

## “Impact of Microfinance on Growth and Performance of MSMEs In Bangalore.”

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### Abstract

**Purpose** -This paper aims to study the impact of microfinance institutions on the growth and performance of Micro, Small, and Medium Enterprises (MSMEs) in Bangalore, India. The objective is to understand the role of MFIs in promoting the growth and development of MSMEs in this specific context to examine the capacity of Microfinance in enhancing their services to Micro small and medium Enterprises in selected location of Bangalore and to assess the level of performance of Micro small and medium Enterprises using Microfinance loan and credit services.

**Design /Methodology /Approach** - The researcher in his findings reveal that Microfinance institution play a crucial role in enhancing the growth and performance of MSMEs in Bangalore. The availability of microfinance services enables MSMEs to access the necessary capital for business expansion, investment in new technologies, and increase profitability. Overall, the study analyses the factor influencing the level of perception of Micro small and medium Enterprises on the contribution of Microfinance loan to their growth & development, emphasizing the need for continued support and collaboration between Microfinance institution, policymakers, and other stakeholders to foster sustainable and inclusive economic development in the region.

**Key words:** Microfinance institution, MSME, Policymakers, inclusive, financial inclusion.

### INTRODUCTION

A microfinance institution is a type of financial institution that specializes in serving low- income people, underserved communities, and small businesses by offering financial services such modest loans, savings accounts, insurance, and other fundamental financial goods. The term "Microfinance" combines the terms "micro" (which denotes small-scale) and "finance" (which denotes the provision of financial services). Micro, Small, and Medium-Sized Enterprises (MSMEs) can access a variety of financial services through microfinance institutions, which are specialized financial institutions. These organizations concentrate on addressing the specific financial requirements of MSMEs, which are often unmet by traditional banks and financial institutions.

The term "microfinance institution" refers to an organization that offers various financial products and services to MSMEs, including microloans, savings accounts, insurance, and sometimes even business development support. Microfinance Institutions aim to promote financial inclusion, facilitate economic growth, and support the development of MSMEs, which are considered crucial for job creation, poverty reduction, and overall economic prosperity.

Micro-finance institutions are organisations whose primary business is microfinancing. These organisations primarily attempt to provide microfinance services to various industries. Financial entities known as micro finance institutions provide small loans to customers who cannot use banking services. We have 3 types of institutions which offer micro finance services: Credit Unions, non – Governmental Organization, Commercial Banks.

The study indicate that Microfinance Institutions have played a crucial role in addressing the financial constraints faced by MSMEs, promoting entrepreneurship, and enhancing the overall economic landscape of Bangalore. The study shows that MSMEs in Bangalore now have much better access to loans thanks to microfinance institutions.

### REVIEW OF LITERATURE

(Shah Snehal, 2022) This study analysed various challenges faced by MSME's in sourcing finance. The Micro Finance Institution offers a range of services, such as credit, savings, leasing, insurance facilities, and training programmes, to meet the financial and non-financial needs of MSME enterprises. This survey was carried out in Ahmedabad and Mehsana and included a wide range of industries, including jewellers, retailers, metalworkers, textile manufacturers, bookstores, tailors, and small industrial facilities. According to the survey, the primary obstacles to MSME underutilization are a lack of financial literacy and a lack of resources to assess projects that require MSME implementation.

(Samuel Emmanuel Yerima, 2022) This study examines the effect of microfinance institutions on the expansion of small and medium-sized businesses. The primary goals were to assess how microloans, interest rates, loan terms, and experience affected the expansion of SMEs. The study discovered compelling evidence that SMEs may expand faster when they have access to microfinance. Other SMEs' characteristics, such as loan length and experience, are discovered to have had a small but detrimental impact on business expansion. The study suggests that SMEs operators make use of the advantages of Microfinance institutions to promote their businesses and, in the long run, improve the performance of the economy.

(Abiot Animaw Semegn1, 2021) This article examines how microcredit affects the efficiency of the micro and small businesses (MSMEs) in Ethiopia's Amhara National Regional State. A total of 340 MSMEs were chosen at random, and the survey method was employed. Performances of MSMEs were evaluated using average sales volume. With a share of 48.53% and 26.76% of the total, respectively, the findings revealed that the majority of MSEMES were active in the manufacturing and urban agriculture sectors. The results of the study's paired t-test analysis showed that there was a significant difference between the performance of MSMEs in terms of sales, total assets, employment, and net profit after receiving a microcredit loan.

