

MSME Financing: Growth and Challenges

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Abstract In any economy, Micro, Small and Medium sector (MSME) is considered to be the most dynamic owing to its capacity for innovation, competence for advancements and perseverance to face multiple challenges. Despite the fact that MSME in India contribute 8 per cent of our GDP, 45 per cent of manufacturing output and 40 per cent of exports still they do not get the required support to grow exponentially. They have to face numerous challenges on a day to day basis to keep them afloat. Apart from the various impediments encountered in terms of competition, lack of infrastructure, red tapism, shortage of labour etc the promoters of MSMEs also encounter problem in getting adequate and timely financial assistance from Banks and Financial Institutions. The current paper focuses on studying and analyzing the contribution of MSME sector in India in general and the state of Himachal Pradesh in particular. The Paper describes in some detail the problems faced by MSMEs in the selected districts of Himachal Pradesh. The Study basically used various tools like ratio analysis, one way ANOVAs, Chi Square test and Factor Analysis etc. to analyse the data so collected for drawing logical conclusions. The study conclude that the three prime reasons hindering the growth of MSMEs in the state of Himachal Pradesh include inadequate financing by the banks, high collateral requirements and cumbersome processes.

Keywords: Financing, Loans, MSME, Employment, GDP, Investment, Industrialization.

I. INTRODUCTION

Industrialization plays an imperative role in the growth and advancement of a country by raising income, creating and widening employment opportunities, expanding trade and commerce and thereby, increasing the pace of capital formation and technological changes. The role of industrialization becomes still more important if the economy majorly counts upon the primary sector of agriculture which serves as a base for agriculture growth. As per World Bank report 1994, earlier large enterprises were preferred as leading segment for industrial development but since 1970s it is acknowledged that the Micro, Small and Medium Enterprises (MSMEs) have contributed substantially towards industrialization in India. Since that long the MSMEs have been serving our economy by way of employment creation thus helping in improving the Gross Domestic Production (GDP) of the country. The MSME Annual Report 2016-17 stated that MSMEs contribute around 33 percent of total manufactured output, 6 percent of national GDP and 45 percent of the exports in India. It also ably shoulders the responsibility of producing

more than 8000 quality products for local and global market by employing more than 60 million Indians. With approximately 30 million Small and Medium Enterprises (SMEs) in India, this important sector is growing at a rate of 8 percent per annum

MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

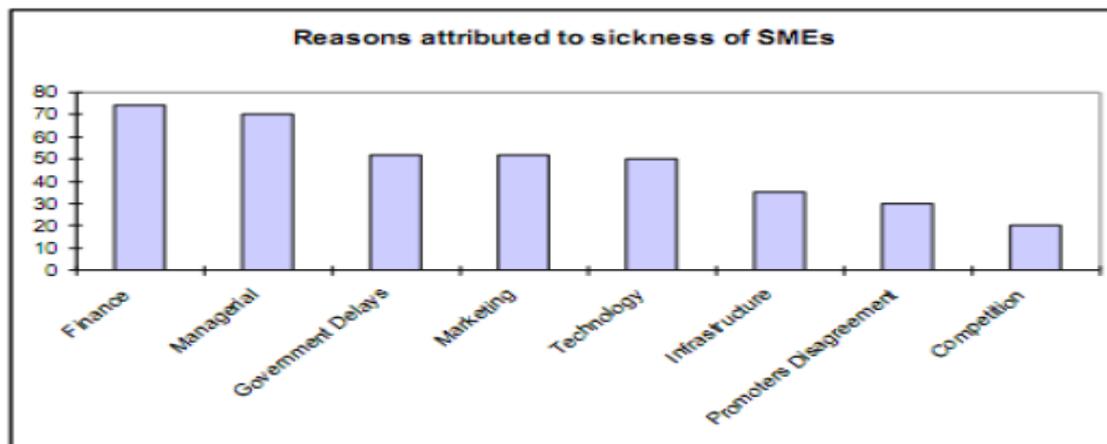
MSMEs are considered to be the backbone of Indian economy. They are the incubators for talent, innovation and entrepreneurial spirit, which is essential for the country's development. The Micro Small Medium Enterprises Development (MSMED) Act, 2006 which is the guiding spirit of this important sector came into force on October 2, 2006. As per this statute "*any enterprise engaged in the manufacturing or production, processing, preservation of goods pertaining to any industry specified in the first schedule to the Industry Development and Regulation Act, 1951, and rendering services may be termed as*":

- 1) Micro enterprise in case investment in plant and machinery does not exceed INR 2.5 million for

- manufacturing concern, and one million for service concern.
- 2) Small Enterprise in case investment in plant and machinery ranges from INR 2.5 to 50 million for manufacturing concern and INR one million to 20 million for service concern.
 - 3) Medium Enterprise where investment is more than INR 50 million but does not exceed 100 million for manufacturing concern and in case of service enterprises investment in equipment is more than INR 20 million but does not exceed 5 cores.

