
PROBLEMS AND PROSPECTS IN FINANCING ENTERPRISES IN SATARA CITY

Mr. Ranadhirsinh D. Mohite

Research Student

And

Dr. A.D. Jadhav

(M.com, M.Phil, MBA, Ph.D, GDC&A) Research Guide

Abstract:

Indian economy has introduced with the reform measures in 1991, the government has launched many promotional and innovative programs to increase the competitiveness in the Micro, Small & Medium Enterprise (MSMEs) sector. MSMEs are considered to be the engine of economic growth. For the developing countries like India, MSMEs plays vital role in streamlining of the economy. In spite of their great importance, this sector is facing number of constraints like inadequate finance, inability in the procurement of raw material, absence of innovative technology, improper manufacturing and distribution channels etc. According to the estimate there are 26.1 million MSME's in the country. Millions of these enterprises, considered the backbone of an economy. MSME's contributes 47% of countries industrial output. MSME's plays an important economic role by generating employment and income, and by contributing significantly to economic development. The MSME's sector deserves all possible support. In India, these MSME's are being provided with the financial instruments by the institutional credit and credit by non-banking financial companies (NBFC). The MSME enterprises are neglected by the banks. In India, the non-banking financial companies consist of large number of privately owned. There are 41,000 NBFC's are working in India. The review of literature assures that there are various problems in availing the finance from financial institutions and which does varies region wise or sector wise. This paper tries to identify the Problems faced by the MSMEs while availing the finance from the banking institutions.

Keywords: *MSMEs (Micro, Small & Medium Enterprises), Financial Institutions, Credit, collateral.*

1. Introduction:

Micro, Small & Medium Enterprises is an important sector, playing crucial role in the economy. MSMEs contribute the majority in the employment generation. The financing to MSMEs has received attention in the era of globalization. However, financial constraints- high cost and lack of access to finance reduces MSME's growth. Indeed, these problems appear across the country. Without sufficient capital MSME's are unable to develop and take advantage of business opportunities. Studies show that MSME's grow faster in countries where the business environment is less restrictive. Most MSME financing comes from internally generated funds, supplemented by family and friends as well as informal sources or money lenders. Looking at the contribution of MSME's in the economic development and its employment creation the sector has to be provided with best possible lending services. The cost of finance and access to it is the most ranked factors

shaping the environment for the business. Past study reveals that access to the finance is the topmost constraint in the development of the MSME sector. Informal finance is easily available and flexible too but is lot more expensive than that of the formal finance and is rely on the personal relationships.

2. Review of Literature:

I. Management case on designing the future of micro, small and medium enterprises by M. Manickraj (volume 35 sept 2010).

MSME's in the country are underserved by the main stream financial institutions like banks.. The barriers to the formal finance with the perspective of financial institutions include higher transaction cost, lack of perfect information and limited collateral.

II. How to access trade finance, A guide for exporting SMEs by international trade centre 2009

Increasing access to finance by SMEs is important because, SMEs are the engine of economic development, they are vital for employment generation and poverty reduction. Some government and institutions defines SMEs based upon annual turnover and others defined based upon size of the enterprise. SMEs account for 95% to 99% of registered business depending on the country. They contribute more than 60% of employment in developed economies. The effect of growth constraints on small enterprises is more adverse than on large firms. Since poor institutions in less developed economies is common to see. Low capital base and inadequate availability of institutional funds, absence of quality control assessment, ineffective management and competition from large sized units are the reasons behind institutional credit cannot be made available for MSME's.

III. MSME Cluster Financing in India: A Regional Study, MSME Report series, 2015

The financing to micro, small and medium enterprises NBFC and institutional credit are the avenues available in India. The problem in financing to these MSME's includes its inability to cope up with contemporary business requirement, higher NPA of banks in MSME's sector creates risk, aversion in lending and low capital base and inadequate availability of institutional fund. The general lending process to MSME's includes field investigation, appraisal of financial statement, inspection of premises and sanction and disbursement. NBFC's provides various products and services to MSMEs which includes higher purchase, term loan, discounting of bills and insurance distributions.

IV. Anis Ali, F. H. (2014). MSME'S In India: Problems, Solutions And Prospectus In Present. International Journal of Engineering and Management Sciences.

