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**BARRIERS FACED BY MICRO, SMALL AND MEDIUM
ENTERPRISES IN RAISING FINANCE**

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ABSTRACT

Worldwide, Micro, Small and Medium Enterprises (MSMEs) have been accepted as an engine of economic growth and for promoting equitable development. In developing countries including India, Micro, Small and Medium Enterprises sector constitute an important part in its development. 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. Review of literature found that there exists problem in accessing finance from banks and financial institutions and this problem may differ from region to region, between sectors, or between individual enterprises within a sector. This paper tries to identify the various barriers faced by these units in raising finance and also try to identify the various sources of finance other than banks. The study is based upon the primary data collected from the 200 MSMEs owners in Kozhikode District of Kerala. The data has been analysed with the help of percentage. The study attempts to submit some recommendations to enhance the overall credit accessibility to MSMEs sector.

Keywords: MSMEs; Banks; Credit; Finance

INTRODUCTION

The financing of Micro, Small and Medium Enterprises (MSMEs) has received much attention in recent years and it is considered as an important topic for research in the field of economics and finance. It is mainly because of the role played by MSMEs in the country's economic development in the way of rural industrialization, creation of employment opportunities and entrepreneurial development.

Worldwide, the Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. SME play an important role in alleviating poverty and contribute significantly towards the growth of developing economies (Agbeibor, 2006).

The MSMEs segment also plays a major role in developing countries such as India in an effort to alleviate poverty and propel sustainable growth. They also lead to an equitable distribution of income due to the nature of business. Moreover, MSMEs helps in efficient allocation of resources in a country by implementing labour intensive production processes, given the abundant supply of labour force in these countries, wherein capital is scarce.

Micro, Small and Medium Enterprises in India

In India, the enterprises have been classified broadly into two categories:

- (i) Manufacturing; and
- (ii) Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Table 1. Classification of Micro, Small and Medium Enterprises

Classification	Investment Ceiling for Plant, Machinery or Equipments	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh	Upto Rs.10 lakh
Small	Above Rs.25 lakh & upto Rs.5 crore	Above Rs.10 lakh & upto Rs.2 crore
Medium	Above Rs.5 crore & upto Rs.10 crore	Above Rs.2 crore & upto Rs.5 crore

BACKGROUND OF THE STUDY

Third All India census shows a declining trend in the growth of SSI units in the registered sector.

In Kerala, it shows an increasing trend. As per the fourth census report SSI units in the unregistered sector in Kerala achieved higher growth compared to national level. (Rajeevan & Sulphrey, 2012). Absence of adequate and timely supply of bank finance, limited capital and knowledge, lack of power, low quality inputs, low return, non availability of suitable technology, low production capacity, ineffective marketing strategies are the main problems of MSMEs in India. (Shiralashetti, 2012)

Lack of capital, business information, technology, and skilled workforce, difficulties in procuring raw materials, marketing and distribution challenges, and govt. policy and regulations are the main constraints' faced by SMEs. These constraints may differ from region to region, between sectors, or between individual enterprises within a sector. (Tambunan, 2011).

Generally, such enterprises operate on tight budgets, often financed through owners own contribution, loan from friends and relatives and some bank credit. In this background, an attempt is made to study the various financial barriers faced by MSMEs in Kozhikode district. The Kozhikode district is selected for the study because it is one of the most industrialized districts in the northern part of the Kerala.

Profile of the Kozhikode district: Kozhikode district is situated on the south west coast of India. The district is bounded on the north by Kannur district, on the east by Wynad district, on the south by Malappuram district and on the west by the Arabian sea. All the three taluks are spreaded over the three regions.

STATEMENT OF THE PROBLEM

Micro, Small and Medium Enterprises (MSMEs) is one of the fastest growing industrial sectors in the world economy. Micro, Small and Medium Enterprises are socially and economically important since they represent percentage of all enterprises and provide self employment there by contributing entrepreneurship and innovation.

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.

