

A Study on Role of Microfinance in MSMEs in Tuticorin City

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Abstract: The study aims to investigate the awareness of microfinance among MSMEs, the factors influencing their access to microfinance, and the impact of microfinance on their growth. The Micro, Small and Medium Enterprises (MSMEs) sector is a major contributor to Indian economic development. It contributes to industrial production, GDP growth, export earnings, employment generation, regional development, economic diversification, and social stability. This exploratory research paper aims to present the role of MSME sector in the Indian economy. The vibrant sector also faces a number of challenges despite various initiatives taken by the concerned ministries. The present study aims to explore various problems and challenges experienced by the MSME sector.

Keywords: Microfinance

I. INTRODUCTION

Microfinance is a banking service provided to low-income individuals or groups who otherwise would have no other access to financial services. Microfinance allows people to take on reasonable small business loans safely, in a manner that is consistent with ethical lending practices. Most of microfinancing operations occur in developing nations, such as Bangladesh, Cambodia, India, Afghanistan, Democratic Republic of Congo, Indonesia, and Ecuador, among others. Like conventional lenders, microfinanciers charge interest on loans and institute specific repayment plans. The global microfinance market was valued at an estimated \$187 billion in 2022 and is expected to exceed \$488 billion by 2030. The study is likely to explore how microfinance institutions (MFIs) provide financial services such as small loans, savings accounts, and insurance products to low-income individuals and groups who may not have access to traditional banking services. The study may investigate how these financial services can help MSMEs to expand their operations and increase their profits.

The study on the role of microfinance in MSMEs in Tuticorin City aims to understand how microfinance can help MSMEs to grow and develop. The study may investigate how microfinance loans can be used to invest in equipment, inventory, and marketing, which can help MSMEs to expand their operations and increase their profits. The study may also examine the impact of microfinance on the local economy, including the creation of jobs and the development of new products and services.

1.1 Statement of the Problem

The specific role of microfinance in Tuticorin City is unclear despite the potential of microfinance, there is a lack of empirical evidence on its effectiveness in promoting the growth of MSMEs in Tuticorin City. Therefore, this study aims to investigate the specific role that microfinance plays in the local MSME ecosystem, as well as the factors that influence the success or failure of MSMEs in accessing microfinance. By shedding light on these issues, the study can provide valuable insights for policymakers, microfinance institutions, and MSMEs themselves on how to leverage microfinance to achieve their respective goals. The quantity of microfinance in MSMEs in Tuticorin City will depend on several factors, including the number of MFIs operating in the region, the size of their loan portfolios, and the demand for their services. Tuticorin City is home to several MFIs, including traditional banks and specialized microfinance institutions, which offer a range of financial products and services to MSMEs.

1.2 Objectives

- To study the awareness on micro credit to MSME's in Tuticorin City.
- To Study the Factors influencing MSME's in getting microfinance.
- To study the impact of microfinance on the growth of MSME's.

1.3 Scope of the study

Geographical Scope: The study will focus specifically on Tuticorin City, Tamil Nadu, India. It will examine the role of microfinance within the local MSME ecosystem and its impact on the growth of MSMEs operating within the city.

Sector Scope: The study will include MSMEs from various sectors operating in Tuticorin City, such as manufacturing, services, and agriculture. By considering MSMEs from different sectors, the study aims to capture a diverse range of businesses and understand how microfinance influences their growth dynamics.

Microfinance Scope: The study will explore various aspects of microfinance, including awareness, accessibility, utilization, and the impact of microfinance on the growth of MSMEs. It will investigate the types of microfinance services available to MSMEs in Tuticorin City, such as microloans, microinsurance, and micro savings, and assess their effectiveness in addressing the financial needs of MSMEs.

II. RESEARCH METHODOLOGY

This study will employ a mixed-methods research design, combining both qualitative and quantitative data collection and analysis techniques. The study will be conducted in Tuticorin City, Tamil Nadu, India.