Highlighted most of the problem faced by entrepreneurs of MSME is controllable in nature. Lack of credit from banks, Competition from multinational companies those provides quality goods at cheapest price. The poor infrastructure causes for the reduction in the productivity of the enterprise. The raw material availability is yet another problem faced by the MSMEs. Lack of training and skill development programs and lack of distribution channels are the reasons of enterprise sickness. These problems can be resolved by providing mutual supply of Technologies on the sharing basis, constitution of panel of consultants for the advancement in the technologies and guidance for the

poor entrepreneurs, making available the sufficient credit for the fulfillment of the requirements of MSMEs.

4. Objectives of the study:

To understand the problems faced by Micro, small and medium enterprises in satara city while dealing with the financing activities.

To understand the awareness among MSMEs about financing services.

5. Significance of the Study

MSME's constitutes the majority of business enterprises and they are vital for employment generation. But MSME's are having a difficult time accessing finance. This sector is mainly dependent upon the informal sources of finance. Looking at the contribution of this sector in employment generation and in the economy, they should have provided with all kind of support including financial assistance.

6. Methodology Adopted:

This study is empirical in nature. The requisite data is collected from primary and secondary data sources. The secondary data is collected from the annual reports of Ministry of MSME, government of India, different books and research journals. For the collection of primary data, researcher has used questionnaire method under which personal interaction with the entrepreneurs of MSMEs has been done. The responses are recorded and are analyzed with the view to satisfy the stated objectives of the study.

6.1 Sample Designing:

The subset of Units is selected from target population. The Simple random sampling using lottery method is used for the selection of sample units. The study is geographically limited to satara city. In satara city, there are 624 MSMEs, which includes (Sample size in bracket) 218 (22) Micro enterprises, 402 (40) Small enterprises and 3 (3) medium enterprises.

7. Conceptual Framework:

Micro, Small & Medium Enterprises:

Manufacturing Enterprise: The enterprise engaged in manufacture or production of goods pertaining to the any industry specified in the schedule to the industries act 1951. The manufacturing enterprises are defined in terms of investment in plant and machineries.

Service Enterprises: The enterprise engaged in rendering or providing services and defined in terms of investments in equipment's.

The Micro, Small and Medium Enterprises in Manufacturing and service sector are defined as under in MSMED ACT, 2006.

Particulars	Investment in Plant & Machineries in case of Manufacturing Enterprises	Investment in Equipment in case of Service Sector Enterprises
Micro Enterprise	Upto Rs. 25 lacs	Upto Rs.10 lacs
Small Enterprise	Above Rs.25 lacs and upto Rs.5 Crore	Above Rs.10 lac and Upto Rs.2 crore
Medium Enterprise	Above Rs.5 Crore and upto Rs.10 crore	Above Rs.2 crore and upto Rs.5 crore

7.1 Overview of MSME Finance:

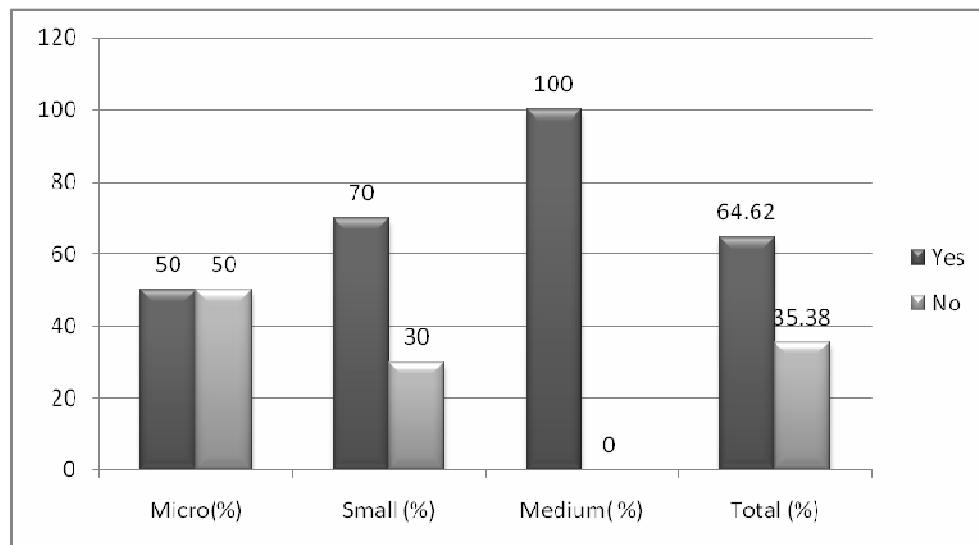
Increasing finance to MSME has become more important because MSMEs are the wheels of economic development. However the cost and access to formal finance are among the most common barriers before MSME sector. Most of these enterprises are financed by internally generated funds, supplemented by borrowings from family and friends as well as informal sources or moneylenders. The MSMEs should have provided with all the financial support and that too with the way of formal finance.

