CHALLENGES WITH MSME BANK FINANCING IN UTTARAKHAND WITH SPECIAL REFERENCE TO DEHRADUN, INDIA: AN ANALYSIS

[1]**Brajesh Kumar Choubey,**
Research Scholar,
School of Commerce and Management, Om Sterling Global University.
brajesh.choubey47@gmail.com
[2]**Dr. Luxmi Devi,**
Research Supervisor & Assistant Professor,
School of Commerce and Management,
Om Sterling Global University, Hisar, Haryana.

ABSTRACT

The current research focused on understanding the challenges in bank financing for MSMEs in Uttarakhand with special reference to Dehradun. For conducting the research adopts both qualitative and quantitative approach, Random Sampling Technique for MSME respondents. The researcher approached Three hundred and seventy-five people gave their consent to take part in the survey, so total sample size is 375 out of 500 entrepreneurs of MSME in which 50 bank officials are selected for MSME financing in Dehradun. It was concluded, MSMEs are not aware of many sources of finance that are available to them. Due to lack of awareness, the lack of finance prohibits business growth, limiting the reach of refined-talent to a particular region. Hence, the null hypothesis was rejected and the alternative hypothesis ($H1_0$, $H2_0$, $H3_0$, $H4_0$, $H5_0$) was approved due to their p-values being below 0.05 with respect of research objective for MSME financing in Dehradun, Uttarakhand. The suggestion was also made in this respect to create good link between entrepreneurs and government information to start venture in proper ways to reduce risk and offer convenience to the customer.

INTRODUCTION

The GDP of India relies heavily on its banking sector as both its source of vitality and its central nervous system. Banking contributes significantly to a country's economy and is the fundamental component of the money market in developed nations. A World Bank estimate states that SMEs make up 90% of all businesses and over half of all jobs globally, and that in emerging countries, formal SMEs can contribute up to 40% of GDP **(World Bank, 2022, Kumar and Gajakosh 2021, WTO 2022, United Nation 2024)**. Hence the MSMEs are the nurseries of entrepreneurship and are the major contributors towards industrialization. MSMEs play a significant role in the developing nations by introducing innovation, increasing exports, creating more employment opportunities, encouraging entrepreneurship and achieving larger volumes of production (**Endris, and Kassegn, 2022**).

The backbone of India's economy is dependent on the performance of the MSME sector and with the objective of nurturing this sector; MSMED Act was implemented in 2006. The MSME sector employs near about 12 crore people and approximately 5.3 lakh units are spread throughout the country. They are involved in the production of more than 6000 different products, thereby showcasing the versatility of this sector **(Invest India 2024)**. The Government of India (GoI) has acknowledged the high growth rate of MSMEs over the last two decades and it has been estimated that the GDP contribution of the manufacturing sector would reach around 25 percent by the end of 2022. Despite what they contribute, MSMEs in India face a variety of challenges **(Bose, B. 2013, Raveendra, 2018)**.

Mishra (2015) conducted a study using 71 Indian bank managers and senior loan officers participated in the survey. Finding out what elements influence commercial banks' decision-making criteria to provide financing to SMEs was the main goal of the research. They frequently have to balance the risk of becoming obsolete with the task of keeping up with quickly changing technology. Hence in this respect research objective was designed to analyze the actual problems.

OBJECTIVES

- To examine problems faced by banks in financing to MSME
- To analyze the problems and challenges of the entrepreneurs in terms of availability of financial accommodation for their business
- To study the perception of the entrepreneurs towards services of the banks
- To analyze the impact of availing finance on overall functioning of MSME
- To suggest preventive measures and solutions for improving financial services of banks towards MSME

HYPOTHESIS

- $H1_0$: The size of the firm and the use of financing have no meaningful link.
- $H2_0$: The kind of ownership and the availability of financing have no meaningful link.
- $H3_0$: The association between the type of business and the use of financing is insignificant.
- $H4_0$: The kind of industry and the use of finance have no meaningful link.
- $H5_0$: There is no substantial correlation between a business' tenure and its use of financing.

RESEARCH METHOD

This research adopts both qualitative and quantitative approach in order to find out the challenges faced by MSMEs in accessing finance by banks in Uttarakhand. The study is exploratory because Due to a lack of thorough investigation, nothing is known on the difficulties faced by micro, small, and medium-sized enterprises (MSMEs) in Uttarakhand while seeking bank finance. So, the research set out to learn more about this subject by looking at the perspectives of micro, small, and medium-sized enterprises (MSMEs) that operate in the state of Uttarakhand and that of the problems faced by banks. With the help of an analytical research design, it was easy to conduct quantitative analysis relating to evaluating the level of awareness and preference of MSMEs to various financing options available with banks in Uttarakhand and the challenges faced by MSMEs in Uttarakhand with respect to bank financing.

