

Survey On Factors Influencing MSME in Acquiring Loan

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Abstract— This study investigates the factors influencing Micro, Small, and Medium Enterprises (MSMEs) in acquiring loans. A descriptive research design is employed, utilizing both primary and secondary data sources. Primary data is collected through structured questionnaires from respondents, while secondary data is gathered from various sources such as websites, journals, books, and articles. The research population consists of investors in MSMEs, with data collection focusing on the city of Vadodara. Random sampling is used to select respondents. Questionnaires and surveys serve as the primary data collection instruments. The study aims to provide insights into the loan acquisition process for MSMEs and contribute to understanding the challenges and opportunities in this sector.

I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) form the backbone of many economies worldwide, contributing significantly to employment generation, innovation, and economic growth. These enterprises are characterized by their relatively smaller scale of operation compared to large corporations, yet they play a crucial role in driving economic activity. MSMEs encompass a diverse range of businesses, spanning various sectors such as manufacturing, services, and trade. They are often characterized by their flexibility, adaptability, and ability to cater to niche markets. The classification of MSMEs typically revolves around factors such as investment in plant and machinery for manufacturing enterprises or investment in equipment for service enterprises. By providing employment opportunities, fostering entrepreneurship, and promoting local development, MSMEs are vital contributors to sustainable development and inclusive growth strategies in many countries.

However, they often face unique challenges, such as limited access to finance, inadequate infrastructure, regulatory burdens, and difficulties in accessing

markets. Addressing these obstacles is crucial for unlocking the full potential of MSMEs and their contributions to sustainable development.

This study focuses on understanding the challenges MSME's faces to get loans. The study finds out the main reasons behind this and look for ways to help them overcome these challenges.

II. LITERATURE REVIEW

Joshi, (2011); Arun & Kamath (2015) There are three problems access to market, credit capital which are faced by micro, small and medium enterprises. Inadequate suitability among funds accessed by the SMEs. There is no systematic approach to MSMEs, transaction cost is high, procedure of granting loan is lengthy but at the end loan disbursement is small amount. Inadequate access to formal source of funds and non-availability of full information. Rate of interest for investment and working capital is quite high. Many MSMEs lacks transparency, inadequate financial and managerial capabilities.

Snyder (2013) studied The financing of SMEs and divided his research into four key findings. He found that- (1) SMEs' perception of banks' lending policies are more negative than they need to be. (2) SMEs would benefit if the banks open up regarding their loan application processes. (3) SMEs generally are not clear about the banks' lending criteria. (4) Banks often don't provide clear and adequate feedback to the SMEs, subsequent to their loan decision. Also based on their key finding number 3, he defined the criteria on which banks rate the SMEs and summarized them as CAMPARI, which stands for Character of the SME applicant, Ability to repay loan, Means to repay loan, Purpose of loan, Amount of loan, Repaid- How the loan will be repaid, and Insurance or security for the loan.

Kira and He (2012)-The relationship of the firm's access to debt finance by the MSMEs -have listed the shortage of finance as the biggest problem faced by MSMEs. They have studied the relationship of the firm's access to debt finance by the MSMEs and the firm characteristics, and have found that the main characteristic features determining the access to finance by the SMEs include location of the firm, industry of the firm, firm size, firm's business information, age of the firm, legal status of the firm (incorporation) and firm's collaterals. They have recommended the MSMEs to maintain attractive firm attributes to stimulate Financial Institutions to lend to them.

Agyapong et al (2011)- The decision criteria adopted by the Financial Institutions while lending to the MSMEs- Their analysis brought to the fore that the lenders took particular interest in risk while dealing with the SMEs. They also found that the intended purpose of loan, repayment of previous loan, repayment schedule, type of business activity, size of loan relative to size of business and availability of collateral ranked highest on their criteria list. On the contrary, CVs of the clients, government guarantee of loans, charges on assets and gearing ranked lowest on the criteria list in terms of importance. They also highlighted the importance of letting the MSMEs know about the criteria used by the Financial Institutions, which would increase the probability of their loan being sanctioned.