2.1 Research Design and Approach

The study will employ a descriptive research design to achieve the research objectives. The descriptive research design will enable the researcher to describe the of interest in a systematic and accurate manner. The approach will involve both quantitative and qualitative data collection methods to achieve a comprehensive understanding of the role of microfinance in the growth of MSMEs in Tuticorin City.

2.2 Sampling

The study will target a sample of 120 MSMEs in Tuticorin City. Sample design adopted for the study is Simple Random Sample. The sampling technique, where MSMEs that have received microfinance in the past will be identified and recruited for the study. MSMEs that have not received microfinance will also be included in the study for comparative analysis.

2.3 Data Collection

The study will use a structured questionnaire to collect quantitative data from the MSMEs. The questionnaire will be designed to collect information on the awareness of microfinance, factors influencing MSMEs in obtaining microfinance, and the impact of microfinance on the growth of MSMEs. The questionnaire will be administered through face-to-face interviews with the MSME owners or managers. The study will conduct focus group discussions with a subset of MSMEs to collect qualitative data on the perceptions and experiences of MSMEs with regard to microfinance.

2.4 Source of Data

The questionnaire contains closed and open-ended questions to enable the researcher to collect both quantitative and qualitative data on the awareness of microfinance, factors influencing MSMEs in getting microfinance, and the impact of microfinance on the growth of MSMEs. The sample size will be determined using the formula for sample size determination. A sample size of 120 MSMEs will be selected using stratified random sampling technique to ensure that the sample is representative of the MSMEs in Tuticorin City.

Secondary data will be collected from relevant literature, reports, and publications on microfinance, MSMEs, and economic growth. The data will be sourced from online databases, libraries, and archives. The secondary data will provide a contextual understanding of the role of microfinance in MSME growth and development in Tuticorin City.

III. REVIEW OF LITERATURE

(C.B.Bhave 2010) In his opinion the MSME's are a catalyst in most of the economies and constitute a major part of the industrial activity. MSME's generally face financial crisis. He foresees that the SME Stock Exchange will be a great boon to this sector as it will provide a wide pool of capital, increased status and credibility and other benefits.

(Baksi 2010) TIFAC is of the opinion that, there are few programs which are of utmost importance in the MSME-led technology development efforts, which promote the public private partnership. Moreover the technological development has never been a straight forwards process. Technological innovations have been the key to the survival of the MSMEs. Four decades of planned development have elevated India to a stage, where the country demonstrates some remarkable strength in modern technologies for achieving development goals.

(Gupta 2008) In India, the MSME sector is the second largest employer after agriculture. With the growth in the Indian Economy it is of need for the MSME to raise capital is becoming increasingly critical. He says that there is a need for the dedicated STOCK Exchange for the MSME sector to cater to their needs better which are different from the large industries.

The Task Force on MSME (2010) The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. While one end of the MSME spectrum contains highly innovative and high growth enterprises, more than 94 per cent of MSMEs are unregistered, with a large number established in the informal or unorganized sector. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganized nature of the Indian MSMEs are important aspects that need to be factored into policy making and programmer implementation.

(Vijayakumar 2011) Talking about a few basic issues being faced by the MSMEs sector is lack of awareness, investment and resource, "Zero wastage and continuous design improvement hold the key to survival and growth of MSMEs."

(Dubey 2010) The author says Actually, Private Equity and Venture Capitalists firms would be interested in investing in a listed company. Credit ratings would help an entity to get an exposure First of all, the fear is that the MSME may not get a good rating. Second is probably the financial statements that they have prepared to get rated do not reflect their true and fair picture of their performance. And, the rating agencies will not look beyond that. These could be the two main reasons why SMEs may not be interested while going for a rating. We need to look at what is their management and how sound a promoter is, or how resilient the SME has been and their overall performance.