8. Problems in Financing MSMEs:

The attempt is made to understand, how many enterprise have ever raised finance from the Banks. As far as external sources of financing are concerned there can be other sources as well such as trade credit, Non-banking financial companies, private money lenders and all. Bank is known to be the most efficient external source of finance. But majority of the MSME enterprises do not opt to go for the loan from banks.

Table No 1. Has the enterprise ever used Bank as external source of financing for operational or capital purposes?

Sr. No.	Response	Micro	Micro (%)	Small	Small (%)	Medium	Medium (%)	Total	Total (%)
1	Yes	11	50	28	70	3	100	42	64.62
2	No	11	50	12	30	0	0	23	35.38
Total		22	100	40	100	3	100	65	100



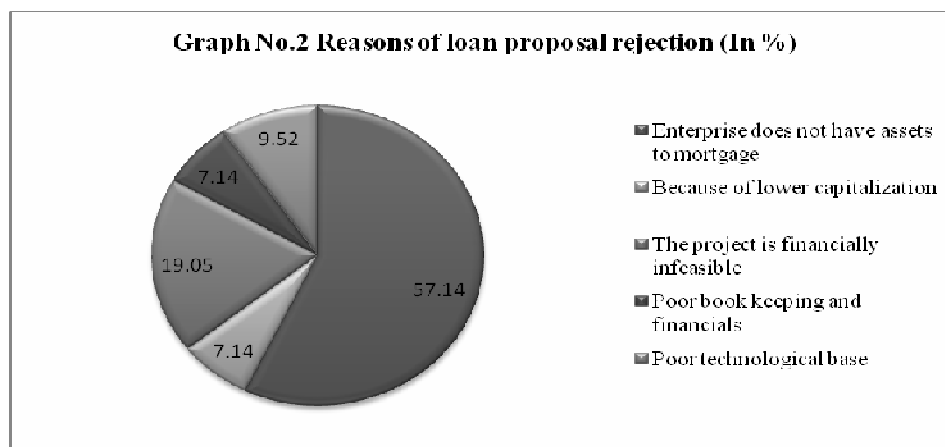
Graph No.1 Enterprises those have used Bank as a source of finance.

The graph clearly indicates that majority of the MSMEs (64.62%) are raising finance through the banks itself. But considerable factor is there are still 50% micro enterprises do not opt bank as a source of finance. Overall 35.38% of the MSME are not going to the banks for raising the finance.

Table No.2 Why the loan proposals made to the banks are rejected frequently.

Many of the times loan proposal made to the banks are being rejected. Researcher has made an attempt to know the reasons of proposal rejection.

Response	Micro	Micro (%)	Small	Small (%)	Medium	Medium (%)	Total	Total (%)
Enterprise does not have assets to mortgage	7	63.64	16	57.14	1	33.33	24	57.14
Because of lower capitalization	1	9.09	1	3.57	1	33.33	3	7.14
The project is financially infeasible	2	18.18	6	21.43	-	-	8	19.05
Poor book keeping and financials	1	9.09	2	7.14	-	-	3	7.14
Poor technological base	-	-	3	10.71	1	33.33	4	9.52
Total	11	100	28	100	3	100	42	100

