



CHALLENGES FACED BY THE MICRO ENTERPRISES IN KAMRUP DISTRICT OF ASSAM WITH SPECIAL REFERENCE TO PROCUREMENT OF FINANCE

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Abstract: *Nearly every nation in the world, including India, considers the micro, small, and medium enterprise sector as the backbone of its economy. The MSME sector is crucial for generating employment opportunities comparatively at lower capital costs than large enterprises and makes a significant contribution to the national economy. Despite a crucial role being played by the MSMEs towards boosting the economy, this sector is facing a number of challenges. Although the government is taking a number of initiatives from time to time, the conditions of the MSMEs have not yet remarkably improved. Micro enterprises form the major part of the MSME sector and it comprises more than 99% of the total estimated number of the MSMEs. This research has been conducted in the Kamrup district of Assam to study the challenges faced by the micro enterprises with special reference to the procurement of finance.*

Keyword: Challenges, Finance, Micro enterprise, Economy.

Introduction: The Micro, Small and Medium Enterprises (MSMEs) have been playing a significant role towards the enhancement of entrepreneurial activities. MSME sector is a breeding ground for entrepreneurship, often driven by individual innovation and creativity. This sector normally accounts for 8% of the nation's GDP, 45% of its manufacturing output, and 40% of its exports. This sector employs about 60 million people through 26 million enterprises. When it comes to keeping the business functioning, it is critical to understand where funding is coming from. There are several ways to finance the business and raise money to

support business operations. A source or sources of finance, refer to where a business gets money from to fund their business activities. Any enterprise can only be successful if sufficient funds are available to run the same. However, businesses cannot thrive on a single source of funding for the duration of their existence, necessitating the use of various funding sources. MSMEs in India continue to face difficulties obtaining low-cost finance. In India, the majority of small business finance (i.e. 67 percent) comes from informal sources such as money lenders, friends and family members, etc, while only 12 percent comes from formal sources such as non-banking financial companies and government institutions, small banks, public banks, public sector banks, private sector banks, and foreign banks. MSMEs have a total demand for finance of Rs 876 lakh crore, with debt demand accounting for 69.2% of the total and equity demand accounting for 18.4%. Small firms fail at a higher rate than large enterprises; the default risk is likewise substantial. Because lending to a small firm is riskier and more expensive than lending to a bigger company, small businesses have less access to credit than larger ones. The availability of funding can be affected by how established or mature a firm is. Financing a new start-up is more challenging since there is no track record of success or financial record. At this stage, owner's fund or internal sources of financing plays a crucial role in running the enterprise.

Definition of Micro Enterprise: An enterprise where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees is called micro enterprise.

Review of Literature:

Rao and Revathy (2001) revealed that a key barrier to small-scale industrial growth expansion was a lack of access to credit. For growth of any enterprise, the requirement of fund increases.

Chowdhuary (2004), in his study identified some major challenges faced by the SSI units in raising finance. Some of them are procedures of taking loans cumbersome, delay in sanctioning loan, corruption involved at the time of sanctioning the loan. The study came to the conclusion that banks and other financial institutions are not interested in lending money to start-up business.

Kumar (2012) in his 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 create problem in availing finance from banks.

Singh and Singh (2014) in their study titled "Problems related to the financing of Small Firms in India" found that the MSMEs mostly depended on internal sources for their initial investment or capital as they have problem in accessing external debt/ or equity financing. Higher rates of interest charged by the lender of debts as smaller enterprises are perceived to be risky and more likely to fail than larger firms are. The researchers concluded that lack of proper financial facilities is the barrier of better performance of small firms and there are not many financial resources available for innovation activities within the MSMEs.

Nishant and Zakkariya (2014) conducted a study in Kozhikode District of Kerala to analyse the barrier faced by Micro, Small and Medium enterprises in raising finance and also try to analyse the various sources of finance for MSMEs other than banks. The researcher found that the main barrier for raising finance for MSMEs from bank as per the opinion of the respondents is too much of formalities insisted by the bank concerned and women entrepreneurs are mostly unaware about the credit schemes.

Biswas (2015), in his study highlighted the constraints for the development of MSMEs. Absence of timely credit, limited capital, high cost of credit, limited access of credit from banks are some major financial problems of the MSMEs which effect their performance and growth.

Garg (2018) in his study found that one of the main barriers for the growth of MSMEs is related to finance. The study concluded that the entrepreneurs still find it difficult to take the benefit of the government schemes due to lack of awareness among the entrepreneurs.