(Dr. Bharat Ram Dhungana, 2020) This study examines the effects of microcredit services on MSME operations. The study is based on a survey research methodology. As the volume of sales, range of profits, and asset value grew following the intervention of microfinance services, the results demonstrate that microfinance has significantly contributed to the growth and expansion of MSME. The government and supporting institutions must concentrate on the establishment and growth of micro-enterprises to boost employment opportunities, lessen caste and cultural divides, and ultimately raise people's economic and social standing.

(Bassant Farghly, 2018) The paper assesses how entrepreneurs and managers of MSMEs perceive and anticipate the performance of banking industry in terms of sustainability compliance. To analyses multi-dimensional sustainable business growth, it is critical to understand how entrepreneurs and managers of MSMEs perceive and anticipate the banking industry in Egypt to behave in terms of sustainability compliance and performance. This study intends to evaluate MSMEs' business growth considering the financial, social, and environmental performance elements of the triple bottom line (TBL) sustainable growth.

(Christopher 2018) This study Assess the effect of microfinance on Micro, Small and Medium Enterprises (MSMEs) in is the main goal of this study. It's interesting to note that the majority of MSMEs credit Microfinance institutions loans with helping them increase their market share, achieve market leadership through product innovation, and boost their overall competitiveness. It is advised that the government endeavour to provide adequate infrastructure amenities, such as electricity, a good road network, and training institutions, in addition to tax incentives and financial supports, to encourage MSMEs.

(Gazia Sayed, 2018) This research examines the establishment of microfinance institutions and how they helped Mumbai's MSMEs (micro, small, and medium-sized enterprises) flourish. By investigating the effects of microfinance institutions on the expansion and development of small and medium-sized businesses. Results indicate that the impact of adequate capital on business sales volume, earnings, and physical assets. According to statistics, the result indicates that there is no direct correlation between increasing firm capital structure and access to microloans (insignificant by 0.104 at P 0.05 level of significance).

(Yosua Christanto, 2019) This research examines one of the important factors that supports MSME development and is applicable globally is microfinance. There is no consensus over how microfinance affects the growth of MSME in numerous prior research. Results showed that there are two factors—the quantity of microloans —that have a negative impact on MSME development and negatively affect microloans. The public has a negative perception of entrepreneurship, and society places more value on teamwork. The research's findings also pointed to restrictions such rules and viewpoints that prevented the growth of MSME.

(Rathnayake K.M.N.D F. P., 2019) This study analysed that Micro, Small and Medium Scale Enterprises (MSME) sector is identified as an important strategic sector to create economic and social sustainability. This industry is essential to regional development, job creation, economic growth, and poverty alleviation in the Sri Lanka's economy is under transition. The Micro Finance Institution has created several services, including as credit, savings, leasing, insurance facilities, and training programmes, to help with the entrepreneurs' financial and non-financial needs. The findings revealed the positive relationship between Microfinance services and the growth of MSMEs.

(Uusiku, 2018) This paper explored the impact of microfinance services on the growth of Micro, Small and Medium Enterprises (MSMEs). The study used a cross-sectional analysis on 45 microbusinesses to look at how microfinance activities affected MSMEs' production. According to the research, the number of years a business has been in operation, training, and loans (microcredit) together have a substantial impact on productivity (a proxy for growth). Consequently, the primary variable of microcredit did not significantly support the expansion of MSMEs. Therefore, the study contends that obtaining access to microcredit alone cannot result in the expansion of small businesses, but rather that a combination of other crucial variables, such as education and business experience, are necessary for making the most of microcredit and may lead to the growth of MSMEs.

(TAIWO JN, 2018) This study analysed how these microfinance banks and institutions affect small and medium-sized firms as well as how much small businesses have profited from the microfinance banks' credit programmes. The goal of this study is to inform the management of microfinance banks and institutions about the effects of using collateral as a requirement for extending credit to small businesses.