In spite of a sizable presence and dynamic contribution of this sector towards growth and development of the country, the sector has remained neglected since long. This trend is to be seen not only in India but throughout the world. However, it is also observed that the growth rate of MSMEs in India vis a vis other countries is quite low. As per the World Bank Report 2018, India is dismally ranked at 156 in Ease of starting business and at 100 in Ease of doing business out of 180 countries which accounted for the

survey. Further, 95 percent of the MSMEs operating in the country belong to informal sector while merely 5 percent are part of the formal sector (Fourth Census 2006-07). Although enterprises in both small as well as medium sector contribute substantially for the up gradation of Indian economy they still encounter various problems due to non-supportive policy environment in the country. Many of these units eventually turn sick as a result of this step motherly treatment from our policy formulators and implementers. Amongst all problems being faced by the MSME sector obtaining adequate and timely finance from the organized sources has been considered as the major impediment for the growth and development of this vital segment of Indian economy (as indicated in Figure-1). So far so the existing literature on the subject has highlighted the plight of this sector –“Resolving the problem of financing for growth of SME sector is of high importance as SMEs are part of fast growing sector in India and has claimed higher growth rate than rest of the industrial sector”. (Chaudhary S & Ahlawat S 2014)



Source : (<http://milagrow.in/k-solutions/msme-planet/sickness>)

Figure-1 Reasons of Sickness of MSMEs in India

II. LITERATURE REVIEW

1. Panday, A P. & Shivesh (2007) in their paper highlighted that SME lack capital due to risk inheritant in it, which makes them unattractive for investors and so on their cost of capital increases. Only 16 percent of total bank finance is pooled into the sector. So he insisted on opening SME focused bank, increasing limit for CGT and more exposure to equity finance for SMEs. He further stated that government should focus upon their promotion not protection for their sustainable growth.
2. Kumar, A (2012) discussed problems and prospects of MSME in Karnataka. The study stated that the factors such as inadequacy of finance, delay in disbursement of finance, cumbersome procedure, short moratorium, poor service condition, high collateral requirements and overall controlling of activities are less significant factors while other factors such as high interest, high margin, heavy service charges create moderate problem in availing finance from banks
3. Nkuah, J K. (2013) in their paper highlighted the problem of high cost as major reason for not availing loan from bank. He further stated that most of the loans are rejected on ground of poor financial management by MSME and inability to pay collateral
4. Ramlee S and Berma B (2013) identified the reasons for gap between demand and supply side factors in financing MSMEs. He basically highlighted that gap between accessibility and availability affecting the demand of SMEs and economies of scale in loans is affecting supply of funds. They further highlighted the practices of the suppliers' of credit in terms of the environment that influences the supply of funds to SMEs, the risk that the supplier of funds incurred by servicing SMEs, and the high transaction cost involved in delivering credit to SMEs. Further the study stated

that few SMEs (only 13.4 per cent) rely on banks and 2.7 percent on development financial institutions to fund their business.

5. Ahuja 2013 in Indian Express which states that 25% of SMEs in Punjab, Haryana, JK, Uttarakhand, HP, Rajasthan are either closed or struggling for survival due to expensive credit, non availability of timely and adequate funds and power shortage up to extent of 35% and delayed payment by large firms.
6. Raj Narayan (2014) founder and CEO of power2sme in his article highlighted unavailability of sufficient and timely funds to SMEs act as a hindrance in growth of economy and expansion of SMEs. Increased focus on capital market, equity financing scheme, SME focused banks, and establishment of automated portal for reporting delayed repayment by customer can resolve problems of SMEs to some extent
7. Ghimire, B. & Abo R. (2013) evaluated the SMEs on basis of their demographic profile like, age, size, education of owner etc. They were of the opinion that organization with high value of collateral and with financial information on papers can easily obtain loan. So Medium and Small enterprises are preferred over and above micro. Further based on term of financing and ownership structure, banks avoid lending to single proprietary business and long term financing.
8. Katyal A & Xaviour B. (2015) basically discussed the contribution of MSME sector in Employment generation, GDP of the country, exports, and gross output production. He suggested that factors responsible for downfall of MSMEs should be worked upon by government seriously
9. Das, P. (2017) in his study highlighted the importance of MSME in terms of increase in number, quantum of investment, scale of production and overall contribution to national GDP in spite of many infrastructural deficiencies and challenges like flow of institutional credit and inadequate market linkages and infrastructure facilities, unavailability of skilled workers and cumbersome regulatory compliances. The study suggested government to create and develop platform and support mechanism for facilitating easy funding, infrastructure, marketing linkage and skill development.

PROBLEM STATEMENT

MSMEs have the potential of contributing a lot towards the economy of any country by adding capacities and thereby creating employment opportunities. In spite of doing such yeoman's service to the nation the MSMEs still have to strive for timely and adequate finances. Non availability of finance hampers the operational ability of MSMEs thus hindering its growth. Although the Government has been formulating policies and taking a number of initiatives to

fill up this gap between the financing demand and supply but still the measures have proved to be inadequate.

