



**ORIGINAL RESEARCH PAPER**

**Commerce**

**IMPACT OF MICROFINANCE ON THE FINANCIAL PERFORMANCE OF MICROENTERPRISES**

**KEY WORDS:**

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**ABSTRACT** The main objectives of the study were to explore the importance of microfinance for promoting microenterprises, evaluate the performance of microfinance system. The effect of microfinance lending on SME performance in India is evaluated. The concept of SSI has changed over the years with changing Indian economic scenario. The influence of micro loan services on the performance of Small and medium enterprises in India is studied. . It is confirmed the presence of impact of microfinance on the development of SMEs in India.

**INTRODUCTION**

Indian Economy immensely depends on agriculture and Micro, Small and Medium Enterprises (MSMEs). The MSMEs are often termed as the backbone of Indian economy as it copiously contributes a major chunk to GDP. They play a pivotal role in providing employment opportunities galore at much lower capital cost when compared to large industries. In fact they provide large employment next to agriculture. In many sectors they play supportive role to large industries as ancillary units. The Growth of MSMEs largely ensures balanced economic progress of developing as well as developed countries. They play an important role in recovery and increasingly recognised as having a permanent role as a seedbed for future growth<sup>1</sup>

**EVOLUTION FROM SMALL SCALE INDUSTRIES TO MICRO, SMALL AND MEDIUM ENTERPRISES**

The definition of Small Scale Industries (SSIs) differs from country to country. But the common criteria for categorising an organisation as a SSI in all, the definitions are number of persons employed, capital invested, power, Technology, location and turnover. The concept of SSI has changed over the years with changing Indian economic scenario. The definitions are constantly updated to suit the contemporary requirements of the time. Small-Scale Industries Board (SSIB) in 1955 defined small scale industry as a unit employing less than 50 persons if it uses power and less than 100 persons without the use of power, and the capital assets not exceeding Rs 5 Lakhs<sup>2</sup>. In 1959, the definition was modified by the Ministry of Commerce and Industry, Government of India, by applying the restriction of employment as stated above separately to each shift. The Units employing more than one shift got benefitted owing to the modification in the aforesaid definition. Again in 1960, the restriction regarding the number of persons employed was removed altogether from the definition. Thus, the Small Scale Industries were those with a capital investment of not more than Rs. 5 Lakhs, irrespective of number of persons employed.

**GROWTH AND CONTRIBUTION OF MSMES TO ECONOMY OF INDIA**

The MSMEs consistently play an indispensable role in shaping the country's economy. They take different forms such as proprietary, partnership, private company and co-operatives. Table 1 shows the distribution of working MSME by type as per the latest census. The Ministry of MSME, Government of India reckons opening of new MSMEs as a critical indicator for assessing the development of the sector in economy as it reflects the conducive nature of environment for the growth of such enterprises.

**Table 1 Distribution of Working MSMEs by type of Organisation**

Sl. No.	Enterprises	Total	Percentage
1	Government/PSU	94,99,582	7.24
2	Proprietary	10,30,60,706	78.5
3	Partnership	33,34,244	2.54
4	Company	50,92,040	3.88
5	Self Help Group	9,40,494	0.72
6	Co-operative	6,28,081	0.48
7	Non-Profit Institution	22,06,256	1.68
8	Others	65,32,465	4.98
	<b>Total</b>	<b>13,12,93,868</b>	<b>100</b>

Source: All India Report of Sixth Economic Census 2013-2014, Ministry of Statistics and Programme Implementation

The table shows the position of MSMEs in terms of number of units, categorised based on type of organisation and its registration status. It is clear that nearly 79 per cent of the total units are proprietary form of enterprises and the company form of organisations is hardly 4 per cent. Number of non-agricultural establishments in the state of AP is 27, 81,291 which is 6.13 per cent of share in the total establishments in India. Since the Fourth India Census period the number of working MSM Enterprises continued to increase consistently. The Table 2 shows the growth of MSMEs in terms of total number of working enterprises since 2006-07.

