

Problems Faced by Small Business Entrepreneurs in Obtaining Credit Facilities from Commercial Banks- With Specific Reference to Mudra Loan

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Index Terms: About four key words or phrases in alphabetical order, separated by commas.

I. INTRODUCTION

Micro and small enterprises are considered as a key driver of economic and social development in the Indian context. These are the main employment generating sectors in the country. Financing of these sectors has received lot of attention in the recent years. Finance is essential for the survival of every business enterprises. Most MSMEs are financially excluded due to the complex lending terms and conditions of commercial banks and financial institutions, this hinder the growth and expansion of small businesses in India.

Revised Manuscript Received on December 22, 2018.

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The PradhanMantri MUDRA Yojana (PMMY) is a scheme of the Central government launched on 8th April 2015, which focuses the non-corporate, non-farm micro and small enterprises in India for providing loans up to Rs.10 lakh. For implementing the scheme the government setup Micro Units Development and Refinancing Agency (MUDRA) Bank by the statute

The main aim of MUDRA is 'Funding the Unfunded'. Through its refinancing scheme it provide small entrepreneurs to borrow from all the Public Sector Banks, Private Sector Banks, Regional Rural Banks, State co-operative Banks, Urban co-operative Banks, Non-Banking Finance Companies (NBFCs), Foreign Banks and Micro Finance Institutions (MFIs). MUDRA was initially established as a wholly owned subsidiary of SIDBI.

MUDRA has been established with the objective of financing small business and to empower first time entrepreneurs. In the remote areas banking services are not available. Hence the people in those areas usually take loans from money lenders at a very high interest when they required money. Banks mostly offer credit against collateral and MSMEs particularly micro and small enterprises are not in a position to do so, this hampers them of access to the formal credit market. It affects the growth of the small business sectors. So this scheme helps them in extending financial support, including refinancing and also provides income generation and employment creation in manufacturing as well as in the retail activities of the economy. One of the key advantages of this scheme is that borrowers are not required to provide collateral or any other security and also there is no processing charge on MUDRA loans. According to the requirement of the borrower, the loan is provided in three schemes. **Shishu:** In this scheme, a loan up to Rs.50000 is offered. **Kishore:** Under this scheme, loan amount may vary in between Rs.50000 to Rs.5 lakh depending on the borrower. **Tarun:** Under this scheme a loan amount of 5 lakh to 10 lakh will be sanctioned. The interest rates of the loans are to be charged as per the policy of the Bank.

MUDRA Yojana has several benefits however there are certain downsides also. One of the most critical problem faced by the Indian economy is inequitable distribution of funds. The majority of the funds are available to the big corporates, whereas too little of the capital is distributed to MSMEs. In the case of lending MUDRA loan, the risk of bank is very high, because the loan is provided to the borrowers

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without collateral or security. So getting MUDRA loan from the bank is not an easy task. The bank made huge formalities in lending loan to the entrepreneurs. So this study is mainly focused on problems faced by small business entrepreneurs in obtaining MUDRA loan from the commercial banks.

II. OBJECTIVES OF THE STUDY

1. To study the problems faced by small business entrepreneurs in accessing credit under the scheme of MUDRA.
2. To identify the most demanded category of MUDRA.
3. To find out the purpose for availing MUDRA Loan.

III. LITERATURE REVIEW

Ashish Mahajan (2018), in his study analyzed the impact of mudra scheme. This scheme will developing a strong economy in future and also it helps in improving the status of women and other backward sections of the society by giving adequate financial support and encouraging them to start a new business .Therefore this scheme support more people to become self-employed.

Binija George & J. Nalini (2018) studied the performance of MUDRA Yojana. The study examined that the small business in India built for the economic development that should be strengthened and supported. In the past few years, there are several schemes for encouraging small business that are in the right path. They stated that MUDRA Yojana is one of the most recent scheme to push up small and micro business units in India. This type of schemes provided a lot of encouragement to young educated and skilled workers for developing their business and it will helpful for the existing small business to expand their business.

Deepak Gupta & Jyoti Sharma (2017) tries to analyses the impact of MUDRA scheme in uplifting the micro and small enterprises and discuss MUDRA in detail and takes in depth overview of MUDRA Bank as an initiative of financial inclusion to uplift the small business enterprises.

Pappu Kumar Rajak (2017), in his study concluded that the MUDRA scheme is the most recent loan that strengthening and supporting the small business units in India, it exclusively focuses on entrepreneurs. This type of scheme helps to promote the growth of small scale sectors. This leads to a dramatic change in the economy and also helps to make a developed India.

