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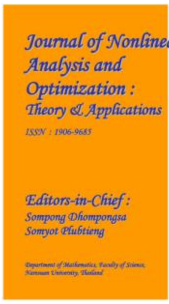


# IMPACT ANALYSIS OF MICROFINANCE LOANS ON THE FINANCIAL PERFORMANCE OF LOCAL RETAIL STORES

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**Abstract:**
Micro loans have gained significant recognition as a powerful tool to empower individuals in the modern finance sector. This abstract explores the role of micro loans, discussing their impact on revenue and liquidity positions of retail stores.
By offering small-scale financial support to local retailers, micro loans enable individuals to start or expand their own businesses, generating income and creating employment opportunities. Micro loans have emerged as a vital tool in creating a more inclusive and sustainable financial system.
Current study examines the impact of microfinance loans on the financial performance and satisfaction levels of local retail stores.
Indicators of financial performance, such as revenue and liquidity, are evaluated through quantitative analysis. The findings from various studies highlight a positive association between microfinance loans and the financial performance of local retail stores. The overall study supports the notion that microfinance loans play a crucial role in improving the financial performance and satisfaction level of local retail stores, contributing long-term sustainability of local retailers.
The research uses Descriptive Study and Paired Sample t Test for analysis on the Primary Data Collected from the Respondents who have taken the Micro Finance Loans.
The Current Study will focus on the Identifying the Areas of Business, where the Micro Finance Loans have improved the Situation compared to the Pre Loan Period. The Research concludes that Micro finance Loans can act as Catalyst to Improve the Performance of the Business. In Study the suggestions are also noted for further development and financial benefit of the Small and Medium Scale Enterprises.
**Keywords**: Microfinance, micro loans, retail business, satisfaction levels

## Introduction
Micro loans, commonly referred to as microcredit, involve providing small amounts of financial assistance to individuals who lack access to traditional banking services. These loans, known as micro loans, are typically used to start or expand small businesses, purchase equipment, or cover unexpected expenses.
In the ever-evolving landscape of global commerce, local retail stores stand as the lifeblood of economies and communities. These small-scale businesses, often operated by entrepreneurs with limited access to traditional sources of financing, play a vital role in supplying essential goods, creating job opportunities, and fostering economic growth. However, the challenges faced by local retail stores in accessing capital are substantial, often impeding their ability to expand, compete, and thrive.
Microfinance, a revolutionary financial instrument, has emerged as a beacon of hope for these businesses. By providing small-scale, uncollateralized loans to individuals and entrepreneurs who are typically excluded from the formal banking system, microfinance institutions aim to break down the financial barriers that stifle local retail stores' growth and development. These loans have the potential to bolster the financial performance and overall satisfaction of local retail store owners, but the extent and mechanisms of their impact remain underexplored.

This research paper embarks on an in-depth exploration of the interplay between microfinance loans and the financial performance and satisfaction levels of local retail stores. It seeks to shed light on how these microloans can be a catalyst for transformation and empowerment at the grassroots level. The research delves into the nuances of this relationship by considering various dimensions, including financial metrics, entrepreneurial aspirations, and the broader social and economic implications. In doing so, this study addresses a critical gap in the existing literature, which has thus far overlooked the specific dynamics of microfinance in the context of local retail.

The significance of this study extends beyond academic curiosity. A deeper understanding of the role of microfinance in local retail's success can help policymakers, financial institutions, and local entrepreneurs make informed decisions. Furthermore, it has the potential to foster financial inclusivity, alleviate poverty, and promote economic sustainability in communities worldwide.

The exploration of this critical intersection between microfinance and local retail stores promises to uncover valuable insights, ultimately contributing to the vitality and resilience of these essential businesses. Through a multifaceted analysis of financial performance and the well-being of local entrepreneurs, this study aims to provide actionable knowledge that can shape a more inclusive and prosperous future for communities around the world.

**Literature Review**

(Mia, 2010)[1] .Research has indicated that microfinance loans contribute to the growth and sustainability of small businesses. By providing capital and financial services, microfinance institutions have a positive impact on business profitability, financial performance, and entrepreneurial activities.