**Table 2 Performance of MSME, Employment and Investments**

Sl.No.	Year	Total working Enterprises* (In Lakhs)	Employment (In Lakhs)	Market Value of Fixed Assets (Rs in crores)
1	2006-07	361.76	805.23	8,68,543.79
2	2007-08#	377.36	842.00	9,20,459.84
3	2008-09#	393.70	880.84	9,77,114.72
4	2009-10#	410.80	921.79	10,38,546.08
5	2010-11#	428.73	965.15	11,05,934.09
6	2011-12#	447.64	1011.69	11,82,757.64
7	2012-13#	447.54	1061.40	12,68,763.67
8	2013-14#	488.46	1114.29	13,63,700.54
9	2014-15#	510.57	1,171.32	1,471,912.94

Source: Annual Report 2015-16, Ministry of MSME, Government of India  
#Projected

\* Including activities of wholesale/retail trade, legal, education, social services, hotel & restaurants, transports and storage and warehousing (Except cold storage).

The table shows the projected number of working enterprises over a period of 8 years up to 2013-14. The number of enterprises has increased by 126.7 lakhs since 2006-07 which is 35 per cent more. The number of persons employed in the sector also increased proportionately. The projected total number of persons employed in the sector was 1,114.29 lakhs in 2013-14. There has been a significant increase in the estimated market value of fixed assets held by the sector. It increased by Rs 4, 95,156.75 lakhs in 8 years. This amounts to 57 per cent increase.

**Table 3 Distribution of Micro, Small and Medium Enterprises as per Udyog Adhar Memorandum (UAM) Filings as on 31<sup>st</sup> March 2018**

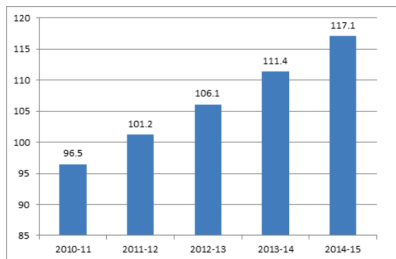
Sl. No.	Category	Number in Lakhs	% Share
1	Micro Enterprises	630.52	99.49
2	Small Enterprises	3.31	0.5
3	Medium Enterprises	0.05	0.01
Total		633.88	100

Source: Annual Report 2017-18, Ministry of MSME, Government of India

Table 3 shows that registered small and medium enterprises are about 0.5 per cent of total registered MSMEs. Overwhelming number of units are micro in nature.

**Employment**

In India more than 93% are employed in unorganised enterprises. The data as per 73rd National Sample Survey (NSS) conducted in 2015-16, shows that the MSME sector created 11.10 Crores (Fig.1).



**Fig.1 Estimated growth in employment in the MSME sector**  
Source: Ministry of MSME, Annual Report 2016-17

There is a steady growth in number of persons employed over a period of 5 years starting from 2010-11 to 2014-15. The growth is expected to continue for the coming years also. Table 4 shows the estimated employment by 2017-18.

**Table 4 Estimated Employment based on activity**

Sl. No.	Activity	Employment (In Lakhs)			Share (%)
		Rural	Urban	Total	
1	Manufacturing	186.56	173.86	360.41	32
2	Trade	160.64	226.54	387.18	35
3	Other Services	150.53	211.69	362.22	33
4	Electricity*	0.06	0.02	0.07	0
Total		497.78	612.10	1109.89	100

Source: Ministry of MSME, Annual Report 2017-18

\*Non-captive electricity generation and transmission

Manufacturing, trade and other services share around one-third each. A few units have also started to engage in generation and transmission of electricity for Non-captive purpose. In the recent years MSMEs have started to expand their areas of operations in different domains and even expanded through innovations. The enterprises' contribution in Gross Value Added (GVA) and Gross Domestic Product (GDP) of the country is given in Table 5. The contribution in the total GVA has been around 32 per cent annually for the past 5 years. Even the percentage of share in GDP

is 29 per cent annually on an average in the recent years. This confirms continuing strong and major presence of the sector in the national income.

