

---

## A Study on Impact of Microfinance on the MSMEs

<sup>1</sup>Mrs. U. Nagarani, <sup>2</sup>Dr. K. Ramasamy

<sup>1</sup>Research Scholar, Sri Krishna Arts and Science College

Coimbatore

Email.id: nagashoban12@gmail.com

<sup>2</sup>Assistant Professor & Research Supervisor

Sri Krishna Arts and Science College

Coimbatore.

Email.id: ramasamyk@skasc.ac.in

---

**Abstract:** Access to finance remains a significant challenge for Micro, Small, and Medium Enterprises (MSMEs), affecting entrepreneurs, financial institutions, and government bodies. This study aims to explore the key obstacles MSMEs face in obtaining financial support. Microfinance institutions (MFIs) offer a variety of financial and non-financial services to assist MSME entrepreneurs, such as credit, savings, leasing, insurance, and training. The research was carried out in Madurai, covering various business sectors including jewellery, retail, metal works, textiles, bookstores, tailoring, and small-scale manufacturing. It involved both primary and secondary sources of data. Primary data were gathered through a questionnaire, with responses from 25 participants. Despite the crucial role of financial institutions, banks, and MFIs in the growth of MSMEs in Madurai district, there is limited research in this area. The findings indicate that the main issues hindering financial utilization by MSMEs are low levels of financial literacy and a lack of tools to properly assess and implement business projects.

**Keywords:** Microfinance, MSME, Microfinance Institutions, Entrepreneurship

---

### Introduction

Micro, Small, and Medium Enterprises (MSMEs) are generally characterized by low capital investment, high flexibility in operations, and the ability to shift locations easily. This paper explores the financial challenges encountered by MSMEs, focusing on the various funding sources utilized across different phases of the business lifecycle. It also assesses how familiar MSME owners are with government-supported financial schemes.

Microfinance Institutions (MFIs) act as financial intermediaries that connect fund providers with borrowers in the economy. These institutions typically extend loans to individuals and small businesses for income-generating purposes.

### Microfinance

Microfinance, also known as microcredit, refers to financial services offered to individuals or groups with little to no access to conventional banking—often the unemployed or low-income segments. It provides small loans that help people safely launch or expand small businesses, under ethical lending frameworks. In many cases, those seeking support from microfinance programs must first complete basic financial education. These sessions typically include lessons on interest rates, managing cash flow, understanding loan and savings products, budgeting, and responsible debt management.

### History of Microfinance

The concept of microfinance has been around since the 1700s. In India, SKS Microfinance, established in 1998, has become one of the largest and most impactful microfinance institutions, serving millions of underprivileged

clients. Around the globe, numerous microfinance entities operate—some with the backing of international bodies like the World Bank, while others function independently within local communities.

### Objective Of The Study

- To Identify Various Challenges Faced by MSMEs in Sourcing of Finance
- To Analyse the Major Limitation in The Identification and Utilisation of Sources of Finance

### Scope Of The Study

This is an empirical study conducted on the effect of access to finance for MSMEs residing in Madurai district. The primary objective is to identify the challenges faced by MSMEs in obtaining microfinance loans. The study focuses on how microfinance contributes to uplifting poor and low-income economically active people by providing them with comprehensive and suitable financial services.

### Significance Of The Study

Although several studies have been conducted on the impact of microfinance on MSMEs in India, this particular study emphasizes the challenges faced by MSMEs in Madurai. The findings will help MSMEs understand the credit opportunities available for start-ups through microfinance institutions and various government schemes. Moreover, this study will serve as a useful reference for researchers interested in exploring the growth and development of micro, small, and medium enterprises from multidimensional perspectives in the future.

### Research Methodology

**Research Design:** Descriptive Research Is Chosen for This Particular Study in Order to Obtain Complete and Accurate Information.

**Sources of data:** Data were collected using structured questionnaire.

**Sampling Area:** Madurai

**Sample Size:** Sampling size of this particular study is of 25 respondents.

### Review Of Literature

(Singh and Wasdani, 2016), The main challenges faced in underutilization of formal sources were inadequacy of collateral assets and lack of financial awareness of entrepreneurs. Based on the conclusion that the requirement of finance differs with the life-cycle stage of the MSME, recommendations have been proposed for entrepreneurs, financial institutions, and policy makers. The study further explores whether the financial awareness of MSME entrepreneurs is a major limitation in the identification and utilisation of sources of finance.

(Pooja, 2021), In study found that, various aspects are revealed which are related to problems of finance, marketing, technology, human resource, operations and export potential based on secondary data. Difficulty to acquire timely funds for working capital needs, lack of consultancy support complicated documentation, lack of the latest technological skills, need-based research programs, low ICT literacy, lack of motivation and presence of high employee turnover, inefficient logistics, low-quality products, poor bargaining power, informational gap, infrastructural gaps, complicated laws, lack of foreign quality certifications, regularity policy uncertainty, etc. are few of such problems. It also presents some policy-based suggestions to resolve such issues which hinders the growth potential of MSME units.

(Bali and Rathod, 2019), Finance for micro, small, and medium sized enterprises (MSMEs) have been a concern for all stakeholders including entrepreneurs, financial institutions, and government organisations. The key objective of the study was to identify various challenges faced by MSMEs in

sourcing of finance during different stages of their life cycle. The objective of this study was to investigate the role of financial institutions on the growth of small and medium enterprises and to give recommendations based on the problems. Despite the tremendous increase in number of SMEs, little research exists that examines role of financial institutions; banks and microfinance institutions; on the growth of small and medium enterprises in developing countries, especially India. **(Farhana,2015)**, A study showed that micro entrepreneurs not only have financial obstacles but also, they lack many business skills and knowledge regarding market, technologies, and other information required for the sustainable development of their businesses. First, entrepreneurial training including basic business skills, opportunity identification, and product positioning and product differentiation in the market should be considered either through direct providing or through facilitating. The principles of Jugaad in India and Shanghai innovation in China can also be transmitted to these micro entrepreneurs in order to organize these unorganized sectors to enhance sustainable entrepreneurship and economic growth.