A study by Seng (2008) investigated how the bank managers make decisions on lending to the Small and Medium Enterprises. His results reveal that 71.2% of the variance associated with the bank lending decision is because of credit information, bank's lending policies, pricing policy, past experience, financial soundness, and loan securities. His study also shows that there are 5 major criteria used by banks to assess the small business borrowers. These are credit information, loan policies, experience, financial soundness, and loan securities. These criteria, according to study, suffice the banks in taking the lending decision for the MSMEs. The lowest ranks were given to the trade creditors, trade debtors, projected income, and government guarantee of loan. Beck et al (2006) surveyed 10,000 firms from over 80 countries for finding if there exist some factors that

influence the level of financing obstacles for a firm and found that the most important factors determining the financing obstacles to a firm are age, size and ownership structure: the small, younger and domestic-owned firms face more financing obstacles as compared to large, old, and foreign-owned firms. Their study resulted that the probability of a small firm having a problem in access to credit is 39%, for medium firms, it is 38%, and for large firms, the probability is 29%.. Their results also suggest that the institutional development is the most important country -specific characteristic explaining the cross -country financing obstacles.

Kutsuna and Cowling (2003)- Determinants of small business loan approval- in their research study of Japanese survey data have found the positive relation of the possibility of a small business' loan approval with 5 major factors, which are its employment size, loan requests made to governmental FIs, the investment in fixed assets, closeness of the small firm and bank relationship, and macroeconomic factors. They have also explained the role of a long term small business- bank relationship and have found that the companies that have switched banks in the past three years have lower loan approval rates

III. RESEARCH GAP

Despite recognizing the challenges faced by MSMEs in accessing loans and the impact of limited finance on their growth and contribution to economic development, there remains a research gap in identifying effective strategies to mitigate these obstacles. While the study outlines the problem of collateral requirements, high-interest rates, and limited credit histories hindering loan acquisition, there's a need to study deeper into practical solutions that address these barriers. Additionally, while the study aims to find the factors affecting MSME in obtaining loans and finance . Closing this gap would offer actionable insights for fostering the growth and sustainability of MSMEs, ultimately contributing to broader economic development goals.

IV. OBJECTIVES OF THE STUDY

- To study of the different finance options available to MSMEs’
- To analyse the key factors that influence MSMEs’ ability to acquire loans.
- To provide recommendations for policymakers, financial institutions, and MSMEs to enhance access to finance for small businesses.

V. RESEARCH METHODOLOGY

Research Design:

In research design, there are two types of studies Exploratory Study, Descriptive Study. Here in the study descriptive research design is used

Data Collection Method:

Primary Data Collection:- The Primary data is collected from the various respondents through a structured questionnaire.

Secondary Data Collection:- Secondary data is also collected for understanding the topic in better way. Its, give clarity about the study. And this information collects through official SBIMF website, journals, books, articles and internet.

VI. DATA ANALYSIS AND INTERPRETATION

Analysis:

| Demographic Profile | | |
|---------------------------|------------------------|-----|
| Gender | Male | 118 |
| | Female | 05 |
| MSME Registered Customers | Yes | 117 |
| | No | 06 |
| Nature of business | Manufacturing | 70 |
| | Trading | 53 |
| | Service | 0 |
| Type of Organization | Sole Proprietorship | 118 |
| | Partnership | 3 |
| | Hindu-Undivided Family | 0 |
| | Private Company | 2 |
| Total | | |

