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A STUDY ON BANK MICROFINANCE FOR SMALL ENTERPRISES: EVIDENCE FROM MUMBAI

Abstract

Small enterprises are critical drivers of economic growth, employment generation, and innovation in India. However, limited access to formal finance often constrains their growth. This study examines the role of bank-provided microfinance in supporting small enterprises in Mumbai, focusing on challenges in accessing credit and the impact of microfinance on enterprise performance. Primary data were collected from 50 small business owners using structured surveys and interviews, supplemented by secondary sources. Results indicate that while accessibility challenges are not statistically significant, bank microcredit has a substantial positive impact on revenue, profitability, technology adoption, operational expansion, product development, and market competitiveness. The study highlights the effectiveness of bank microfinance in promoting enterprise growth and provides policy implications for enhancing financial inclusion among small businesses.

Keywords: Small Enterprises, Microfinance, Bank credit, Financial Inclusion, Mumbai

Introduction

Small enterprises play a pivotal role in driving economic development by generating employment, fostering innovation, and promoting inclusive growth. In India, they form an essential link between large-scale industries and the informal sector, enhancing supply chains and regional economic resilience. Despite their importance, many small enterprises face challenges in accessing formal finance due to lack of collateral, irregular cash flows, and limited financial records.

Bank-led microfinance offers simplified lending procedures, customized products, and flexible repayment structures to bridge this credit gap. Mumbai, India's commercial hub, provides an ideal setting to study the impact of bank microfinance on small enterprise performance. This study investigates both the accessibility of bank microcredit and its contribution to enterprise growth and sustainability.

Review of Literature

Duči et al. (2025) concluded that microfinance contributes to business growth and income stability, although challenges such as high interest rates and repayment pressure remain.

Koffi et al. (2024) emphasized that repayment behavior in microfinance depends on both financial and behavioral factors, which directly affects loan

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sustainability.

Sarfo (2024) found that microfinance positively influences SME performance by encouraging business expansion and innovation.

Finch and Kocieniewski (2022) argued that while microfinance has positive outcomes, borrower vulnerability and contextual factors must be considered to ensure sustainable benefits.

Gutiérrez-Nieto and Serrano-Cinca (2019) discussed the role of microfinance in promoting financial inclusion and social justice, highlighting its broader socio-economic impact.

Zaby (2019) explained the evolution of microfinance institutions and their increasing contribution toward improving financial inclusion and supporting small businesses.

Care International (2015) highlighted that microfinance plays a significant role in small enterprise development globally by improving access to credit and supporting income-generating activities.

Field, Pande, and Rigol (2014) provided evidence from India that microfinance positively impacts firm performance by enhancing investment capacity and business growth among small enterprises.

Imoisi and Godstime (2014) emphasized that microfinance promotes entrepreneurship development by enabling small business owners to start and expand their ventures.

Makorere (2014) found that loan characteristics such as size, repayment terms, and accessibility significantly influence enterprise performance and sustainability.

Bhanot and Bhapat (2014) analyzed the financial sustainability of microfinance institutions in India and find that factors such as portfolio quality, return on assets, and staff productivity are crucial for effective microfinance operations.

Objectives

1. To study the challenges faced by small enterprises in accessing bank microcredit.

2. To understand the impact of bank-provided microcredit on growth and sustainability of small enterprises.

Hypotheses

H_{01} : Small enterprises do not face significant challenges in accessing bank microcredit.

H_{a1} : Small enterprises face significant challenges in accessing bank microcredit.

H_{02} : Bank-provided microcredit does not significantly impact small enterprise growth.

H_{a2} : Bank-provided microcredit significantly impacts small enterprise growth.

