

Financing of MSMEs: A study on factors affecting bank finance in dal and rice units of Hyderabad Karnataka region

¹ Sharanraj, ² K Padmasree

¹ Ph.D. Research Scholar, Department of Commerce, Central University of Karnataka, India

² Prof. Head, Department of Commerce, School of Business Studies, Central University of Karnataka, India

Abstract

The present study aims to find out the factors affecting the bank finance that is invested in the Dal and Rice Units of Hyderabad Karnataka Region. Dal and Rice Units have used different sources of finance such as Investment through Owners Fund, Investment through Bank Finance, Investment through Government Institutions and Investment through Other Sources. Dal and Rice MSMEs are facing the problem of accessing bank finance. The present study analyzed the factors affecting investment made through bank finance. Factors such as nature of business, interest rate, type of ownership of the firm, age of the owner, business experience of the owner, size of the firm, value of collateral and type of collateral are considered for the present study. Multiple Regression analysis is done to find out the factors affecting bank finance. It is found from the present study that except size of firm and age of the owner, rest all independent variables are affecting investment made through bank finance.

Keywords: bank finance, MSMEs, collateral, investment

Introduction

Micro, Small and Medium Enterprises (MSMEs) are the backbone of all economies. Worldwide, MSME have been considered and accepted to be the engine for economic growth. They have been acknowledged in both developed and developing countries as an effective instrument for creating employment opportunities with little amount of capital investment and for an industrial development of a country. Besides all these aspects, the sector has a very significant role in achieving several social goals such as removal of poverty, improving wealth and standard of living of the society, reduction of disparities in income and regional imbalances.

The MSME sector has emerged as a striking and dynamic sector in India. It touches the heart of India by playing a key role in the industrial progress, considering that it constitutes around 26 million units, contributes 45 per cent of industrial output, 40 per cent of exports, employs around 60 million people and ensures balanced regional and inclusive growth. Having acknowledged the importance of MSME sector, of all the elements that go into business, financing is perhaps the most crucial one. Adequate, timely, and affordable finance is a must for the growth and development of MSME sector. Financing is necessary to start up, run, modernize, innovate and expand their operations. This is where they face problems.

Recognizing the important role played by MSMEs in industrial development, economic development and its contribution to employment, Government and Reserve Bank of India are taking the lead in supporting initiatives that will improve access to finance. There are various factors that affect the bank finance. Factors such as nature of business, interest rate, type of ownership of the firm, age of the owner, business experience of the owner, size of the firm, value of collateral and type of collateral are considered for the present study.

Objectives

- To explore the factors affecting the bank finance in the study area
- To find out the factors affecting bank finance in the study area

Hypothesis

H₀: There is no significant effect of all factors on bank finance

H₁: There is a significant effect of all factors on bank finance

Methodology

The present study adopted descriptive and analytical type of research. At the first step, factors were identified through literature review. A total of eight factors were identified such as nature of business, interest rate, type of ownership of the firm, age of the owner, business experience of the owner, size of the firm, value of collateral and type of collateral are considered for the present study. Then the data is collected from the Dal units of Kalaburagi district and Rice units of Raichur district respectively by administering a questionnaire. Study population constitutes all the Dal and Rice units operating in Kalaburagi and Raichur districts of Karnataka State. Samples of 100 responses, 50 each from Dal and Rice units were collected using convenience sampling method. Multiple regression analysis was used to find out the effect of factors on the bank finance.

Results & Discussion

This section deals with the factors affecting the Bank Finance. There are various variables that affect the amount of bank finance that is invested in the firms. Multiple Regression analysis was used to determine the effect of eight factors on the Bank Finance. It analyses how well the eight factors predicted the dependent variable. It is also used to

find out the relative importance of individual independent variable

Regression Model

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6D_1 + b_7D_2 + b_8D_3$$

Where

X1 = Interest Rate (in per cent)

X2 = Age of the owner (in years)

X3 = Business experience of the owner (in years)

X4 = Size of the owner

X5 = Value of collateral

D1 = Nature of business (1 if Dal units, 0 otherwise)

D2 = Type of ownership of firm (1 if proprietorship, 0 otherwise)

D3 = Type of collateral (1 if business collateral, 0 otherwise)

Table 1: Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.879 ^a	.772	.754	11.744	2.022

- a. Predictors: (Constant), Age of the Main Owner, Interest Rate charged by the bank, Nature of Business, SizeOfFirm, Type of the Firm, Number of Years of Experience of the Owner, ValuOfCollateral, Type of collateral provided to secure bank loan
- b. Dependent Variable: BankFin

The results from the Table No. 1 indicate that there is a strong relationship between the independent variable and dependent variable. The R square value is 0.772, indicates that independent variables explained 72.4 per cent of variance in overall dependent variable. D-W test value is 2.022. so it is quite evident that auto correlation does not exist.