Statement of the Problem:

Micro, Small, and Medium Enterprises (MSME) contribute to entrepreneurship and innovation by making up a significant portion of all businesses and providing self employment. All kinds of micro enterprises require sufficient funds in order to meet the fixed capital as well as working capital requirements. Micro enterprises need credit support not only for running their enterprises but also for modernisation/upgradation, expansion, etc. Non availability of funds at right time hampers the operational capacity of MSMEs; thus it affects its growth. Even though the government has been developing policies and doing several efforts to address this financial supply and demand imbalance, the measures still haven't been proved to be sufficient. So the present study tries to identify the various major sources of fund and the problems faced by the Micro enterprises in the procurement of finance in the context of Kamrup district of Assam.

Objectives of the study:

1. To identify the main sources of fund used by the Micro enterprises.
2. To find out the major challenges faced by the micro enterprises with special reference to procurement of Finance.

Research Methodology:

The study is exploratory and descriptive in nature. Both primary and secondary data are used for the study to achieve the proposed research objectives of identifying the financial challenges faced by MSMEs in Kamrup district of Assam. Primary data has been collected through the questionnaire and personal discussion with the owners of MSMEs located in Kamrup district. Total number of registered MSMEs in DICCC of Kamrup is 1603 as on 31st March, 2020. Out of 1603 registered MSMEs, 120 Micro enterprises have been selected by adopting random sampling technique. The selected enterprises include those who have been in operation for a

period of minimum three years. Secondary information has been collected from certain relevant sources such as all India Census report of Micro, Small and Medium Enterprises, Economic Survey, etc.

Data analysis and Findings: The present study tries to find out the major sources of finance and the various problems faced by the Micro enterprises in procurement of finance. On the basis of the objectives the following analysis has been made:

Table- 1: Demographic Profile of the Entrepreneurs:

Demographic Factor		Number of Respondents	Percent
Gender	Male	99	82.5
	Female	21	17.5
Age	Below 30 years	9	7.5
	30-40 years	40	33.33
	41-50 years	49	40.83
	Above 50 years	22	26.4
Marital Status	Married	96	80
	Unmarried	24	20
Religion	Hindu	91	75.83
	Islam	29	24.17
Caste	General	63	52.5
	OBC	18	15
	ST	24	20
	SC	15	12.5
Educational Qualification	Below Class X	33	27.5
	HSLC	43	35.83
	HS	30	25
	Graduate	12	10
	Post graduate	2	1.67

(Source: Field survey)

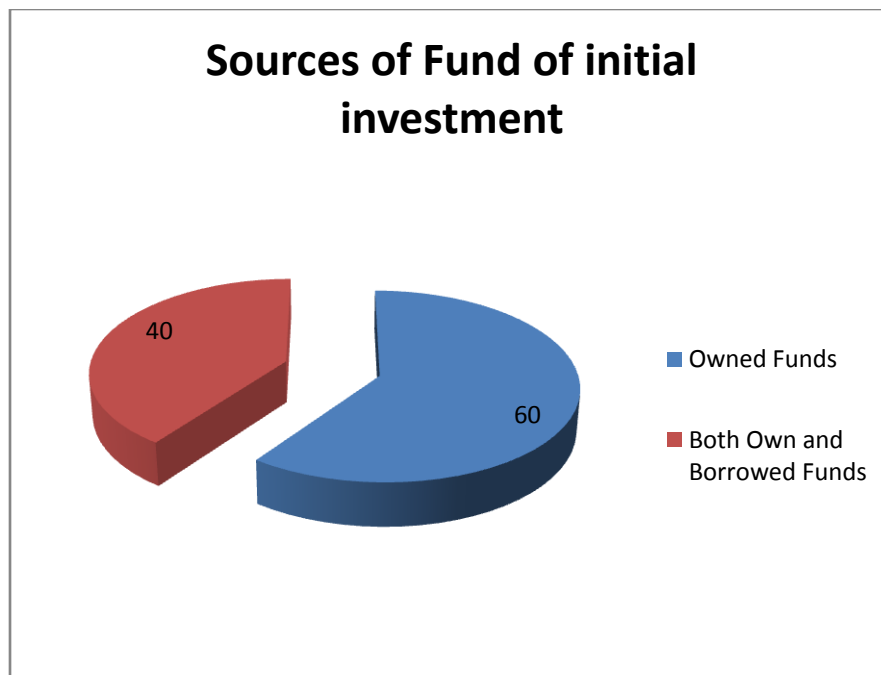
The above table shows the Demographic profile of the sample entrepreneurs. It is observed that 82.05% of the entrepreneurs are male and the rest 17.5 percent are female. The majority of the micro entrepreneurs are male and thus, this sector is dominated by Male entrepreneurs in the study area. Most of the respondent entrepreneurs are between the ages of 41 to 50 years (i.e. 40.83 percents of the respondents). Most of the Entrepreneurs of the sample micro enterprises (i.e. 35.83%) have high school level of education.