Financial and competitive barriers are mostly affected in Micro and Small Enterprises for their development (Fumo & Jabbour, 2011). 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 (Naidu & Chand, 2011). 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 this enterprises (Rao & Ganesh, 2011) The major reason for not seeking credit was lack of information about credit and lack of required security (Mishra and Brahme, 2011). Formal financial intermediaries, such as commercial banks, usually refuse to serve poor households and micro-enterprises because of the high cost of small transactions, lack of traditional collateral, lack of basic requirements for financing and geographic isolation. (Report of Rebobank, Nederland, 2005)

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.

While going through the above literature we find the various financial problems in different perspectives. So the present study tries to identify the various barriers faced by MSMEs for accessing credit and also try to identify the various sources of finance other than banks in the context of Kozhikode district in Kerala.

OBJECTIVES OF THE STUDY

Following are the main objectives of the study:

1. To identify the various barriers faced by MSMEs in raising finance.
2. To identify the various sources of finance other than banks.

METHODOLOGY

Population of the study consisted of the owners of MSMEs registered in Kozhikode District. In the present study, population is finite, so a systematic random sampling is adopted to select the sample of respondents. Out of 4075 MSMEs registered in Kozhikode district, 200 units were selected for the study through systematic random sampling methods. Both primary and secondary data were used for the study. Primary data were collected from the owners of 200 MSMEs in Kozhikode District and 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

The present study tries to analyse the various barriers faced by MSMEs in raising finance, also try to analyse 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: The nature of business means the type of activity they are undertaken. On that basis the business is classified into mainly two. i.e., manufacturing and service. In the present survey it is observed that out of 200 enterprises covered in the study, 84% of enterprises are manufacturing units and 16% of enterprises are service units.

Type of organization: The organizational set up has a great influence on the performance of any business organization. Considering this fact, the survey results shows that majority of enterprises are

(85 %) sole proprietorship, followed by partnership (11 %) form of business, Self Help Group (2.5 %) and Co-operative society (1.5 %).

Credit Scheme availed by MSMEs: In this section we checked the various credit scheme availed by MSMEs units and it shows that in case of sole proprietorship firms 67.65 % of firms do not use the credit schemes. With regard to partnership firms, 54.55% of firms uses credit schemes. In case of S H G and co-operative society firms uses credit scheme as 80 % and 66.67 % respectively.

Reasons for non-availing credit schemes: The financial barriers of MSMEs can be reduced to a great extent by understanding the real reasons for non-availing the credit schemes by this units. The survey results indicates that in case of sole proprietorship firms, 39.13 % of firms has not availed credit due to too many formalities and 15.65 % of firms has not availed credit due to reasons such as no requirement for credit, high interest rates, difficult to give collateral security.

Considering the partnership firms 10 % of firms has not availed credit due to reason such as no requirement for credit, high interest rates, difficult to give collateral security and 40 % of firms has not availed due to too many formalities. In case of S H G firms, 100 % of firms has not availed due to too many formalities and co-operative society firms has not availed credit due to other reason such as no requirement for credit, high interest rates, difficult to give collateral security. (See Table II)

Problems in securing loan from banks: Commercial banks act as a mediator for mobilizing savings from people and channelizing the excess savings into productive purposes. This can be achieved only through the units get sufficient loan without any problems. Looking forward, we ask MSMEs owners, what kind of problems they being faced when they are approaching banks.

In case of sole proprietorship firms, 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.

The survey results shows that in partnership firms, large part of respondents (41.67 %) face other problems such as too much paper works, insisted by bank official to give collateral security etc, and 25 % of firms face the problem as banker's non cooperative attitude to this sector.

Considering S H G firms, majority of respondents (50 %) face the problem as delay in sanction and in case of co-operative society firms 100 % of firms face other problems such as too much paper works, insisted by bank official to give collateral security etc. (See Table III)

Purpose for availing credit: The survey results shows that in case of sole proprietorship firms, 3.64 % of firms availed credit for purchasing of machinery and equipments and 30.91 % of firms availed the credit for up gradation of facilities. While considering partnership firms majority of firms (50 %) availed the credit for up gradation of facilities and least of the firms (8.33 %) availed the credit for purchasing of machinery.