**(Rathnayake et al., 2019)**, The findings revealed the positive relationship between Microfinance services and growth of MSMEs. Study recommends to government implement different tax policies for this sector, increase the investment on infrastructure in rural areas and this enable MFIs to maintain lowest rate of interest, increase their outlets in rural areas and to deliver more effective on training programs in order to empower the MSMEs in Sri Lanka to achieve long term sustainability in Sri Lanka

**(Parikh, 2020)**, The Government of Gujarat is acknowledged for its healthy and conducive climate in conducting business and industrial operation. Further, it can be stated that the sustainable growth strategy is following the 'Make in India' policy to promote the domestic manufacturing and local business programs. The focus of this program is to improve the manufacturing scenario of the country by leveraging the demographic dividend of a young and working population (Dhore, 2015). India is targeting to become the youngest country by 2020, comprising 28% of the world's workforce, with an average age of 29 years.

**(Nichter and Goldmark, 2009)**, Although the vast majority of small firms in developing countries never expand beyond a few employees, some experience rapid and substantial growth. This study explores factors associated with small firm growth. We discuss key findings for four types of factors: (1) individual entrepreneur characteristics; (2) firm characteristics; (3) relational factors (such as social networks or value chains); and (4) contextual factors (such as the business environment). We conclude by suggesting implications for development practitioners.

### Data Analysis And Interpretation

Table I: Frequency Distribution of Forms of Participant MSMEs

As can be seen from table I, the bulk of the respondents MSMEs are registered 48% as sole proprietors.

	Respondents	Percentage
Private Limited	6	24
Company Partnership	3	12
Sole proprietor	12	48
Family-owned Business	4	16
Total	25	100

They accounted for 24% as Private Limited, 16% of the respondents Family-owned Business. The remaining 12% of the respondents MSMEs were registered as partners.

**TABLE: II AGE OF MSME**

	<b>Respondents</b>	<b>Percentage</b>
Less than one (1) year	12	48
Between 1 TO 5 years	6	24
Between 6 TO 10 years	4	16
Over 10 years	3	12
Total	25	100

### **Inference**

Majority (48%) of the MSMEs under this study are less than one year old. The MSMEs in the study were analyzed in terms of the age where the majority (24%) were found to between 1- to 5-year-old. (16%) were found to between 6- to 10-year-old. (12%) were found to between 10-years-old.

### **Findings**

This study mainly focuses on the financial difficulties faced by MSMEs in securing credit. Most MSMEs reported that obtaining microcredit is a major challenge for them. Among the financing options, microfinance institutions are the most preferred choice, making them an essential source of funding for MSMEs.

The study also shows that a large number of MSMEs are not aware of government schemes available to support them. Only a few have limited knowledge about such schemes, which highlights the lack of awareness and communication between the government and small enterprises.

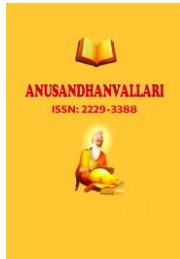
### **Conclusion**

The research titled “*The Challenges Faced by MSMEs in Obtaining Finance*” highlights the key issues MSMEs face in accessing funds from microfinance institutions to run and expand their businesses. Based on the survey responses, it is clear that MSMEs in Madurai, continue to struggle with financial accessibility.

The results underline the importance of strengthening the role of microfinance institutions and spreading greater awareness about government schemes. Addressing these gaps can make finance more accessible for MSMEs, which in turn will support their growth and overall economic development.

### **References**

- [1] Ayodele, A. E. (n.d.). *The Impact Of Microfinance On Economic Growth In Nigeria*. Retrieved May 2, 2022, from
- [2] Panchal Nilam , FUNDS AND ASSET MANAGEMENT BY MSMEs IN GUJARAT: AN SURVEY ANALYSIS,International Research Journal of Human Resources and Social Sciences, April, 2017, 2349-4085, International, Main, Paper in Journal, Journal, Article, 5.414, 4, Both
- [3] Bowen, M., Morara, M., & Mureithi, M. (2009). Management of Business Challenges



---

Among Small & Micro Enterprises in Nairobi-Kenya. *KCA Journal of Business Management*, 2.

[4] Christanto, Y., & Prasetyo, A. D. (2019). Microfinance and its Impact on Indonesian Small to Medium Size Enterprise Productivity for Development. *Sebelas Maret Business Review*, 4, 13.

[5] Panwar, V., Jha, A., Bhura, P., & Negi, K. (2022). FINANCIAL INCLUSION IN INDIA—AN ASSESSMENT. *Sachetas*, 1(1), 22-31.

[6] Semegn, A. A., & Bishnoi, N. K. (2021). Analysis of Effect of Microfinance on the Performance of MSEs in Amhara National Regional State, Ethiopia. *The Journal of Entrepreneurship*, 30(1), 153–178

[7] Nichter, S., & Goldmark, L. (2009). Small Firm Growth in Developing Countries. *World Development*, 37(9), 1453–1464.

[8] Panchal Nilam, Islamic Finance For Small And Medium Enterprises, Ashish Siddiqui and Nilam panchal, Business and Competitive Advantage: Creating and Sustaining ideas to solve contemporary Issues in recent era, (Ed) Sunildro LS, Nilam Panchal, W. C. Singh, Ruby Publishing Co., New Delhi, 2017