

Financing of Microenterprises: Access and Sustainability

Gaurav Katoch*

Abstract

In recent years the attention and the interest in entrepreneurship has increased especially in developing countries like India where both private and public sectors are not able to provide employment to large and young population of the country. The wider context in which this study is embedded is the various issues related to microenterprises in Himachal Pradesh. The paper discusses what the main sources of finance for these enterprises are and what constraints and disabilities/infirmities are faced by these enterprises in sustaining their production.

Keywords: Credit, Finance, Formal and Informal Finance, Microenterprises

Introduction

Definitions of micro small and medium enterprises (MSMEs) vary from country to country, depending upon their economic structures. The commonly used parameters to define MSMEs at international level are the number of employees, total net assets, sales, paid-up capital, investment level, and annual turnover. For example, in the US annual operating revenue and number of employees are the bases of classification for MSMEs. In Taiwan, factors like paid-up capital, number of employees, and annual operating revenue are taken into consideration for classification. In the UK, the number of employees is the sole criterion. In India, the classification of MSMEs is based on investment in plant, machinery, and equipment.

According to the annual report of Ministry of MSME (2013–14), MSME sector consists of any enterprise, whether proprietorship, Hindu undivided family, association of persons, cooperative society, partnership,

or undertaking or any other legal entity, by whatever name it is called, engaged in production of goods pertaining to any industry specified in the first schedule of Industry Development & Regulation Act, 1951 and other enterprises engaged in production and rendering services, subject to the limiting factor of investment in plant and machinery and equipment, respectively, noted as follows:

For manufacturing sector, an enterprise is classified as:

- (a) Micro enterprise, if investment in plant and machinery does not exceed Rs. twenty-five lakhs
- (b) Small enterprise, if investment in plant and machinery is more than Rs. twenty-five lakhs but does not exceed Rs. five crores; or
- (c) Medium enterprise, if investment in plant and machinery is more than Rs. five crores but does not exceed Rs. ten crores;

In case enterprise is engaged in providing or rendering of services, it is classified as:

- (a) Micro enterprise, if investment in equipment does not exceed Rs. ten lakhs;
- (b) Small enterprise, if investment in equipment is more than Rs. ten lakhs but does not exceed Rs. two crores; or
- (c) Medium enterprise, if investment in equipment is more than Rs. two crores but does not exceed Rs. five crores.

In most of the previous studies, MSMEs have been jointly studied which include micro, small, and medium enterprises. There is a significant difference between the micro, small, and medium enterprises in terms of investment in plant and machinery and resources available to microenterprises as compared to small and medium enterprises.

* Assistant Professor, Career Point University, Hamirpur, Himachal Pradesh, India. Email: gkatoch1@gmail.com

Another important aspect related to the literature on microenterprises in India is that most of studies are based on the annual reports of the MSME ministry, economic census, and NSS reports and have focused on the nature of microenterprises, their role in employment generation, role in GDPs, and role of several government agencies in their promotion (Tybout, 2000; Jeppesen, 2007; Hyman, 2012; Boyer and Blazzy, 2013; Bischoff and Wood, 2013; Wit and Kok, 2014). Therefore, ignoring many more important financial issues affecting these enterprises. The lack of adequate and timely availability of finance and high rates of interest have always been considered as major factors inhibiting the growth of microenterprises. The paper examines some issues related to access of finance to microenterprises like the extent of borrowing from different sources of finance, percentage of the enterprises that have availed the credit facility, amount outstanding, and so on. It is against this background that paper discusses issues such as percentage of the enterprises that have availed the credit facility, amount outstanding, and so on. The paper also discusses the entrepreneurs availing subsidy and amount of subsidy availed by them. In addition to these, the study also describes some other financial issues like the availability of banking facilities in terms of number of bank branches and the use of ATM. The main problems in accessing finance have been discussed.

Towards meeting our research objective, the paper has been organized as follows. Next, we discuss the review of literature. Then, we proceed by explaining how the present study was conducted and data analysed. Results of the analyses are presented next, followed by a discussion on the findings. Some concluding remarks, limitations of the present research, and implications of the findings to practice and future research are offered next.

Review of Literature

Finance constitutes one of the important aspects of any enterprise whether it is small, micro, or medium enterprise. All the enterprises require finance to survive and expand. The sources of finance may be external such as loans, subsidies, and government grants, or internal such as generated cash flows. Most of the microenterprises are self-financed in the beginning. But keeping in view the various constraints faced by microenterprises such as seasonal nature and uncertain demand, the need