Table-2: Sources of Funds of Initial Investment:

Sources	Respondents	Percent
Owned Funds	72	60.00
Both owned and borrowed funds	48	40.00
Total	120	100.00

(Source: Field survey)

Fig.-1: Sources of Fund of Initial Investment

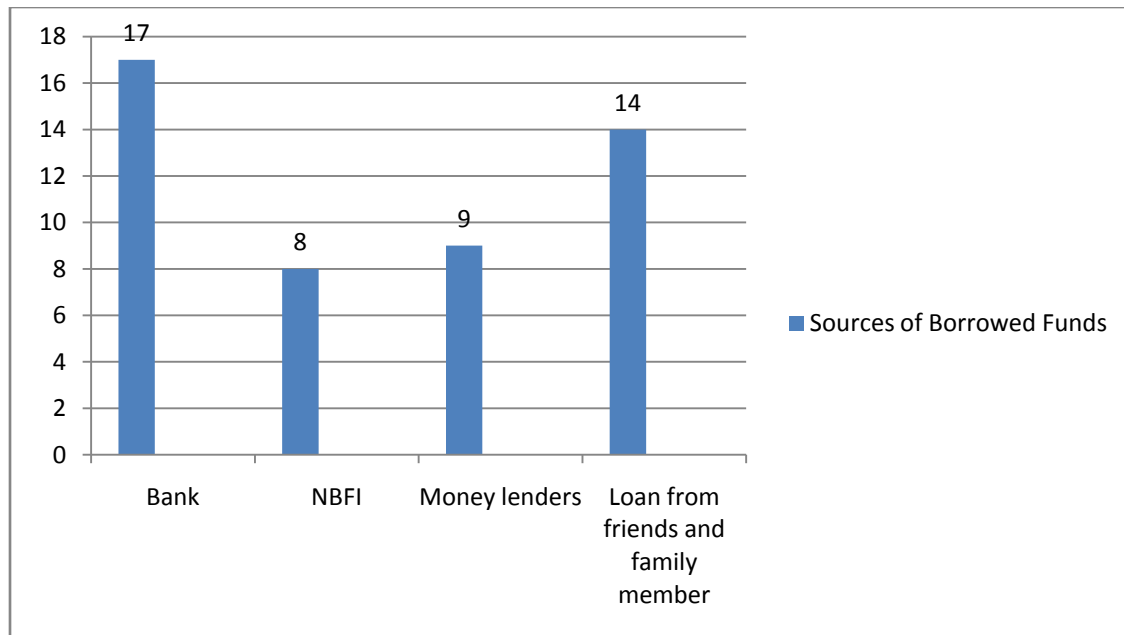


From the Table No-2 above, it is found that 60.00 percent of the entrepreneurs started their business with their own capital and 40.00 percent of them started their business with both own fund and borrowed fund. Thus, it is clear that majority of the entrepreneurs initially started their business with their capital and as such, they are dependent on own capital initially.

Table-3: Sources of borrowed fund of initial Investment

Sources	Respondents	Percent
Bank	17	14.17
NBFI	8	6.67
Money lenders	9	7.5
Loan from friends and family member	14	11.67

(Source: Field survey)