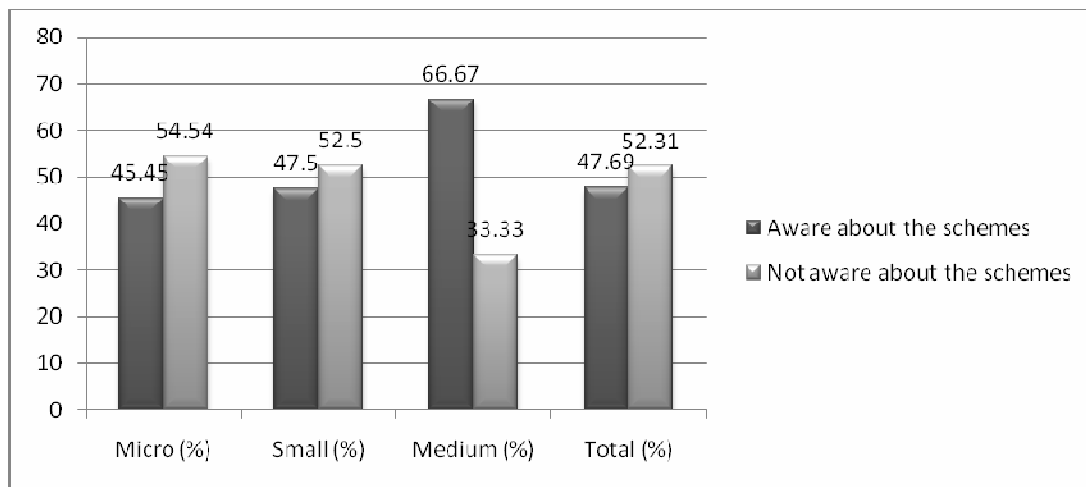


The reason of rejection of loan proposal clearly indicates that, 57.14% enterprises say that they does not have required quantum of assets to mortgage. 19.05% of the selected MSMEs reveal that the project is not financially feasible. The other reasons includes that the lower capitalization, poor book keeping and financial and poor technological base are the reasons behind the rejection of loan proposal.

Table No.3 Government has been encouraging SME sector; and for financing it has introduced various schemes like collateral free loan scheme (CGTMSE) up to Rs. 1 Crore and Scheme for 'providing financial assistance for performance and credit rating (PCR), Micro Unit Development and refinance agency Bank (MUDRA) schemes; Is the enterprise aware about the scheme and does the organization has negotiated with banks to get the loan. The MSMEs are found to be not aware about the financial services offered by the government and banks. This is a one of the great reason

that the enterprises are unable to raise the required finance at the lowest possible rate and since falling sick.

Sr. No.	Response	Micro	Micro (%)	Small	Small (%)	Medium	Medium (%)	Total	Total (%)
1	Aware about the schemes	10	45.45	19	47.5	2	66.67	31	47.69
2	Not aware about the schemes	12	54.54	21	52.5	1	33.33	34	52.31
Total		22	100	40	100	3	100	65	100



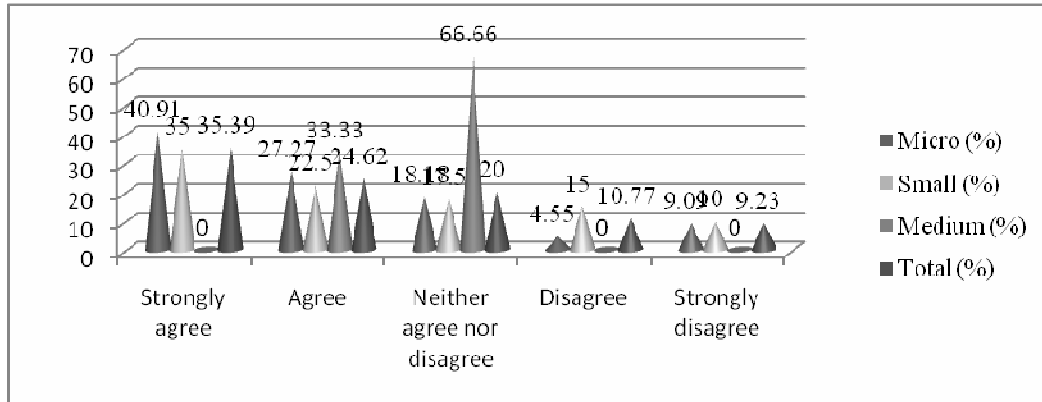
Graph No.3 Enterprise awareness about the financing services

The graph indicates that the awareness about the financing services is at the good level in case of Medium enterprises (66.67%). But in case of Micro and small enterprise the awareness about the financing schemes and services is quite low. There are 54.54% of the enterprises are not aware about these schemes where 52.5% small enterprise are unaware about the same.