OBJECTIVES

The objectives of this study include:

- To analyze the current status of growth of MSME sector in India in general and Himachal Pradesh in particular.
- To explore the problems encountered by MSMEs for attaining financial assistance from banks in the state of Himachal Pradesh

SCOPE OF THE STUDY

A descriptive research design has been used.

The study analyzes the contribution of MSMEs since the enactment of MSMED Act, 2006 for the industrialization of the State of Himachal thereby increasing production output, improving employment generation and creation of capital assets by channelizing the investment of the country. The relevant data has been collected from reputed secondary sources like annual reports of MSME, RBI manuals and journals. Industrial set up, employment generated and investment pooled into MSEs and M&L enterprises has been analyzed to evaluate their contribution in the state of Himachal Pradesh. As micro and small enterprises have been considered as the biggest victim of financial constraint in business operations in comparison to medium and large enterprises so comparative analysis of MSE and M&L enterprises have been done to find significance difference between the two in terms of investment, employment and number of units setup.

The primary data was collected using survey method from a sample of 120 MSMEs to find out the problems encountered by MSMEs in acquiring financial assistance from banks. Study further highlighted the relationship between size of the firm and types of problems in bank financing to explore if the problem of financing is different for micro, small and medium enterprises. This study has been undertaken by taking a sample of two districts of Himachal; i.e. Solan and Sirmaur, out of twelve because of their vital contribution towards industrialization of the state. Approximately 80 percent of the MSME of the state stands in the two aforesaid districts alone.

Sampling: A total number of 9286 unit have been registered in the state of HP after the enactment of the MSMED act 2006 (Data retrieved based on EM_II registration and UAM registered unit as on March 2017). Out of which around 3599 units are located in the two Districts of Solan (2630) and Sirmaur (969) only. A sample of 120 MSMEs from the aforesaid two districts who have availed loan from bank, has been selected for the study in question.

Sampling Frame

List of Companies has been procured from Office of DICs

Method: Purposive and Snowball sampling method has been used to select the sample units of MSMEs in the said districts as MSMEs are widely dispersed and the entrepreneurs and the entrepreneurs generally are hesitant to share financial information of their company.

The required information has been collected from the MSMEs through personal visits to their offices and interviewing owners/entrepreneur of the firm.

CURRENT STATUS OF WORKING ENTERPRISES IN INDIA AND STATE OF HIMACHAL PRADESH

Presently there are around 8.23 million registered MSMEs in India (as on April 18, 2018) though registered MSMEs are merely 5 percent (approximately) of total MSMEs and almost 95 percent enterprise are part of Informal sector (Fourth census 2006-07). Majority of MSMEs (85 percent) are concentrated in major 10 states only as shown in Table No 1.1

Table- 1.1
State Wise Current Status of Working MSMEs in India

S. No.	State/UT	Micro	Small	Medium	Grand Total
1	Tamil Nadu	11,22,193 (15.3)	2,05,172 (24.7)	24,232 (50.0)	13,51,597 (16.4)
2	Uttar Pradesh	9,97,913 (13.6)	47,118 (5.7)	2,287 (4.7)	10,47,318 (12.7)
3	Gujarat	8,63,943 (11.8)	1,30,890 (15.8)	5,482 (11.3)	10,00,315 (12.2)
4	Bihar	8,16,944 (11.1)	13,378 (1.6)	773 (1.6)	8,31,095 (10.1)
5	Maharashtra	5,73,684 (7.8)	1,19,973 (14.5)	4,658 (9.6)	6,98,315 (8.5)
6	Madhya Pradesh	5,65,418 (7.7)	21,027 (2.5)	749 (1.5)	5,87,194 (7.1)
7	Rajasthan	4,07,456 (5.5)	37,182 (4.5)	1,314 (2.7)	4,45,952 (5.4)
8	Karnataka	3,83,883 (5.2)	38,072 (4.6)	1,567 (3.2)	4,23,522 (5.1)
9	Kerala	2,93,006 (4.0)	15,480 (1.9)	537 (1.1)	3,09,023 (3.8)
10	Andhra Pradesh	2,61,998 (3.6)	32,173 (3.9)	814 (1.7)	2,94,985 (3.6)
11	Other	1062972 (14.5)	168579 (20.3)	6059 (12.5)	12,37,610 (15.0)
	Total	73,49,410 (100)	8,29,044 (100)	48,472 (100)	82,26,926 (100)

Data retrieved from <https://udyogaadhaar.gov.in>, on April 18, 2018 till 12:43 pm

(Figures in parenthesis indicate state wise relative contribution of Micro, small and medium enterprises)

Table-1.1 indicates category wise presence of MSMEs in Tamil Nadu, Uttar Pradesh, Gujarat, Bihar, Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Kerala and Andhra Pradesh having 6.989 million MSMEs out of 8.227 million working enterprises (85 percent). Tamil Nadu has been leading Uttar Pradesh (13.6 percent) and Gujarat (11.8 percent) holds second and third position in terms of establishment of micro enterprises while Uttar Pradesh is lagging behind Gujarat and Maharashtra in terms of registered Small and Medium Enterprises. All other states and union territories (excluding states denoted in Table 1.1) collectively represent establishment of 14.5 percent micro enterprises, 20.3 percent small enterprises and 12.5 percent medium enterprises.