Shentikumar (2017) has stated that MUDRA Yojana has been taken to focus exclusively for entrepreneurs. This type of scheme will add to the well-being of the individuals engaged in small scale industries which will positively shape the progress of the economy as a whole.

Parimala Ramesh (2016) analyzed about the MUDRA bank schemes, such as Shishu, Kishore and Tarun. The business domain of MUDRA bank consists of income generation and micro enterprises engaged in manufacturing, trading concerns for loan uptoRs.10 lakhs. Under the Shishu scheme, SC/ST/OBC categories were huge benefit from the MUDRA bank funds and also found that Shishu scheme is better performance other than Kishore and Tarun schemes.

Anup Kumar Roy (2016) stated the role of MUDRA Bank in promoting the small business units. MUDRA as a financial tool is found very crucial in the initial stages across the country and it will make a dramatic change in the growth of

small business and also plays a vital role in the rejuvenation of small business and help in making a developed India.

J.Venkatesh& Ms. R. LavanyaKumari(2015)has showed that besides the schemes that are being introduced for the overall growth and development of the MSME sector, initiatives have been launched which focus solely on entrepreneurs. The schemes will contribute to the well-being of those individuals who engaged in small scale industries and it will positively affect the progress of the entire economy.

M. Chandraiah& R Vani (2014),” Prospects & Problems of MSME sector in India -An analytical study “.In this study they concluded that the MSME sector face key challenges such as high cost of credit, collateral requirements, lack of availability of adequate and timely credit, lack of access to global markets, problems of storage, designing, packaging and product display, procurement of raw materials at a reasonable cost, low technology levels, inadequate infrastructural facilities etc. The growth of small scale sectors is rapidly over the years and also the modern MSME have an impressive growth of economic development in India.

IV. HYPOTHESIS

H01: There is no significant association between the age of the respondent and banking sector which sanctioned the loan.

H02: There is no significant association between the purpose for which loan is taken and category of MUDRA loan.

V. RESEARCH METHODOLOGY

Survey Method has been followed for the study. Both primary and secondary sources of data were used for this study. Primary data was gathered through a structured questionnaire and also personal interview with the beneficiaries and MUDRA loan consultancies. Secondary data was collected from published reports, journals, magazines and various websites including website of MUDRA. In total, 53 small business enterprises in Ernakulum district were taken as sample. The researcher has used purposive sampling technique for the selection of samples.

VI. TOOLS FOR DATA ANALYSIS

Statistical tools were applied for the analysis of the survey is Pearson’s Chi-square, Frequency, Mean and Standard deviation.

VII. DATA ANALYSIS AND INTERPRETATION

A. General Information

i. Nature of the Business

Nature of business	Frequency	Percent
Bakery	4	7.5
Net cafe	1	1.9
Furniture distributors	1	1.9
Engineering workshop	1	1.9
Tattoo shop	1	1.9
Garments	3	5.7
Editing lab	1	1.9

Oushadhi shop	1	1.9
Day care and night care	1	1.9
Medical store	1	1.9
Aqua fresh(franchisee)	1	1.9
Clinical laboratory	1	1.9
Spare parts shop	1	1.9
Handloom shop	1	1.9
Studio	1	1.9
Education consultancy	1	1.9
Resort	1	1.9
Gym	2	3.8
Salon shop	2	3.8
Beauty parlor	1	1.9
China net distributors	1	1.9
Taxi	5	9.4
Event management	1	1.9
Ladies hostel	1	1.9
Tyre shop	1	1.9
Watch shop	2	3.8
Duty paid shop	2	3.8
Restaurant	1	1.9
Tea shop	1	1.9
Stitching center	4	7.5
Grocery shop	2	3.8
Vegetable shop	3	5.7
Juice stall	2	3.8
Total	53	100.0

Source: Direct Survey

Table 6.1 shows the nature of business carried out by small enterprises in Ernakulam City. 9.4% of the borrowers are availed loan for buying taxi car. For bakery it is 7.5% and stitching center also 7.5%, gym, salon shop, watch shop, duty paid shop (3.8%).

ii. Age of the respondent

Age of the respondent	Frequency	Percent
21-30	7	13.2
31-40	22	41.5
41-50	17	32.1
51-60	4	7.5
61 and above	3	5.7
Total	53	100.0

Source: Direct Survey

From this table it is clear that 41.5% of the respondents belong to the age group 31-40 years. The rest of the respondents are grouped into four different segments, that is respondents with age group of 41-50 years (32.1%), respondents with age group of 21-30 years (13.2%) and respondents with age more than 61 years (5.7%). This clearly shows that the MUDRA Loan is availed by the entrepreneurs who are belongs to the age group of 31-40 years.