Fig.-2: Sources of Borrowed Fund of Initial Investment

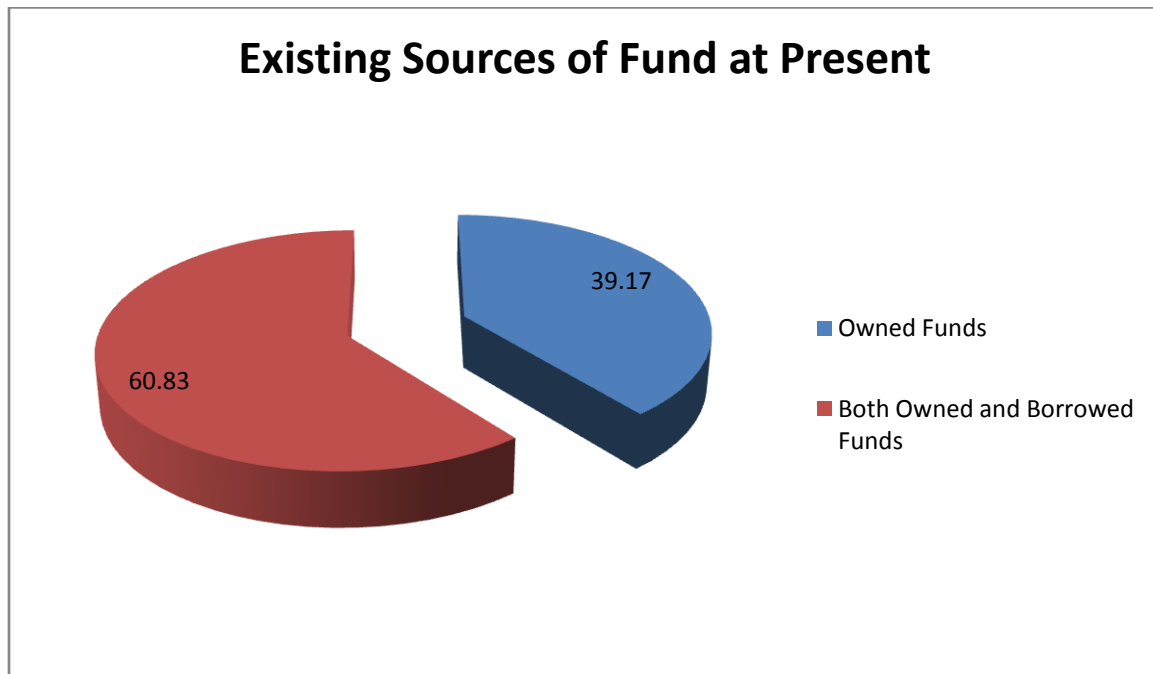
The Table No-3 above shows that as source of borrowed fund, bank tops the list for most of the sample entrepreneurs (14.17 percent) followed by loan from friends and family members (11.67 percent). Besides, 6.67 percent of the entrepreneurs raised fund from NBFI and 7.50 percent from money lenders for their initial investment. Thus, present study reveals that initially entrepreneurs are mostly depended on bank as a source of borrowed fund.

Table-4: Existing Sources of Funds at present:

Sources	Respondents	Percent
Owened Funds	47	39.17
Both owned and borrowed funds	73	60.83
Total	120	100

(Source: Field Survey)

Fig.-3: Existing Sources of Fund at present



From the above Table No-4, it is seen that most of the respondents have both owned and borrowed funds which comprises 60.83 percent of the total respondents and 39.17 percent respondents have only own fund in their capital structure. Thus, indicates that a small fraction of micro enterprises do not require any outside financial assistance for their operations.

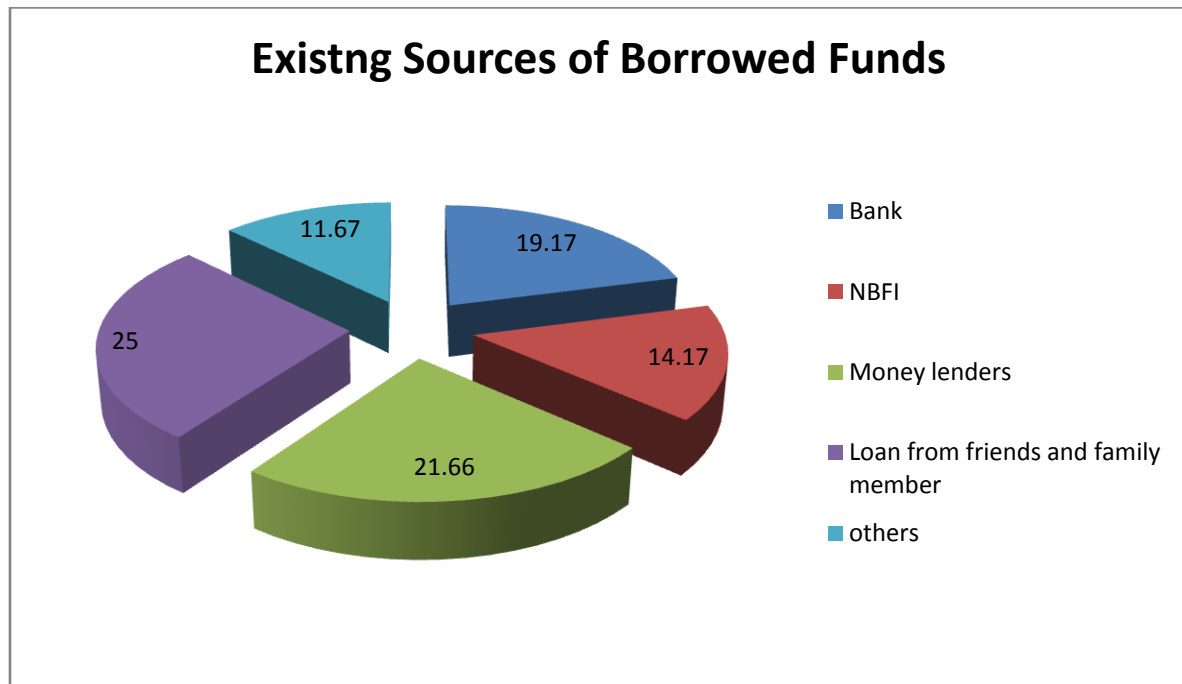
Table-5: Existing Sources of Borrowed Funds at present of the enterprise:

