

# MICROFINANCE FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN JAIPUR, RAJASTHAN: SOURCES AND CHALLENGES

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## Abstract

Microfinance is not a new concept in this modern world. The concept of microfinance started emerging in the late 90s. Microfinance is a powerful tool which is helping economically backward people by not only providing them with income-generating activities but also bringing a positive change in their lives. Often, cases and studies related to microfinance has shown that it is benefitting people by providing them opportunities and making them self-reliant.

Micro, small and medium enterprises sector plays an imperative function in the local & societal economic progress and employment creation. In Rajasthan, the Government is assisting Micro, Small and Medium-Sized Enterprises while developing strategies to meet the challenges in dynamic and competitive global business environment. In spite of these plans and schemes, the Jaipur MSME sector is unsustainable owing to numeral troubles such as lack of approachability to microfinance institutions and products. Exploring the sources and challenges faced by Jaipur's MSMEs in accessing microfinance forms the basis of this research paper. A survey research methodology is taken up, selecting a sample of MSMEs, and collecting the primary and secondary data from them via questionnaires and interviews. The data is analysed using SPSS Statistics. It is evident from the data collected, that owing to elevated operation overheads, unavailability of collaterals, insufficient skills in organizing the emergent banking projects, the economic sector has been unsuccessful in extending microfinance services to the MSMEs adequately. In conclusion, wherever default-risk of payment is supposed to be high, micro finance should be taken by applicants as collateral. The research paper recommends that few intervention policies must be initiated to streamline microfinance accessibility and work towards MSMEs sustainability.

**Keywords:** Micro, Small and Medium Enterprises, Source of finance to MSMEs, Microfinance Accessibility, MFIs

## Introduction

In India banking and non-banking both gives the microfinance facilities. Its main objective is to bring out the poverty from the people living in rural areas and improving their way of living or standard of living. They target only those sectors in the economy who are needy and are jobless, or who wants to start with something new and of their own. The people belonging to the lower section of the society needs financial support from some or the other so as to start with something but he or she does not have any collateral to mortgage so he or she does not get easy access to the loans or finance by the banks or nonbanking institutions here starts the work of the microfinance institution they provide loan facilities to the poor without any collateral securities. Most of the people in India are dependent on agricultural sector of the country. They are a low income earners of the society they do not have much with them to buy the land on which they could practice agriculture thus they have to depend on the

landlords who actually exploit them and charge them a lot for such kind of people micro finance is beneficial. The main aim of the microfinance institution in India is to promote low wage earners and to eradicate the poverty from the country to the maximum.

The rationale behind specifying priority sectors to banking and financial institutions is to empower underserved sections of society that are denied access to credit, despite being creditworthy, and provide them better access to economic opportunities. Even though they may have access to some amount of credit from unorganised sources or even formal banking institutions, it is usually not adequate when compared to the actual capital they require to grow and scale up.

MSME units are generally being ignored by banks and financial institutions which typically supports giant borrowers. As a result, sectors that deserve bank credit get excluded, which not only creates a massive demand-supply gap, but also hinders long-term economic growth and job creation.

Since the establishment of MSME's in India, this sector has contributed a lot to the overall development of the economy and its growth. It has also let to the industrialization of India's rural sector and has provided employment at large. At the same time, the sector has played a vital role in reducing the imbalances that exist between regions that are closer to major urban economic centres and those that aren't. Employing several individuals with specific skills and using minimum technology and simple manufacturing processes, the revenues earned by these units are distributed equitably among all participants. This has helped in ensuring a more equitable distribution of national income and wealth among industrialised rural regions, as compared to those that are more dependent on agricultural income.

However, India has several clusters of artisans in various parts of the country. These micro units operating in unorganised sectors have limited access to credit or information about market conditions. Access to credit as well as banking services and products from the formal, mainstream institutions can help these units to scale and grow substantially.

Theoretically, it is recognized that the MSMEs segment plays an imperative function in the local & societal economic progress and employment formation. This sector, often driven by individual creativity and innovation, is a nursery of entrepreneurship. The 1.3 million MSMEs play a crucial role in creating jobs, especially low-skilled ones resulting in the employment of close to 40% of India's workforce. They account for 45% of India's manufacturing output and 40% of the total exports, thereby contributing 17% to the country's GDP. Thus, MSMEs are important for the national objectives of inclusive growth i.e. growth with equity and inclusion. The economic development of many countries around the world had MSMEs as a major contributing factor.