**RESEARCH METHODS:  
 STATEMENT OF THE PROBLEM**

The impact of microfinance institutions on the growth of micro, small, and medium enterprises (MSMEs) in Bangalore poses a significant problem that needs to be addressed. Bangalore, being a major hub for entrepreneurship and innovation, is home to numerous MSMEs that contribute to the city's economic development. By identifying the gaps and challenges in the microfinance ecosystem and implementing appropriate strategies, policymakers, financial institutions, and stakeholders can work together to create an enabling environment that fosters the growth and sustainability of MSMEs in Bangalore.

**RESEARCH QUESTIONS**

1. How does the capacity of Microfinance institutions in Bangalore impact the enhancement of services provided to MSMEs in terms of accessibility, affordability, and outreach?
2. What are the key performance indicators that can be used to evaluate the level of performance of MSMEs utilizing Microfinance loan and credit services in Bangalore, and how do these indicators reflect their overall financial and operational outcomes?
3. What are the perceptions of MSMEs in Bangalore regarding the contribution of Microfinance loans to their development?

**OBJECTIVES OF THE STUDY**

- 1) To examine the capacity of Microfinance in enhancing their services to Micro small and medium Enterprises in selected location of Bangalore.
- 2) To assess the level of performance of Micro small and medium Enterprises using Microfinance loan and credit services.
- 3) To analysis the level of perception of Micro small and medium Enterprises on the contribution of Microfinance loan to their growth & development.

**HYPOTHESIS OF THE STUDY**

- H1: MFIs has significantly contributed to enhancing the services of selected MSMEs in Bangalore.  
 H2: MFIs loan and credit services has improved performance of selected MSMEs in Bangalore.  
 H3: There is significant impact of MFIs financial services on the growth and development of selected MSMEs.

**RESULTS:**

**Table showing microfinance loan to support MSME. Chi-Square Tests**

Value	df	Asymptotic Significance (2-sided)	
Pearson Chi-Square	3.618 <sup>a</sup>	3	.306
Likelihood Ratio	3.965	3	.265
Linear-by-Linear Association	.894	1	.344
N of Valid Cases	100		

In the above result the Pearson chi-square statistic is 3.618 and the p-value = 0.306. The likelihood chi-square statistic is 3.965 and the p-value is 0.265. At the significance level of 0.05, we can conclude that there is no significant association between the variables.

**Table showing has microfinance enabled your MSME to expand its operations.**

Value	df	Asymptotic Significance (2-sided)	
Pearson Chi-Square	1.514 <sup>a</sup>	3	.679
Likelihood Ratio	1.612	3	.657
Linear-by-Linear Association	1.030	1	.310
N of Valid Cases	100		

In the above result the Pearson chi-square statistic is 1.514 and the p-value = 0.679 the likelihood chi-square statistic is 1.612 and the p-value is 0.657. At the significance level of 0.05, we can conclude that there is no significant association between the variables.

**Table showing how microfinance has impacted the profitability of your MSME. Chi-Square Tests**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	.632 <sup>a</sup>	3	.889
Likelihood Ratio	.664	3	.882
Linear-by-Linear Association	.039	1	.843
N of Valid Cases	100		

In the above result the Pearson chi-square statistic is 0.632 and the p-value 0.889 the likelihood chi-square statistic is 0.664 and the p-value is 0.882. At the significance level of 0.05, we can conclude that there is no significant association between the variables.

**Table showing how has microfinance impacted the financial stability of MSME Chi-Square Tests**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	1.788 <sup>a</sup>	3	.618
Likelihood Ratio	1.816	3	.611
Linear-by-Linear Association	1.722	1	.189
N of Valid Cases	100		

In the above result the Pearson chi-square statistic is 1.788 and the p-value 0.618 the likelihood chi-square statistic is 1.816 and the p-value is 0.611. At the significance level of 0.05, we can conclude that there is no significant association between the variables.

**Table showing has microfinance provided your MSME with new business opportunities. Chi-Square Tests**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	1.129 <sup>a</sup>	3	.770
Likelihood Ratio	1.139	3	.768
Linear-by-Linear Association	1.015	1	.314
N of Valid Cases	100		

In the above result the Pearson chi-square statistic is 1.129 and the p-value 0.770 the likelihood chi-square statistic is 1.139 and the p-value is 0.768. At the significance level of 0.05, we can conclude that there is no significant association between the variables.