Sources	Respondents	Percent
Bank	23	19.17
NBFI	17	14.17
Money lenders	26	21.66
Loan from friends and family member	30	25.00
Others	14	11.67

(Source: Field Survey)

Note: Some enterprises are using more than one source

Fig.-4: Existing Sources of Fund at Present:



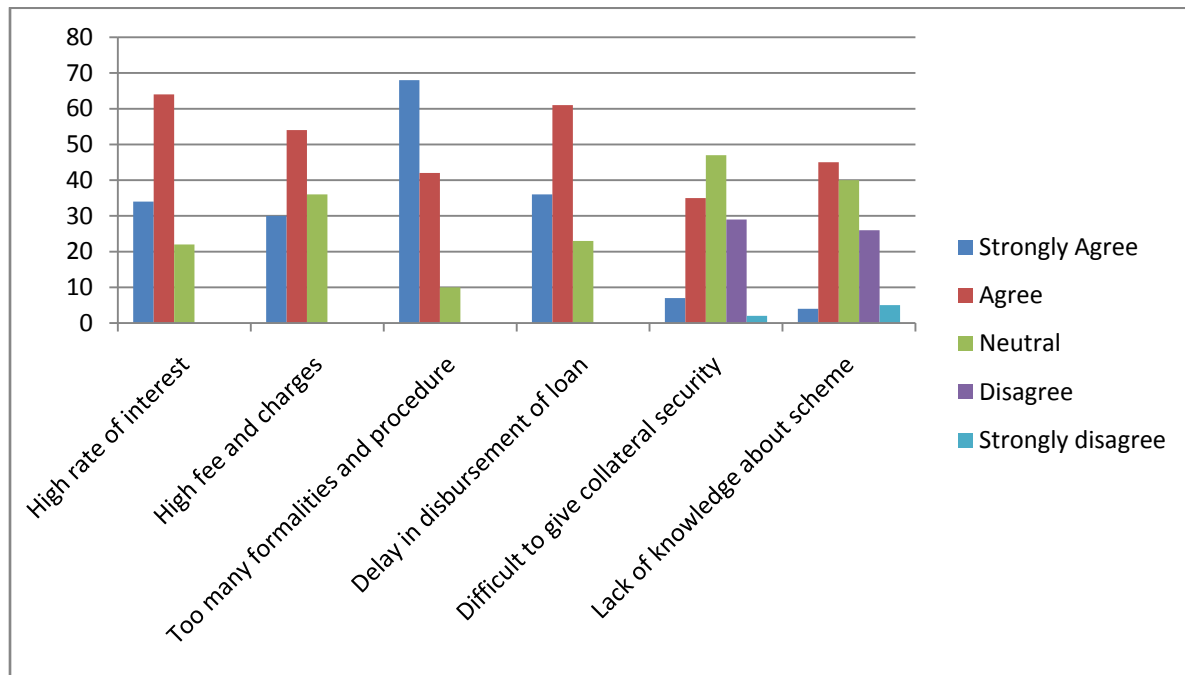
From the Table No-5 above, it is found that there are several sources of fund from where a micro enterprise may borrow fund. Among the micro enterprises, the most popular source is loan from friends and relatives with 25.00 percent of total respondents followed by Money lender is 21.66 percent and bank i.e. 19.17 percent. 14.17 percent of the respondents have taken financial help from non-banking financial institutions and the rest 11.67 percent of the respondents raise funds from other sources like advance from customers, angel investor, etc.

