association	43.342	1	.000
N of Valid Cases	110		

The Pearson Chi-Square value for hypothesis is 0.000 and it is less than  $\alpha$  which is 0.05, so we reject  $H_0$ . The above table indicates that there is significant association between MFI credit and the business of small entrepreneur at a level of significant 5% ( $P \leq 0.05$ ). Thus, it can be concluded that there is significant relationship between MFIs credit and the business of small entrepreneurs.

## 5. CONCLUSION

Microfinance is the best option available for small entrepreneur for raising credit because they get easy approval of loan as compared to loans approval from traditional banks. The channels of microfinance are working effectively to provide access of micro finance to various number of peoples who don't have access to other sources of finance.

Majority of the beneficiaries of micro credit are satisfied with the services of microfinance Institutions and majority of them has the positive impact of micro credit on their business.

Microfinance has the positive impact on the business of small entrepreneurs. These small loans help them to carry out their business activities in an effective manner which directly leads to the development of business, increase in profitability, and improvement in standard of living.

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