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**FACTORS AFFECTING BANK FINANCING TO MSMEs
(A STUDY WITH REFERENCE TO DAKSHINA KANNADA AND UDUPI DISTRICTS)**

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ABSTRACT

Small and medium businesses (SMEs) are crucial for emerging markets' economic and social development. In emerging economies, these enterprises generate income and create the majority of new jobs (between 70 and 95 percent of new job possibilities). When SMEs have access to capital, they are more likely to create jobs and at a faster rate. However, in many developing nations, SMEs' access to financial services is severely limited, limiting their ability to grow. One of the most difficult obstacles for business owners and entrepreneurs is obtaining finance. Many SMEs and entrepreneurs rely significantly on traditional debt to meet their start-up, cash flow, and investment needs, and bank financing is the most prevalent source of external finance for them. Traditional bank finance, while widely employed by small firms, provides hurdles to SMEs, particularly newer, innovative, and fast-growing organisations with a greater risk-return profile. In reality, institutional credit to MSMEs is scarce and frequently delayed. In this paper an attempt is made to study the factors affecting bank financing to MSMEs in Dakshina Kannada and Udupi Districts. The study about the problems faced by the micro, small and medium entrepreneurs becomes essential to find out what exactly are the major problems faced by the entrepreneurs while raising finance? Whether their capital requirements are adequately met by the banks in time?

KEYWORDS

financial services, income, institutional credit.

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INTRODUCTION

The socio economic significance of MSMEs can seldom be over emphasised as they play a vital role in the industrialisation process of any country. The small scale industry in this country has been in existence from time immemorial. The products turned out by this sector were highly rated in the international market. The various industrial policy resolutions have laid emphasis on the importance and role of MSMEs in the balanced economic development of this country.

Over the last five decades, the Micro, Small, and Medium Enterprises (MSME) sector has grown as a highly vibrant and dynamic segment of the Indian economy. It makes a substantial contribution to the country's economic and social growth by encouraging entrepreneurship and creating enormous employment prospects at a low capital cost, next only to agriculture. MSMEs serve as ancillary units to large companies, and this sector contributes considerably to the country's inclusive industrial development. MSMEs are expanding their sphere of influence across the economy, generating a diversified range of products and services to meet domestic and international demand.

Micro, Small, and Medium Enterprises (MSMEs) have made major contributions to the growth of entrepreneurial ventures through commercial innovations. MSMEs are expanding their sphere of influence across the economy, generating a diversified range of products and services to fulfil the needs of both domestic and international markets. The contribution of the MSME sector to the country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices from 2014-15 to 2018-19 is shown below:

TABLE 1: GROWTH IN MSME SECTOR

Share of Gross Value Added of MSME in all India GDP (in ₹ crore)						
Year	Total MSME GVA	Growth (%)	Total GVA	Share Of MSME In GVA (%)	Total GDP	Share Of MSME In GDP (%)
2014-15	3658196	-	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.34	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation

IMPORTANCE OF FINANCE TO MSMEs

Finance is such an important aspect of every business that it is often referred to as the "living blood" of the company. Business finance refers to the process of evaluating, raising, and managing funds for use in a business. MSMEs require funding for a variety of reasons, including the start-up of their firm, the acquisition of fixed assets such as plant and machinery, furniture and fixtures, land and buildings, and so on. They also require capital to fund other fixed assets like as goodwill, other current and non-current assets, and trademarks. To keep current assets such as cash, raw materials, working capital, various debtors, stock in progress, and finished goods, each unit requires resources. MSMEs typically meet these requirements through internal sources of funding such as owner's capital and borrowings from money lenders. The MSMEs find it challenging to obtain the necessary loans from organized sources. Too many procedural requirements, inadequate amount of loan, delay in sanction of loan, bank managers' attitudes, and a variety of other factors have hampered the success of SMEs in India. Despite the fact that there are many financial institutions which satisfy the financial needs of the small-scale sector, businesses believe that their participation is insufficient. In reality, institutional credit is scarce and frequently delayed. In this paper an attempt is made to study the factors affecting bank financing to MSMEs in Dakshina Kannada and Udupi Districts. The study about the problems faced by the micro, small and medium entrepreneurs becomes essential to find out what exactly are the major problems faced by the entrepreneurs while raising finance? Whether their capital requirements are adequately met by the banks in time?

LITERATURE REVIEW

Nishanth and Zakkariya (2014) in their article "Barriers Faced by Micro, Small and Medium Enterprises in Raising Finance" pointed that the MSMEs face various difficulties, including inadequate capital, delay in obtaining loan amount, difficulties in procuring raw material and lack of suitable technology. They discovered that growth and development of MSMEs can be ensured by initiating actions by government and banks and by reducing the barriers perceived by MSMEs and providing them necessary facilities and adequate finance.