CONTRIBUTION TOWARDS INDIAN ECONOMY

Emergence of MSME initiated with MSMED Act 2006 but the journey of small scale units (SSI) started long back. SSIs have played a vital role in income generation, production and employment creation at regional level. Since Post independence small scale units continued to contribute towards large jobs opportunities creation and removing inter-regional and rural-urban disparity in terms of growth.

Table 1.2
Performance of SSI Sector in terms of Production and Employment

Year	Units (in millions)	Production (₹ in Billions) at constant price	Employment (person in millions)	Production per Employee (₹ thousand) at constant Price	Market Value of Fixed Assets (₹ In Billions)
1	2	3	4	5	6
2005-06	12.34 (4.05)	4188.84 (12.32)	29.49 (4.35)	140 (7.69)	1881.13 (5.27)
2006-07+	36.18 (193.19)	11988.18 (186.19)	80.52 (173.04)	149 (6.43)	8685.44 (361.71)
2007-08 #	37.74 (4.31)	13227.77 (10.34)	84.2 (4.57)	157 (5.37)	9204.6 (5.98)
2008-09 #	39.37 (4.32)	13755.89 (3.99)	88.08 (4.61)	156 (-0.64)	9771.15 (6.16)
2009-10 #	41.08 (4.34)	14883.52 (8.20)	92.18 (4.65)	161 (3.21)	10385.46 (6.29)
2010-11 #	42.87 (4.36)	16536.22 (11.10)	96.52 (4.71)	171 (6.21)	11059.34 (6.49)
2011-12 #	44.76 (4.41)	17885.84 (8.16)	101.17 (4.82)	177 (3.51)	11827.58 (6.95)
2012-13 #	46.75 (4.45)	18099.76 (1.20)	106.14 (4.91)	171 (-3.39)	12687.64 (7.27)
2013-14 #	48.86 (4.51)	-	111.43 (4.98)	-	13637.01 (7.48)
2014-15 #	51.06 (4.50)	-	117.13 (5.12)	-	14719.13 (7.94)
2015-16 #	-	-	-	-	-

- + Data from 2006-07 includes activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted from Economic Census 2005, Central Statistics Office, MoSPI.
- #indicates projected figures of units and employment.
- The data for the period up to 2005-06 is of Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises (MSMEs) are being compiled.
- For column 3, since 2001-02, production figures are at 2001-02 prices, since 2006-2007 production figures are at 2004-05 prices.

Source: Table No 36, Handbook of Statistics on Indian Economy, RBI and Annual report of MSME 2016-17

Further Table 1.2 states that production has grown to ₹ 4188.84 billion in FY 2005-06 from ₹ 2822.70 in year 2001-02 (MSME Annual report 2016-17) indicating climb of 48 percent and further increased to ₹ 11988.18 billion in FY 2006-07 (indicating absolute growth of 186 percent) and ₹18099.76 billion till 2012-13 (increase of 332 percent since 2005-06). Employment has shown the same memento with increase of 297 percent in employment rate from 29.49 million in FY 2005-06 to 117.13 million in FY2014-15. There is consistent growth in market value of fixed assets also. The investment into fixed assets increased from ₹1543.49 billion in year 2001-02 to ₹1881.13 billion in FY 2004-05 indicating absolute growth of 5 percent annually. There was absolute growth of 362 percent in year 2005-06 with increase in investment value up to ₹8685.44 billions. The annual growth rate in investment into fixed assets continued to rise from 5.98 percent in 2006-07 to 6.95 in 2011-12 and 7.94 in 2014-15 respectively.

INDUSTRIALIZATION IN HIMACHAL PRADESH

The era of investment, which started in 1991-92, resulted in significant flow of total investment in 1990,'s which lasted till 1995-96. During the period 1995-96 to 2002-03, the level of investment concentrated over the years. There was stagnant growth of registered units also till the end of FY 2003-04, when Govt. of India had notified SPI for the state during 2003-04. During the year 2004-05 this package was also supplemented by the New Industrial Policy and Incentives Rules, 2004. As a result of these Packages, the industrialization in the state has turned impetus and numbers of units set up in the state increased with huge investment and employment potential.