for external finance assumes more importance. The availability of external finance is linked with credit worthiness of an enterprise. Hence, microenterprises find it difficult to avail finance from the banks. Hence, one of the major problems faced by the micro enterprises is the lack of finance to advance business growth. Micro and small enterprises are most affected because of the financial and competitive barriers. Fumo & Jabbour, (2011); Ayyagari, Demirgüç, -Kunt, & Maksimovic, (2008); Beck, Demirgüç, -Kunt, & Maksimovic, (2005); Schiffer and Weder, (2001); Beck et al., (2007) in their study have shown that size, age, and ownership are the most reliable predictors of firms' financing obstacles. The authors have found that older, larger, and foreign-owned firms report lower financing obstacles. Inability to obtain external and internal financing, lack of capital, expensive raw materials, start-up costs, high whole sale price are the common financial problems of MSMEs (Naidu & Chand, 2011). Mishra and Brahme, (2011) in their study have stated that lack of information about credit and lack of required security are the main reasons for not taking loan by micro and small enterprises. Inadequate credit from banks is the major reason for finance problems of microenterprises. Reluctance by banks to extend credit to women, inability to provide adequate security and margin money, tight repayment schedule are the main problems faced by these enterprises (Rao & Ganesh, 2011). Naidu and Chand (2011) in their study have concluded that the financial problems faced by the MSMEs could be divided into three broad categories: financing problems; operational and administrative problems; and sales and debtors problems. Formal financial institutions, such as commercial banks, usually refuse to serve poor households and micro- enterprises because of the high cost of small transactions, lack of traditional collateral, and lack of basic requirements for financing and geographic isolation (Report of Rebobank, Nederland, 2005). Beck et al. (2005) in their study have shown that the effect of growth obstacles on firm growth is smaller in countries with better-developed financial and legal systems. In addition, even more; it is the small firms that stand to gain most from financial and institutional development.

Banerjee and Duflo (2004) in their study have observed that the additional credit to enterprises in India resulted in a proportional increase in sales rather than a substitution for other non-subsidized credit, indicating that these firms were credit constrained before receiving subsidized

credit. In a similar fashion, Zia (2007) finds that small non-listed and non-group firms in Pakistan reduce their sales after they become ineligible for subsidized export credit, indicating the existence of credit constraints.

One of the important issues related to finance in microenterprises is the relative importance of formal versus informal financial providers for meeting firm's financing constraints in developing countries. There are important differences between informal and formal finance and related to screening and enforcement mechanisms (Jain, 1996). The evidence on the effect of formal and informal finance on microenterprises is mixed in nature. Allen et al. (2007) have advocated that alternative financing channels, such as internal financing and trade credits as well as informal coalition of firms, investors, and local governments, are more important than formal bank credit in fostering the growth of private Chinese enterprises. On the contrary, Ayyagari, et al. (2010) have stated that it is bank rather than informal financing that fosters firm growth in China. Cheng and Degryse (2010) have also shown that the development of banks has a positive impact on provincial economic growth in China, whereas non-bank financial institutions do not have any impact. Beck et al. (2005) in their study have shown that the small firms' growth rates are most constrained by financial, legal, and corruption obstacles, whereas financial and institutional development weakens these constraining effects, from which the small firms benefit the most. Again the authors found that access to external finance is positively associated with the decision to become entrepreneur and the initial investment for microenterprises. In addition, the authors have observed that use of informal finance, especially financing from friends and family, is positively associated with sales growth of microenterprises with employees, but not of self-employed.

One of the most serious problems facing MSMEs is limited access to short-term and long-term financial capital. As observed by Cook (2001); Gray et al. (1997); Levy (1993); Little et al. (1987); Peel and Wilson (1996); and Spring and McDade (1998), most of the micro and small enterprises in developing countries do not obtain credit through formal financial institutions because they cannot meet the collateral requirements or face exorbitant rates of interest. In a study of Nigerian firms, Ariyo (2004) concluded that the most critical problem facing Nigerian

entrepreneurs is the lack of funding. Most new Nigerian small businesses are not attractive candidates for bank lending because they are perceived as risky ventures. Horn (1998) in his study of Zimbabwe has concluded that small business growth was hampered because bank policies would not accommodate small business loans. Morewagae et al. (1995) arrived at a similar conclusion concerning Botswana's small business sector.

Methodology

Area, Universe, and Units of the Study

The study was conducted in the state of Himachal Pradesh at the state, district, and household/enterprise level covering the microenterprises in four blocks, i.e., Kangra, Indora, Dehra, and Nurpur of Kangra district.

Sampling

The sample for the study was selected in the following manner. To begin with, out of 12 districts of the state, Kangra with the highest concentration of microenterprises in manufacturing, as is evident from Table 1, was selected purposively.

Table 1: District Wise Total Number of Enterprises, 2005-06

S. No.	District	Rural	%age	Total	%age
1.	Bilaspur	14892	6.92	17950	6.70
2.	Chamba	14184	6.59	16896	6.31
3.	Hamirpur	16478	7.66	19962	7.45
4.	Kangra	53489	24.39	60250	22.50
5.	Kinnaur	3969	1.81	3969	1.48
6.	Kullu	14514	6.74	19246	7.19
7.	Lahaul & Spiti	1963	0.91	1963	0.73
8.	Mandi	32819	15.25	39190	14.64
9.	Shimla	19286	9.21	30013	11.21
10.	Sirmour	13243	6.15	17007	6.35
11.	Solan	15924	7.40	22405	8.37
12.	Una	14947	6.94	18932	7.07