123

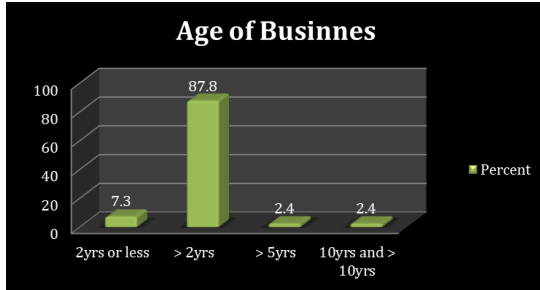
Interpretation:

1. The majority of registered customers are male, with 118 out of 123 being male.
2. A significant portion of customers, 117 out of 123, are registered as MSMEs (Micro, Small, and Medium Enterprises).
3. Manufacturing is the dominant nature of business among the business, with 70 out of 123 engaged in manufacturing activities.
4. Trading is the second most common nature of business, with 53 out of 123 customers involved in trading.
5. None of the business are engaged in service-oriented businesses according to the data.
6. Sole proprietorship is the most prevalent type of organization among the customers, with 118 out of 123 falling under this category.

7. Only a small portion of customers, 3 out of 123, are categorized as partnerships.
8. Hindu Undivided Family (HUF) and Private Company types of organizations are not recorded.
9. The total number of business firms in the dataset is 123.

IV. FINDINGS

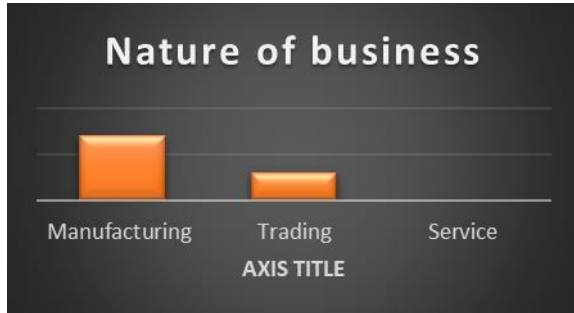
1. How long have you been in this business?



Interpretation:

As per the above table we found that most of the MSME are greater than 2 years and less than 5 years old.

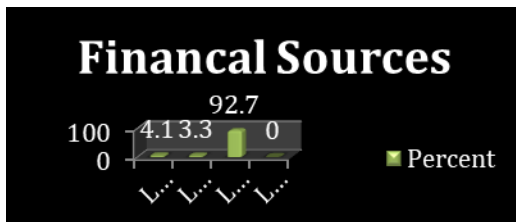
2. What is the nature of your business ?



Interpretation:

As per above table we found that the most of MSME are Manufacturing enterprises in nature.

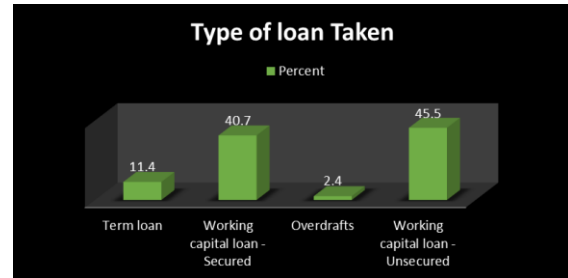
3. Which is the main sources of finance do you use for running your business?



Interpretation:

Out of total respondents, 4.1% use loans from friends and family, 3.3% use Bank Loans, 92.7% use loans from other Financial Institutions and no one go for loan from money lenders.

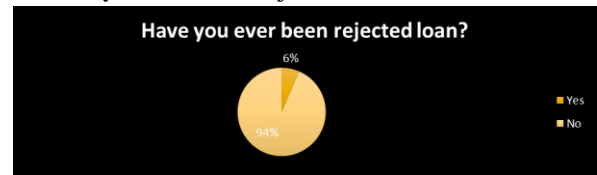
4. Which type of Loan you have taken from Bank or financial institution?



Interpretation :

Out of total respondents, 11.4% taken Term loan, 40.7% taken Working capital loan – Secured, 2.4% taken Overdraft, 45.5% taken Working capital loan – Unsecured.