Table-6: Challenges faced by Micro Enterprises in procurement of Finance from Formal sources:

Challenges	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
		%		%		%		%		%
High rate of interest	34	28.33	64	53.33	22	18.33	-	-	-	-
High fee and charges	30	25.00	54	45.00	36	30.00	-	-	-	-
Too many formalities and procedure	68	56.67	42	35.00	10	8.33	-	-	-	-
Delay in disbursement of loan	36	30.00	61	50.83	23	19.17	-	-	-	-
Lack of securable assets	7	5.83	35	29.17	47	39.16	29	24.17	2	1.67
Lack of knowledge about scheme	4	3.33	45	37.5	40	33.33	26	21.67	5	4.17

(Source: Primary Data)

Fig.-6: Challenges faced by Micro Enterprises in procurement of Finance from Formal sources:



Findings from the above table:

The above table depicts the opinion of entrepreneurs of Micro enterprises towards challenges/problems in procurement of Finance.

Challenge no 1: High rate of interest:

53.33 percent of the entrepreneurs have agreed that high rate of interest on loan is a major challenge, 28.33% of the respondents have strongly agreed, 20.6% of the respondents are neutral regarding that the fact.

Challenge no. 2: High Fees and Charges:

25.00 percent of the entrepreneurs have strongly agreed and 45.00 percent of the entrepreneurs have agreed that High Fees and Charges charged by the lender is also one of the challenges/problems for the entrepreneurs and 30.00 percent of the entrepreneurs were neutral regarding that fact.

Challenge no. 3: Too many formalities and procedure:

Another major challenge for the micro enterprises in the procurement of finance from formal sources is related to too many formalities and procedure of taking the loan. In this regard, 56.67 percent of the respondents have strongly agreed that fact and 35.00 percent of the entrepreneurs have agreed that fact and remaining 8.33 Percent entrepreneur were neutral in this fact as a challenge in availing finance from formal sources.

Challenge no.4: Delay in disbursement of loan:

Procurement of fund from formal sources takes long time as compared to informal sources. Lenders delay in sanctioning the loan, which may impact the performance of the enterprise due to unavailability of fund at the proper time. 50.83 percent respondents entrepreneurs agreed and 30 percent entrepreneur have strongly agreed that fact as a challenges/problem in procurement of fund from formal sources.

Challenge no. 5: Lack of securable assets:

Another problem faced by the micro enterprises in procuring the loan from the formal sources is the lack of securable assets. 5.83 percent of the respondents strongly agreed, 29.17 percent of the respondents have agreed and 39.19 percent of them expresses no opinion regarding that fact. 24.17 percent have disagreed and 1.67 percent of the respondents strongly disagreed this fact.

Challenge no. 6: Lack of knowledge about the schemes:

3.33 percent of the respondents have strongly agreed that they are not aware about the various sources from which finance can be availed such as banks and other financial institutions. 37.50 percent of the respondents have agreed, 33.33 percent of the respondents are neutral in this fact as they have little knowledge regarding the various schemes. 21.67 percent of the respondents have disagreed and 4.17 percent have strongly disagreed that lack of knowledge about the schemes is a challenge for availing finance from formal sources.

In addition to the above challenges, there are some other challenges/problems faced by the entrepreneurs of micro enterprises in availing finance from different sources such as non-cooperative attitude of the lending institutions, lack of maintaining financial records by the enterprises etc.

Conclusion: Micro, Small and Medium enterprises (MSMEs) sector is vital for a country's economic growth. One of the important components of MSMEs is Micro enterprises which comprises major part of this sector. Thus, growth of the Micro enterprise at a healthy rate is crucial for overall growth of the MSME sector. This present study finds out that there are a number of challenges faced by the entrepreneurs for availing credit from different sources which create a barrier towards the good performance by the enterprises. The study has concluded that the challenges/obstacles faced in raising finance can be reduced by increasing knowledge or creating awareness among the entrepreneurs about the procedure of availing credit from different sources and better utilization of the schemes. In addition to that the government and other agencies should take special initiatives for the micro enterprises so that they can easily procure credit and the challenges/barriers faced by them are minimized as far as practicable.

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