### **Statement of the Problem**

Low outreach of microfinance institutions to various underdeveloped and developing areas is posing serious threat towards the development of the economy to its fullest. Various poor people who want to take advantage of the facilities of loan through microfinance fails because they do not have proper security against loan. Also, the number of people who are taking loan from microfinance institutions are utilizing the amount primarily for agricultural purpose and than for any other purpose. The main reason for this is lack of education, lack of proper institutions & unawareness among the people in the rural areas. The few out of many beneficiaries who are taking advantage of loan are definitely benefitted by this. Hence, here comes the need arise to educate people to utilize the loan from

microfinance towards the upliftment of the individual and the society as a whole.

## Review of Literature

Based on a number of different questions related to Micro & Small Enterprises, Sudan, F.K. (2005) was able to describe the challenges in development and policy issues of Micro, Small and Medium Enterprises. The study briefed about the significance, positive aspects, problems and guiding principle options of the MSME Sector, concluding that GOI opted the entire guiding principle in an effort to create a dynamic SME sector so as to provide a diversified economy thereby expanding employment opportunities to offer exciting career opportunities and absorb all new labour force. The main objective of C. B. Rathod's study (2007) was to recognize the causes of success and failures, to understand the impact of globalization on SSIs' export opportunities, to study the growth pattern of SSI Sector and to recognize the obstacles faced by SSI to cope with globalization. He was able to describe how Indian Small Scale Entrepreneurs were contributing to the world economy and also the significance of the small scale industrial sector as a whole.

On the basis of proofs collected from various developing countries, UNIDO (1969) pointed towards, in a study that MSME enterprises with a minor level of per worker investment generally achieves higher capital productivity than more capital concentrated enterprises. Bargal et al. (2009) studied the interaction between GDP, SSIs Output and SSIs Exports along with the comparison of SSIs pre and post liberalization era performance parameters. The findings indicated that in comparison to the pre-reform years, the average annual growth rate of various SSI parameters has reduced in the nineties. Between the GDP of Indian economy and the production and exports of small scale sector, no lead-lag relationship was found. Focusing on policy changes which released novel opportunities for Small Scale Industries, Singh et al. (2012) analysed this sector's performance in India. It was concluded in this study that in terms of SSI unit count, production & employment levels, SSI sector has progressed. As a recommendation the study suggests financial infrastructure strengthening and promotion of technology to improve SSI and accomplish development objectives.

Kansal et al. (2009) in his research paper attempted to analyse globalization's impact on small scale industries' growth. Comparison of the development prototype of key parameters among Pre- and Post- Globalization periods, revealed that when growth of number of units, production, employment and exports of SSI is considered, Globalization had a negative effect. Overall it reflects that globalization had a depressing bang on the development of SSI.

Mentioned below are the guidelines defined by MSMED Act, 2006 for investment in plant and machinery/ equipment:

**Table 1: The Guidelines Defined by MSMED Act, 2006 for Investment in Plant and Machinery/ Equipment**

Nature of Enterprise Activity	Investment for enterprises engaged in manufacturing or production, processing or preservation of goods (equipment excluding land and building)	Investment for service providing or rendering enterprises (loans up to Rs 1 crore) (equipment excluding land and building)
Micro Industry	<= 25.00 lakhs	<= 10.00 lakhs
Small Industry	>= 25.00 lakhs and <= 500.00 lakhs	>= 10.00 lakhs and <= 200.00 lakhs
Medium Industry	>= 500.00 lakhs and <= 1000.00 lakhs	>= 200.00 lakhs and <= 500.00 lakhs

## Objectives of the Study

The present study firstly focuses on identifying the various source of microfinance available at present in the market. The role of Micro Finance Institutions (MFIs) in sustainable development of Micro, small and medium scale enterprises (MSMEs), in entrepreneurial development and SMEs as a whole have been the subject of various research studies. However, none has ever focused on the challenges faced by MSMEs in Jaipur, Rajasthan in accessing microfinance. In this regards, below are the specific formulated objectives:

- I. Recognising what difficulties MSMEs face in accessing microfinance from varied sources.
- II. Evaluating MFIs awareness amongst the MSMEs.