Table 2: ANOVA^a

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42926.306	7	6132.329	44.460	.000 ^b
	Residual	12689.444	92	137.929		
	Total	55615.750	99			

- a. Dependent Variable: BankFin
- b. Predictors: (Constant), Age of the Main Owner, Interest Rate charged by the bank, Nature of Business, SizeOfFirm, Type of the Firm, Number of Years of Experience of the Owner, ValuOfCollateral, Type of collateral provided to secure bank loan

The Table No. 2 shows the ANOVA results of multiple regression. The p value is 0.000 and the test is significant at 5 per cent level of significance. It can be inferred from the table that there is an effect of independent variables on dependent variable.

Table 3: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	-43.41	10.522		-4.126	.000		
	Type of ownership of the Firm	17.628	3.906	.281	4.514	.000	.641	1.560
	Nature of Business	2.569	.568	.211	5.365	.002	.658	1.865
	Experience of the Owner	.448	.248	.107	1.803	.045	.710	1.408
	Interest Rate	1.419	.281	.276	5.059	.000	.835	1.198
	Type of collateral	16.332	1.564	.676	10.440	.000	.592	1.689
	Value of Collateral	.145	.020	.462	7.186	.000	.600	1.668
	Size of Firm	.014	.020	.034	.675	.501	.996	1.004
	Age of the Main Owner	.012	.148	.006	.082	.935	.521	1.918

a. Dependent Variable: BankFin

The results of Table No. 3 indicate that except size of firm and age of the owner, rest all independent variables are affecting dependent variables. The VIF values for all the variables are less than 10. So it can be inferred that there is no multicollinearity.

So the regression model can be given as under:
 $Y = b_0 + 0.276\text{InterestRate} + 0.006\text{Age} + 0.107\text{Experience} + 0.034\text{SizeofFirm} + 0.462\text{ValueOfCollateral} + 0.211\text{NatureOFBusiness} + 0.281\text{TypeOFOwnership} + 0.621\text{TypeOfCollateral}$

Table 4: Relative Importance of Factors Affecting Bank Finance

Factors	Standardized Coefficients Beta	Rank
Type of collateral	0.676	1
Value of Collateral	0.462	2
Type of ownership the firm	0.281	3
Interest Rate	0.276	4
Nature of Business	0.211	5

Experience of the Owner	0.107	6
Size of Firm	0.034	7
Age of the Owner	0.006	8

Table No. 4 shows the relative importance of independent variables. The top three independent variables that are affecting the bank finance are type of collateral, value of collateral and type of ownership of firm. The least affecting variables are experience of the owner, size of the firm and age of the owner.

Suggestions

Though there is a scheme under which MSMEs can get the collateral free loans, none of the MSME in the study are has availed collateral free loan. There are many such schemes, the MSMEs are unaware. Hence the Government should make sure the proper functioning of such schemes.

Conclusion

In the present study, the factors were identified from the literatures that were affecting the bank finance. MSMEs are facing a lot of problems in availing bank finance. Though the Government and the RBI have taken many measures to meet the needs of the MSMEs, the benefits are not reaching properly to the MSMEs. The Government should take care of this so that today's MSMEs can flourish into tomorrows MNCs.

References

1. Quartey P. Financing Small and Medium Enterprises SMEs in Ghana, 2015-2008, 37-41. <http://doi.org/10.1300/J156v04n01>
2. Cull R, Davis LE, Lamoreaux NR, Rosenthal JL. Historical financing of small- and medium-size enterprises. *Journal of Banking & Finance*. 2006; 30(11):3017-3042.
3. Lehmann E, Neuberger D. Do lending relationships matter? Evidence from bank survey data in Germany. 2001; 45:339-359.
4. Pandula G. An Empirical Investigation of Small and Medium Enterprises Access to Bank Finance : The Case of An Emerging Economy. 2011; 18(1):255-273.
5. Berger AN, Black LK. Bank size, lending technologies, and small business finance. *Journal of Banking & Finance*. 2011; 35(3):724-735.
6. Hyz AB. Small and Medium Enterprises SMEs in Greece - Barriers in Access to Banking Services. An Empirical Investigation. 2011; 2(2):161-165.
7. Valentin A, Wolf B. Credit guarantee schemes and their impact on SME lending: existing literature and research gaps. *International Journal of Entrepreneurial Venturing*. 2013; 5(4):391.