Source: Economic census of Himachal Pradesh: 2005

Again, out of this selected district, four blocks with the highest concentration of microenterprises in manufacturing

were selected purposively. Once the blocks were selected, a list of registered and unregistered microenterprises was prepared for each of the selected blocks. The list of registered microenterprises was compiled from DIC. Among these blocks, the major category of enterprises belonged to iron and steel works, wooden furniture and flour and rice mills. The total number of registered microenterprises was 324; out of these 78 were located in Kangra block, 96 in Indora, 56 in Dehra, and 44 were

found in Nurpur block. Out of total registered enterprises, one-third to one-half of the enterprises were selected randomly from each of the selected blocks. The total number of the enterprises selected comes to be 108. Equal number of unregistered enterprises was also selected following a simple random sampling procedure. The composition of the enterprises on the basis of registration and block-wise is shown in Table 2

Table 2: Distribution of Sample Enterprises According to Registration

<i>Registration/Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises	26	32	28	22	108
Unregistered enterprises	26	32	28	22	108
All	52	64	56	44	216

Source: Field Survey, 2013-14

Note: Figures in parentheses are the number of selected enterprises

The Data

Both the secondary and primary data were collected to accomplish the objectives of the study. The secondary data required were collected from the published reports of economic census of Himachal Pradesh and district industries centre, Dharamshala. The primary data were collected from the entrepreneurs with the help of a well-defined pre-tested schedule. The schedule was divided into five sections. The first section contained the socioeconomic profile and introductory information of the respondents in terms of age, caste, religion, education, training, and experience before starting the enterprise. The second section comprised questions related to the technological issues like kind of technology used by the enterprises, cost and subsidies available for acquiring the most modern technology, and the reasons for not using most modern technology. For pilot testing of the schedule, 20 respondents were interviewed. After collecting data from 20 respondents, schedule was examined for omissions, layout problems, and checking error, if any.

The data from the selected entrepreneurs were collected through a personal interview method for the year 2013-14.

Analysis of Data

The data were analysed using appropriate statistical tools. The descriptive statistics like averages and percentages were computed to analyse various issues related to socioeconomic profile and technological aspects. The other statistical tools used in the analysis of data are weighted rank and regression analysis.

Table 3 shows the age and gender-wise distribution of the respondents. Considering the overall picture of both registered and unregistered enterprises, the proportion of the respondents in all the blocks that are in the age group of 31-40 years varies between 50.2% in Indora and 63% in Nurpur which contradicts the hypothesis that entrepreneurs operating these microenterprises are comparatively old. According to gender, a preponderant majority of enterprises, both in registered and unregistered enterprises, is owned by males in all the blocks.

Table 3: Distribution of Enterprises According to Age and Gender of Entrepreneurs (Percentage)

<i>Particular/block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
<i>Registered enterprises</i>					
<i>Age (Years)</i>					
20-30	14.8	3.0	4.3	4.0	6.4
31-40	51.9	45.5	52.2	68.0	54.3

<i>Particular/block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises					
<i>Age (Years)</i>					
41-50	14.8	33.3	34.8	24.0	26.8
51-60	14.8	15.2	8.7	4.0	10.8
61-70	3.7	3.0	0.0	0.0	1.8
Total	100.0(26)	100.0(32)	100.0(28)	100.0(22)	100.0(108)
Gender					
Male	92.6	84.8	82.6	84.6	86.2
Female	7.4	15.2	17.4	15.6	13.8
Total	100.0(26)	100.0(32)	100.0(28)	100.0(22)	100.0(108)
Unregistered enterprises					
<i>Age (Years)</i>					
20-30	3.7	6.5	13.3	10.5	8.2
31-40	59.3	54.8	63.3	57.9	58.5
41-50	29.6	25.8	16.7	5.3	19.5
51-60	7.4	12.9	6.7	26.3	13.8
61-70	0.0	0.0	0.0	0.0	0.0
Total	100.0(26)	100.0(32)	100.0(28)	100.0(22)	100.0(108)
Gender					
Male	85.2	96.8	90.1	78.9	88.0
Female	14.8	3.2	9.1	21.1	11.9
Total	100.0(26)	100.0(32)	100.0(28)	100.0(22)	100.0(108)
All enterprises					
<i>Age (Years)</i>					
20-30	9.3	4.8	8.8	7.3	7.4
31-40	55.6	50.2	57.8	63.0	56.4
41-50	22.2	29.6	25.8	14.7	23.2
51-60	11.1	14.1	7.7	15.2	12.1
61-70	1.9	1.5	0.0	0.0	0.9
Total	100.0(52)	100.0(64)	100.0(56)	100.0(44)	100.0(216)
Gender					
Male	88.9	90.8	86.4	81.75	87.1
Female	11.1	9.2	13.3	18.35	12.9
Total	100.0(52)	100.0(64)	100.0(56)	100.0(44)	100.0(216)

Note: Figures in parentheses are total number of enterprises/entrepreneurs based on which percentages have been calculated.

