

Challenges faced by Micro and Small Enterprises in raising bank finance: A special reference to Micro and Small Enterprises in Nagpur

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Abstract

Worldwide, Micro, Small and Medium Enterprises (MSMEs) play a crucial role in sustaining and accelerating the competitiveness of an economy in turn form an integral part of economic growth, providing significant contributions to every aspect of economic development. MSMEs have been playing a momentous role in overall economic development of a country like India. The MSME sector contributes about 8 percent of the GDP of India, 45 percent of the manufactured output and 40 percent of the total exports. The sector provides employment to more than 80 million persons through more than 36 million enterprises producing over 6,000 products. In spite of this importance, this sector face number of constraints like absence of adequate and timely supply of bank finance, difficulties in procuring raw materials, marketing and distribution challenges and non availability of suitable technology. The study is based upon the primary data collected from the 100 MSEs owners in Nagpur city of Maharashtra. The data has been analyzed with the help of percentage. The study attempts to submit some recommendations to enhance the overall credit accessibility to MSMEs sector.

Keywords: MSME, banks, finance gap, challenges, credit

1. Introduction

Micro-Small and Medium Enterprises (MSMEs) contribution is highly remarkable in the overall industrial economy of the country. In recent years, the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. In the Indian market, MSME's rapid growth could be seen as Indian entrepreneurs are making remarkable progress in various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, Agro and Service sector etc. MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country. However, MSME's contribution is phenomenal in the growth of Indian economy, simultaneously; they are facing intense pressure and constraints to sustain their competitiveness in a globalized world.

Small businesses often face a variety of problems related to their size. A frequent cause of bankruptcy is undercapitalization. This is often a result of poor planning rather than economic conditions. It is a common rule of thumb that the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his anticipated expenses. MSMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non-availability of skilled manpower. These are often confronted with problems that are uncommon to the larger companies and multi-national corporations. These problems include the following: Lack of ITs Support, Lack of ITs Literacy, Lack of Formal Procedure and Discipline, Uneven

ITs Awareness and Management Skill, Lack of Financial Resources, Lack of Human Resources, Raw Material problems, Production problem, etc. The availability of external finance for them is a topic of significant research interest to academics and an important issue to policy makers around the globe.

MSME - A vehicle of inclusive growth of Economy

Indian economy is dominated by a vibrant set of enterprises, which are prestigiously known as Micro, Small and Medium Enterprises (MSMEs) for their scale of operations. They are nurseries for entrepreneurship, often driven by individual creativity and innovation, and make significant contribution to country's GDP, manufacturing output, exports and employment generation. The labour-capital ratio in MSMEs is much higher than in larger industries. Moreover, MSMEs are better dispersed and are important for achieving the national objective of growth with equity and inclusion. MSMEs are broadly classified into two sector i.e. manufacturing and services. The units engaged in manufacturing or producing and providing or rendering of services has been defined as micro, small & medium under MSMED Act on basis of original investment in plant & machinery and equipment as under –

Micro Small and Medium Enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The percent ceilings on investment for enterprises to be classified as Micro Small and Medium Enterprises are as follows:

**Manufacturing Sector
Investment in plant and machinery**

Micro enterprises	➡	does not exceed Rs. 25 lakh
Small enterprises	➡	More than Rs. 25 lakh but does not exceed Rs. 5 crore
Medium enterprises	➡	More than Rs. 5 crore but does not exceed Rs. 10 crore

**Service Sector
Investment in equipments**

Micro enterprises	➡	does not exceed Rs. 10 lakh
Small enterprises	➡	More than Rs. 10 lakh but does not exceed Rs. 2 crore
Medium enterprises	➡	More than Rs. 2 crore but does not exceed Rs. 5 crore

2. Literature Review

All kinds of business enterprises require sufficient funds in order to meet the fixed capital as well as working capital requirements. Finance is one of the critical inputs for growth and development of MSMEs. They need credit support not only for running the enterprises but also for diversification, modernization/up gradation of facilities, capacity expansion etc. A number of research scholars have studied micro, small and medium industries. Some of the important previous research literatures covering various dimensions of MSMEs are presented here.