Research Area

Small and medium-sized enterprises (MSME) are crucial to the production, investment, and job development in Uttarakhand since huge industrial units cannot be accommodated by the state's infrastructure and geography. So, the present study was focused on MSME in Dehradun city only. At present there are total51209 micro, 1246 small and 93 medium size enterprise are running in Dehradun city. So, the total population size is 52,548 MSME.

Sample Unit

- Selected complete Micro / Small/ Medium Enterprises business unit covered.
- Selected bank officials dealing with MSMEs financing is covered as sample unit.

Sample Size

The researcher approached 500 entrepreneurs of MSME. Three hundred and seventy-five people gave their consent to take part in the survey, so total sample size is 375. 50 bank officials are selected for MSME financing.

Sampling Techniques

Proportionate Stratified Random Sampling Technique for MSME respondents. Convenient Sampling Technique for Bank officials as respondents. For analyzing the variables considered were:

- Preferred source of business finance by MSMEs for the growth of the business
- Being aware of where to get the banking goods and services that are available to you
- Awareness about government schemes for MSMEs.
- Challenges faced by MSMEs while availing loans from banks.
- Potential of MSME clients
- Process to recover the loans from MSMEs

Data Analysis

The data is processed using the Statistical Package for the Social Sciences (SPSS) software 22, in order to achieve the study goals. In order to characterize the sample and confirm certain interrelationships between various respondent characteristics and the answers they supplied, descriptive statistics like percentages, frequencies, and cross tabulations are used. We used the ANOVA test to examine the quantitative data.

Secondary Data

Secondary data was collected with the help of books, journals etc. Secondary data refers to the statistically processed data which may have been collected for some other research purpose.

RESULTS AND DISCUSSION

The researcher used a convenience sampling strategy to get the samples. The examples represent many industries, including manufacturing, the service industry, and others. Eight hundred twenty-five business owners agreed to take part in the poll when the researcher contacted them. Only 787 samples were returned after the survey. Out of the total number of returned surveys, 375 were determined to be relevant just for this investigation.

Demographic Profiles of Respondents

Respondents Demographic		F	%
Gender	Male	258	68.8
	Female	117	31.2
Age	25-35Years	100	26.67
	35-45Years	150	40
	45-55Years	90	24.13
	Above55 Years	35	9.2
Sector	Service Sector	249	66.4

	Manufacturing Sector	112	30
	Others	14	3.6
Span of Experience	0-2Years	123	32.93
	2-5Years	152	40.67
	5-10Years	46	12.4
	Above10 Years	54	14
Education	SSC/Diploma	142	38
	Degree	211	56.4
	Post-Graduation	22	5.6

According to the cross-tabulation findings, there is no significant relationship between the gender of respondents and their assessment of the procurement of working capital loans (0.294, df3,>0.05). There is no statistically significant correlation between the age of the respondents and their views on the need for a working capital loan, according to the cross-tabulation findings (2.587, 9 degrees of freedom,>0.05) from Table 1.

Using a cross-tabulation test, we found no statistically significant correlation between respondents' perceptions of the relationship between the industry in which they work and the acquisition of working capital loans (1.306, 6df,>0.05). Despite expectations to the contrary, a cross-tabulation of survey responses on the relationship between employee experience and the perception of working capital loan procurement found no statistically significant link (4.733, 9 degrees of freedom,>0.05) from Table 1.

There is no significant relationship between the survey participants' perceptions of the procurement of working capital loans and the qualifications of the employees, according to the cross-tabulation findings (3.126, 6df,>0.05). There is no statistically significant correlation between the survey takers' gender and their choice for financing sources, according to the cross-tabulation findings (0.066, 2df,>0.05) from Table 1.

There is no significant relationship between the age of the survey participants and their view on desire to obtain finance, according to the cross-tabulation findings (1.568, df6,>0.05). The survey participants' perceptions on their preferred method of obtaining financing did not show a significant relationship with the sector in which they are employed, according to the cross-tabulation findings (0.173, 4 degrees of freedom,>0.05). According to the cross-tabulation findings, there is no significant relationship between the years of experience of the employee and the survey participants' view on desire to procure finance (2.419, df6,>0.05). According to the cross-tabulation findings, there is no significant relationship between the survey participants' impression on preference to procure finance and the qualification of the employee (0.690, df4,>0.05). There is no statistically significant correlation between the survey takers' gender and their desire for obtaining overdrafts, according to the cross-tabulation findings (1.521, df2,>0.05).