Source: Field survey, 2013-14

Table 4 presents the education level of the entrepreneurs. Considering both registered and unregistered enterprises, almost 90% of the entrepreneurs in all the blocks have education varying between matriculation and graduation levels. Among these, majority of the entrepreneurs are

educated up to senior secondary level varying from 44.9% in Nurpur to 49.5% in Dehra block. However, in all the four blocks a very small percentage of the entrepreneurs have had technical education in all the blocks.

Table 4: Distribution of Entrepreneurs According to Level of Education (Percentage)

<i>Particulars/Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises					
Illiterate	4.6	3.7	1.9	3.7	3.4
Primary	2.8	1.9	5.6	1.9	3.1
Middle	1.9	0.9	0.9	3.7	1.7
Matriculation	27.8	23.1	27.8	37	28.0
Senior secondary	55.6	50.9	44.4	37	47.0
Graduation	7.4	13.9	13.9	7.4	10.9
Post Graduation	0.0	2.8	0.9	1.9	1.4
Technical Education	0.0	2.8	4.6	7.4	3.5
Total	100.0(26)	100.0(32)	100.0(28)	100.0(22)	100.0(108)
Unregistered enterprises					
Illiterate	1.9	2.8	4.6	3.7	3.2
Primary	1.9	4.6	2.8	1.9	2.9
Middle	3.7	0.9	3.7	0.9	2.3
Matriculation	38.9	25.9	25.9	21.3	27.8
Senior secondary	35.2	44.4	54.6	52.8	46.1
Graduation	9.3	15.7	7.4	13.9	11.5
Post Graduation	1.9	1.9	0	3.7	1.7
Technical Education	7.4	3.7	0.9	1.9	3.5
Total	100.0(26)	100.0(32)	100.0(28)	100.0(22)	100.0(108)
All enterprises					
Illiterate	3.3	3.3	3.3	3.7	3.3
Primary	2.4	3.3	4.2	1.9	3.0
Middle	2.8	0.9	2.3	2.3	2.0
Matriculation	33.4	24.5	26.9	29.2	27.9
Senior secondary	45.4	47.7	49.5	44.9	46.6
Graduation	8.4	14.8	10.7	10.7	11.2
Post Graduation	1.0	2.4	0.5	2.8	1.6
Technical Education	3.7	3.3	2.8	4.7	3.5
Total	100.0(52)	100.0(64)	100.0(56)	100.0(44)	100.0(216)

Note: Figures in parentheses are total number of enterprises/entrepreneurs based on which percentages have been calculated.

Source: Field survey, 2013-14

Credit Availed and Sources

Table 5 presents the percentage of entrepreneurs who have availed credit facility. The proportion of both the categories of entrepreneurs availing credit across the

sample four blocks varies from a low of 4.8% in Indora to 25% in Dehra. The low percentage of the entrepreneurs availing credit facility supports the hypothesis that most of microenterprises are self-financed.

Table 5: Percentage of the Entrepreneurs Availing Credit Facility

<i>Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises					
Yes	23.1	3.3	28.6	22.7	19.0
No	76.9	96.9	71.4	77.3	81.0
Total	100.0 (26)	100.0 (32)	100.0 (28)	100.0 (22)	100.0 (108)
Unregistered enterprises					
Yes	19.2	6.3	21.4	18.2	16.0
No	80.8	93.8	78.6	81.8	84.0
Total	100.0 (26)	100.0 (32)	100.0 (28)	100.0 (22)	100.0 (108)
All enterprises					
Yes	21.2	4.8	25.0	20.5	17.5
No	78.9	95.4	75.0	79.6	82.5
Total	100.0(52)	100(64)	100(56)	100(44)	100(216)

Note: Figures in parentheses are total number of enterprises/entrepreneurs based on which percentages have been calculated.

Source: Field survey 2013-14

Table 6 presents information on the distribution of entrepreneurs availing finance from the institutional and non-institutional sources. The pooled data for both types of enterprises further show that while the proportion of entrepreneurs borrowing from institutional sources across blocks varies from 50% in Indora to 74.2% in Kangra,

the proportion of those borrowing from non-institutional sources varies from 11.2% to 28.6% across blocks. Quite a significant proportion of entrepreneurs also borrow from both institutional and non-institutional sources; this proportion among blocks varies from 9.2% in Kangra to 50% in Indora.

Table 6: Distribution of Entrepreneurs Borrowing from Institutional and Non-Institutional Sources of Finance (Percentage)

<i>Source/Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises					
Institutional	83.3	100.0	62.5	60.0	78.2
Non institutional	16.7	0.0	25.0	20.0	14.5
Institutional and non-institutional	0.0	0.0	12.5	20.0	7.3
Total	100(6)	100(1)	100(8)	100(5)	100(19)
Unregistered enterprises					
Institutional	60.0	50.0	50.0	75.0	57.9
Non institutional	20.0	0.0	33.3	0.0	13.5
Institutional and non-institutional	20.0	50.0	16.7	25.0	28.6
Total	100(5)	100(2)	100(6)	100(4)	100(17)
All enterprises					
Institutional	74.2	50.0	57.1	66.1	68.7
Non institutional	18.6	0.0	28.6	11.2	14.0
Institutional and non-institutional	9.2	50.0	14.3	22.2	17.3
Total	100(11)	100(2)	100(14)	100(9)	100(36)

Note: Figures in parentheses are total number of enterprises/entrepreneurs on the basis on which percentages have been calculated.