**H2: MFIs loan and credit services has improved performance of selected MSMEs in Bangalore.**

**Table showing how Microfinance has impacted the Growth of MSME**

**REGRESSION SUMMARY OUTPUT**

<i>Regression Statistics</i>	
Multiple R	0.058217572
R Square	0.003389286
Adjusted R Square	-0.006885052
Standard Error	0.89149106
Observations	99

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.262173227	0.262173227	0.329878761	0.567060069
Residual	97	77.09136213	0.794756311		
Total	98	77.35353535			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Lower 95.0%	Upper 95.0%
Intercept	2.068106312	0.274319181	7.539051073	2.52578E-11	1.523658674	1.523658674	2.61255395
1	-0.103820598	0.180761671	-0.57435073	0.567060069	-0.462582479	-0.462582479	0.254941282

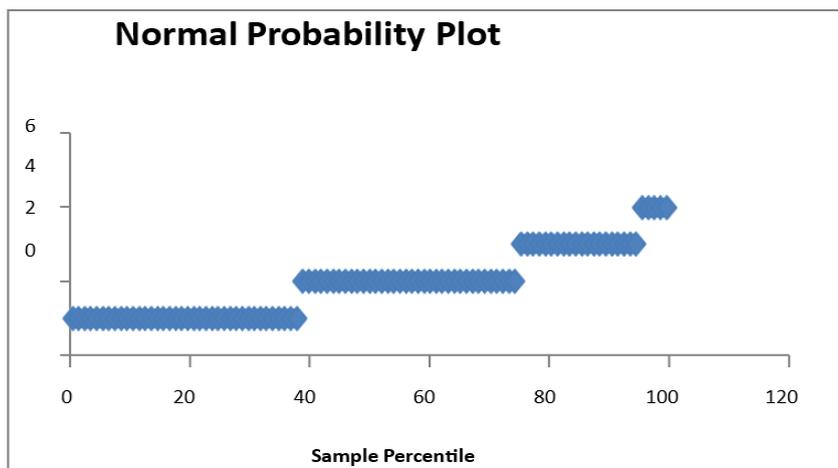


Table showing has microfinance impacted MSME’s access to credit services

SUMMARY OUTPUT

*Regression Statistics*

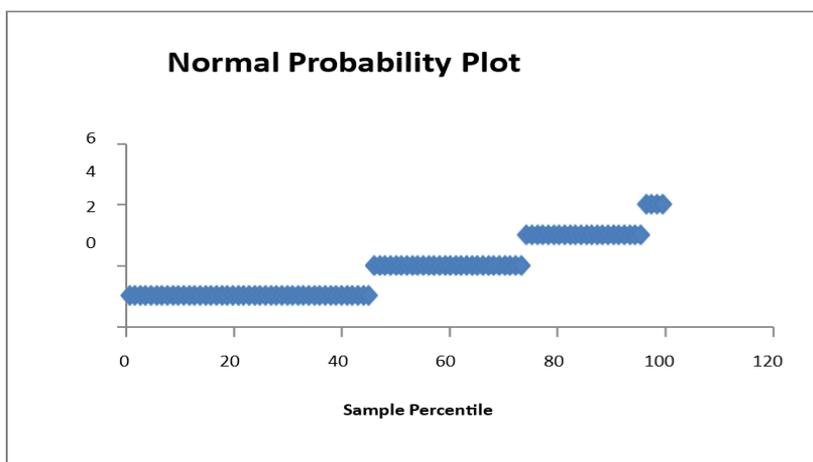
Multiple R 0.010941711  
 R Square 0.000119721  
 Adjusted R -  
 Square 0.010188323  
 Standard Error 0.912217237

Observations 99

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.009664754	0.009664754	0.011614332	0.914400891
Residual	97	80.71760797	0.832140288		
Total	98	80.72727273			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	1.877076412	0.280696797	6.687202822	1.45568E-09	1.319970971	2.434181853	1.319970971	2.434181853
1	0.019933555	0.18496418	0.107769812	0.914400891	0.387036251	0.347169141	0.387036251	0.347169141



(H3): There is significant impact of MFIs financial services on the growth and development of selected