Singh and Singh (2014) in their paper "Problems and Prospects of Small and Medium Enterprises in India" identified that the MSMEs have vital significance in the Indian economy because of its contribution to output, export and employment. They stressed that finance is the key element for production, distribution and

innovation. They recognized that small scale enterprises face numerous issues while obtaining credit from banks and government agencies. Financial institutions look for a great deal of data and information and there is a gigantic delay between loan application and loan sanction. The study concluded that the procedure involved in obtaining loan was lengthy and cumbersome because of which entrepreneurs prefer informal source of finance.

OBJECTIVES OF THE STUDY

Precisely the study focuses on the following objectives:

1. To study the socio-economic background of the respondents in Dakshina Kannada and Udupi Districts.
2. To identify the sources of finance utilized by the respondents.
3. To analyses the factors affecting bank financing to micro, small and medium entrepreneurs in Dakshina Kannada and Udupi Districts.

RESEARCH METHODOLOGY

This survey-based study is exploratory in nature. The subjective cum quantitative research examination procedures were utilized to study the factors affecting Bank Financing to MSMEs in Dakshina Kannada and Udupi Districts. Primary data is gathered by interviewing and interacting with the entrepreneurs in the Dakshina Kannada and Udupi districts. The data sample from entrepreneurs from manufacturing, servicing and trading sectors was collected through a well-developed Questionnaire. Further the secondary data was gathered from books, journals, newspapers, internet/ online sources, etc. In particular, data will be extracted from the publications of Reserve Bank of India, research papers, websites, and other different bona fide data sources. The reports submitted by various Committees/Commissions applicable to the study will be refereed and these data will be incorporated wherever necessary to substantiate the primary data. Stratified Random Sampling method is adopted. The mean and standard deviations were calculated using descriptive statistics. To analyze and interpret the data reported in this study, the researcher used the Statistical Package for Social Sciences Research (SPSS).

ANALYSIS OF DATA

TABLE 2: GENDER WISE CLASSIFICATION OF THE RESPONDENTS

Gender	District					
	D.K		Udupi		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Female	80	32.5%	28	28.9%	108	31.5%
Male	166	67.5%	69	71.1%	235	68.5%
Total	246	100.0%	97	100.0%	343	100.0%
Parameter			Chi square value	d.f	p	
Gender			0.431	1	0.512	NS

Source: Survey Data

The above table presents the gender wise distribution of the sample entrepreneurs. An analysis of the data in Dakshina Kannada and Udupi District shows that out of 343 sample respondents 68.5% were male and 31.5% were female entrepreneurs. The test result showed that there is no significant difference between Dakshina Kannada and Udupi Districts with respect to gender of the respondents ($p=0.512>0.05$).

QUALIFICATION OF THE RESPONDENTS

Education or literacy level of the entrepreneurs is one of the major governing forces behind better decision-making activity. The entrepreneurs who are not well educated or who do not have required educational qualification and skill may impede the process of effective decision making.

TABLE 3: QUALIFICATION OF THE RESPONDENTS

Educational Qualification of the Entrepreneurs	District					
	D.K		Udupi		Total	
	Number of Respondents	%	Number of Respondents	%	Number of Respondents	%
Illiterate	17	6.9%	3	3.1%	20	5.8%
Primary School Education	17	6.9%	9	9.3%	26	7.6%
High School Education	19	7.7%	7	7.2%	26	7.6%
PUC	43	17.5%	21	21.6%	64	18.7%
Graduation	54	22.0%	23	23.7%	77	22.4%
Post-Graduation	38	15.4%	18	18.6%	56	16.3%
Technical & Professional Degree/Diploma	58	23.6%	16	16.5%	74	21.6%
Total	246	100.0%	97	100.0%	343	100.0%
District with Following parameter			Chi square value	d.f	p	
Educational Qualification of the Entrepreneur/Proprietor			5.051	6	0.537	NS

Source: Survey Data

An analysis of the table reveals that most of the respondents were literates and only 5.8% of the sample entrepreneurs were illiterate. Chi-square test result shows that there is no significant relationship between entrepreneurs with reference to their educational qualification in Dakshina Kannada and Udupi Districts ($p=0.537>0.05$).