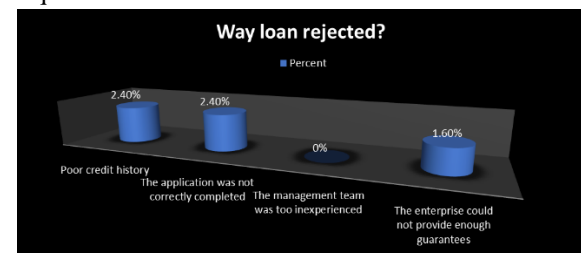
5. Have you ever been rejected for loan?



Interpretation:

Most of the MSMEs were reluctant to answer this question. However, the data obtained on the basis of available responses shows there were only 6% of the MSMEs in the sample whose loans were ever been rejected.

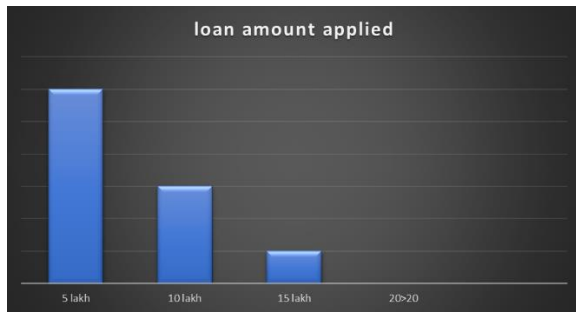
6. What was the reason given for not approving the request?



Interpretation:

The data obtained on the basis of available responses shows there were 2.40% respondents rejected from loan because of poor credit limit, 2.40% respondents rejected from loan because of application was not correctly completed, 1.60% respondents rejected from loan because of the enterprise could not provide enough guarantees.

7. In the previous FY (2022-23), how much loan amount did you apply for?



Interpretation:

As per the above table we found that 74 MSME applied for 5 lakh, 37 for 10 lakh, 12 for 15 lakh and 0 for 20 lakh

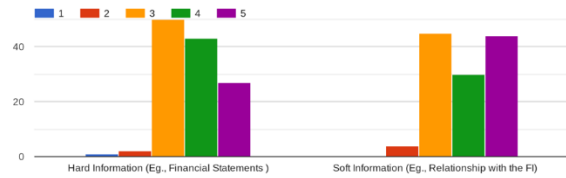
8. Out of the amount applied for, how much loan did you actually get?

Interpretation:

The results of above question differs from every applicant who applies for loan and gets approved or rejected due to several reasons.

9. On a scale of 1 to 5, state the importance of Soft Information and Hard Information in your opinion. (Please tick against the appropriate option), where 1 means not at all important, and 5 means Very Important.

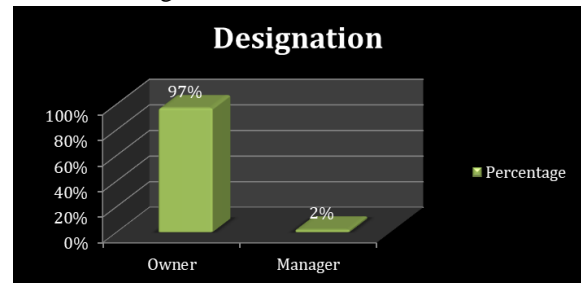
On a scale of 1 to 5, state the importance of Soft Information and Hard Information in your opinion. (Please tick...important, and 5 means Very Important.



Interpretation:

On a scale of 1 to 5, the following result is obtained according to opinion on the importance they hold on the decision.

10. Your Designation ?



Interpretation:

The designation of the people applied were Managers and Owners and Students who filled the questionnaire.

CONCLUSION

- We conclude that this study helps to identify the investment pattern and the factors affecting the enterprises to obtain loan so that we can focus on weak points to enhance the services.
- The study helps to identify investors investment preference toward different investment options
- The study helps to know the importance given by investors while choosing investment options.
- The study helps to know the reasons of the rejection of the request of the applicants.

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