Source: Field Survey 2013-14

Table 7 presents the distribution of the entrepreneurs according to the credit borrowed from different agencies. A close perusal of the table reveals that considering both types of enterprises together, the table shows that around half of the entrepreneurs in Nurpur followed by 43.4% in Kangra, 37.5% in Dehra, and one-fourth in Nurpur have borrowed from commercial banks. The proportion of the entrepreneurs who have borrowed from cooperative banks varied from 28.4% in Kangra to three-fourths in Indora. The percentage of the entrepreneurs who have

borrowed from relatives is highest (14.6%) in Dehra block. Similarly, the percentage of entrepreneurs who have borrowed from moneylenders across the blocks varied from 6.3% in Nurpur block to 14.6% in Dehra block. The percentage of entrepreneurs who have borrowed from financier is highest among Nurpur block where the proportion of entrepreneurs borrowing from such sources is one-fourth followed by Dehra and Kangra blocks where this proportion is 14.6% and 7.5%, respectively.

Table 7: Distribution of Enterprises According to Credit Borrowed from Different Agencies

<i>Agencies /Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
<i>Registered enterprises</i>					
Commercial bank	66.7	0.0	25.0	25.0	27.8
Cooperative bank	16.7	100.0	25.0	25.0	44.8
Relatives	16.7	0.0	12.5	12.5	9.9
Moneylenders	0.0	0.0	12.5	12.5	5.9
Govt. department	0.0	0.0	12.5	0.0	2.6
Financer	0.0	0.0	12.5	25.0	9.1
Total	100.0(6)	100.0(1)	100.0(8)	100.0(5)	100(19)
<i>Unregistered enterprises</i>					
Commercial bank	20.0	50.0	50.0	75.0	48.3
Cooperative bank	40.0	50.0	0.0	25.0	29.6
Relatives	0.0	0.0	16.7	0.0	3.5
Moneylenders	25.0	0.0	16.7	0.0	9.5
Govt. department	0.0	0.0	0.0	0.0	0.0
Financer	15.0	0.0	16.7	25.0	11.6
Total	100.0(5)	100.0(2)	100.0(6)	100.0(4)	100(17)
<i>All enterprises</i>					
Commercial bank	43.4	25.0	37.5	50.0	38.5
Cooperative bank	28.4	75.0	12.5	25.0	37.7
Relatives	8.4	0.0	14.6	6.3	6.7
Moneylenders	12.5	0.0	14.6	6.3	7.7
Govt. department	0.0	0.0	6.3	0.0	1.3
Financer	7.5	0.0	14.6	25.0	11.4
Total	100.0(11)	100.0(2)	100.0(14)	100.0(9)	100(36)

Note: Figures in parentheses are total number of enterprises/entrepreneurs based on which percentages have been calculated.

Source: Field Survey, 2013-14

Table 8 shows the percentage of the entrepreneurs who have availed the subsidy. The table shows that more than one-tenth of the registered entrepreneurs in all the blocks have availed the subsidy. In comparison, a very small proportion of unregistered entrepreneurs have

availed subsidy. When the data for both the categories of the entrepreneurs are pooled, around one-tenth of the entrepreneurs in Indora and Nurpur blocks have availed the subsidy whereas the proportion is around 7-8% each in remaining two blocks.

Table 8: Percent Entrepreneurs Who Have Availed the Subsidy

<i>Enterprise/ Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises					
Yes	11.5	12.5	10.7	13.6	11.9
No	88.5	87.5	89.3	86.4	87.1
Unregistered enterprises					
Yes	3.8	6.3	3.6	4.5	5.5
No	96.2	93.8	96.4	95.5	94.5
All enterprises					
Yes	7.65	9.4	7.15	9.05	8.7
No	92.35	90.65	92.85	90.95	90.8

Source: Field Survey, 2013-14

Some Other Financial Aspects

Table 9 shows the percentage of the entrepreneurs who have bank accounts. The table shows that almost all the entrepreneurs, both registered and unregistered, in all the blocks have bank accounts.

Table 9: Respondents Having Bank Account (Percentage)

<i>Particular/ Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises					
Yes	100	93.9	100	96.2	97.2
No	0.0	6.1	0.0	3.8	2.8
Unregistered enterprises					
Yes	100	100	100	100	100
No	0.0	0.0	0.0	0.0	0.0
All enterprises					
Yes	100	96.7	100	98.1	98.6
No	0.0	3.1	0.0	1.9	1.4

Source: Field Survey, 2013-14

Table 10 presents the average number of bank branches in the neighbourhood. It shows that the average number of bank branches for both categories of entrepreneurs is highest in Kangra block (3.6) and lowest in Nurpur block (1.1).