Nishanth P, Dr. Zakkariya K.A. (2014) [1], reviewed that “there exists problem in accessing finance from banks and financial institutions. Various barriers faced by these units in raising finance and also tried to identify various sources of finance other than banks.

Fumo & Jabbour (2011) [2], Financial and competitive barriers are mostly affected in Micro and Small Enterprises for their development.

N. Aruna (2015) [3], studied problems faced by MSME in Vishakapatnam and the data revealed that hurdle like financial constrain and issues relating to power, raw material procurement should be more effectively dealt by the government.

Dr. M.S.Vasu, Dr. K. Jayachandra (2014) [4], the paper discussed about the growth and performance of MSMEs and also listed out the problems faced by MSMEs in India, Problems in general were listed out, but not to a particular State or Region.

Naidu & Chand (2011) [5], Inability to obtain external financing, inability to obtain internal financing, insufficient capital, start up costs, expensive raw materials, high whole sale price are the common financial problems MSMEs.

Rajib Lahiri (2011) [6], the study made an attempt to critically analyze the definition aspect of MSMEs and explore the opportunities enjoyed and the constraints faced by them in the era of globalization after analyzing the performance of MSMEs in India during the pre and post liberalization period. The study revealed that except marginal increase in growth rate in employment generation, the growth rate in other parameters is not encouraging during the liberalization period.

Rao & Ganesh (2011) [7], Inadequate credit from banks is the major reasons for finance problems of Micro Enterprises. Reluctance by banks to extend credit to women, inability to provide adequate security and margin money, tight repayment schedule are the main problems being faced by these enterprises.

According to the Report of Prime Ministers Task Force on MSMEs, Government of India, January, 2010, access to adequate and timely credit at a reasonable cost is the most critical problems faced by this sector.

3. Statement of the Problem

Micro, Small and Medium Enterprises (MSMEs) is one of the fastest growing industrial sectors in the world economy. When entrepreneurs seek bank finance – though it does seem that there is a perception amongst specific groups of entrepreneurs that they experience difficulty in raising finance. Despite the increase in financing to the MSME sector there is still a considerable credit gap which needs to be bridged. The extent of financial exclusion and the vicious cycle of credit issues as graphically shown in the Report of the Inter-Ministerial Committee for Accelerating Manufacturing in the MSME Sector shows that the cycle starts from lack of access to formal sources of finance which leads to tapping alternate sources of funds that are costly-higher cost of credit results into poor net cash inflow- which increases the risk profile of the small unit-and reduces their credit worthiness- which in turn further aggravates lack of access to formal sources of finance.

4. Objectives of the Study

Following are the main objectives of the study:

1. To identify the various barriers faced by MSEs in raising finance in Nagpur city.
2. To study the Micro and small enterprise borrowers perspective towards reasons of Bank financing gap in Nagpur city.

5. Methodology

A research methodology is conducted for collecting data pertaining to the subject in question. It outlines how research project will be conducted and guides data collection, analysis and report preparation.

Research type

The researcher has used Descriptive study for the research. Descriptive research, also known as statistical research, describes data and characteristics about the population or phenomenon being studied.

Data Collection

The data required for the research is collected through two main sources namely primary data and secondary data.

Primary Data

Data which is collected for the first time keeping in the view of the objectives of the study is known as primary data. Primary data for the study collected from the micro and small enterprises borrowers with the help of questionnaire.

Research Instrument

The research instrument used for the study is multi-choice questionnaire formulated for the respondents.

Types of Questions:

1. Open-ended question
2. Multiple-choice Question

Secondary Data

RBI lending circulars, Books, Research Journals, Committees Reports of Government of India, RBI, MSME, Business magazines, Newspapers, Websites.

Sampling

Sampling Unit

The Respondents taken for the sampling unit are the MSEs borrowers in Nagpur city.

Sample Size

The sample size Consist of 100 Respondents in total.

The selection of these respondents is done in Nagpur city.

Sampling Method

In this Project work Non- Probability method of sampling is used in determining the sampling size.