Table 1.3
Growth of Industrial units in Himachal Pradesh (After enactment of MSMED Act 2006)

	Number of Units			Investment (₹ in millions)			Employment (in numbers)		
	SSI	M&L	Total	SSI	M&L	Total	SSI	M&L	Total
Till 2005	31,752 (93.35)	246 (0.65)	31998 (100)	8357.7 (23.5)	27158.7 (76.5)	35516.4 (100)	140052 (80.4)	34058 (19.6)	174110 (100)
2005-06	914 (93.46)	64 (6.54)	978 (100)	1221.7 (19.59)	505.9 (80.41)	623.77 (100)	6611 (58.94)	4606 (41.06)	11217 (100)
2006-07	952 (95.39)	46 (4.61)	998 (100)	4527.3 (42.39)	6152.6 (57.61)	1067.99 (100)	10665 (70.01)	4568 (29.99)	15233 (100)
2007-08	842 (97.79)	19 (2.21)	861 (100)	7063.7 (59.41)	4826.4 (40.59)	1189.01 (100)	11302 (85.46)	1923 (14.54)	13225 (100)
2008-09	909 (95.18)	46 (4.82)	955 (100)	7379.5 (39.27)	11410.3 (60.73)	1878.99 (100)	10939 (72.14)	4225 (27.86)	15164 (100)
2009-10	1032 (97.82)	23 (2.18)	1055 (100)	7532 (35.92)	13438.2 (64.08)	2097.02 (100)	10011 (78.74)	2703 (21.26)	12714 (100)
2010-11	963 (97.27)	27 (2.73)	990 (100)	9653.9 (31.31)	21183.3 (68.69)	3083.73 (100)	10002 (72.78)	3740 (27.22)	13742 (100)
2011-12	856 (98.17)	16 (1.83)	872 (100)	6190.9 (24.78)	18792.9 (75.22)	2498.39 (100)	7732 (72.17)	2981 (27.83)	10713 (100)
2012-13	798 (99.13)	7 (0.87)	805 (100)	9633.2 (81.98)	2116.9 (18.02)	1175.01 (100)	9298 (96.48)	339 (3.52)	9637 (100)
2013-14	630 (99.53)	3 (0.47)	633 (100)	3741.9 (69.89)	1612.1 (30.11)	535.4 (100)	5230 (86.96)	784 (13.04)	6014 (100)
2014-15	380 (98.45)	6 (1.55)	386 (100)	5421.7 (79.30)	1415.6 (20.70)	683.73 (100)	2989 (75.29)	981 (24.71)	3970 (100)
2015-16	1031 (98.38)	17 (1.62)	1048 (100)	3405.2 (34.08)	6587.8 (65.92)	999.3 (100)	11015 (89.00)	1361 (11.00)	12376 (100)
2016-17	1916 (97.36)	52 (2.64)	1968 (100)	22038.8 (81.83)	4892.7 (18.17)	2693.15 (100)	27360 (78.53)	7482 (21.47)	34842 (100)
Total	42975	572	43547	96167.7	124604	22077.1	263206	69751	332957

Source: Annual Administrative reports

*Figures in parenthesis denotes percentage

Table 1.3 indicates that though there was 140 percent increase in investment in MSEs and 767 percent in M&L enterprises in just one year after 2004-05 and at the end of 2005, 246 M&L Enterprises in the State having an investment amount of ₹27158.7 million in P&M along with 31,752 SSIs with investment of ₹8357.7 million have generated employment for 34058 persons and 140052 persons (HP Annual Administrative Report 2004-05), yet proportionate contribution of MSEs in total registered units annually has fallen down to 93.46 percent in 2005-06 from 99.34 percent in 2001-02 in comparison to increase in the same proportion from 0.65 percent to 6.54 percent for M&L enterprises.

After the enactment of MSMED Act 2006, the glory phase of industrialization continued in the state especially in 2009-10 when approx 1032 MSEs were enrolled on permanent basis with an investment of ₹75 32 million employing about 10011 persons and 23 additional units of M&L Scale with investment of ₹13438 million and employment opportunity for 2703 persons, were issued their certificate for 'Commencement of Production' (COP). By the end of March 2010, there were 36401 MSEs and 444 M&L Enterprises in Himachal Pradesh.

With the expiry of Special package of Incentives (SPI) in 2013, Annual registration of MSEs and M&L reduced down to 380 and 6 respectively in 2014-15 till the Govt. declared to extend the SPI in the state. Number of annual registration of MSE further improved to 1031 and 1096 in Year 2015-16 and 2016-17 respectively. As on 31/03/2017, there are 42975 (94.83 percent) MSEs with investment of ₹96167.7 million employing about 263206 persons. In addition, there are 434 medium and

138 large scale industries having investment of ₹56072.2 and ₹67991.8 million and generating employment for about 40669 and 29082 people correspondingly.

Though there was tremendous growth in enterprise setup, employment generated and investment made into the state by Micro, Small, Medium and Large Enterprises still Medium and Large Enterprises (M&L) had been preferred over and above MSE units always so their contribution in terms of unit setup, employment generated and investment has been compared used ANOVA to find out if any significant difference exist between MSE and M&L enterprises.