Table No.4 Banks' extensive and sensitive information requirement discourages firms from obtaining financing.

The enterprises are discouraged to approach the banks for finance. The banks' lending procedures are lengthy and time consuming. And the information they demand is sensitive in nature.

Responses	Micro	Micro (%)	Small	Small (%)	Medium	Medium (%)	Total	Total (%)
Strongly agree	9	40.91	14	35	-	-	23	35.39
Agree	6	27.27	9	22.5	1	33.33	16	24.62
Neither agree nor disagree	4	18.18	7	17.5	2	66.66	13	20
Disagree	1	4.55	6	15	-	-	7	10.77
Strongly disagree	2	9.09	4	10	-	-	6	9.23
Total	22	100	40	100	3	100	65	100

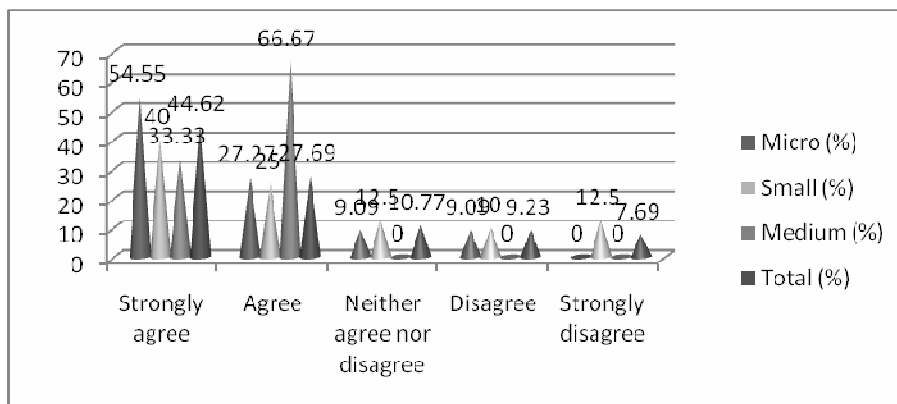


Graph No.4 How far banks demand for extensive and sensitive information discourages.

The tabular and graphical representation indicates that 60.01% of the total selected MSMEs are either agree or strongly agree that the banks demand for extensive and sensitive information discourages the enterprise. There are 20% enterprises that are either disagreeing or strongly disagree with the statement.

Table No.5 High interest rate is the problem in repayment of the credit.

Responses	Micro	Micro (%)	Small	Small (%)	Medium	Medium (%)	Total	Total (%)
Strongly agree	12	54.55	16	40	1	33.33	29	44.62
Agree	6	27.27	10	25	2	66.67	18	27.69
Neither agree nor disagree	2	9.09	5	12.5	-	-	7	10.77
Disagree	2	9.09	4	10	-	-	6	9.23
Strongly disagree	-	-	5	12.5	-	-	5	7.69
Total	22	100	40	100	3	100	65	100



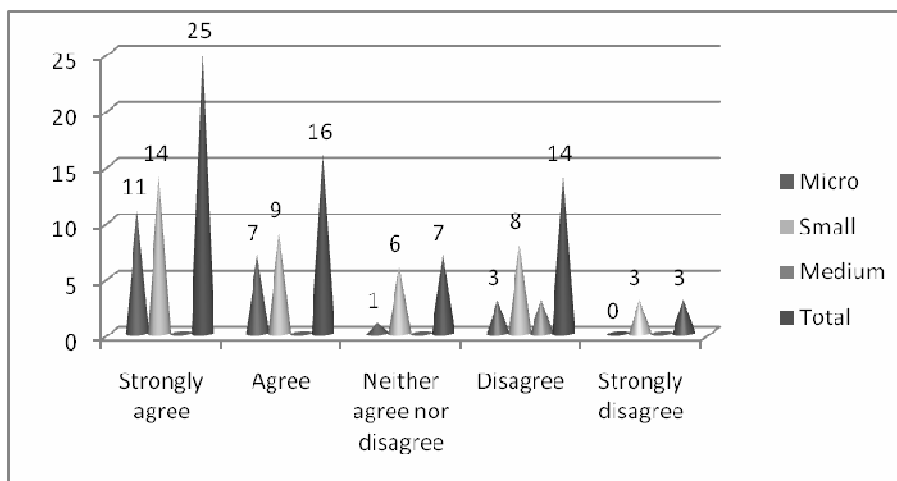
Graph No.5. How far High interest rate is the problem in repayment of the credit.