(Madhubala 2007) The Government has recognized its importance for the economy and its intention towards promotion of SSIs is reflected in various Industrial policy Resolutions right from the year 1948. The primary objective of the Small Scale Industrial Policy during the nineties was to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts would be made to deregulate and bureaucratize the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs. All statutes, regulations and procedures were reviewed and modified, wherever necessary, to ensure that their operations did not militate against the interests of the small and village enterprises.

(Shamkaravi 2009) The MSME sector has often been termed the 'engine of growth' for developing economies. We begin with an overview of this sector in India and look at some recent trends which highlight the development and significance of this sector vis-à-vis the Indian economy. Over the last few years, there have been major policy changes at the federal and state level aimed at consolidating and developing this sector. The MSME Development Act of 2006 is perhaps the most crucial of these recent policy changes.

IV. FINDING OF THE STUDY

Percentage of Analysis

In the age of both Male and Female have Majority (46.5%) of the respondents are aged between 20-30.

- Majority of respondents (59.8%) are Female.
- Majority of respondents (51.2%) are Married.
- Majority of respondents (36.2%) are Graduates.
- Majority of respondents (63%) are live in Urban area.
- Majority of respondents (52.8%) have the nuclear family.

- Majority of respondents (40.2%) are providing a safety net for unexpected expenses.
- Majority of respondents (40.2%) have Low income and no collateral.
- Majority of respondents (32.3%) are beneficiaries from complex application process.
- Majority of respondents (48%) are affordable and accessible financial services to low-income individuals and groups.
- Majority of respondents (42.5%) are paid their interest rate 5 – 10% in Tuticorin city.
- Majority of respondents are 37.8% lack of awareness about micro credit.
- Majority of respondents 40.2% are offering tax incentives to MSMEs that use microcredit.
- Majority of respondents 33.1% are determining their factor is credit score.
- Majority of respondents 36.2% are Smaller MSMEs are more likely to receive microfinance.
- Majority of respondents 44.9% are expand their existing operations.
- Majority of respondents 31.5% are typically required loans for their equipment.
- Majority of respondents 38.6% are receive their microfinance funds in a few weeks.
- Majority of respondents 44.1% are MSMEs growth are not facilitates.
- Majority of respondents 36.2% are typically their repayment period is 3 to 5 years.
- Majority of respondents 44.1% are easier for MSMEs to obtain future loans.
- Majority of respondents 41.7% have their low interest rate with no impact on MSMEs growth.
- Majority of respondents 33.1% are funding and offer business development support to promote growth.
- Majority of respondents, 27.6% are both MSME growth has no impact on employment and MSME growth leads to decreased employment opportunities.
- Majority of respondents, 29.9% loans are promote MSMEs growth.

V. SUGGESTIONS

Enhancing financial literacy among MSME owners and managers in Tuticorin City can improve their understanding of microfinance products and services. Efforts should be made to improve the accessibility of microfinance for MSMEs in Tuticorin City. Collaboration between microfinance institutions, government agencies, and other relevant stakeholders can create a conducive environment for MSME growth. Creating platforms for MSME owners and managers to network and share experiences can facilitate learning and best practices. Organizing seminars, workshops, and industry-specific forums can provide opportunities for knowledge exchange, collaboration, and peer-to-peer learning among MSMEs in Tuticorin City.

VI. CONCLUSION

Based on the study's findings, several suggestions have been put forth, including the need to strengthen financial education, enhance access to microfinance, develop tailored microfinance products, foster collaboration, and partnerships, monitor and evaluate microfinance impact, promote networking and knowledge exchange, and conduct longitudinal research. Implementing these suggestions can contribute to creating an enabling environment for MSME growth and maximizing the benefits of microfinance in Tuticorin City. Overall, this study aims to contribute to the existing body of knowledge on microfinance and MSME growth while providing insights and recommendations for policymakers, microfinance institutions, and other stakeholders to enhance the role of microfinance in supporting the growth and development of MSMEs in Tuticorin City.

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