iii. Year of Establishment

Year of Establishment	Frequency	Percent
0-1	26	49.1
1-5	13	24.5
5-10	11	20.8
Above10	3	5.7
Total	53	100.0

Source: Direct Survey

From the above table, 49.1% of the entrepreneurs are started their business for a period up to one year. 24.5% of the entrepreneurs started their business between a period of 1 to 5 years and 20.8% belongs to 5 to 10 years.

iv. Banking sector which has sanctioned loan

Banking sector which has sanctioned loan	Frequency	Percent
Public sector banks	31	58.5
Private sector banks	22	41.5
Total	53	100.0

Source: Direct Survey

This table shows that 58.5% of business units have taken loan from public sector banks and the rest of units (41.5%) have taken loan from private sector banks. So it can be clear that most of the loans are sanctioned by the public sector banks.

v. Category of MUDRA Loan Applied

Category	Frequency	Percent
Sishu	10	18.9
Kishore	27	50.9
Tarun	16	30.2
Total	53	100.0

Source: Direct Survey

Out of the three category of MUDRA Loan, majority (50.9%) of the entrepreneurs are availed loan under Kishore. 30.2% of the entrepreneurs are availed Loan through Tarun category and remaining 18.9% in Sishu category. It is clear from the study that the most demanded category of MUDRA is Kishore.

vi. Purpose for availing MUDRA loan

Purpose	Frequency	Percentage
Startup capital	29	54.7
Expansion of business	24	45.3
Total	53	100.0

Source: Direct Survey

From the given table shows that the main purpose of loan taken by the borrower is for starting a new business as

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supported by 54.7% of survey units. 45.3% of the borrowers take loan for the purpose of expansion of their business.

vii. Sources of information

Source of information	Frequency	Percent
Newspaper	17	32.1
Internet	11	20.8
Bank officials	7	13.2
Word of mouth	13	24.5
Akshaya centers	5	9.4
Total	53	100.0

Source: Direct Survey

The above table displays the sources of information. It can be seen that majority of the sample respondents came to know about MUDRA loan through newspaper (32.1%), 24.5% of the respondents by word of mouth, 20.8% by internet, 13.2% by bank officials only 9.4% of respondents get information from Akshaya centers.

viii. Problems faced by small business entrepreneurs in obtaining MUDRA loan.

Descriptive Statistics

Problems Faced By The Entrepreneurs	N	Mean	Std. Deviation
Lack of infrastructural facilities	53	2.3585	1.03950
Lengthy processing time for the loan application	53	2.9434	1.15050
Co-applicant is required for availing loan	53	2.1698	.97539
Bank has hesitated to give loan for young entrepreneurs	53	2.0755	.80501
Applied loan amount has not been fully received	53	2.3396	1.17577
Deposit required for availing loan	53	2.0566	1.02685
Migrants' people face difficulty in getting loan	53	1.8113	.80995
Government regulations.	53	1.7358	.68363
Bank refused to give loan to negative areas (Mattancherry, Perumbavoor)	53	1.9057	.81487
Demanding for collateral security	53	2.1698	.87125
Must have a good relationship with bank	53	2.3774	.96529
Delay in fund disbursement	53	2.6226	1.13046
Valid N (list wise)	53		

Source: Direct Survey

This descriptive statistics table reveals the extent to which variable were perceived as problems. In the given table, variables highly perceived as problem have highest mean score, and variables lowly perceived as problems have low mean scores. Lengthy processing time for the loan application has the highest mean score (Mean=2.9434, SD=1.15050), followed by delay in fund disbursement has the second highest mean score (Mean=2.6226, SD=1.13046). Government regulations has lowest mean score (Mean=1.7358, SD=.68363). Must have a good relationship

with bank (Mean=2.3774, SD=.96529), Lack of infrastructural facilities (Mean=2.3585, SD=1.03950), applied loan amount has not been fully received (Mean=2.3396, SD=1.17577), co-applicant is required for availing loan (Mean=2.1698, SD=.97539), demanding for collateral security (Mean=2.1689, SD=.80501) deposit required for availing loan (Mean=2.0566,SD=1.02685), bank refused to give loan to negative areas (Mattancherry, Perumbavoor) (Mean=1.9057,SD=.81487), migrants' people face difficulty in getting loan(Mean=1.8113,SD=.80995). The other variables which have high mean scores, implies that they are highly perceived as problems faced by small business entrepreneurs.