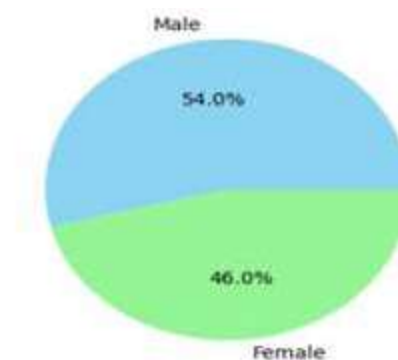
Research Design

A combination of exploratory and causal research designs was adopted. Primary data were collected from 50 small enterprises in Mumbai using structured surveys and interviews. Secondary data were sourced from academic journals, institutional reports, and online databases. Simple random sampling ensured every enterprise had an equal chance of inclusion.

Data were analysed using descriptive statistics and regression analysis to test the proposed hypotheses.

Data Analysis

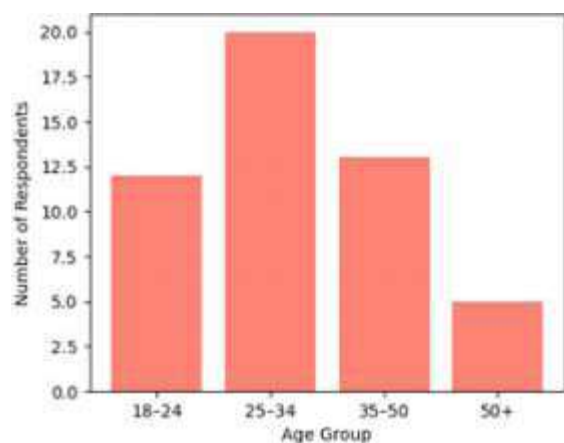
Fig.1 : Gender Distribution



Source : Primary Data

Gender distribution shown above reported that out of the total 50 respondents, 27 respondents (54%) were male and 23 respondents (46%) were female. This shows a relatively balanced gender representation with a slight dominance of male respondents.

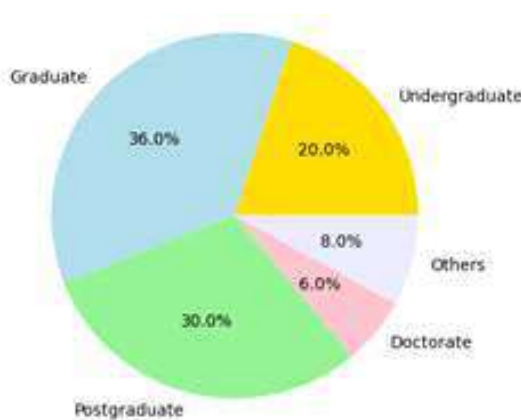
Fig.2 : Age Distribution



Source : Primary Data

The age-wise distribution in fig. 2 revealed that the majority of respondents fall within the 25–34 years age group (20 respondents, 40%), followed by 35–50 years (13 respondents, 26%). Respondents aged 18–24 years accounted for 24%, while only 10% were above 50 years.

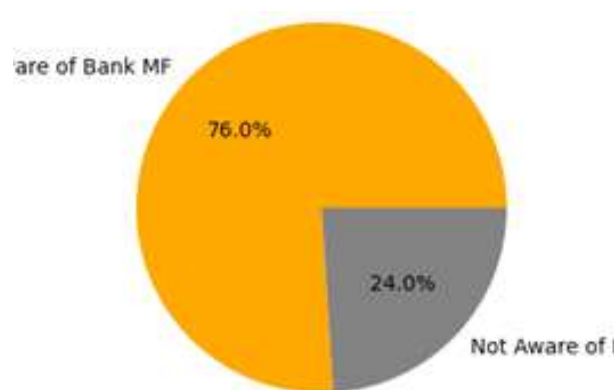
Fig.3 : Education Level Distribution



Source : Primary Data

The educational profile shown in fig. 3 that most respondents were graduates (18 respondents, 36%), followed by postgraduates (15 respondents, 30%). Undergraduates constituted 20%, while doctorate holders were only 6%, and others accounted for 8%.