## Hypothesis for the Study

Listed below are the formulated hypothesis:

**i) Regarding Complexities faced by MSMEs in accessing finance from various sources of microfinance:**

$H_{01}$  (Null Hypothesis): No significant difference.

$H_{a1}$  (Alternative Hypothesis): There is significant difference.

**ii) Regarding Awareness level amongst MSMEs for various MFIs:**

$H_{02}$  (Null Hypothesis): No significant difference.

$H_{a2}$  (Alternative Hypothesis): There is significant difference.

## Research Design

An exploratory study based on primary data and secondary data source as been presented in this research paper. The survey methodology has been adopted in this study and it utilizes secondary data including policy documents, Acts of parliament, related studies in India and elsewhere to emphasize the challenges that are being faced by MSMEs. The demographics of this study comprises of all MSMEs operating from Jaipur, Rajasthan. But, in order to gather the sample from the population, purposive and random sampling techniques have been adopted. Three local areas were chosen; namely, Sanganer, Sitapura and Amer as they represent the prime commercial area, thereby holding larger number of MSMEs in the Rajasthan state. The MSMEs were taken at random from these mentioned areas. Data obtained from the secondary data sources is supplemented by primary data extracted from a purposive sample of 90 urban MSMEs using focus groups and semi-structured questionnaires at a 72.22% reply rate from the respondents. An equal number of questionnaires, 30, were distributed to each of the mentioned local area making it 90 questionnaires in total. However, only 65 of the MSMEs returned back the completed questionnaires for analysis (25 from Sitapura, and 20 each from Amer and Sanganer). Thus the study comprises of 65 MSMEs. Chi-Square method of analysis along with SPSS was used to analyze the collected data.

## Data Presentation and Analysis

### General Characteristics of the Sample

In the sample, male respondents (51.4%) are more than female respondents (48.6) as shown in the Table 1. The participants in the MSME sector in Jaipur city have more of vocational education (22.9%) and primary education (20.0%). With this educational background, these people will not get white collar job and therefore they land up to running their own business.

The major challenges faced by the respondents in getting finance include lack of collateral and lack of sufficient capital. The respondent's perception about the MSMEs in Jaipur city is that 42.9% of the sample believes that access to finance is not adequate for MSMEs.

**Table 2: General Statistics**

Parameters	%	Parameters	%
<b>Gender</b>		<b>Location</b>	
Male	51	Amer	30.80%
Female	49	Sanganer	30.80%
		Sitapura	38.50%
<b>Age</b>		<b>Duration of Business</b>	
21-30	23	Below 4 years	20.00%
31-40	23	4-9 years	31.40%
41-50	29	10-15 years	28.60%
51-60	11	Above 50	20.00%
Above 60	14		
<b>Qualification</b>		<b>Major Challenges faced</b>	
No formal education	14	Lack of collateral	25.70%
Primary education	20	Fluctuations in Demand	17.10%
Vocational education	23	Bureaucratic procedures in formalising business	11.40%
Secondary education	8.6	Lack of sufficient capital	34.30%
Graduation	17	High competition	11.50%
Post Graduation	17		
<b>Position</b>		<b>Perception about MSMEs in Jaipur</b>	
Owner	69	Access to finance is not adequate	42.90%
Manager	31	Most MSMEs cannot access finance due to lack of collateral securities	28.60%
		Disparity between loan refund and business take off	17.10%
		Disparity between profit creation and the cost of capital	11.40%
<b>Number of Employees</b>			
1-4	23		
5-49	23		
50-99	29		
Above 100	26		

### Financing Preference of MSMEs in Jaipur

**Table 3** Responses as to the view of the respondents of the complexities MSMEs face when accessing finance from the various sources of microfinance. ( $H_{01}$ : There is no significant difference in the complexities MSMEs face when accessing finance from various sources of microfinance.)