(Armendáriz & Morduch, 2010)[2]. Research indicates that microfinance loans play a crucial role in promoting financial inclusion and empowering individuals with limited access to formal financial services. Through access to credit and savings facilities, microfinance borrowers experience improvements in financial performance, such as increased savings and better debt management.

(Khandker, 2005)[3]. Studies have shown that microfinance loans have a significant impact on the growth and sustainability of microenterprises. By providing capital and financial services, microfinance institutions contribute to the financial performance, profitability, and expansion of small businesses.

(Hossain, 2008)[4] .Studies indicate that microfinance loans positively influence entrepreneurial activities, empowering individuals to start and expand businesses, which in turn contributes to their financial performance and economic well-being.

(Cull, Demirgüç-Kunt, & Morduch, 2018)[5]. The Research concluded that Microfinance loans have been found to enhance financial inclusion by providing underserved populations with access to credit, savings, and insurance, resulting in improved financial performance and reduced vulnerability.

(Hulme & Mosley, 1996)[6] .Research suggests that microfinance loans have a positive influence on business profitability and sustainability, enabling borrowers to expand their enterprises and generate higher revenues.

**Objectives**

1. To understand the awareness level of local retail store for microfinance loans
2. To analyse improvements in the financial performance of local retail stores before and after receiving microfinance loans, with a focus on factors such as revenue and liquidity.
3. To recommend the microfinance institutions and policymakers to optimize the benefits of microfinance and enhance financial performance and satisfaction levels.

**Hypotheses**

Hypothesis 1:

H 0: Awareness of Microfinance Loans among the Retailers is low (Mean $\leq$ 3).

H 1: Awareness of Microfinance Loans among the Retailers is High (Mean > 3).

Hypothesis 2:
H0: There is no significant impact of Microfinance loans on the financial performance of local retail stores.
H1: There is a significant impact of Microfinance loans on the financial performance of local retail stores.

**Research Methodology**
Both primary and secondary data were employed in this proposed study. Structured Questionnaire was framed to collect the Data from Local retailers.
- Primary Data: The data is collected from the Primary source through survey method, a structured questionnaire was framed.
- Secondary Data: The data is also gathered through various books, Magazines, Research Journals, Research Articles and Thesis
- Nature of Study: The Current study is based on Quantitative Nature of Study.
- Sampling Element: Individual which includes Local Retailers
- Sample Size: 76.
- Sampling Method: Snowball Sampling Method is used and Grab Sampling Method is used.
- Statistical Technique: Non- Probability Purposive sampling. SPSS and Advanced Excel will be used for Analysis of Data.

**Limitation**
Although some microcredit rates are lower than traditional bank rates, critics have argued that these activities make money off the poor. Asian Development Bank and many large financial institutions and other large companies have also set up for-profit microcredit departments, causing concerns that these large bankers will pay higher interest rates to make money which can create debt for low-income borrowers.
And some have argued that individual microloans are not enough to provide a realistic path to independence.
While micro loans have gained popularity and have been credited with promoting financial inclusion and poverty alleviation, they also have certain limitations in modern finance. Some of these limitations include:
1. Loan Size: Micro loans are typically small in size, ranging from a few dollars to a few thousand dollars. While this may be suitable for microenterprises and individuals with small-scale needs, it may not be sufficient for larger business ventures or investment opportunities. Lack of access to larger loans can limit the growth potential of borrowers.
2. Interest Rates: Micro loans often come with higher interest rates compared to traditional loans. This is due to the higher administrative costs and the perceived risk associated with lending to low-income borrowers without collateral. The high interest rates can be a burden for borrowers, potentially leading to a debt trap if they are unable to generate sufficient income to repay the loan.
3. Limited Scope: Micro loans primarily target low-income individuals and microenterprises, which may not address the needs of all segments of the population. Middle-income individuals or larger businesses may require different financial products and services that are not adequately addressed by micro loans alone.
4. Lack of Ancillary Services: Micro loans are typically focused on providing capital, but they may not offer comprehensive financial services such as financial education, business training, or access to insurance products. These additional services are important for building financial literacy, enhancing entrepreneurial skills, and managing risks effectively.
5. Sustainability: The sustainability of micro loan programs can be a challenge. Microfinance institutions (MFIs) need to balance their social mission with financial viability. Achieving financial sustainability can be difficult due to the high costs of operating in remote or low-income areas and the potential for default rates to be higher among marginalized borrowers.