Fig.4 : Awareness of Bank Microfinance



Source : Primary Data

Fig. 4 revealed that 76% of respondents (38 respondents) were aware of microfinance services, while 24% were not. This reflects a high level of awareness, suggesting that information dissemination efforts by banks and institutions have been largely effective.

Statistical Assessment of Hypotheses

H_{01} : Small enterprises do not face significant challenges in accessing bank-provided microcredit.

H_{a1} : Small enterprises face significant challenges in accessing bank-provided microcredit.

Table 1 : Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.237	0.056	-0.081	1.152

Source : Primary Data

Table 2 : ANOVA Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.422	7	0.489	0.356	0.922
Residual	57.578	42	1.371		
Total	61.000	49			

Source : Primary Data

Table 3 : Coefficient Table

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
Constant	3.250	1.041	-	3.122	0.003
Eligibility Criteria	0.018	0.148	-0.016	-0.122	0.903
Loan Size	0.146	0.155	-0.122	-0.941	0.352
Support Services	0.033	0.157	0.027	0.210	0.834
Interest Rate	0.068	0.165	-0.056	-0.411	0.683
Application Transparency	0.163	0.142	-0.134	-1.147	0.258
High Collateral	0.025	0.149	0.020	0.168	0.868
Government Rules	0.047	0.146	-0.039	-0.323	0.748

Source : Primary Data

The regression analysis indicates that the seven factors considered Eligibility Criteria, Loan Size, Support Services, Interest Rate, Application Transparency, High Collateral, and Government Rules do not have a statistically significant impact on the accessibility of bank-provided microcredit for small enterprises. Since we fail to reject the null hypothesis, there is no evidence from this sample

to suggest that these factors create significant challenges in accessing microcredit.

H₀₂: Bank-provided microcredit does not have a significant impact on the growth of small enterprises.

H_{a2}: Bank-provided microcredit has a significant impact on the growth of small enterprises.

Table 4 : Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.877	0.769	0.767	0.255

Source : Primary Data

Table 5 : ANOVA Table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	129.328	6	21.555	397.938	0.000
Residual	7.410	43	0.172		
Total	136.738	49			

Source : Primary Data

Table 6 : Coefficient Table

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
Constant	0.499	0.090	–	5.548	0.000
Operational Expansion	0.037	0.014	0.059	2.618	0.009
Revenue and Profitability	0.367	0.058	0.371	6.332	0.000
Investment in Technology	0.277	0.050	0.286	5.570	0.000
Product Development	0.029	0.010	0.060	2.898	0.004
Market Competitiveness	0.188	0.042	0.200	4.436	0.000
Market Development	0.045	0.023	0.070	1.957	0.006

Source : Primary Data

The regression analysis indicates that bank-provided microcredit has a significant positive impact on the growth of small enterprises. Since we reject the null hypothesis (H_0), the results provide evidence that access to microcredit supports growth across multiple dimensions. Revenue and Profitability have the strongest effect, followed by Investment in Technology and Infrastructure and Operational Expansion, indicating that microcredit enables businesses to enhance financial performance, modernize, and scale operations. Product Development and Market Competitiveness are also positively influenced, suggesting that microcredit promotes innovation and competitiveness, while Market Development has a smaller but positive effect on expanding into new markets.

Limitations and Future Research

1. Limited sample size and focus on Mumbai restrict generalizability.
2. Financial data may be incomplete or sensitive.
3. Study captures short-term impacts; long-term effects were not assessed.
4. Future research could use larger samples, multi-city data, and longitudinal analysis to evaluate sustainability and growth trends.

Conclusion

Bank-led microfinance serves as a vital tool for promoting small enterprise growth in Mumbai. While formal access barriers are not significant,

microcredit enhances financial performance, technological adoption, and market competitiveness. Policymakers and financial institutions should strengthen microfinance outreach, especially for young entrepreneurs and women-led businesses, to foster inclusive and sustainable economic development.

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