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A STUDY ON MSME SECTOR FINANCING IN ANANTAPURAMU DISTRICT

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Abstract:

According to studies the MSME sector is expected to be major contributor in terms of employment job opportunities in India. The sector in India is growing rapidly and providing jobs to semi-skilled to skilled. The major challenge faced by the sector is financing of various needs. The study mainly focus on financing modes to the MSME sector in Anantapuramu district and also discuss the socio economic profile of the sample respondents. The study found the banking finance is very small compared to community sources. Understanding this factor is very important, as this sector plays pivotal part in economic growth of the nation.

Keywords: MSME, financing, socio economic profiles, entrepreneur, community sources.

Introduction:

The development of the nation, depends upon the highly self-motivated people, termed as ‘entrepreneur’, who is identified with risk taking capability to realize the goals. Every country, developed or developing often recognized with the entrepreneurial activity of the nation. The great history of India, is prominent with the trade and commerce it has carried with whole globe before the entry of Britishers into India. The destruction of the economy with its colonial laws and regulations, pushed back India to centuries back. After the liberalization of the economy, India is proving its role in the global trade and commerce, by its innovative products and services.

For improvement of the economy, apart from only technology, business internal factors, and financial resources are very important. Industrialisation is one of the ways of fetching about socio-economic development of the country, this development often initiated and taken forward by the entrepreneurial spirit. India is rich in resources, but the utilization of the resources needs financial resources to optimum usage of available resources. Entrepreneurs are given due respect for his role as a catalyst in economic development. The history Indian industry is often recollected with great entrepreneurs, who has started in small way and now whole nation depends upon the

nimble footed steps taken by these industries. Thus, entrepreneur are real heroes of the economy, in this liberalized and globalized world. Economists accepted the important role of entrepreneur in the national growth and development.

Review of literature:

Post-independence era, has been dominated by the spreading of entrepreneurship in every nook and corner of this diversified India. Entrepreneurs have spread their influence not only in urban areas, but in semi-urban and rural areas (Gordon and Natarajan, 2003). India since its independence was a planned economy, and lot of scope of improvement. Recently, Government of India dismantled Planning Commission, replaced by NITI Ayog, which takes bottom to top perspective for the all-round development of the country. Subramanyam and Reddy (2012) explained the important role played by this sector in the economic growth, and they discussed the position of the MSME sector and effect of economic reforms on the growth pattern and their performance. Mathad& Shetty (2011), study highlights the sector contribution to poverty alleviation and wealth distribution in the developing economy, India. Panasare (2005) identifies the priority status in the matter of bank financing and says bank branches have departed from the SSI units financing guidelines and that resulted in delay and impact the viability of the sector. Rao (2006) portrays the opinion of RBI committee in financing agriculture and SSI sector continues to suffer from inadequate credit flow and emphasis the need of practice of direct lending. Sunder et al (14) study suggested the importance of bank credit to SSI sector. Balakrishnan (1961) study on joint stock companies in funding requirement and observed the sufferings in terms of high cost of production and high rate of interest. Ramakrishna (1985) found the major problems faced by the small scale sector in India and highlighted the role of various financial institutions. Research on institutional financing for small-scale sector and identified the crucial role of National Small Industries corporation, IDBI, SIDBI, State Financial Corporation, Co-operative banks and commercial banks in assisting the small-scale industries. Natarajan (1989) states the State Financial Corporations and banks financing of SSI sector in Andhra Pradesh. Suryanarayana and Mohan (2005) in their study discussed the market conditions of SME sector in the days of WTO domination. Tiwari (2012) discusses the role of MSME sector in export promotion and role of various important products from national perspective. Joshi (1985) stated that family resources meeting different needs of the agriculturists compared to funding from various agencies. The above studies, leads to make following objectives to pursue the research study.

Objectives of the study:

1. To examine the financing to the micro, small and medium enterprises (MSMEs) units in Anantapuramu district.
2. To study the socio economic profile of the selected sample respondents.

Research Methodology:

This study conducted using a questionnaire survey. The sample comprised of 52 MSME enterprises. The sample data was collected by Convenience Sampling method. The secondary data of MSME data highlighted the importance of MSME sector and approaching the sample units.

MSME sector in India:

MSME sector has developed as highly exciting and dynamic sector of the nation's growth, especially in post-independence era. MSME sector providing lot of employment opportunities to unskilled to skilled people, with less capital compared to big industries and also facilitating industrialisation of backward areas and rural areas. This sector plays a crucial role in decreasing the regional imbalances and spreading prosperity in terms of income and wealth of the people. MSME play supplementary role in the growth of large industries, by its ancillary products and services. Now a days large industries consider as strategic areas, which can't be neglected in terms of growth and development.

