

MSME FINANCING

- FACTORS AFFECTING PROCUREMENT OF FINANCE

- A STUDY WITH SPECIAL REFERENCE TO KOTTAYAM DISTRICT

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Abstract: *Micro, small and medium enterprises enjoy a distinct position in the socio-economic development of any nation; particularly a developing nation like India. In order to protect, support and promote micro, small and medium enterprises and to help them in availing finance, a number of protective and promotional measures have been undertaken. In spite of all the impetus given the MSME sector is still limping its way into the economy.*

This study aims at analysing the various modes of MSME financing and the reach it gets in a district like Kottayam in Kerala. It considers if factors such as the educational qualification of the owner/ manager and size of the firm has any association on the procurement of MSME financing.

The study concluded that educated entrepreneurs are more open to availing financing from MSME financing sources rather than traditional sources. Also, Small and medium entrepreneurs depend on government financing for MSME operations rather than micro units.

Index Terms: *MSME Financing; Qualification of Owner/Manager; Size of Firm.*

INTRODUCTION

Micro, small and medium enterprises in India enjoys a distinct position. Small scale industry is widely recognized as a powerful instrument for socio economic development. The Government of India recognizes the significance of development of micro, small and medium enterprises sector and hence a separate ministry for micro, small and medium enterprises was created in the year 2004. This sector is an important component of our economy.

The Government of India provided a lot of support to the MSME sector. The MSME sector plays a dominant role in attaining the balanced and sustainable Industrial development especially in developing countries a lot towards domestic needs. The proactive role of the state government has helped the sector to achieve a fairly high growth in the sector.

The ministry of micro, small and medium enterprises is the administrative ministry in the government of India for all matters relating to MSMEs. It designs and implements policies and programmes through its field organization and attached offices for promotion and growth of MSME sector.

MSME have a vital role to play in Kerala's economy as the industrial climate and population density is not suitable for the development of large scale units. The state government provides a number of subsidies and incentives to small scale sector, but also strengthen the entrepreneurial base.

SIGNIFICANCE OF THE STUDY

On Oct 6, 2017 when the GST council met in New Delhi the main agenda for discussion was providing micro, small and medium enterprises a conducive environment for taxation. In order to protect, support and promote small enterprises and to help them in availing finance, a number of protective and promotional measures have been undertaken. The measures cover Pradhan Mantri Mudra Yojana, Creation of resources for credit enhancement /guarantee facility, Mudra card, Portfolio Credit guarantee etc. It is the biggest employer after the agriculture sector, despite the fact that agriculture sectors contribution to GDP is less than MSME, while it contributes about 45% to manufacturing sector, and perhaps 40% to exports.

STATEMENT OF THE PROBLEM

MSME is widely recognized as a powerful instrument for socio-economic growth and balanced sectorial development. So the government introduced various promotional measures and schemes for the development of MSMEs. This study is conducted to understand the various schemes and their utilization by the various MSME sectors.

OBJECTIVES

1. To analyze the awareness of entrepreneurs regarding various financial schemes provided by the government.
2. To analyze the role of the various financial schemes in the growth of MSMEs
3. To understand the various problems faced by the MSME entrepreneurs while getting finance.

HYPOTHESIS

H₀: There is no significant association between qualifications of owner/ manager and procurement of MSME financing

H₁: There is a significant association between qualifications of owner/ manager and procurement of MSME financing

H₀: There is no significant association between size of the firm and procurement of MSME financing

H₁: There is a significant association between size of the firm and procurement of MSME financing

SCOPE OF THE STUDY

The present study tries to examine the new schemes and their role in the development of MSME sector. This study helps to find out the schemes provided by the government for the promotion of MSME sector, the problems faced by MSME entrepreneurs and the overall performance of MSME sector. The scope of the study is limited to Kottayam District only.

RESEARCH METHODOLOGY

This study is analytical in nature and both primary and secondary data are used appropriately. The study covered the geographical area of Kottayam District and is conducted during 2018=2019.

Data Collection

Primary Data

Primary Data consists of original information gathered from sample size of 100 respondents. The data collected using a pre-structured questionnaire.

Secondary data

Secondary data consists of information that already exists and that was collected in part of some other purpose. The secondary data were collected from sources like Journals, websites and other publications.

Sample size

The study was conducted by selecting 100 MSMEs as samples from Kottayam District.

Sampling technique

The study is based on convenience sampling and random sampling. The areas are selected on a convenience basis.

Tools for analysis.

- Chi square test is used to find the association between variables.