6. Dependency on Micro Loans: In some cases, micro loans may create a dependency on debt rather than encouraging sustainable growth and financial independence. Borrowers may rely on successive loans to cover existing debts or everyday expenses, which can lead to a cycle of indebtedness.
7. Limited Impact on Poverty: While micro loans can provide short-term relief and support income-generating activities, their impact on poverty reduction may be limited. Poverty is a complex issue influenced by various social, economic, and structural factors that cannot be fully addressed by access to micro loans alone.

**Analysis and Interpretation:**

| **Table No. 1 : Analysis of Awareness Level of Respondents** | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| Statements [I understand all the terms conditions of micro finance loans] | 76 | 1 | 5 | 2.39 | 1.084 |
| Statements [I am aware about interest rates charged on micro finance loans] | 76 | 1 | 4 | 2.55 | .773 |
| Statements [I am aware of the consequences of non-repayment of loans] | 76 | 1 | 5 | 2.68 | .955 |
| Statements [Financial Institutions helps me by way of loan refoulment or forbearance options in times of financial hardships] | 76 | 1 | 4 | 2.71 | .921 |
| Statements [I am aware about different loan schemes offered by micro finance institutions ] | 76 | 1 | 5 | 2.80 | 1.083 |
| Statements [I am aware about loan origination fees or processing fees ] | 76 | 1 | 5 | 2.64 | .919 |
| Statements [I am aware about penalties & interest on default of loans] | 76 | 1 | 5 | 2.76 | .907 |
| Statements [I am aware about the maximum loan amount offered by micro finance institutions] | 76 | 1 | 5 | 2.53 | .916 |
| Statements [I am aware about grace days | 76 | 1 | 5 | 2.59 | .996 |

| | | | | | |
|---|---|---|---|---|---|
| provided to me by Micro Finance Institutions] | | | | | |
| Statements [I am aware about loan instalment facility given to given] | 76 | 1 | 5 | 2.64 | .976 |
| Valid N (list wise) | 76 | | | | |

If the above Mean is 3 or more than 3, then Respondents are Aware or fully aware.
From the above Data analysis, it is clear that the awareness level among the Respondents is less than 3, which shows that Respondents have less information about various aspects related to Micro Finance Loan.

**Analysis on Financial Performance of Business**

| **Table No. 2 Paired Samples Statistics** | | | | | |
|---|---|---|---|---|---|
| | | Mean | N | Std. Deviation | Std. Error Mean |
| Pair 1 | Statements [The cash inflow is stable.] | 2.26 | 76 | .929 | .107 |
| | Statements [The cash inflow is stable.] | 3.17 | 76 | 1.279 | .147 |
| Pair 2 | Statements [The stores profitability is satisfactory] | 2.41 | 76 | .751 | .086 |
| | Statements [The stores profitability is satisfactory] | 3.45 | 76 | 1.248 | .143 |
| Pair 3 | Statements [Expenses are effectively managed.] | 2.42 | 76 | .735 | .084 |
| | Statements [Expenses are effectively managed.] | 3.53 | 76 | 1.205 | .138 |
| Pair 4 | Statements [Inventory management is efficient] | 2.92 | 76 | 1.152 | .132 |
| | Statements [Inventory management is efficient] | 2.04 | 76 | .855 | .098 |
| Pair 5 | Statements [The customers base has Increased] | 2.64 | 76 | .795 | .091 |
| | Statements [The customers base has Increased] | 2.36 | 76 | .860 | .099 |
| Pair 6 | Statements [Financial position is more favourable.] | 2.58 | 76 | 1.074 | .123 |
| | Statements [Financial position is more favourable.] | 3.75 | 76 | 1.245 | .143 |

| | | | | | |
|---|---|---|---|---|---|
| Pair 7 | Statements [Overall Financial Performance has improved] | 2.63 | 76 | .991 | .114 |
| | Statements [Overall Financial Performance has improved] | 3.61 | 76 | 1.266 | .145 |