**MSMEs.  
ANOVA**

	Sum of Squares		df	Mean Square	F	Sig.
10. Has microfinance helped your MSME to improve its productivity?	Between Groups	.087	1	.087	.103	.749
	Within Groups	83.073	98	.848		
	Total	83.160	99			
11. How has microfinance impacted your MSME's ability to innovate?	Between Groups	1.091	1	1.091	1.401	.239
	Within Groups	76.299	98	.779		
	Total	77.390	99			
12. How has microfinance impacted your MSME's ability to compete in the market?	Between Groups	.082	1	.082	.096	.757
	Within Groups	83.558	98	.853		
	Total	83.640	99			
14. Has microfinance helped your MSME to become more self-reliant?	Between Groups	.663	1	.663	.756	.387
	Within Groups	85.927	98	.877		
	Total	86.590	99			
15. How has microfinance impacted your MSME's ability to manage its cash flow?	Between Groups	.003	1	.003	.004	.951
	Within Groups	81.837	98	.835		
	Total	81.840	99			
16. Has microfinance helped your MSME to develop its financial management skills?	Between Groups	2.444	1	2.444	3.407	.068
	Within Groups	70.316	98	.718		
	Total	72.760	99			
17. How has microfinance impacted your MSME's ability to access technical assistance and training?	Between Groups	.754	1	.754	1.023	.314
	Within Groups	72.246	98	.737		
	Total	73.000	99			
18. Has microfinance enabled your MSME to become more environmentally sustainable?	Between Groups	.663	1	.663	.774	.381
	Within Groups	83.927	98	.856		
	Total	84.590	99			
20. Has microfinance enabled your MSME to become more gender-inclusive?	Between Groups	.245	1	.245	.284	.595
	Within Groups	84.505	98	.862		
	Total	84.750	99			

**Productivity:** The difference in productivity between groups is not statistically significant ( $p = 0.749$ ).

**Innovation:** There is no statistically significant difference in the ability to innovate between groups ( $p = 0.239$ ).

**Market competitiveness:** Microfinance does not significantly impact on the ability to compete in the market ( $p = 0.757$ ).

**Self-reliance:** There is no statistically significant difference in self-reliance between groups ( $p = 0.387$ ).

**Cash flow management:** Microfinance does not significantly impact the ability to manage cash flow ( $p = 0.951$ ).

**Financial management skills:** There might be a no significance in the impact of microfinance on financial management skills ( $p = 0.068$ ), but further investigation is needed.

**Access to technical assistance and training:** Microfinance does not significantly impact access to technical assistance and training ( $p = 0.314$ ).

**Environmental sustainability:** There is no statistically significant difference in environmental sustainability between groups ( $p = 0.381$ ).

**Gender inclusivity:** Microfinance does not significantly impact gender inclusivity ( $p = 0.595$ ).

**Discussion and Conclusion:**

In conclusion, the empirical study on the impact of Microfinance Institutions on the growth and performance of Micro, Small, and Medium Enterprises (MSMEs) in Bangalore has provided valuable insights into the positive contributions of Microfinance Institutions in fostering the development of these enterprises. The study indicates that Microfinance Institutions have played a crucial role in addressing the financial constraints faced by MSMEs, promoting entrepreneurship,

and enhancing the overall economic landscape of Bangalore. The study shows that MSMEs in Bangalore now have much better access to loans thanks to microfinance institutions. For MSMEs, access to financing has been a significant barrier to growth and expansion. Microfinance institutions, on the other hand, have successfully filled this void by offering MSMEs small loans with flexible payback terms. Due to their easier access to credit, MSMEs have been able to grow working capital, buy equipment, and expand their operations. MSMEs have been able to take advantage of new business prospects, increase efficiency, and satisfy customer expectations as a result.

In Bangalore, many MSMEs lack the knowledge and abilities needed to efficiently manage their money and make wise business decisions. Microfinance Institutions should be aware of this issue and put in place initiatives to improve MSMEs' financial literacy. These programs will give entrepreneurs the knowledge and abilities they need to create good financial plans, efficiently manage cash flow, and implement cutting-edge business procedures. Microfinance Institutions may help MSMEs develop, perform, and be long-term sustainable by equipping them with financial knowledge and skills. Furthermore, the study emphasizes the positive impact of Microfinance Institutions in promoting MSMEs ability to access technical assistance and training, to access to new market, ability to manage cash flows and it has enabled MSME's to become more socially responsible and to become more gender inclusive.

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