

Barriers Faced By MSME Enterprises in Peenya Industrial Estate

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Abstract

More than 48 million MSMEs in India contribute one-third account of the country's GDP and be a backbone of Indian economy and contribute significantly towards growth of the economy. In spite of this, this sector face number of restraints like absence of adequate and timely supply of finance, difficulties in procuring raw materials, marketing and distribution challenges and non availability of suitable technology etc. The government must consider these aspects regarding the policy development for MSME sector. From reviewing the past literature, it was found that there exists problem in accessing finance from banks and financial institutions and this problem may differ to different places and enterprises. This paper focused to identify the various barriers faced by enterprises in getting finance and the various sources of finance other than banks. This study is based upon the primary data collected from the 300 MSMEs owners in peenya industry at Bangalore. The data has been analysed with the help of percentage analysis. The results and recommendations of this study attempts to enhance the overall credit accessibility to MSMEs sector.

Keywords: MSMEs, Banks, Financial institutions, Credit and Finance.

Introduction

India gears up to retrace the high growth path; the MSME sector presumes a crucial role in driving the economic growth engine. The MSME sector persists to display remarkable flexibility in the facing global and domestic economic circumstances. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. This sector has sustained an annual growth rate of over 10% for the past few years. Although, the sector face certain constraints like, availability of adequate and timely credit, high cost of credit, collateral requirements, access to equity capital and rehabilitation of sick enterprises, etc. Thus, it emerges that adequate, timely and affordable credit is one of the bigger issues for the MSME sector. The Government of India/Reserve Bank of India had set up many committees to improve the performance of MSME sector, provided a comprehensive framework for long term development of MSMEs, covering crucial issues and concerns relating to credit, marketing, infrastructure, technology, skill development, exit policy, labour, taxation etc. Credit to MSME sector has always been the priority area for the policy makers in the country, which has shown strong commitment to double the credit flow to this sector. The MSME sector generally requires funds of two types viz. long term fund for investment in fixed assets for setting up new unit or expansion/modernization of existing unit and secondly, working capital or short term funds to manage day-to-day operations of their businesses. The long term credit funds are mainly provided by the institutions like Small Industries Development Bank of India (SIDBI), Commercial Banks, State Financial Corporation's (SFCs), Non-Banking Financial Companies (NBFCs), NEDFi, etc. and in a limited measure, from other sources like Foreign Direct Investment, VC/PE funds, etc. Similarly, the working capital needs of the sector are largely met by the banking sector, including Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Urban Co- 8 operative Banks (UCBs), National Small Industries Corporation (NSIC), factoring companies, etc. The demand for MSME credit depends upon a number of

factors, such as, prevailing and expected economic scenario, both at the domestic and international level, business expectations, leading to setting up of new units and fresh investment, expansion/modernisation of existing units, Government policies, etc. also for diversification, modernization/up gradation of facilities, capacity expansion etc. Also it encounters innumerable challenges associated with growth.

Need of the Study

Micro, Small and Medium Enterprises play a dominant role in Indian growth. But there are various problems faced by these enterprises due to the growth challenges by numerous reasons like credit, innovation, technology, skills, labour etc., and in turn affect the growth of the country. Hence the researcher felt a need to study the barriers faced by MSMEs.

Objectives

- To identify the various barriers faced by MSMEs in peenya industry at Bangalore.
- To analyze and interpret major barriers faced by MSMEs in getting finance.
- To identify the various finance funding sources other than banks.

Methodology

Both primary and secondary data are used in the present study. The study is empirical in nature as it is based on data collected with the help of schedule. The study focused the collection of data from peenya industry in Bangalore. The sample size was 300. Secondary data were collected from District Industries Centre, published reports, earlier studies related to MSMEs, books, journals and various web sites. Self developed interview schedules were administered to collect responses. Primary data were analysed with the help of percentage analysis.

Data analysis

The present study uses percentage analysis for calculating the barriers in getting finance by entrepreneurs and the problems encountered by the support of government. The results are discussed below.

Table 1. Barriers encountered in getting Finance

Barriers in getting Finance	Percentage
Limited Working Capital	71%
Lack of Collateral Security	36%
Delayed payments of bills to creditors	40%
Negative attitude of banks	26%
Poor knowledge of financial management	52%
Ignorance about banking procedures and formalities	54%

The above table shows that 71% of entrepreneurs face the problem of limited working capital followed by the problems related to personal abilities and likings towards knowledge of managing finances i.e. ignorance towards banking procedures as 54%, and 52% for Poor knowledge of financial management. Likewise Delayed payment of bills is faced by 40% of entrepreneurs. Lack of collateral security scored 36% and negative attitude of banks as 26%. It clearly shows a fact that maximum problems are comes under general financial problems due to socio-financial problems.