**Table 3: Various Sources of Finance**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Family and Friends	17	26.2	26.2	26.2
	Personal Savings	32	49.2	49.2	75.4
	Banks	6	9.2	9.2	84.6
	Micro Financial Institutions	2	3.1	3.1	87.7
	Money Lenders	8	12.3	12.3	100.0
	<b>Total</b>	<b>65</b>	<b>100.0</b>	<b>100.0</b>	

**Table 4: Jaipur City**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Amer	20	30.8	30.8	30.8
	Sanganer	20	30.8	30.8	61.5
	Sitapura	25	38.5	38.5	100.0
	<b>Total</b>	<b>65</b>	<b>100.0</b>	<b>100.0</b>	

**Table 3 and 4** above reflect the sample population's responses in percentages and figures. It's seen that out of 65, 17 MSMEs (26.2%) acquired the finances from family and friends [5 (29.4%) from Sanganer, and 6 (35.3%) from Amer and Sitapura each], 32 MSMEs (49.2%) acquired the finances from their personal saving [12 (37.5%) from Sanganer, and 10 (31.2%) from Amer and Sitapura each], 6 MSMEs (9.2%) acquired finances from bank [1 (16.7%), 2 (33.3%), and 3 (50%), from Amer, Sanganer and Sitapura respectively], 2 MSMEs (3.1%) acquired finances from MFIs [both from Sitapura Area], and 8 MSMEs acquired their finances from money lenders [3 (37.5%), 1 (12.5%), and 4 (50%) from Amer, Sanganer and Sitapura respectively].

It can be seen from the sample data, that out of the 65 responding MSMEs, most (32) MSMEs use up their personal savings in order to finance their MSME. Therefore, as an inference of the analysis, personal savings serves as the mainly obtainable source of finance to MSMEs in the Rajasthan state. It was during the interviews conducted, that majority of the MSME managers shared that sources of finance such as Banks and MFIs are not within their reach and thus they had to resort to other financing sources, like personal savings and family and friends.

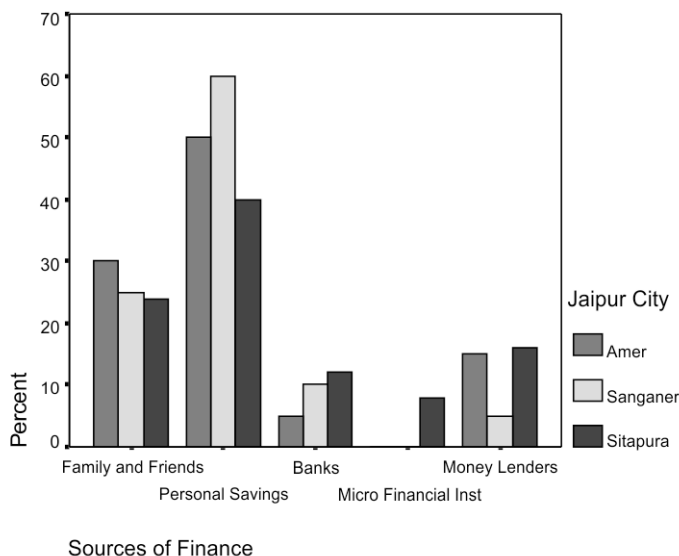
**Table 5: Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.146(a)	8	0.632
Likelihood Ratio	7.045	8	0.531
Linear-by-Linear Association	0.861	1	0.353
N of Valid Cases	65		

a 9 cells (60.0%) have expected count less than 5. The minimum expected count is .62.

The chi-square test reveals in the **Table 5** above 0.632 significance value (> 0.05 value set for alpha). Thus the  $H_{01}$  hypothesis stating that, 'There is no significant difference in the complexities faced by

MSMEs when accessing finance from various sources of microfinance' is acceptable. This implies that Rajasthan state MSMEs face significant complexities in accessing finance from various sources of microfinance. **Figure 1.**



**Figure 1: Various Sources of Finance**

### Micro Financial Institutions' Awareness level amongst MSMEs in Jaipur

**Table 6** Responses as to whether there is a significant difference in the level of awareness of MFIs by MSMEs ( $H_{02}$  : There is no significant difference in the level of awareness of MFIs by MSMEs).

**Table 6: Level of Awareness**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	29	44.6	44.6	44.6
	No	36	55.4	55.4	100
	Total	65	100	100	

**Table 7: Jaipur City**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Amer	20	30.8	30.8	30.8
	Sanganer	20	30.8	30.8	61.5
	Sitapura	25	38.5	38.5	100.0
	<b>Total</b>	<b>65</b>	<b>100.0</b>	<b>100.0</b>	

**Table 7** above reflects the sample population's response. It's seen that out of 65, 29 (44.6%) are aware of the finances [20 (69.0%), 5 (17.2%), and 4 (13.8%) from Sitapura, Sanganer and Amer



respectively], 36 (55.4%) are not aware of MFIs [16 (44.4%), 15 (41.7%) and 5 (13.9%) from Amer, Sanganer and Sitapura respectively]. Based on the analysis, it can be inferred that the state MSMEs have poor awareness of MFIs. It's only Sitapura area of Jaipur city that shows high awareness of MFIs (20 out of 25 respondents), on the other hand both Amer and Sanganer area show poor awareness of MFIs (4 and 5 out of 20 respectively). However, it can also be concluded from the interviews that a high portion of those reporting that MFI is not available in their community, might actually just be unaware of its presence. Consequently the study sums up that a larger portion shows extremely low MFI awareness.

