Influence of Microfinance on Small Business Development in Namakkal District, Tamilnadu

***M. Kanimozhi**
****Dr. B. Natarajan**

*Doctoral Scholar, Dept. of Business Administration, Annamalai University, Chidambaram, Tamil Nadu, India
**Professor, Dept. of Business Administration, Annamalai University, Chidambaram, Tamil Nadu, India

Abstract

The article tries to find out the effect of microfinance on small business development in Namakkal district. One objective of this study is reached through proper methodology. Sample size was 80 in all obtained through simple random sampling technique in Namakkal district. Researcher designed questionnaire is with 5 point scale in the continuum of agreeing. Reliability of this tool is 0.72 and 0.92. Path analysis was used for data analysis. The study found that microfinance service does not influence on business enterprises. It is recommended that the government and micro finance institutions could consider channeling more services and funds for micro financing programs to bring on board many business enterprises that are currently out of reach of the programs as this will help well economic development and improve business enterprises.

Keywords: Microfinance; Namakkal district; Simple Random; Path analysis

Introduction

Microfinance is not a new concept. It is dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. The informal financial institutions constitute; village banks, cooperative credit unions, state owned banks, and social venture capital funds to help the poor. These institutions are those that provide savings and credit services for small and medium size enterprises. They mobilize rural savings and have simple and straight forward procedures that originate from local cultures and are easily understood by the population. These funds are to finance the informal sector SMEs in developing countries and it is known that these SMEs are more likely to fail. The creation of SMEs generates employment but these enterprises are short live and consequently are bound to die after a short while causing those who gained job positions to lose them and even go poorer than how they were. It should be noted that microfinance is not a panacea but it is a main tool that foster development in developing countries. It is known worldwide that the poor cannot borrow from the banks do not lend to them because they do not have what is required to be granted a loan or to be provided with the bank services. The lack of financial power is a contributing factor to most of the societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition, Microfinance has proved this bank concept to be wrong. They target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks.

Concept of Microfinance

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance. Social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management. There are different providers of microfinance (MF) services and some of them are; non-governmental organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non bank financial institutions. The target groups of MFIs are self employed low income entrepreneurs who are traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans' blacksmith etc.

Review of Literature

Khawari (2004) Microfinance is a universal term that refers to the delivery of extensive variety of services including deposits, loans, payment services, money transfers and insurance to poor and low-income households to grow their small enterprises to help develop the individuals

Asiama and Osei (2007) were of the opinion that the objectives of the springs-ups microfinance institutions are based on the fact that the poor need access to productive financial services to improve their conditions of life. This is because they believe and hold to the objective that, the poor also have the capability to use funds effectively to generate income, earn profit, re-pay borrowed funds and engage in savings to sustain future business and life conditions.

Khavul (2010) Microfinance institutions for the purpose of this study, was limited to semi-formal financial institutions which are set up by private individuals as a business entity to deal directly with the poor and SBs in their immediate environment to help promote individuals and economic growth through market-driven business creativities.

Bureau, et al. (2012) the assertion that Microfinance institutions aim to extend microloans and other services to clients who typically lack adequate capital, the needed collateral, steady employment and a certifiable credit history to qualify them to secure credit from formalized financial institutions.

Research Methodology

Research Design

To obtain better answer to the research question, a proper research design is to be framed (Cooper & Schindler 2001; Davis & Cosenza 1988). Based on the framed hypotheses of the research inferential statistics was adopted. Exploratory descriptive and casual designs are few research designs. This study is an exploratory type which tries to explore the effect of microfinance on small business development in Namakkal district, Tamil Nadu.

Statement of Problem

The effect of micro finance services on the financial development of their small businesses particularly in developing Tamil Nadu. There are insufficient studies on this area with no studies carried out to determine the same on small businesses in Namakkal district. It is for this reason that this study sought to investigate the effect of micro-finance services on the financial development of small businesses in Tamil Nadu. Specifically, the research sought to determine the effect of micro-finance services on growth of small business.