**Table 5 Share of MSME Sector in GDP and Total Manufacturing Output**

Year	Manufacturing Output at current Prices		Share of MSME GVA to GVA\GDP at constant price for base year 2011-12(%)		
	MSME Manufacturing Output (Rs in crore)	Share of MSME Manufacturing output in total Manufacturing Output (%)	MSME Manufacturing Sector	MSME Services Sector	Total
			GDP	GDP	GDP
2011-12	2167110	33.12	6.16	23.81	29.97
2012-13	2385248	33.22	6.27	24.13	30.40
2013-14	2653329	33.27	6.27	24.37	30.64
2014-15	2783433	33.40	6.11	24.63	30.74

Source: Annual Report 2016-17, Ministry of MSME, Government of India

The table also shows the contribution of MSMEs in country's GDP. It is clear from the table that the sector consistently contributes more than 33 per cent in the total manufacturing output of the country in the given period of four years, i.e. 2011-2015. The contribution of the sector in the GDP, together with its service sector is about 30 per cent. It can be observed that MSMEs' contribution is three times more in services when compared to manufacturing. The MSMEs have been playing a significant role in building a developing economy like India. They are often described as engines of economic growth in pushing the economy to next level. Ministry of MSME in India consider MSMEs as the significant contributor and acts as an incubator where in the entire ecosystem is nurtured. At present, MSMEs is contributing about 9 per cent of GDP's growth, 45 per cent of manufactured production and 40 per cent of exports. They are now next to agricultural sector in providing employment. About 50 per cent of MSMEs are run by under privileged persons including women.

**STATUS OF MICRO FINANCE SECTOR IN INDIA**

**Client Outreach**

In India, ever since the concept of microfinance took off in 1980s, there has been an impressive growth of MFIs for speeding up and achieve financial inclusion. The MFIs outreach as on 31<sup>st</sup> March 2016 was 4 crores clients with amount of loans outstanding (Table 6).

**Table 6 Client Outreach of MFIs**

Number of MFIs	Client Outreach (In Nos.)
28 MFIs out of 223 MFIs	More than 2,50,000 Clients
45 MFIs out of 223 MFIs	Between 50,000 and 2,50,000 Clients
150 out of 223 MFIs	Less than 50,000 Clients

Source: Sa-Dhan (2016)

There are 28 big MFIs in India which cover more than 2, 50,000 clients each, 45 are medium sized MFIs that have the client outreach between 50,000 and 2, 50,000 clients each. The rest are small MFIs which serve much poorer clients in very remote rural areas. The small MFIs play a crucial role in covering the neglected areas by main stream MFIs. The total microfinance loan size in India (Table 7) for the year ended 31-03-2017 was Rs.1, 06,916 Crores.<sup>4</sup>

**Table 7 Loans to MFIs by Financial Institutions**

Financial Institutions	Year	Loans disbursed		Loans Outstanding	
		No. of accounts	Amount (Rs in Crores)	No. of accounts	Amount (Rs in Crores)
Commercial Banks	2014-15	541	13858.64	4445	18720.61
	2015-16	564	19324.14	1561	22682.85
	2016-17	1430	17091.33	3328	25089.18
Regional Rural Banks	2014-15	15	47.69	131	1186.62
	2015-16	31	52.42	344	210.23
	2016-17	13	37.83	250	78.75

Cooperative Banks	2014-15	0	0	0	0
	2015-16	3	6.00	17	11.76
	2016-17	834	207.33	1682	261.54
SIDBI	2014-15	33	1283.80	86	2593.23
	2015-16	49	1413.01	98	2676.00
	2016-17	37	1967.90	97	3795.98
Total by all agencies	2014-15	589	15190.13	4662	22500.46
	2015-16	647	20795.57	2020	25580.84
	2016-17	2314	19304.38	5357	29225.45

Source: Status of Microfinance in India 2016-17, NABARD Report.

The growth of the MFIs can be measured in terms of loans given to MFIs by various financial institutions such as Commercial banks, Regional Rural Banks (RRBs), Co-operative Societies and SIDBI.

**CONCLUSION**

The MSMEs are often termed as the backbone of Indian economy as it copiously contributes a major chunk to GDP. They play a pivotal role in providing employment opportunities galore at much lower capital cost when compared to large industries. In fact they provide large employment next to agriculture. There are 28 big MFIs in India which cover more than 2, 50,000 clients each. The data as per 73<sup>rd</sup> National Sample Survey (NSS) conducted in 2015-16, shows that the MSME sector created 11.10 crores. It was studied influence of micro loan services on the performance of Small and medium enterprises in India. It is confirmed the presence of impact of microfinance on the development of SMEs in India.

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