Interest rate on the MSMEs loan is yet another important parameter in the line of getting loan. This graph reveals that 72.31% of the enterprises either agrees or strongly agrees upon this statement that, the high interest rate is the biggest problem in repayment of loan. Just 16.92% enterprises

don't feel this is true or they are disagreeing or strongly disagree with this. It clearly says that the interest rates are higher on this loan and are making the enterprises financially poor.

Table No.6 Poor technological base is the problem behind inability to raise the finance from financing institutions

Responses	Micro	Micro (%)	Small	Small (%)	Medium	Medium (%)	Total	Total (%)
Strongly agree	11	50	14	35.00	-	-	25	38.46
Agree	7	31.82	9	22.50	-	-	16	24.62
Neither agree nor disagree	1	4.55	6	15.00	-	-	7	10.77
Disagree	3	13.64	8	20.00	3	100	14	21.54
Strongly disagree	-	-	3	7.50	-	-	3	4.62
Total	22	100	40	100	3	100	65	100



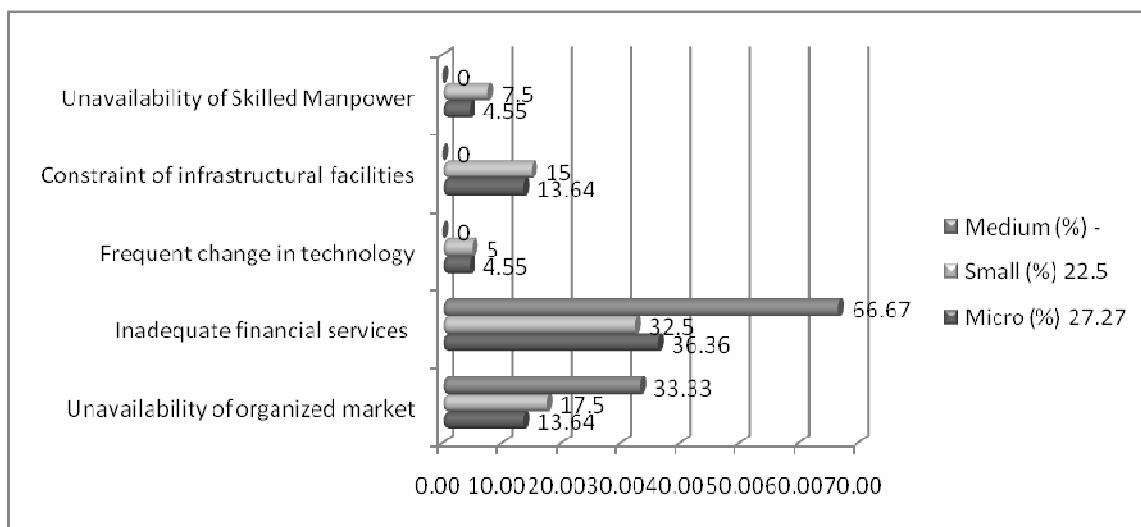
Graph No.6 How far Poor technological base is the problem behind inability to raise the finance from financing institutions.

The purpose of above table is to know, whether the technological base is the reason behind inability of raising the finance. Where 63.08% of the enterprises are either agree or strongly agree with this statement. 100% of the medium enterprises are disagreeing with this statement. There are 26.16 responded that they are either disagree or strongly disagree with the statement. The technological base is strong in case of medium enterprises but is poor as far as micro and small enterprises are concerned.

Table No.7 What is the greatest reason for sickness of enterprise?