Data Analysis

The primary data which is collected with the help of structured questionnaire by means of personal interview is analyzed with the help of statistical tools.

1. The data are grouped under various headings.
2. Analyses are drawn from the table.
3. Graphs like bar chart and pie chart are drawn according to data in the table.
4. Inferences are drawn from the analysis of graphs and tables.
5. This inference will finally lead to conclusion.

After collection the primary data from the respondents the data is analyzed to find out the results of the study. The data was analyzed using tables, graphs and charts. The coding and decoding of the collected data from questionnaire is done with the help of SPSS software. The data was collected from 100 respondents who are MSEs. Respondents were contacted directly and necessary information was collected with the help of structured questionnaire. This analysis will help to understand the problems faced by Micro, Small Enterprises (MSEs) to access bank finance.

Limitations

Due to constraints of time and resources, the study is likely to suffer from certain limitations. Some of these are mentioned here under so that the findings of the study may be understood in a proper perspective. The limitations of the study are:

1. The study was limited to Nagpur city. Therefore the sample size and the parameters were selected accordingly so as to finish the work within the given time frame.

2. The information given by the respondents might be biased as some of them might not be interested to give correct information.
3. Some of the respondents could not answer the questions due to lack of knowledge.
4. Time period for research was limited.

Analysis and Findings

The present study tries to analyze the various barriers faced by MSEs in raising finance from bank, also try to analyze the various sources of finance other than banks. On the basis of these objectives the following analysis has been made:

Nature of business wise classification of MSMEs

On the nature of business, the business is classified into mainly two i.e., manufacturing and service. In the present survey it is observed that out of 100 enterprises covered in the study, 85% of enterprises are manufacturing units and 15% of enterprises are service units.

Type of organization

The survey results shows that majority of enterprises are (80%) sole proprietorship, followed by partnership (15%) form of business, and Private Limited company (5%).

Banks from which the credit availed

The survey results about banks from which the credit availed shows that, majority of (62%) firm's availed credit from public sector banks while firms (38%) availed the credit from private sector banks.

Problems in securing loan from banks

The survey results shows that majority of respondents (48%) firms faced the problem as lack of collateral while firms (34%) due to lack of financial documents required whereas (18%) of firms experienced delay in disbursement while sanctioning the loan and firms.

Bank Finance lending rate

The survey results shows that majority of respondents (92%) firms consider the bank finance lending rate are acceptable while firms (8%) view high lending rate.

Most limiting factor to get finance from banks

The survey results shows that the most limiting factor to get finance from banks for majority of respondents (56%) firms is collateral required while firms (50%) view that many financial documents requirement as limiting factor whereas (4%) of firms consider lengthy procedure and time duration in disbursement of loan.

Services rendered by Bank

The survey results shows that majority of respondents (90%) firms are Satisfied with the bank services and 10% firms rate the bank services as Average.

Purpose for availing credit

The survey results shows that majority firms, (64%) of firms availed credit for purchasing of machinery and equipments and (30%) of firms availed the credit for up gradation of technology and firms (6%) availed credit for diversification.

Bank Finance gap for MSE

The survey results shows that majority of respondents (72%) firms opinion is high gap while firms (28%) consider the bank finance gap is neutral.

6. Conclusion

There are many government schemes but from the study it was observed that most of the enterprises are not aware about different schemes like CGTMSE etc. The lack of awareness about finance schemes shows that enterprises do not understand how they can benefit out of them. In micro enterprises, Most of the borrowers are first generation entrepreneurs don't have business experience and own contribution towards project or business. Weak business plan results in the rejection of business proposal by banks. Unavailability of credit history acts as barrier in financing to micro enterprises. Banks consider MSEs as risky projects. Increasing NPA in public sector banks is also one of the major reasons for credit crunch. The majority of problems due to which banks do not finance are due to lack of collateral, poor financial statement, no past experience, risky project, lack of infrastructure etc., in Nagpur city. Dynamic changes are observed in the global business market. Bank policies do not prefer to finance the low performing sector in economy.

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