Table2. Problems Related To Government Support faced by entrepreneurs

Problems Related To Government Support	Percentage
Corruption in Sanction of subsidy/incentive/loan	32%
Non-cooperative attitude of govt. Employees	27%
Poor knowledge of government support schemes	64%
Discrimination with entrepreneurs	28%
Lack of co-ordination among different government departments	29%
Never availed any government support	41%

The above Table 2 shown results that entrepreneurs have poor knowledge of government schemes at 64 per cent, have never availed government support at 41 per cent, faces corruption in sanction of subsidy/incentive/loans at 32 per cent, lack of coordination among different government departments at 29 per cent, also discrimination practiced against entrepreneurs at 28 per cent and non cooperative attitude of government employees faced at 27 per cent by the entrepreneurs.

The result shows few entrepreneurs availing government support. And 41 per cent of entrepreneurs confess to have never availed government support on any of the occasions. Likewise 64 per cent of entrepreneurs acknowledge their lack of knowledge on prevailing government schemes. other problems are observed are less invasive in nature but needs special attention at grass root level to seek government’s aid for any purpose pertaining to business.

Findings

- From the analysis, it is clear that out of 300 enterprises, 74% of enterprises are manufacturing units and 26% of enterprises are service units.
- The results shows that majority of the enterprises are (75 %) sole proprietorship, followed by partnership (15 %) form of business, Self Help Group (5.5 %) and Co-operative society (4.5 %).
- In sole proprietorship firms 67.65 % of firms do not use the credit schemes. With regard to partnership firms, 53.25% of firms use credit schemes.
- SHG and co-operative society firms use credit schemes as 75% and 66.37 % respectively.
- Source of capital investment indicates that sole proprietorship firms, 1.18 % of firms uses only borrowed fund for their capital and 79.41 % of firms uses both owned and borrowed fund.
- The results indicates that sole proprietorship firms, 39.13 % of firms were not availed credit due to too many formalities and 15.65 % of firms were not availed credit due to reasons such as no requirement for credit, high interest rates, difficult to give collateral security.
- Majority of respondents (41.82 %) face the problem as banker’s non co-operative attitude to this sector and 10.91 % of firms experienced delay in disbursement while sanctioning the loan.
- Majority of sole proprietorship firms' availed credit from public sector banks at 67.27% and least of the firms at 3.64% availed the credit from private sector banks. Likewise the partnership firms, 75% of firms availed credit form public sector banks and only 8.33% of firms availed credit from Regional Rural Banks.

- Regarding the S H G firms 100% of firms availed credit from public sector banks and in case of co-operative society firms, 50 % of firms availed from public sector firms and 50% of firms availed from co-operative bank.
- Entrepreneurs who agree to be ignorant about banking procedures and formalities also agreed that they possess a poor knowledge of government schemes. This reflects that personal characteristics of entrepreneurs play an instrumental role when they run the business and make an effort to sustain in it.

Conclusion and recommendation

India has the largest job-ready youth population in the world and with favourable business ecosystem in the manufacturing sector. It will not only generate employment at significant level but also become hot-bed of entrepreneurial activities. The present study analysed the various barriers faced by MSMEs units in getting finance in peenya industry at Bangalore. The analysis results show that, only a small percentage of firms availed and getting the credit suggested by banks. By evaluating the reason for non availing credit schemes, the major and an interesting reason behind that, is the highest percentage of respondents/owners felt that too much of formalities are available while approaching for credit schemes. From the above findings the following recommendations have been given.

- Proper training should be given by District Industries Centre for the proper maintenance of accounts to get various licenses and clearances. It will help to increase the managerial capacity of owners of these units.
- Banks must provide features of various schemes regarding various credit schemes. Also, they must conduct campaign to attract customers.
- The bank administrators must ensure that the beneficiaries get loan amount without any delay and they also need to reduce the formalities regarding the loan sanctioning.
- The government should also devise policies that help MSMEs step up and ensure that the sector is able to participate as expected, in ambitious government initiatives such as GST Bill, Demonetisation, Digital India etc.

In conclusion the barriers for getting finance can be reduced at some extent only when the owners make their effort to increase their knowledge and better utilization of government schemes. Also secondly, it could be reduced only through the change in the attitude of the banker. Finally, it is concluded that the growth and development of MSMEs will be ensured by initiating actions by government and banks for arranging the MSMEs financing to be avail by way of reducing the barriers recognized by the industrialists.

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