In case of S H G firms also majority of firms (75%) availed the credit for up gradation of facilities and 25 % of firms availed credit for diversification. In case of co-operative society firms 50 % of firms availed the credit for diversification and remaining 50 % of firms for up gradation of facilities. (See Table.IV)

Repayment position: While evaluating the repayment of position of these units we can find that, majority (74.55 %) of sole proprietorship firms partially repaid the loan and least of the firms (10.91%) not repaid the loan. In case of partnership firms, 58.33 % of firms partially repaid the loan. Considering S H G firms 100% of firms partially repaid the loan and co-operative society firms also majority of firms (50%) partially repaid the loan.

Banks from which the credit availed: The survey results about banks from which the credit availed shows that, majority of (67.27%) sole proprietorship firms availed credit from public sector banks and least of the firms (3.64%) availed the credit from private sector banks. Considering 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.

Multiple loan availed from banks: In this section our intention was to check whether these firms availed the multiple loans from banks. The survey results show that majority of (92.94%) sole proprietorship firms not availed multiple loan from banks. With regard to partnership firms, highest percentage of firms (68.18%) firms not availed the multiple loan from banks and 31.82% of firms availed the multiple loan. Considering S H G firms, large portion of respondents (80%) not availed the multiple loans but in case of co-operative society firms we can find an interesting fact that, 66.67% of firms availed the multiple loan from banks.

Raising of capital: Raising of capital indicates that whether they are using owned fund or borrowed fund or both owned and borrowed fund. The analysis depicts that in case of sole proprietorship firms, 1.18 % of firms used only borrowed fund in their capital and 79.41 % of firms uses both owned and borrowed fund.

Considering the partnership firms 9.09 % of firms used only borrowed in their capital and 86.36 % of firms used both owned and borrowed fund in their capital. With regard to S H G and Co-operative society firms 100 % of firms used both owned and borrowed fund in their capital.

Sources of borrowed fund: The survey results shows that in case of sole proprietorship firms, 1.46 % of firms use friends as their sources of borrowed fund and 72.99 % of firms uses banks as their sources of borrowed fund. With regard to partnership firms, 4.76 % of firms use friends as their sources of borrowed fund and 76.19 % of firms uses banks as their sources of borrowed fund. In case of S H G and cooperative society firms, 100 % of firms uses banks as their sources of borrowed fund. (See Table V)

RESULTS AND DISCUSSIONS

Naidu & Chand (2011) suggest that financial problems faced by MSEs could be classified into 3 broad categories. Financing problems, operational problems and administrative problems, sales and debtors problems. The purpose of our study was to find out the various barriers faced by MSMEs in raising finance especially in Kozhikode district of Kerala. Singh and Belwal (2008) found that women entrepreneurs are mostly unaware of the schemes. According to their studies 33 % of the respondents unable to comments the schemes and 27 % of showing disagreements against the availability of such schemes. The present study also confirms that 63.50 % of the respondent has not availed the credit scheme offered by banks. While analyzing the reasons for not availing credit we can find that 39.37 % of respondents have not availed credit due to too many formalities insisted by the banks concerned.

According to Fumo & Jabbour (2011) financial and competitive barriers are the main barriers faced by MSEs. These barriers vary according to the field of activity of enterprise. Our survey results also found that 9.59 % of the respondent, who availed the credit face the problem of delay in disbursement and 35.62 % of respondent, who availed the credit face the problem as bankers non co-operative attitude to this sector. So we can say that the attitude of the bank staffs must be changed otherwise it may not help the MSMEs owners to get credit facility from banks.

While analysing the purpose of availing credit facilities it should be noted that 36.99% of respondents availed the credit for the purpose of up gradation of facilities. It is also found that 72.60 % of respondent, who availed the credit have partially repaid the loan and 8.22 % of respondent, who availed the credit not repaid the loan.

The study found that, major portion of respondents (69.89 %) availed credit from public sector banks, only a meager portion (2.74 %) of respondent from private sector banks. It is found that only 11 % of the respondent availed multiple loans from banks. It is found that 81% of respondent use both owned and borrowed fund in their capital.

Tambunan (2011) states that even though there are various government sponsored credit schemes, the majority of SMEs especially located in rural areas never receive credit from such schemes. SMEs depend fully on their schemes, money from relatives and credit from informal lenders for financing their daily business operations. Our survey reveals that 8.43 % of firms use relatives as their sources of borrowed fund and 74.70 % of respondents use banks as their sources of borrowed fund.