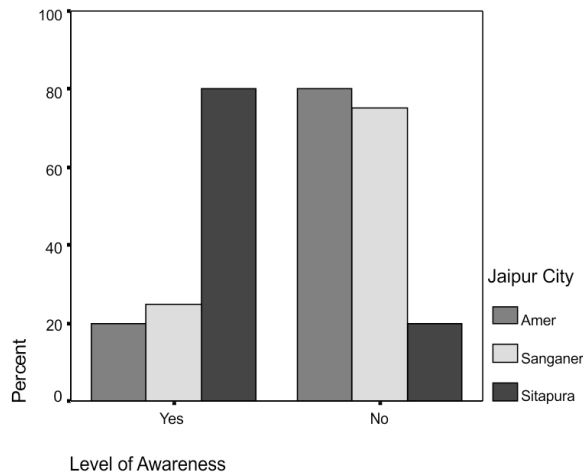
**Table 8: Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.686(a)	2	0.000
Likelihood Ratio	21.824	2	0.000
Linear-by-Linear Association	16.933	1	0.000
N of Valid Cases	65		

a 0 cells (.0%) have expected count less than 5. The minimum expected count is 8.92.

The chi-square test reveals in the **Table 8** above 0.00 significance value (< 0.05 value set for alpha). Thus the H<sub>0</sub> stating that, 'there is no significant difference in levels of awareness of MFIs by MSMEs' is rejected. This implies that state SMEs show significant difference in awareness level of MFIs.

**Figure 2**



**Figure 2: Level of Awareness**

### Conclusions and Recommendations

Microfinance is definitely a boon to the people of developing nations who are really in need of the funds so that they can channelize such funds for betterment of their life. Microfinance success can be measured by seeing the development of the rural backward areas on a significant scale. It is favored to empower women by making them self-reliant entrepreneurs & there by uplifting their status in the society. It is not only confined to status up gradation of women but also increasing their decision



making role in the family affairs. Micro finance is not only acting as a big supporter of agriculture pillar, but with agriculture it is playing a vital role in the development of the society as a whole.

The purpose of this study was to identify the challenges the MSMEs sector in Jaipur is facing in accessing micro finance and provide some recommendations on how to overcome those challenges. The research conducted in Jaipur city of Rajasthan state shows that the formal financial sector which mainly includes banks and Micro Financial Institutions, have been unsuccessful in providing sufficient financial services and micro finance to MSMEs mainly owing to high operation costs, unavailability of collaterals, insufficient skills in developing and organizing banking projects, and lack essential proficiency in developing financial products suited to MSMEs.

This paper has assessed various research literatures so as to arrive at a more conversant viewpoint about the challenges being faced by MSMEs in financing new and existing businesses. The assessment demonstrated that finance is a basic necessity for the expansion and development of MSMEs. However, MSMEs of Jaipur city of Rajasthan state faced the challenge of where to source the capital, to set up a new business or enlarge an existing one. The problem which has remarkably distorted entrepreneurship development in the city is that MFIs in the city were supposed to be the big solution of MSME financing problem, yet a large number of entrepreneurs are unaware of its existence.

To guarantee efficient financing of MSMEs and in turn promote entrepreneurship in the Jaipur city and thereby in the Rajasthan state, the state government interventions funds programmes aims at stimulation of economy and reduction in poverty. State MSMEs should be made more informed about the MFIs operations. This might be made possible via spreading awareness about the purpose and functioning of MFIs, moreover where and how they can be reached by public at large.

The study recommends that government initiatives are needed in association with supplementary stakeholders in the segment to step up hard work in enlightening MSME owners and managers for smooth operations of their businesses but also to increase their eligibility for taking bank loans. The study also suggests that SHG/micro credit programs should be well designed in order to provide loan to each and every sector as per the need of the beneficiaries.

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