Responses	Micro	Micro (%)	Small	Small (%)	Medium	Medium (%)	Total	Total (%)
Shortage of raw-	6	27.27	9	22.5	-	-	15	23.08

material								
Unavailability of organized market	3	13.64	7	17.5	1	33.33	11	16.92
Inadequate financial services	8	36.36	13	32.5	2	66.67	23	35.38
Frequent change in technology	1	4.55	2	5	-	-	3	4.62
Constraint of infrastructural facilities	3	13.64	6	15	-	-	9	13.85
Unavailability of Skilled Manpower	1	4.55	3	7.5	-	-	4	6.15
Total	22	100.00	40	100	3	100	65	100.00



Graph No.7 Reasons for sickness of Enterprise

The purpose of this table is to understand the reasons of the sickness of MSME enterprises. According to the responses received for this question reveals how various reasons are there behind the sickness.

Among all there are 54.55% Micro enterprises says that Inadequate financial services is the reason of sickness, There are 42.5% of small enterprises says the same thing. Where there are 66.67% medium enterprises speaks the same words about sickness. Average there are 47.69% enterprises of total sample says inadequate financial services is the reason for the sickness of enterprises.

18.46% of the enterprises said that shortage of raw material is the biggest reason in sickness. Where 13.85% of the enterprises says unavailability of the organized market is the reason of sickness.

Findings:

The significant number of MSMEs is not approaching the banks for formal finance. They rely on informal sources since the bank finance is time consuming and it has lengthy procedure and cost involved into it. (Table No.1)

The loan proposals are frequently rejected by the banks because the enterprise has limited collateral security. The enterprises' inability in provision of the mortgage keeps them away from raising the finance. (Table No.2)

Enterprise has low awareness about the financing services and schemes offered by the banks and government. The unawareness about these financing services reduces opportunities of MSMEs to raise the finance.(Table No.3)

Bank demands extensive and sensitive information and due to which the enterprises are being discouraged. The information seeking by the banks should be lower so that the MSMEs will approach the banks.(Table No.4)

The burden of high interest rate reduces down the profitability of the enterprise. The low profitability makes enterprise to fall financially sick.(Table No.5)

The poor technological base creates obstacle in staying with tune to raise finance. The use of automation can reduce down the cost over the manpower. Ultimately profit can be raised.(TableNo.6)

The inadequate financial services are the reason behind enterprise sickness. The financial services offered by the government and banks are not reaching at the enterprises.(Table No.7)

Conclusion:

There is a tough competition between large companies and the MSMEs, Which is creating a question before the survival of the MSMEs. Lacks of Infrastructure, Limited security in form of assets, inefficient knowledge of financial management, unawareness about the financial services is making the problems even darken. MSMEs are not adequately prepared to deal with the changing environment. As the ruling government changes the attitude to see at these enterprises is changing. Though the government has taken several policies to strengthen the MSME sector proper coordination and their implementation are still in the list of issues. The MSMEs must convert these external environment obstacles into the opportunities so that the existence can be made even Strong.

References:

- Annual Report 2016-17, Govt. of India, Ministry of Micro, Small and Medium Enterprises
Lahiri Rajib , Financing Micro, Small And Medium Enterprises (MSMES) In India During Post Liberalization Period: A Study On Traditional And Unconventional Approaches Of Financing :Indian Streams Research Journal , Vol.2, Issue 8(Sept. ; 2012)
- Dr. A. S. Shiralashetti, Prospects And Problems Of MSMEs In India- A Study, International Journal of in Multidisciplinary and Academic Research (SSIJMAR) Vol. 1, No. 2, July-August (ISSN 2278 – 5973)

- Management case on designing the future of micro, small and medium enterprises by M. Manickraj
(volume 35 sept 2010) Vikalpa: The Journal for Decision Makers
- Micro, Small and Medium Enterprise Finance in India, a research study on needs, Gaps and Way
forward (Nov.2012) International Finance Corporation
- Venkatesh, S. and Muthiah, K. (2012), 'SMEs in India: Importance and Contribution', Asian
Journal of Management Research, Vol. 2, No. 2.
- Singh, R., Verma, O.P., and Anjum, B. (2012), 'Small Scale Industry: An Engine of Growth',
Zenith International Journal of Business Economics & Management Research, Vol.2 Issue 5.