Objective of the study

- The main objective of the study is to effect of microfinance on small business development in Namakkal district, Tamil Nadu.

Hypothesis of the study

- There is no influence of microfinance on small business development in Namakkal district, Tamil Nadu.

Scope of the Study

Scope of the study is as follows

- The study is centered at Namakkal district.
- Study is related only with microfinance and small business development.

Data Collection

Under this technique simple random sampling technique was opted. Sample size was 80. The sampling area was Namakkal District.

Reliability

For all the items in the questionnaire design, the alpha values ranged from 0.72 and 0.92. This indicates high reliability of the items in the questionnaire. With these results, consistency, dependability and adoptability are confirmed.

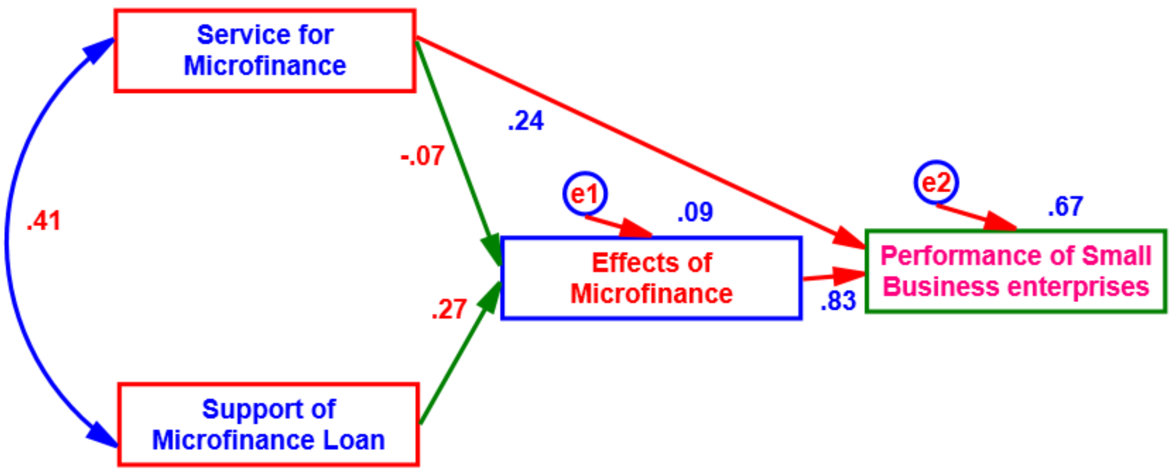
Period of the study

The study was carried from the Namakkal district between the periods of Jun 2016 to Aug 2016.

Tool for data analysis

Path analysis was used for data analysis. The main purpose of path analysis was used for influence of microfinance on small business development with respect to mediator variables.

Analysis and Interpretation



Model fit Indication

Chi-Square	p	GFI	AGFI	CFI	NFI	RMS	RMSEA
0.806	**0.339**	**0.999**	**0.988**	**0.999**	**0.999**	**0.002**	**0.000**

Source: primary data

Above table shows the model fit. The Chi square value is 0.806. P-value is 0.359 Good Fit Index is 0.999 AGFI is 0.988, CFI is 0.999 NFI is 0.999. All these readings according to norms should be near one. All are very near to 1, so this model fit is acceptable. RMSEA value is 0.000 and RMS value is 0.002. The expected norm value for RMSEA and RMS should be below 0.08. This is also acceptable as a model fit.

Regression Weights

DV		IV	Estimate	S.E.	C.R.	Beta	p
Effects of microfinance	<---	Service for microfinance	-0.070	0.055	-1.271	-0.074	0.204
Effects of microfinance	<---	Support of microfinance loan	0.275	0.060	4.608	0.268	***
Performance of small business enterprises	<---	Effects of microfinance	0.859	0.034	25.400	0.828	***
Performance of small business enterprises	<---	Service for microfinance	0.236	0.032	7.320	0.239	***

Source: primary data

H_0: Service for microfinance does not influence on effect of microfinance.