CONCLUSION

We have analysed the various barriers faced by MSMEs units in raising finance within the purview of Kozhikode District of Kerala. The analysis of preliminary results reveals that only a small percentage of firms availed the credit scheme offered by banks. While evaluating the reason for non availing credit schemes, we can see an interesting fact that, highest percentage of respondents feel that too much formalities are there while availing credit schemes. From these findings the following recommendations have been made:

1. District Industries Centre must give proper training regarding the maintaining of accounts, getting various licenses and clearances it will help to increase the managerial capacity of owners of these units.
2. Banks must provide details (features of various schemes) regarding various credit schemes. They must conduct more campaign to attract more customers. At the same time, the bank officials must ensure that the beneficiaries get loan amount without any delay and they also need to reduce the formalities regarding the loan sanctioning.

The conclusion drawn from this paper is that barriers for raising finance can be reduced to some extent while the owners make their effort to increase their knowledge and better utilization of schemes. And the other part can be reduced only through the changing the attitude of banker. So it can be concluded that the growth and development of MSMEs can be ensured by initiating actions by government and banks for arranging the MSMEs to avail more credit by way of reducing the barriers perceived by the entrepreneurs.

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APPENDIX

Table II. Reasons for non availing credit Schemes – Ownership wise classification

Ownership	Lack of information	Too many formalities	Inability in repayment	Any other reason	Total
Sole Proprietorship	33 (28.70) **	45 (39.13)	19 (16.52)	18 (15.65)	115 (100)
Partnership	3 (30.00)	4 (40.00)	2 (20.00)	1 (10.00)	10 (100)
Self Help Group	-	1 (100)	-	-	1 (100)
Co-operative Society	-	-	-	1 (100)	1 (100)
Total	36 (28.34)	50 (39.37)	21 (16.53)	20 (15.76)	127 (100)

Note: **Figures in bracket denote percentage to total

Source: Filed survey

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Table III. Problems in securing loans from banks – Nature of business wise classification

Nature of business	Delay in sanction	Delay in disbursement	Banks non co-operative attitude to this sector	Other reason	Total
Manufacturing	18 (28.12) **	7 (10.94)	22 (34.38)	17 (26.56)	64 (100)
Service	3 (33.33)	-	4 (44.45)	2 (22.22)	9 (100)
Total	21 (28.77)	7 (9.59)	26 (35.62)	19 (26.02)	73 (100)

Note: **Figures in bracket denote percentage to total

Source: Filed survey

Table IV. Purpose for availing credit – Ownership wise classification

Ownership	Diversification	Modernisation	Up gradation of facilities	Capacity expansion	Others	Total
Sole proprietorship	16 (29.09)**	11 (20.00)	17(30.91)	9(16.36)	2(3.64)	55 (100)
Partnership	-	3 (25.00)	6 (50.00)	2 (16.67)	1 (8.33)	12 (100)
Self Help Group	1 (25.00)	-	3 (75.00)	-	-	4 (100)
Co-operative Society	1 (50.00)	-	1 (50.00)	-	-	2 (100)
Total	18 (24.66)	14 (19.18)	27 (36.99)	11 (15.07)	3 (4.10)	73 (100)

Note: *Figures in bracket denote percentage to total

Source: Filed survey

Table V. Sources of borrowed fund – Ownership wise classification

Ownership	Banks	Relatives	Friends	Money Lenders	Both banks and other sources	Total
Sole Proprietorship	100 (72.99)**	14 (10.22)	2 (1.46)	5 (3.65)	16 (11.68)	137 (100)
Partnership	16 (76.19)	-	1 (4.76)	1 (4.76)	3 (14.29)	21 (100)
Self Help Group	5 (100)	-	-	-	-	5 (100)
Co-operative Society	3 (100)	-	-	-	-	3 (100)
Total	124 (74.70)	14 (8.43)	3 (1.81)	6 (3.61)	19 (11.45)	166 (100)

Note: **Figures in bracket denote percentage to total

Source: Filed survey