CHI-SQUARE TESTS

The chi-square test helps the researcher to test the relatedness and independence of two categorical variables.

A. Association between age of the respondents and banking sector which sanctioned the loan.

Here, the researcher used chi-square test in order to establish the association between the age of the respondents and banking sector which sanctioned the loan. The result of this analysis is displayed in the below table 6.9.

Hypothesis of the study

H0: There is no significant association between age of the respondents and banking sector which sanctioned the loan.

H1: There is significant association between age of the respondents and banking sector that sanctioned the loan.

ix. Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.648 ^a	4	.800
Likelihood Ratio	1.669	4	.796
Linear-by-Linear Association	1.344	1	.246
N of Valid Cases	53		

Source: Direct Survey

The test result shows that the obtained chi-square value is .800 which is more than the cut-off value of (0.05). Hence, the null hypothesis is accepted which means there is no significant association between age of the respondents with banking sector that sanctioned the loan.

B. Association between purpose for which loan was taken and category of MUDRA loan

The chi-square test was used by the researcher to measure the significant association between purpose for which



loan is taken and category of MUDRA loan. The output of the study is presented below table x.

Hypothesis of the study

H0: There is no significant association between purpose for which loan is taken and category of MUDRA loan.

H1: There is significant association between purpose for which loan is taken and category of MUDRA loan.

x. Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.082 ^a	2	.214
Likelihood Ratio	3.115	2	.211
Linear-by-Linear Association	2.161	1	.142
N of Valid Cases	53		

Source: Direct Survey

The given table 6.10 displays the result of chi-square test. It is clear that the significance value is (.214) which is higher than the commonly accepted level of (0.05). Therefore, the null hypothesis is accepted which means there is no significant association between purpose for which loan is taken and category of MUDRA loan.

I. FINDINGS

From this study the researchers find that majority of the respondent’s sought MUDRA loan from banks for buying car for taxi purposes. They also availed subsidies under this scheme. From the surveyed units, 58.5% of business units have taken loan from public sector .Out of the three category of MUDRA Loan, majority (50.9%) of the entrepreneurs are availed loan under Kishore. 30.2% of the entrepreneurs are availed Loan through Tarun and remaining 18.9% in Sishucategory.54.7% of the beneficiaries sought the loan for the purpose of starting new business and 45.3% of the borrowers take loan for the purpose of expansion of their business. Majority of the respondents strongly agree that there is lengthy processing time for the loan application. So from the descriptive statistics table (table 6.8) it is understandable that this variable has the highest mean score (Mean=2.9434, SD=1.15050).From the survey researchers identified that peoples in the negative areas (every bank has a list of areas where regarded as negative place or red zone) especially the place like Mattancherry and Perumbavoor in Ernakulam district, enterprises located in those areas are very difficult get a loan. MUDRA applicants who are migrants to Ernakulam city, such beneficiaries become difficult to track. Majority of the young entrepreneurs strongly agree that bank

hesitate to give loan to them because of lack of experience. For getting loan, Co-applicant or guarantor is required. Many respondents suggest that it is better to set up an information cell to provide assistance on the procedure and requirements of availing MUDRA loan and also many of them requested

that the government should ensure and make the procedural simplicity and hassle free access.

II. CONCLUSION

The study found that the main purpose for which beneficiaries availed MUDRA loan for starting a new business and the existing entrepreneur’s availed loan for expansion of their business activities. The major problems faced by entrepreneurs in accessing the credit under the MUDRA loans were lengthy processing time for the loan application.It is also observed that, they do not receive full amount of loan applied for. The main benefits of MUDRA loan is that the borrowers are not required to provide collateral or any other security. But the banks do not have that much of trust on newly established enterprises or start-ups to provide loan without any collateral. So some banks demand collateral for this loan. MUDRA scheme has the potential to create self-employment and it helps in the growth of micro and small enterprises in the country. However, there is a need for proper mechanism to addresses the problems in accessing this type of loan. The government must ensure that beneficiaries utilised the loan money according to the purpose they stated while applying for the loan .A set of guidelines to provide a security net for the banks must be enlisted. Since the loans are collateral free so a proper risk assessment of the every disbursement would reduce the fear of bank in lending to small enterprises and it impact the ultimate success of the scheme.

This study mainly focused on the entrepreneurs in Kerala. While a study of other states will give more information’s regarding the problems in this scheme or the study can be concentrated on banker’s perspective. Thereby the authority can resolve the problems and the scheme will help to build young entrepreneurs in India.

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