MSME growth driver of economy:

In India large industries have enough financial funding in the organized set up, compared to micro, small and medium scale sectors. MSME sector has occupies, important and dynamic role in the development of the economy, they are supplying ancillary parts and contributes in the overall development. The regular census of the sector itself speaks of the sector, the scope of the MSME has broadened by significantly under the MSMED, Act 2006, that recognizes the "enterprise" from both products and services perspectives. This Act included entire non-agriculture sector as part of MSME sector and defined, Micro, Small and Medium Enterprises separately for the manufacturing and service sectors (GOI annual report, 2012-13).

Emerging trends:

CRISIL (2008) study on MSME sector, and various studies, states that SME met the bulk of their residual funding needs from their own needs. The SME working capital funding patterns are

underleveraged. Commercial bank branches in urban areas have greater scope of MSME financing compared to semi-urban and rural areas. MSME sector contribute the one of the engine of growth for the country's economy. Accessibility of bank financing by this sector grow and prosper. This sector effect industrial growth and employment and wealth creation.

MSME sector is forefront for the economic development of nation and offering employment opportunities, industrial policy and significantly contributing in term of exports. The important contribution of this sector is transforming unskilled or raw skilled to skilled labour force. This sector has to face challenge in terms of finance. Finance interms of sufficient and timely credits.

Funding of MSME sector in selected area:

Besides organized sector funding, Equity funding, Debt funding and Mezzanine debt funding. the MSME sector over last decades, funded by own resources, Saving, internal accruals and community sources, viz., Personal loan, Unsecured business loan, Peer financing, Family support in financing, Community trust/societies and Trade association.

Data Analysis and Interpretation:

Gender:

Gender (n)	Male	Female
52	43 (82.7%)	9 (17.3%)

Majority of the respondents are male (82.7%), followed by females (17.3%). Government has introduced various policy measures for the women empowerment, this practices may take some time to fructify in terms of owning MSME units.

Age:

Below 30 yrs	31-40 yrs	41-50 yrs	51& above
4 (7.7%)	23 (44.2%)	21 (40.4%)	4(7.7%)

Majority of the respondents age lies between 31 to 40 years segment followed by 40.4% or 41 to 50 years. This finding explains, by increase in age, risk taking capability increases. The least percentage is below 30 years and 51 years and above.

Marital status:

Single	Unmarried	Married
4(7.7%)	13 (25%)	35 (67.3%)

Majority of the MSME units respondents are married (67.3%) and followed by unmarried (25%). In Indian society, especially who are involving into trade and industries have good support of families, it is a tradition in India.

Education level:

Upto 10 th Class	Intermediate	UG	PG
9 (17.3%)	13 (25%)	Tech: 8 (15.38%)	Tech: 6 (11.54%)
		Non-tech: 9 (17.4%)	Non-tech: 7 (13.47%)

It is very interesting to find that 17.3% of MSME units are very less educated upto 10th Standard. Followed by 25% of respondents are completed their intermediate. This finding says there is no link between traditional education and entrepreneurship activity undertaken by respective individuals.

Past occupation:

Agriculture	Govt. service	Industry	Pvt. Service	Trade	Others
9 (17.3%)	6 (11.54%)	19 (36.53%)	11 (21.5%)	4 (7.7%)	3 (5.76%)

Majority of the respondents carries industry prior experience (36.53%) followed by 21.5% of respondents have past experience in private services. The least is the respondents who have Govt. service experience in their past.

Past experience in running any industry:

Same Ind	23 (44.2%)	Diff. Ind	29 (55.8%)
(Avg. Yrs. Exp)	13	(Yrs. Exp)	15

Majority of the respondents have different industry experience, what they are pursuing at present (55.8%). It may be due to finding of good opportunities, they are in present industry.

Why this industry:

Earn more money	Parents Business	Prove oneself	Self-employed	Subsidies available	Unemployed
4 (7.7%)	17 (32.70%)	12 (23.07%)	7 (13.47%)	8 (15.38%)	4 (7.7%)

The finding that 32.70% of the respondents are pursuing their parent business. And the least is 7.7% respondents want to earn more money in present industry and without any alternative the unemployed pursuing in the present industry.

Location of the entrepreneur:

Rural	Urban	Semi-urban
16 (30.76%)	28 (53.84%)	8 (15.38%)

Majority of the respondents belongs to urban area (53.84%) followed by Rural area (30.76%).

Type of the firm:

Sole Proprietorship	Partnership firm	Pvt. Ltd Company	Public Ltd. Company	Co-operative Organisation
17 (32.70%)	13 (25%)	11 (21.5%)	8 (15.38%)	2 (3.84%)

Majority of the respondents own MSME units as sole proprietorship firms (32.70%) followed by Partnership firms (25%) and Co-operative organization stands at 3.84%.