TABLE 4: TYPE OF THE UNIT ESTABLISHED BY THE ENTREPRENEURS

Type of the unit	District					
	D.K		Udupi		Total	
	Number of Respondents	%	Number of Respondents	%	Number of Respondents	%
Micro/Small Enterprise	206	83.7%	93	95.9%	299	87.2%
Medium Enterprise	40	16.3%	4	4.1%	44	12.8%
Total	246	100.0%	97	100.0%	343	100.0%
District with Following parameter			Chi square value	d.f	p	
Type of the unit			9.163	1	0.002	HS

Source: Survey Data

The survey results reveal that out of the total units surveyed, 87.2% of the units were micro/small enterprises and the 12.8% were medium enterprises. Test result revealed that there is significant difference between Dakshina Kannada and Udupi Districts with respect to the type of the unit established ($p=0.002<0.01$). It is found that there is a geographical concentration of MSMEs in few taluks and that there is uneven inter-taluk and inter-category dispersal of MSMEs in the districts.

TABLE 5: TYPE OF ACTIVITY PERFORMED

Nature/Category of the unit	District					
	D.K		Udupi		Total	
	Number of Respondents	%	Number of Respondents	%	Number of Respondents	%
Food & Agro Based	51	20.7%	16	16.5%	67	19.5%
Soda Water	2	.8%	3	3.1%	5	1.5%
Cotton Textile	6	2.4%	6	6.2%	12	3.5%
Woolen, silk & artificial thread based clothes	2	.8%	3	3.1%	5	1.5%
Leather based	13	5.3%	6	6.2%	19	5.5%
Jute & jute based garments	7	2.8%	3	3.1%	10	2.9%
Wood & wooden based furniture	16	6.5%	14	14.4%	30	8.7%
Paper & paper products	8	3.3%	3	3.1%	11	3.2%
Chemical & chemical based	15	6.1%	6	6.2%	21	6.1%
Rubber, plastic & Petro based	4	1.6%	4	4.1%	8	2.3%
Mineral based	6	2.4%	0	.0%	6	1.7%
Metal based	26	10.6%	9	9.3%	35	10.2%
Engineering units	8	3.3%	6	6.2%	14	4.1%
Electrical, machinery & transport	23	9.3%	3	3.1%	26	7.6%
Repair & servicing	29	11.8%	7	7.2%	36	10.5%
Beauty Care Industry	30	12.2%	8	8.2%	38	11.1%
Total	246	100.0%	97	100.0%	343	100.0%
District with Following parameters			Chi square value		d.f	p
Nature/Category of the unit			Fishers exact test		.	0.056
						NS

Source: Survey Data

The above table shows that majority of the units were involved in food and agro based products (19.5%), 11.1% were serving the beauty care industry and 10.2% were involved in metal-based products. Test result showed that there is no significant difference between Dakshina Kannada and Udupi District with respect to nature of activities performed by business enterprises under study ($p=0.056>0.05$).

Finance is the life blood any industrial activity. Under this circumstance, it becomes essential to know the institutional source of finance to the industrial unit mainly from the point of understanding whether the credit or finance is available in sufficient quantity on easy terms and conditions or not. It is needless to say that institutional finance is very important in the case of MSMEs. Usually, the MSMEs are faced with resource crunch and as such, they require timely and adequate finance on liberal terms and conditions.

TABLE 6: SOURCES OF FUNDS USED BY THE ENTREPRENEURS

Source of finance used	District						
	D.K		Udupi		Total		
	Number of Respondents	%	Number of Respondents	%	Number of Respondents	%	
Own funds	No	47	19.1%	7	7.2%	54	15.7%
	Yes	199	80.9%	90	92.8%	289	84.3%
	Total	246	100.0%	97	100.0%	343	100.0%
Loans from friends& relatives	No	156	63.4%	78	80.4%	234	68.2%
	Yes	90	36.6%	19	19.6%	109	31.8%
	Total	246	100.0%	97	100.0%	343	100.0%
Bank loan	No	0	.0%	0	.0%	0	.0%
	Yes	246	100.0%	97	100.0%	343	100.0%
	Total	246	100.0%	97	100.0%	343	100.0%
Retained Earnings	No	225	91.5%	91	93.8%	316	92.1%
	Yes	21	8.5%	6	6.2%	27	7.9%
	Total	246	100.0%	97	100.0%	343	100.0%
Trade Credit	No	222	90.2%	84	86.6%	306	89.2%
	Yes	24	9.8%	13	13.4%	37	10.8%
	Total	246	100.0%	97	100.0%	343	100.0%
Grants or Subsidy from Government Agency	No	0	.0%	0	.0%	0	.0%
	Yes	246	100.0%	97	100.0%	343	100.0%
	Total	246	100.0%	97	100.0%	343	100.0%
Financial Institutions	No	203	82.5%	83	85.6%	286	83.4%
	Yes	43	17.5%	14	14.4%	57	16.6%
	Total	246	100.0%	97	100.0%	343	100.0%
Private Money Lenders	No	200	81.3%	87	89.7%	287	83.7%
	Yes	46	18.7%	10	10.3%	56	16.3%
	Total	246	100.0%	97	100.0%	343	100.0%
Factoring, Leasing & Hire Purchase	No	220	89.4%	93	95.9%	313	91.3%
	Yes	26	10.6%	4	4.1%	30	8.7%
	Total	246	100.0%	97	100.0%	343	100.0%
District with Following parameters			Chi square value		d.f	p	
Own funds			7.413		1	0.006	
Loans from friends& relatives			9.271		1	0.002	
Bank loan			.		.	NS	
Retained Earnings			0.530		1	0.467	
Trade Credit			0.961		1	0.327	
Grants or Subsidy from Government Agency			.		.	NS	
Financial Institutions			0.466		1	0.495	
Private Money Lenders			3.585		1	0.058	
Factoring, Leasing & Hire Purchase			3.621		1	0.057	