H_1: Service for microfinance influence on effect of microfinance.

Through the path analysis, regression weight of the service for microfinance over effect of microfinance shows the critical ratio is -1.271 and the Beta value is -0.074 which is 7.4%. The p value

0.204 is not significant lead to the acceptance of H_o and rejection of H_1. This can be interpreted that the service for microfinance does not influence on effect of microfinance.

H_o: Support of microfinance loan does not influence on effects of microfinance.

H_2: Support of microfinance loan influence on effects of microfinance.

Through the path analysis, regression weight of the support of microfinance loan over effects of microfinance shows the critical ratio is 4.608 and the Beta value is 0.268 which is 26.8%. It can be stated that the influence of support of microfinance loan over effects of microfinance contribute to 26.8%, the p value 0.001 is significant at 1% level lead to the rejection of H_o and acceptance of H_1. This can be interpreted that the support of microfinance loan influence on effects of microfinance.

H_o: Effects of microfinance loan does not influence on performance of small business enterprises.

H_3: Effects of microfinance loan influence on performance of small business enterprises.

Through the path analysis, regression weight of the effects of microfinance over performance of small business enterprises shows the critical ratio is 25.400 and the Beta value is 0.828 which is 82.8%. It can be stated that the influence of effects of microfinance over performance of small business enterprises contribute to 82.8%, the p value 0.001 is significant at 1% level lead to the rejection of H_o and acceptance of H_1. This can be interpreted that the effects of microfinance loan influence on performance of small business enterprises.

H_o: Service for microfinance does not influence on performance of small business enterprises.

H4: Service for microfinance influence on performance of small business enterprises.

Through the path analysis, regression weight of the effects of microfinance over performance of small business enterprises shows the critical ratio is 7.320 and the Beta value is 0.239 which is 23.9%. It can be stated that the influence of service of microfinance over performance of small business enterprises contribute to 23.9%, the p value 0.001 is significant at 1% level lead to the rejection of H_o and acceptance of H_1. This can be interpreted that the service for microfinance influence on performance of small business enterprises.

Covariance

IV		IV	Estimate	S.E.	C.R.	R	p
Service for microfinance	<-->	Support of microfinance loan	0.090	0.013	6.786	0.409	***

Source: primary data

H_o: There is no relationship between service for microfinance and support of microfinance loan.

H_1: There is relationship between service for microfinance and support of microfinance loan.

Through the path analysis, coefficient weight of the service for microfinance and support of microfinance loan shows the critical ratio is 6.786 and the R value is 0.409 which is 40.9%. It can be stated that the relationship between microfinance and support of microfinance loan contribute to 40.9%, the p value 0.001 is significant at 1% level lead to the rejection of H_o and acceptance of H_1. This can be interpreted that the relationship between microfinance and support of microfinance loan.

Findings of the study

- There is significant influence of service for microfinance does not influence on effect of microfinance.
- There is significant influence of support of microfinance loan influence on effects of microfinance.
- There is significant influence of effects of microfinance loan influence on performance of small business enterprises.
- There is significant influence of service for microfinance influence on performance of small business enterprises.
- There is relationship between service for microfinance and support of microfinance loan.

Recommendation of the Study

The study found that microfinance service does not influence on business enterprises. It is recommended that the government and micro finance institutions could consider channeling more services and funds for micro financing programs to bring on board many business enterprises that are currently out of reach of the programs as this will help well economic development and improve business enterprises.

Conclusion of the Study

The article tries to find out the effect of microfinance on small business development in Namakkal district. One objective of this study is reached through proper methodology. Sample size was 80 in all obtained through simple random sampling technique in Namakkal district. Researcher designed questionnaire is with 5 point scale in the continuum of agreeing. Reliability of this tool is 0.72 and 0.92. Path analysis was used for data analysis. The study found that microfinance service does not influence on business enterprises. It is recommended that the government and micro finance institutions could consider channeling more services and funds for micro financing programs to bring on board many business enterprises that are currently out of reach of the programs as this will help well economic development and improve business enterprises.

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