Table 10: Average Number of Bank Branches in Neighbourhood

<i>Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises	4.0	1.9	3.0	1.1	2.4
Unregistered enterprises	3.2	2.1	3.5	1.0	2.4
All enterprises	3.6	2.0	3.3	1.1	2.4

Source: Field Survey, 2013-14

Table 11 shows when both types of enterprises are taken together the longest distance of nearest bank branch is in Indora block which is 6.1 km and the shortest distance of nearest bank branch is in Dehra block which is 3.8 km.

Table 11: Average Distance of Nearest Bank Branch (km)

<i>Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises	4.0	5.65	3.6	5.02	4.7
Unregistered enterprises	3.7	6.5	3.96	5.25	5.0
All enterprises	3.9	6.1	3.8	5.1	4.9

Source: Field Survey, 2013-14

The percentage of the respondents using ATM facility has been presented in Table 12. The table shows that of both registered and unregistered entrepreneurs, a preponderant majority has ATM facility with them.

Table 12: Respondents Using ATM facility (Percentage)

<i>Block</i>	<i>Kangra</i>	<i>Indora</i>	<i>Dehra</i>	<i>Nurpur</i>	<i>All</i>
Registered enterprises					
Yes	98.0	97.0	91.3	92.3	94.8
No	2.0	3.0	8.7	7.7	5.2
Unregistered enterprises					
Yes	85.2	100	100	94.7	95.1
No	14.8	0.0	0.0	5.3	4.9
All enterprises					
Yes	91.6	98.5	95.7	93.5	95.0
No	8.4	1.5	4.4	6.5	5.1

Source: Field Survey, 2013-14

Factors Affecting Borrowing

The results of logistic regression equation estimated to quantify the factors affecting probability of an entrepreneur to borrow money from different sources of finance, both institutional and non-institutional, have been presented in Table 13. While estimating the regression equation entrepreneur borrowing and not borrowing is a categorical variable is taken as dependent variable, variables like initial investment, annual turnover, income from other sources, level of education, age of entrepreneur, gender, experience prior to starting enterprise, use of ICT,

innovation by an entrepreneur and nature of machinery used are considered as independent variables. The perusal of the table reveals, in case of all enterprises (model-III) variables like initial investment, income from other source, and experience prior to starting enterprises have positive and significant effect on the probability of an entrepreneur to borrow finance while other remaining variables like annual turnover, level of education, age, and gender of entrepreneur have positive but statistically insignificant effect. The values of residual R squares are 0.241 and 0.319 indicating that variables taken for analysis fitted the model well.

Table 13: Factors Affecting the Borrowing of an Entrepreneur: Results of Logistic Regression

<i>Independent Variables</i>	<i>Model-I (Registered)</i>			<i>Model-II (Unregistered)</i>			<i>Model-III (All)</i>		
	<i>B</i>	<i>Wald</i>	<i>Sig.</i>	<i>B</i>	<i>Wald</i>	<i>Sig.</i>	<i>B</i>	<i>Wald</i>	<i>Sig.</i>
Initial investment	3.176	3.279	0.035**	2.284	7.167	0.124	1.273	8.261	0.024**
Annual turnover (in Rs)	1.043	4.786	0.315	2.031	3.663	0.136	3.021	1.653	0.136
Income from other source (in Rs)	2.031	4.570	0.027**	3.051	3.430	0.039**	2.043	2.431	0.039**
Level of education(above +2=1,else=0)	3.012	2.021	0.324	4.031	1.013	0.219	4.023	3.014	0.319
Age of entrepreneur (More than 50=1,else=0)	1.361	2.242	0.271	2.472	2.242	0.241	1.571	1.241	0.141
Gender (dummy; Male=1,else=0)	3.234	1.341	0.579	4.141	1.372	0.779	3.123	1.271	0.779
Experience prior to starting enterprise (dummy; Yes=1,else=0)	2.033	1.013	0.024**	1.039	2.024	0.044**	1.021	3.015	0.077*
Use of ICT (dummy; Yes=1,else=0)	0.058	1.690	0.135	1.043	0.318	0.349	1.058	3.412	0.137
Innovation by an entrepreneur (dummy; Yes=1,else=0)	0.098	15.199	0.140	0.167	7.762	1.210	2.971	7.121	0.319
Nature of machinery (dummy; modern=1,else=0)	2.056	4.876	0.315	4.071	5.954	0.126	3.083	4.763	0.139
Constant	1.132	3.021	0.925	2.313	5.013	0.823	3.334	7.026	0.823
Cox & Snell R square	0.261			0.363			0.241		
Neglekerke R square	0.327			0.229			0.319		

Note:*, ** and *** denote level of significance at 10%, 5%, and 1%, respectively.

Problems in Accessing Finance

The following section discusses various problems in accessing finance faced by respondents. As mentioned earlier, a weighted rank has been computed to rank different problems in accessing finance.