From Table No 2, it can be stated that, For Pair 1, mean for Pre Loan Statement is 2.26 and mean for Post Loan Statement is 3.17., thus it can be stated that there has been an improvement in Cash inflows in Post Loan period. For Pair 2, mean for Pre Loan Statement is 2.41 and mean for Post Loan Statement is 3.45., thus it can be stated that there has been an improvement of Profitability in Post Loan period. For Pair 3, mean for Pre Loan Statement is 2.42 and mean for Post Loan Statement is 3.53., thus it can be stated that there has been an improvement of Managing Expenses in Post Loan period. For Pair 4, mean for Pre Loan Statement is 2.92 and mean for Post Loan Statement is 2.04., thus it can be stated that there is no improvement of Managing Inventory in Post Loan period. For Pair 5, mean for Pre Loan Statement is 2.64 and mean for Post Loan Statement is 2.36., thus it can be stated that there is no much significant difference between the two means. For Pair 6, mean for Pre Loan Statement is 2.58 and mean for Post Loan Statement is 3.75., thus it can be stated that there has been an improvement in Financial Position in Post Loan period. For Pair 7, mean for Pre Loan Statement is 2.63 and mean for Post Loan Statement is 3.61., thus it can be stated that there has been an improvement in Overall Financial Performance in Post Loan period.

**Table No. 3 Paired Samples Test**

| | | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | | Lower | Upper | | | |
| Pair 1 | Statements [The cash inflow is stable.] - Statements [The cash inflow is stable.] | -.908 | 1.328 | .152 | -1.211 | -.604 | -5.958 | 75 | .000 |
| Pair 2 | Statements [The stores profitability is satisfactory] - Statements [The stores profitability is satisfactory] | -1.039 | 1.361 | .156 | -1.350 | -.729 | -6.659 | 75 | .000 |
| Pair 3 | Statements [Expenses are effectively managed.] - Statements [Expenses are effectively managed.] | -1.105 | 1.438 | .165 | -1.434 | -.777 | -6.699 | 75 | .000 |
| Pair 4 | Statements [Inventory management is efficient] - Statements [Inventory management is efficient] | .882 | 1.460 | .168 | .548 | 1.215 | 5.263 | 75 | .000 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Pair 5 | Statements [The customers base has Increased] - Statements [The customers base has Increased] | .289 | 1.284 | .147 | -.004 | .583 | 1.966 | 75 | .053 |
| Pair 6 | Statements [Financial position is more favourable.] - Statements [Financial position is more favourable.] | -1.171 | 1.578 | .181 | -1.532 | -.810 | -6.469 | 75 | .000 |
| Pair 7 | Statements [Overall Financial Performance has improved] - Statements [Overall Financial Performance has improved] | -.974 | 1.600 | .184 | -1.339 | -.608 | -5.306 | 75 | .000 |

From the Above Table No. 4 It can be stated that there is significant difference in the variables between Pre and Post Loan time period, except the statement i.e. pair no. 5 where the significant difference is 0.053.

**Conclusion and Suggestion:**

Thus, from the above analysis it can be clearly seen that Micro finance loans have made a significant Positive change in the Business and overall financial performance. The Microfinance loan can act as a catalyst to improve the various aspects of Business and help the retail business to grow. Retailers i.e. the local stores which operate at a small level and for growth and various other purpose such businesses require additional funds, thus Micro finance loans can meet their needs. It is also seen that many of the Retail stores were not aware about the concept of Microfinance loans, due to such unawareness the small businesses suffer financially. For such business the Government i.e. Central and State government must create some awareness drive so as to create awareness about the Micro finance Loans. The Banks can play an important role in creating awareness and distribution of such Loans. Various other measures which can help to create awareness about Micro Finance Loans are; Conducting Educational Workshops and Seminars to create awareness on Micro finance Loans. The Awareness Program and Education must be instructed in Regional Language which will help the Retailers to understand the concept easily. Social Media campaigns and Mobile Outreach awareness can also help to improve the Awareness. The Fact that Loans can help to improve Business is right, but it also depends on how the Finances are used and applied in Business.

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