LIMITATIONS

1. Only one district is selected for this study.
2. The conclusion is true only for the current period.
3. Due to human behaviour the information may be biased

LITERATURE REVIEW

- **Mali (1998)** observed that micro, small and medium enterprises have to face increasing competition in the present scenario of globalization. They have to specifically improve themselves in the fields of management, marketing, product diversification infrastructural development, technological up gradation.
- **Tagoe et al. (2005)** examines the impact of financial sector liberalization (FSL) policies on the financial management of micro, small and medium-sized enterprises (MSMEs) in Ghana, using six case studies. Their findings, which confirm and extend the conclusions of previous studies; are integrated into a framework that explains the impact of FSL and the factors at work.
- **Berger and Udell (2006)** suggested a more complete conceptual framework for analysis of MSME credit availability issues. This framework shows that the key conduit through which government policies and national financial structures affect credit availability is leading technologies.
- **Subrahmanya et al. (2010)** have discussed the drivers, dimensions, achievements, and outcomes of technological innovations carried out by SMEs in the auto components, electronics, and machine tool sectors of Bangalore in India.
- **Thampy (2010)** give a brief description about the major bottleneck to the growth of the vital Indian small and medium enterprises (MSME) sector is its lack of adequate access to finance. The major issues in the financing of MSMEs in the Indian context are examined under this paper. These include the information asymmetry facing banks
- **Jeswal (2012)** has discussed that the role of MSMEs in Indian economy. The role of small and medium enterprises in the economic and social development of the country is well established. MSMEs emerges leaders during the period of recession, restoring jobs and business activity lost during the time despite a slow and fragile economy

DATA ANALYSIS AND INTERPRETATION

The study conducted among 100 respondents showed that majority of them are Degree/Diploma holders. 28% are educated up to SSLC, 10% are post graduates, 4% are educated up to plus two and the remaining 4% are educated below SSLC.

From the study it can be seen that 55% of the industrial unit have investments below 10 lakh and 37% of the industries have investments between 10 lakhs and 50 lakhs and the remaining 8% have investments above 10 lakhs

The study also reveals that majority of the respondents ie. 61% are facing problems due to inadequate finance, 12% of the industrial units have lack of managerial competence, 10% are facing the problem of lack of infrastructure, 9% have obsolete technology problems, and the remaining 8% have inadequate market linkage problems.

It can also be seen that 37% of the respondents prefer bank loan, 21% of the respondents started business using their own savings, 30% are availed government support, 8% of the industries choose their family/friends only 2% prefer indigenous lenders and 2% prefer financial institutions.

TESTING OF HYPOTHESIS

Testing of hypothesis- I

H₀: There is no significant association between qualifications of owner/ manager and procurement of MSME financing

H₁: There is a significant association between qualifications of owner/ manager and procurement of MSME financing

TABLE 1.1 Table showing educational qualifications of owner/manager

	Availed loan	Not availed loan	Total
Below SSLC	1	3	4
SSLC	5	23	28
Plus two	2	6	8
Degree/Diploma	15	35	50
PG	7	3	10
Total	30	70	100(N)

Source: Primary data

$$\chi^2 = \sum [(O-E)^2/E] = 9.7279$$

Level of significance: 5%

Degree of freedom = $v = (r-1)(c-1)$

$$V = (5-1)(2-1)$$

$$4 * 1 = 4$$

Critical value: The table value of χ^2 at 5% level of significance with 4 d.f. is 9.49

Decision: Since the value of χ^2 is greater than the table value the null hypothesis is rejected.

Therefore,

H₁: There is a significant association between qualification of owner/manager and procurement of MSME financing.

Testing Of Hypothesis- II

H₀: There is no significant association between size of the firm and procurement of MSME financing

H₁: There is a significant association between size of the firm and procurement of MSME financing

Table 1.2 Table showing investment of the industrial unit

	Availed loan	Not availed loan	Total
Below 10 lakh	3	52	55
10lakh-50lakh	22	15	37
Above 50 lakh	5	3	8
Total	30	70	100(N)

Source: Primary data

$$\chi^2 = \sum [(O-E)^2/E] = 34.53$$

Level of significance: 5% = 0.05

Degree of freedom = $v = (r-1)(c-1)$

$$V = (3-1)(2-1)$$

$$2 * 1 = 2$$

Critical value: The table value of χ^2 at 5% level of significance with 2 degree of freedom is 5.99

Decision: Since the calculated value of χ^2 is greater than the table value the null hypothesis is rejected.

Therefore,

H₁: There is a significant association between size of the firm and procurement of MSME financing.

CONCLUSION

- It may be concluded from the study that lack of finance is identified as the single most important constraint faced by MSMEs
- Educated entrepreneurs are more open to availing financing from MSME financing sources rather than traditional sources.
- Small and medium entrepreneurs depend on government financing for MSME operations rather than
- Lack of awareness is a major reason for not availing MSME financing
- MSME's still depend on bank loan personal savings and family and friends for finance

Hence government, semi-government agencies and MSME financing schemes must step up their promotion, ease their procedure and create awareness among entrepreneurs

REFERENCES

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