H0- There is no significant difference in enterprise setup, Employment Generation and Investment amongst MSE and M&L enterprises since 2005 onward

H1- there is a significant difference between enterprise setup, Employment Generation and Investment amongst MSE and M&L enterprises since 2005 onward

Table 1.4 ANOVA

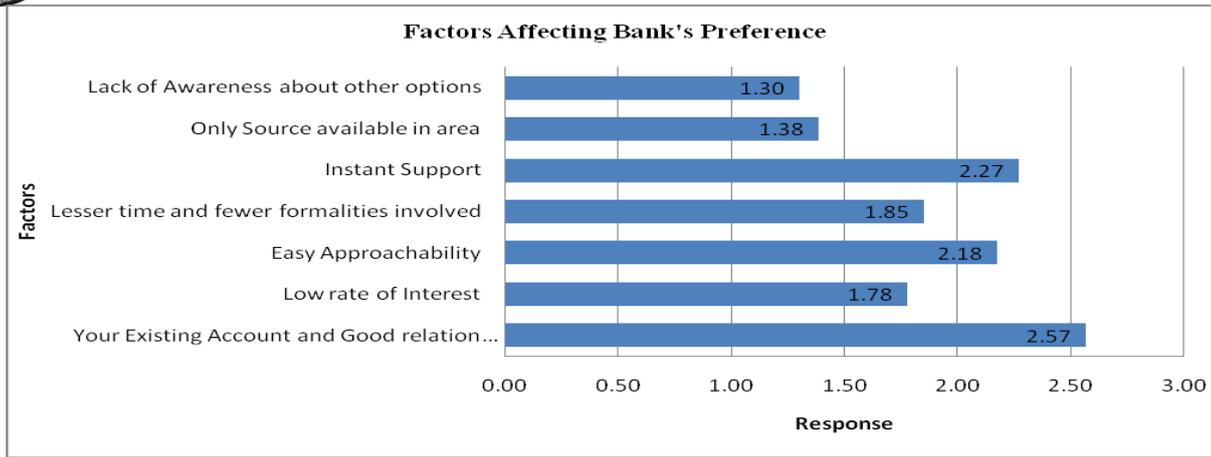
		Sum of Squares	df	Mean Square	F	Sig.
Unit Setup	Between Groups	4947692.042	1	4947692.042	76.529	.000
	Within Groups	1422317.917	22	64650.814		
	Total	6370009.958	23			
Investment	Between Groups	38679.708	1	38679.708	.108	.746
	Within Groups	7896763.382	22	358943.790		
	Total	7935443.089	23			
Employment	Between Groups	3.187E8	1	318726105.042	15.908	.001
	Within Groups	4.408E8	22	20035836.663		
	Total	7.595E8	23			

As indicated in table 1.5, P value for Enterprise setup and Employment generation is 0.000 and 0.001 that is less than level of significance($p < 0.05$) so there is significant difference in enterprise set up of MSE and M&L enterprises and the employment generated within the state of Himachal Pradesh since 2005 and as the contribution of Micro& Small Enterprises is not alike Medium and Large Enterprises in terms of number of enterprises setup in the state and employment generated through these units.

Further in terms of investment made there in, p value is 0.746 i.e. > 0.05 which indicate no significant difference exist between investment made by MSE and M&L enterprises over years in the state. That means investment made into MSEs and M&L enterprises had been alike in both the categories.

Table 1.5 FACTORS INFLUENCING BANK PREFERENCE

	N	Mean	Std. Deviation	t	df	Mean Difference
Your Existing Account and Good relation with Bank	120	2.57	0.66	42.8	119	2.57
Low rate of Interest	120	1.78	0.85	22.8	119	1.78
Easy Approachability	120	2.18	0.83	28.8	119	2.18
Lesser time and fewer formalities involved	120	1.85	0.85	23.9	119	1.85
Instant Support	120	2.27	0.82	30.4	119	2.27
Only Source available in area	120	1.38	0.69	22.0	119	1.38
Lack of Awareness about other options	120	1.30	0.57	24.8	119	1.30



As shown in Figure 1.2 and Table 1.5, existing bank account and good relation with banker is the most determining factor for MSMEs (mean score 2.57) for selecting a bank to apply loan followed by instant support and promptness in offering services by bank employees (Mean score 2.27) and easy approachability (mean score 2.18).

PROBLEM IDENTIFICATION- FACED BY MSMES IN SELECTED DISTRICTS

Table 1.6 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.800
Bartlett's Test of Sphericity	Approx. Chi-Square
	548.477
	Df
	55
	Sig.
	.000

As indicated in table no 1.6, in order to test whether it was appropriate to apply the exploratory factor analysis technique to this dataset, Kaiser Meyer Olkin Measure of Sampling adequacy was applied. Value obtained is 0.800 which is significantly higher than 0.5. Similarly Bartlett's test of sphericity has a high chi square value of 548.477 and the significance is 0.000 which is less than 0.05 so it indicate that variables are related and suitable for structure detection.

Table 1.7 Communalities

	Initial	Extraction
Bank sanctioned partially by reducing cost of project	1.000	.731
Bankers inability to evaluate worthy project	1.000	.781
Bankers lack knowledge about probable schemes meant for MSME financing	1.000	.607
Requirement for collateral was very high for loan approval	1.000	.747
Bank doesn't offer collateral free loan as per schemes available for MSMEs	1.000	.728
Banker's unwillingness to deal with small enterprises or small loan application	1.000	.513
High cost of financing like interest rate and service charges	1.000	.581
Lengthy time taken for loan sanctioning and disbursement	1.000	.818
Procedures for loan approval are very cumbersome	1.000	.706
Promoters' contribution was not sufficient for availing loan	1.000	.517
Corruption	1.000	.476

Extraction Method: Principal Component Analysis.