Tables from 14 to 17 show the problems in accessing finance across different sample blocks. As may be seen from the tables, both in case of registered and unregistered enterprises, high rate of interest/cost of credit is the main problem in accessing of finance followed by timely availability of finance, too many formalities, lack of collateral, and lack of adequate amount of finance.

Table 14: Problems in Accessing of Finance in Kangra Block: Perception of Entrepreneurs (Percentage)

<i>Problem/Rank</i>	<i>Rank 1</i>	<i>Rank 2</i>	<i>Rank 3</i>	<i>Rank 4</i>	<i>Rank 5</i>	<i>Weighted Rank</i>
All enterprises						
Lack of adequate amount of finance	0.0	0.0	1.9	0.0	98.2	15.0
Timely availability of finance	1.9	59.8	21.1	17.3	0.0	49.9
Too many formalities	19.0	3.9	60.0	15.4	1.9	46.6
Lack of collateral	18.9	11.4	9.7	59.8	0.0	41.6
High rate of interest/cost of credit	60.1	25.0	7.4	7.6	0.0	63.1

Source: Field Survey, 2013-14

Table 15: Problems in Accessing of Finance in Indora Block: Perception of Entrepreneurs (Percentage)

<i>Problem/Rank</i>	<i>Rank 1</i>	<i>Rank 2</i>	<i>Rank 3</i>	<i>Rank 4</i>	<i>Rank 5</i>	<i>Weighted Rank</i>
All enterprises						
Lack of adequate amount of finance	0.0	0.0	0.0	3.3	96.7	14.9
Timely availability of finance	3.4	26.7	45.0	23.3	1.7	44.2
Too many formalities	11.7	23.4	26.7	36.7	1.7	44.3
Lack of collateral	15.0	36.7	23.3	25.0	0.0	49.2
High rate of interest/cost of credit	70.0	13.4	5.0	11.7	0.0	63.6

Source: Field Survey, 2013-14

Table 16: Problems in Accessing of Finance in Dehra Block: Perception of Entrepreneurs (Percentage)

<i>Problem/Rank</i>	<i>Rank 1</i>	<i>Rank 2</i>	<i>Rank 3</i>	<i>Rank 4</i>	<i>Rank 5</i>	<i>Weighted Rank</i>
All enterprises						
Lack of adequate amount of finance	1.7	0.0	1.7	2.2	94.5	16.2
Timely availability of finance	4.4	58.3	20.9	16.5	0.0	50.5
Too many formalities	13.7	9.4	55.1	20.2	1.7	45.1
Lack of collateral	16.5	11.0	16.4	52.3	3.8	40.9
High rate of interest/cost of credit	63.6	21.6	6.0	8.8	0.0	63.4

Source: Field Survey, 2013-14

Table 17: Problems in Accessing of Finance in Nurpur Block: Perception of Entrepreneurs (Percentage)

<i>Problem/Rank</i>	<i>Rank 1</i>	<i>Rank 2</i>	<i>Rank 3</i>	<i>Rank 4</i>	<i>Rank 5</i>	<i>Weighted Rank</i>
All enterprises						
Lack of adequate amount of finance	1.7	2.2	1.7	0.0	94.5	16.8
Timely availability of finance	0.0	71.3	18.7	10.0	0.0	52.0
Too many formalities	5.0	5.0	74.7	13.7	1.7	42.9
Lack of collateral	14.4	8.9	3.4	69.7	3.8	37.6
High rate of interest/cost of credit	79.2	12.5	1.7	6.7	0.0	66.9

Source: Field Survey, 2013-14

Discussion

The discussion related to borrowing patterns shows that a small percentage of the entrepreneurs had availed the credit facility from both the institutional and non-institutional sources of finance. Among institutional sources, commercial banks and cooperative banks and among non-institutional sources moneylenders and financiers were major sources of borrowing. The average amount borrowed varied across different sample blocks, though the average amount borrowed by unregistered entrepreneurs was significantly lower as compared to their registered counterparts. The rate of interest charged by the non-institutional sources of finance was significantly higher than that charged by institutional sources of finance. Again most of the entrepreneurs, both registered and unregistered, have bank accounts and use the ATM facility. In the perception of the entrepreneurs, high rate of interest/cost of credit was the most serious problem followed by lack of timely availability of finance and too many formalities to be completed while applying for loan. These results support the findings of the previous studies (Beck et al., 2005; Naidu and Chand, 2001; Banerjee and Duffo, 2004). And, the results of chi-square test show that there is no significant difference in the problems faced by entrepreneurs across different sample blocks. Further, the results of the logistic regression revealed that variables like initial investment, income from other sources, and experience prior to starting enterprises have positive and statistically significant effect on the probability of borrowing of entrepreneurs.

Suggestion and Recommendation

The borrowing pattern of the enterprises shows that a very small proportion of the enterprises are availing

finance; however among those who are borrowing, a significant proportion of them are still borrowing, a significant proportion of them are still borrowing from non-institutional sources who are charging usurious rate of interest. To attract the entrepreneurs towards the institutional sources of finance, the government should reduce the formalities required to avail loan and treat these entrepreneurs at par with agriculturists/farmers.