Source: Survey Data

The above table shows the various sources of funds used by the Entrepreneurs in their business. It was interesting to note that all the entrepreneurs surveyed have utilized bank loans and grants and subsidy from Government Agencies as a source of finance in their respective business to the fullest extent. There is no significant difference between Dakshina Kannada and Udupi District with regard to use of bank loan and grants and subsidy from the government agencies.

TABLE 7: FACTORS AFFECTING BANK FINANCING

Loan amount sanctioned by the Bank was		District					
		D.K		Udupi		Total	
		No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Adequacy	In-adequate	144	58.5%	61	62.9%	205	59.8%
	Adequate	102	41.5%	36	37.1%	138	40.2%
	Total	246	100.0%	97	100.0%	343	100.0%
Timely	Delayed	150	61.0%	63	64.9%	213	62.1%
	Timely	96	39.0%	34	35.1%	130	37.9%
	Total	246	100.0%	97	100.0%	343	100.0%
Availability	Difficult	177	72.0%	73	75.3%	250	72.9%
	Easy to Avail	69	28.0%	24	24.7%	93	27.1%
	Total	246	100.0%	97	100.0%	343	100.0%
Cost	Inexpensive	98	39.8%	29	29.9%	127	37.0%
	Expensive	148	60.2%	68	70.1%	216	63.0%
	Total	246	100.0%	97	100.0%	343	100.0%
Factor considered		chi square value		d.f	p		
Adequacy		0.547		1	0.459	NS	
Timely		0.467		1	0.495	NS	
Availability		0.385		1	0.535	NS	
Cost		2.948		1	0.086	NS	

Source: Survey Data

Adequacy: 40.2% of the respondents opined that the loan amount sanctioned by the bank was adequate and 59.8% opined that the loan amount was inadequate. The test result revealed that there is no significant difference between the respondents of Dakshina Kannada and Udupi Districts with regard to the opinion about the adequacy of loan sanctioned by the banks to their enterprises. ($p=0.459>0.05$).

Time taken: 37.9% of the respondents opined that the loan amount sanctioned was on time and 62.1% opined that there was delay in the sanction of the loan by the banks. The test result revealed that there is no significant difference between the respondents of Dakshina Kannada and Udupi Districts with regard to the opinion about time taken by the banks to sanction loans to small and medium enterprises. ($p=0.495>0.05$).

Availability: 27.1% of the respondents found it easy to avail the loan from the bank whereas 72.9% found it difficult to avail the loan from the bank. The test result revealed that there is no significant difference between the respondents of Dakshina Kannada and Udupi Districts with regard to access to bank loan. ($p=0.535>0.05$).

Cost: 63% of the respondents opined that the cost involved in getting the loan from the bank was expensive and 37% opined that it was inexpensive. The test result revealed that there is no significant difference between the respondents of Dakshina Kannada and Udupi Districts with regard to cost involved in getting loan from the banks. ($p=0.535>0.05$).

FINDINGS OF THE STUDY

- Majority of the units were managed by male entrepreneurs.
- It is revealed from the study that most of the respondents had a qualification of PUC and above.
- It is interesting to note that majority of the respondents opined that the loan amount sanctioned by the bank was inadequate.
- It was found that access to bank finance was not easy to the owners of small and medium enterprises.
- The respondents found it costly to raise loan from the banks.

CONCLUSION

The study revealed that banks are the major source of finance to the sample units. Most of the units depended on own funds for meeting their financial requirements. It was found that there was a wide gap between the loan amount demanded by the sample entrepreneurs and the amount sanctioned by the banks. It can be concluded that most of the respondents did not get the loan at the time it was needed. In the case of majority of the units there was a considerable delay by the bank while sanctioning the financial assistance.

In order to support SMEs' development and sustain the most dynamic firms in a credit-constrained environment, policymakers must expand the funding options available and accessible to them. It's also a long-term issue to improve SMEs' capital structure and investment capability, as well as to reduce their reliance on – and exposure to – traditional financing channels.

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