Table 1.8 Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.611	41.922	41.922	4.611	41.922	41.922	3.032	27.561	27.561
2	1.472	13.380	55.303	1.472	13.380	55.303	2.232	20.293	47.854

3	1.122	10.204	65.507	1.122	10.204	65.507	1.942	17.653	65.507
4	.856	7.783	73.290						
5	.696	6.326	79.616						
6	.562	5.111	84.727						
7	.478	4.344	89.071						
8	.389	3.536	92.607						
9	.365	3.317	95.924						
10	.271	2.467	98.391						
11	.177	1.609	100.000						

Extraction Method: Principal Component Analysis

Table 1.8 indicates eleven variables responsible for problems encountered by MSMEs in bank financing. Depending upon characteristic of all variables, these variables have been grouped in three main factors which collectively accounts for 65 percent of variation in all these variables.

Table 1.9 Rotated Component Matrix^a

Component			
	1	2	3
Inadequate Financing			
Bank sanctioned partially by reducing cost of project	0.817		
Bankers inability to evaluate worthy project	0.853		
Bankers lack knowledge about probable schemes meant for MSME financing	0.658		
Promoters' contribution was not sufficient for availing loan	0.703		
Corruption	0.660		
Collateral Requirement			
Requirement for collateral was very high for loan approval		0.854	
Bank doesn't offer collateral free loan as per schemes available for MSMEs		0.775	
Banker's unwillingness to deal with small enterprises or small loan application		0.560	
Cost and Cumbersome			
Lengthy time taken for loan sanctioning and disbursement			0.651
Procedures for loan approval are very cumbersome			0.873
High cost of financing like interest rate and service charges			0.835
Undefined error #11401 - Cannot open text file "F:\SPSS16\lang\en\spss.err":			
Undefined error #11408 - Cannot open text file "F:\SPSS16\lang\en\spss.err":			
a. Rotation converged in 4 iterations.			

Table 1.9 indicates that factors determined has been termed as inadequate financing, heavy collateral requirements and Costly & Cumbersome. Further there was internal consistency in three factors are the result of Cronbach's alpha for these three groups were obtained as 0.836 for inadequate financing, 0.786 for cost and cumbersome and 0.709 for collateral requirement which is adequately higher than required value of 0.5 (as indicated in Table 1.10).

Table 1.10 Reliability Statistics

	Cronbach's Alpha	N
Collateral requirement	0.709	3
Cost and Cumbersome	0.786	3
Inadequate Financing	0.836	5

Table 1.11 Descriptive Analysis of Problems faced by MSMEs

Inadequate Financing	N	Mean	Std. Deviation
Bank sanctioned partially by reducing cost of project	120	2.417	1.493
Bankers inability to evaluate worthy project	120	2.358	1.340
Bankers lack knowledge about probable schemes meant for MSME financing	120	2.525	1.328
Promoters' contribution was not sufficient for availing loan	120	2.150	1.150

Corruption	120	2.650	1.261
Inadequate Financing	120	2.42	1.03
High Collateral Requirement	N	Mean	Std. Deviation
Requirement for collateral was very high for loan approval	120	3.525	1.296
Bank doesn't offer collateral free loan as per schemes available for MSMEs	120	2.783	1.385
Banker's unwillingness to deal with small enterprises or small loan application	120	2.850	1.418
High Collateral Requirement	120	3.05	1.09
Costly and Cumbersome	N	Mean	Std. Deviation
High cost of financing like interest rate and service charges	120	3.025	1.253
Lengthy time taken for loan sanctioning and disbursement	120	3.250	1.404
Procedures for loan approval are very cumbersome	120	3.092	1.237
Costly and Cumbersome	120	3.12	1.09

As indicated in table 1.11, basic problem faced by MSME in selected areas are cost and formalities involved in loan process that increased the time of loan disbursement. Although mean score of problem of cost and cumbersome is 3.12, highest in all factors, followed by high collateral requirement (3.05) however majority of MSMEs reported that bank requirement of collateral for loan is quite high (Mean Score- 3.525).

Table 1.12 Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Inadequate Financing	.122	120	.000	.918	120	.000
Collateral	.125	120	.000	.958	120	.001
Costly Cumbersome	.098	120	.006	.958	120	.001

a. Lilliefors Significance Correction

A Shapiro Wilk Test and Kolmogorov Smirnov test of normality was conducted for checking the problems in bank financing. The results showed that p value is less than 0.05 for problem of inadequate financing, collateral requirement and problem of cost and cumbersome so we reject the null hypothesis and conclude the distribution of the sample is not normally distributed and Non parametric test will apply.