SAMPLE DISTRIBUTION

S.No	Type of industries	Sample size (n)
1	Agro- based and food processing industries	14 (26.92%)
2	mineral based industries	08(15.38%)
3	Forest based industries	04(7.7%)
4	textile based industries	11 (21.5%)
5	Polymer and chemical based industries	15 (28.84%)

Source: Brief Industrial Profile of Anantapur District, from Min. of MSME.

Financing of the firm:

Financing:

Own	Organised source	Community Sources
10%	15%	75%

Majority of the respondents have accessibility to community sources, followed by organized source (15%) and the least funding is by own (10%) to meet various financial requirement of the units.

Own funding:

Own	percentage
Savings	69%
Internal accruals	31%

In own funding the majority of the respondent's access to their savings and followed by internal accruals (31%).

Organised sources:

Organised source	percentage
Banking	23%
NBFC's	46%
Govt. funding	31%

In organized sources of funding, majority of the MSME units, would get required funding from Non-Banking Financing Companies and followed by Government funding by various schemes and the least is the banking finance access (23%) by the respondents.

Community Sources:

Community source	percentage
Personal loan	13%
From Peers	19%
Family backup	42%

Community trust/societies	17%
Unsecure business loan	4%
Trade association	5%

When it comes to community sources of financing the respondents have majority back up of family sources and followed by Peers (19%) and Community trusts (17%). The last option of the respondents is to go for unsecure business loan (4%) to meet their financial needs.

Discussion:

Majority of the MSME respondents have accessibility to community sources in meeting financial requirements, followed by organized source and the last funding choice on their own to meet various financial requirement of the units. In own funding the majority of the respondent's access to their savings and followed by internal accruals. This finding signifies traditional saving attitude of this culture. In organized sources of funding, majority of units, would get raise funds from Non-Banking Financing Companies and followed by Government funding by various schemes and the least is the banking finance access by the respondents. When it comes to community sources of financing the respondents have majority back up of family sources, this is the traditional of financing various business needs in India and then access to Peers and Community trusts. The last option of the respondents is to go for unsecure business loan to meet their required funding.

Majority of the respondents are male, followed by females. Government has introduced various policy measures for the women empowerment, this practices may take some time to fructify in terms of owning MSME units. Majority of the respondents are middle aged, experienced and knowledge of the business environment may help them to overcome the challenges. This finding explains, by increase in age, risk taking capability increases. The least percentage is below 30 years and 51 years and above. Majority of the MSME units respondents are married and followed by unmarried. In Indian society, especially who are involving into trade and industries have good support of families, it is a tradition in India. It is very interesting to find that some of the owners of MSME units are very less educated upto 10th Standard and intermediate. This finding says there is no link between traditional education and entrepreneurship activity undertaken by respective individuals. Majority of the respondents carries industry prior experience followed by having past experience in private services. The least is the respondents who have Govt. service experience in their past. Majority of the respondents have different industry experience, compared to the industry, what they are into. It may be due to finding of good opportunities, they are in present industry. Majority of the respondents belongs to urban area followed by Rural area. Majority of the

respondents own MSME units as sole proprietorship firms followed by Partnership firms and Co-operative organization stands.

Implications of the study:

The findings of the study revealed that, compared to organized sector financing to this priority sector, still majority of the MSME units access to community sources only, whenever they want funding. Though Government of India and RBI and financial institutions are interested to provide to this sector. There is a need to further explore, why the MSME units, which are core to the economic growth in terms of providing employment opportunities and exports to other countries. Now a days, there is no dearth for funding any commercial activity, but the tradition of financing from community sourcing dominate the sector. Though various awareness programs are being conducted by the financial institutions, there is still a lot to do, to gain the confidence of the entrepreneurs. The funding organisations formally still lags behinds the traditional way of funding. The MSME sector is important in every aspect in nation's growth. But, this sector is yet to access to formal financial funding in a big way. Though Government of India, by its Lead bank scheme and other policies are ready to give finance, due to cumbersome process and revealing of financial details of these units, may pulling them to access to financing. Though large number of research studies focusing on the priority sector funding, but the implications of these studies, yet to be affect the MSME units.

Conclusion:

This study is limited to Anantapuramu district MSME sector, data collected by Convenience sampling method. The findings cannot be generalized to remain borrowers of the sector. The lead bank in this area, is Syndicate bank, further studies can explore by using this data. The respondents of the studies are less interested to approach organized lending from various financial institutions. This area can be explored in coming studies. Majority of the sample units are taking the help of community sources. MSME sector the bulk of the residual funding needs from their own funds. The practice which was being considered for over six decades of the MSME sector.

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