Conclusion

The discussion on various financial aspects relating to microenterprises in different blocks throws up the following main findings. A small percentage of the entrepreneurs of both the categories have availed the credit facility. Further, among those who avail finance, around three-fourths of them among registered enterprises and around three-fifths among unregistered enterprises availed it from institutional finance. Among institutional sources, commercial banks and cooperative banks and among non-institutional sources moneylenders and financiers are major sources of borrowing for both registered as well as unregistered enterprises in all the blocks. The average amount borrowed was lower in case of unregistered enterprises as compared to registered enterprises in almost all the blocks. Almost all the respondents across four blocks have bank accounts and use ATM facility. A majority of the enterprises who have availed the subsidy availed it through DIC and KVICs. Among the main problems in accessing finance are high rate of interest/cost of credit followed by timely availability of the finance and too many formalities. The results of chi-square test further show that there is no significant difference in the problems faced by entrepreneurs in accessing finance implying that entrepreneurs in all the blocks face same set of problems in accessing finance. Further, the results

of logistic regression model revealed that variables like initial investment, income from other sources, and experience prior to starting own enterprise have positive and statistically significant effect on the probability of entrepreneur borrowing money from different sources.

References

- Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2008). How important are financing constraints? The role of finance in the business environment. *The World Bank Economic Review*, 22(3), 483-516.
- Beck, T., Demirgüç-Kunt, A. S. L. I., & Maksimovic, V. (2005). Financial and legal constraints to growth: Does firm size matter? *The Journal of Finance*, 60(1), 137-177.
- Schiffer, M., & Weder, B. (2001). *Firm size and the business environment: Worldwide survey results* (Vol. 43). World Bank Publications.
- Beck, T., & Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, 30(11), 2931-2943.
- Naidu, S., & Chand, A. (2011). Financial obstacles faced by micro, small and medium enterprises in the South Pacific. *International Journal of Entrepreneurship and Small Business*, 17(2), 22-34.
- Mishra, S. K., & Brahme, K. (2011). Study of strategic financial management and growth in MSMEs in Chhattisgarh. *The Indian Journal of Commerce*, 64(1), 13-17.
- Rao, S. T., Rao, G. T., & Ganesh, M. S. (2011). Women entrepreneurship in India (A case study in Andhra Pradesh). *The Journal of Commerce*, 3(3), 43.
- Report of Rabobank, Netherland: 2005
- Beck, T., Demirgüç-Kunt, A. S. L. I., & Maksimovic, V. (2005). Financial and legal constraints to growth: Does firm size matter? *The Journal of Finance*, 60(1), 137-177.
- Banerjee, A., & Duflo, E. (2004). What do banks (not) do? *Economic and Political Weekly*, 39(38), 4212-4213
- Zia, B. H. (2007). Export incentives, financial constraints, and the (mis) allocation of credit: micro-level evidence from subsidized export loans. *Journal of Financial Economics*, 87(2), 498-527.
- Jain, P. S. (1996). Managing credit for the rural poor: lessons from the Grameen Bank. *World development*, 24(1), 79-89.
- Allen, F., Qian, J., & Qian, M. (2007). China's financial system: Past, present, and future. *Present and Future* (March 28, 2007).
- Ayyagari, M., Asli, D.-K., & Maksimovic, V. (2010). Formal versus informal finance: Evidence from China. *Review of Financial Studies*, 23(28), 3048-3097.
- Cheng, X., & Degryse, H. (2010). The impact of bank and non-bank financial institutions on local economic growth in China. *Journal of Financial Services Research*, 37(2-3), 179-199.
- Beck, T., Demirgüç-Kunt, A. S. L. I., & Maksimovic, V. (2005). Financial and legal constraints to growth: does firm size matter? *The Journal of Finance*, 60(1), 137-177.
- Cook, P. (2001). Finance and small and medium-sized enterprise in developing countries. *Journal of Developmental Entrepreneurship*, 6(1), 17.
- Gray, K. R., Cooley, W., & Lutabingwa, J. (1997). Small-scale manufacturing in Kenya. *Journal of Small Business Management*, 35(1), 66.
- Levy, B. (1993). Obstacles to developing indigenous small and medium enterprises: An empirical assessment. *The World Bank Economic Review*, 7(1), 65-83.
- Little, I. M., Page, J. M., & Mazumdar, D. (1987). *Small Manufacturing Enterprises*. New York: Oxford University Press
- Peel, M. J., & Wilson, N. (1996). Working capital and financial management practices in the small firm sector. *International Small Business Journal*, 14(2), 52-68.
- Spring, A., & McDade, B. (1998). Entrepreneurship in Africa: Traditional and contemporary paradigms. *African entrepreneurship: Theory and reality*, 1-34.
- Ariyo, D. (2000). Small firms are the backbone of the Nigerian economy. *Africa Economic Analysis*.
- Horn, N. E. (1998). *Overcoming challenges: Women microentrepreneurs in Harare*. Zimbabwe.