Ho2: There is no significant relationship between size of firm and problem of Inadequate Financing, Collateral Requirements and Cost & Cumbersome Procedure

Hi2: There is a significant relationship between size of firm and problem of Inadequate Financing, Collateral Requirements and Cost & Cumbersome Procedure

Table 1.13 Chi-Square Tests* Inadequate Financing

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	49.767 ^a	34	.040
Likelihood Ratio	60.620	34	.003
Linear-by-Linear Association	.106	1	.744
N of Valid Cases	120		

a. 50 cells (92.6%) have expected count less than 5. The minimum expected count is .16.

Table 1.13 depicts that as p value is 0.040 i.e. less than the level of significance (P<0.05), so we accept alternative hypothesis that statistical significant association between size of firm and problem of inadequate financing. This indicates that problem of inadequate financing varies with variation in size of firm.

Table 1.14 Chi-Square Tests* Collateral Requirement

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	29.507 ^a	24	.202
Likelihood Ratio	32.364	24	.118
Linear-by-Linear Association	1.938	1	.164
N of Valid Cases	120		

a. 31 cells (79.5%) have expected count less than 5. The minimum expected count is .16.

Table 1.15 Chi-Square Tests* Costly and Cumbersome

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.692 ^a	24	.714
Likelihood Ratio	23.256	24	.505
Linear-by-Linear Association	.077	1	.782
N of Valid Cases	120		

a. 32 cells (82.1%) have expected count less than 5. The minimum expected count is .32.

As indicated in table 1.14 and 1.15, as $p > 0.05$, i.e. 0.202 and 0.714, so we accept the null hypothesis that there is no statistical relationship between size of firm and problem of Collateral Requirement and Cost and Cumbersome. So categories of MSMEs and problems of Cost & Cumbersome and Collateral are independent of each other.

III. FINDINGS

Only 10 out of the 36 Indian States and Union Territories are responsible for setting up 85 percent (6.989 million MSMEs out of 8.227 million working enterprises) of MSMEs in the country.

There is significant difference in enterprise set up of Micro & Small and Medium & Large enterprises and the employment generated within the state of Himachal Pradesh since 2005 as MSEs has proportionately contributed more towards unit setup and employment generation while there is no significant difference between investment made by MSE and M&L enterprises over years in the state. That means investment made into MSEs and M&L enterprises had been alike. Till 2012 proportionate investment made by M&L enterprise was higher than MSEs While 2013 onward, investible funds in MSE exceeded investment into M&L enterprises indicating huge growth of Micro and Small enterprises.

Problems in bank financing has been categorized into Inadequate financing, High collateral requirements and Costly & Cumbersome. Out of all three, MSMEs availing loan from bank have reported cost and cumbersome procedure as the major problem in bank financing over and above other two. The study further revealed that there is significant association between problem of inadequate financing and size of enterprise so this problem depends upon the micro, small and medium size of the firm while there was no statistical relationship between category of MSMEs and problem of 'Collateral Requirement' and 'Cost and Cumbersome'.

IV. SUGGESTIONS

Lack of awareness about MSME supporting schemes and financial institutions other than commercial banks has burdened banks to offer debt financing to small firms. As indicated in RBI Annual Report 2017, total 302 categories of commercial banks having a network of only 140541 bank branches to render financial services to 82,26,926 working MSMEs (as per UAN data). This has either reduced the approachability to the bank or deprived MSME from accessing alternative options. So increased branch

network and awareness campaign about government scheme can facilitate prompt funding for MSMEs. Other alternate channels like micro financial institutions, factoring services, leasing and hire purchase services should join hands with banks to provide funding to small concerns. MSMEs should be prompted to go for compulsory credit rating even at time of registration of firm so as to reduce problem of information asymmetry. This would help in reducing bankers' time taken in loan sanction process and cost charges for perception of risk associated with small firms.

V. CONCLUSION

Study has concluded the relevance of relationship banking towards banking preference for applying loan and cost and complicated procedures somehow bothers MSME during the entire process of loan application. Although high collateral requirement for granting loan is an important factor adding towards financing problem for small concerns but the same could be resolved by promoting credit guarantee scheme through public and private sectors collectively. Contribution and presence of MSME sector has been remarkable in the history of development of the country especially contribution of service sector that has increase multiple fold over last many years. Proportionate contribution of MSME manufactured output has increased to 33.40 percent in FY 2014-15 from 33.12 percent in FY 2011-12. Further 30.74 percent contribution in GDP (6.11 percent of manufacturing 6.11 and 24.63 percent of service sector) indicates the significance of the sector in economy of our country. As per the report given by fintech India about changing landscape of SME lending in July 2017, employment and units of SMEs are expected to grow at compound annual growth rate (CAGR) of 5 percent and 4.5 percent respectively till FY 2019-20. As per RBI annual report 2017, credit disbursed to industry sector has reduced by 1.9 per cent in March 2017 compared to increase of 2.7 per cent in March 2016. While the same in service sector has increased by 19.5 per cent in March 2017, with increase of 9.1 per cent in March 2016 indicating more financing exposure for this sector.

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