According to the findings of the cross-tabulation, there is no significant relationship between the age of the survey participants and their perception on desire to obtain overdraft (3.785, df6,>0.05). The survey participants' perceptions on their preference for procuring overdrafts did not show a significant connection with their sector of employment, according to the cross-tabulation findings (3.271, 4df,>0.05). There is no statistically significant correlation between the number of years an employee has been with the company and their preference for purchasing overdrafts, according to the cross-tabulation findings for the survey participants' perceptions on the matter (5.014,df6,>0.05). According to the findings of the cross-tabulation, there is no significant relationship between the survey participants' perceptions on their choice for obtaining overdrafts and the employee's qualifications (4.151, df4,>0.05).

According to the findings of the cross-tabulation, there is no significant relationship between the survey participants' gender and their preference for obtaining long-term loans (1.521, df2,>0.05). According to the cross-tabulation findings, there is no significant connection between the age of the survey participants and their perspective on desire to obtain long-term loans (3.785, df6,>0.05). Results from the cross-tabulation of the survey's questions on respondents' preferences for obtaining long-term loans and the industries in which they work showed no statistically significant correlation (3.271, 4 degrees of freedom,>0.05). According to the cross-tabulation findings, there is no significant relationship between the years of experience of the employee and the survey participants' view on desire to purchase long-term loans (5.014, df6,>0.05). There is no significant relationship between the survey participants' impression on desire to obtain long-term loans and the employee's qualification, according to the cross-tabulation findings (4.151, df4,>0.05).

There was no statistically significant correlation (8.803, df4,>0.05) between the survey participants' gender and their desire for a collateral guarantee and the survey's findings about the difficulty of obtaining a guarantee. The findings of the cross-tabulation showed a significant correlation between the survey participants' age and their view of the choice to purchase collateral guarantees with difficulty (25.969, 12df, <0.05). There is no significant relationship between the survey participants' view on preference to acquire Difficulty in collateral guarantee and the industry in which they are working, according to the cross-tabulation findings (13.428, df8,>0.05). There is a strong correlation between the years of experience of the employee and the survey participants' view on desire to procure Difficulty in collateral guarantee, as shown by the cross-tabulation findings (23.143, df12, <0.05). According to the cross-tabulation findings, there is a significant correlation between the survey participants' perceptions of the difficulty of obtaining collateral guarantees and their qualifications (18.725, df8,<0.05).

There is a significant correlation between the survey participants' gender and their desire for high lending rates, as per the cross-tabulation findings (15.922, df4,<0.05). The correlation between the age of the survey participants and their desire for high lending rates was found to be statistically significant (22.367, df12,<0.05) according to the cross-tabulation findings. The survey participants' perspective on liking for high lending rates did not show a significant connection with the sector in which they were employed (10.975, df8,>0.05), according to the cross-tabulation findings. The findings of the cross-tabulation for the survey participants' perspective on the desire to get high lending rates with the employee's years of experience have shown a significant connection (27.295, 12df,<0.05). There is no statistically significant correlation between the survey takers' perceptions of the employee's qualifications and their desire to get high lending rates (12.620, 8 degrees of freedom,>0.05), according to the cross-tabulation findings.

According to the findings of the cross-tabulation comparing the survey participants' perceptions of their preferences about the procurement of procedural complications with their gender, there is no significant correlation between the two variables (6.567, df4,>0.05). There is a substantial connection between the survey participants' age and their impression on desire to obtain procedural complications, as shown by the cross-tabulation findings (27.826, 12df,<0.05). According to the cross-tabulation findings, there is no significant relationship between the survey participants' perspective on preference to procure and the sector in which they are employed (11.980, df8,>0.05). A strong correlation between the years of experience of the employee and the survey participants' impression on desire to procure procedural complications was demonstrated by the cross-tabulation findings (31.662, df12,<0.05).

The cross-tabulation results for the survey participants perception on preference to procure lack of Knowledge about available Schemes with gender of respondents revealed that (4.456, 4df, >0.05) there is no significant association between them. There was no statistically significant correlation between the age of the survey takers and their perceptions of the availability of schemes as measured by cross-tabulation findings (14.278, df12,>0.05). There is no significant relationship between the survey participants' perspective on preference to procure and their lack of knowledge about existing schemes and the industry in which they are working, according to the cross-tabulation findings (10.533, df8,>0.05). The findings of the cross-tabulation for the survey participants' assessment on the lack of knowledge about existing schemes and the employee's years of experience show a significant connection (38.727, df12,<0.05). The findings of the cross-tabulation analysis for the survey participants' perceptions on their preference for not knowing about accessible schemes in relation to the employee's qualifications showed a significant connection (26.933, 8 degrees of freedom, <0.05).

Profile of MSME

Variable	%
Size	
Medium	17.75
Small	23.00
Micro	59.25
Nature of Business	
Manufacturing	29.25
Intermediary	22.75
Supplier	26.25
Services	21.75
Ownership Type	
Sole Proprietorship	27.25
Partnership	24.00
Cooperative	21.75

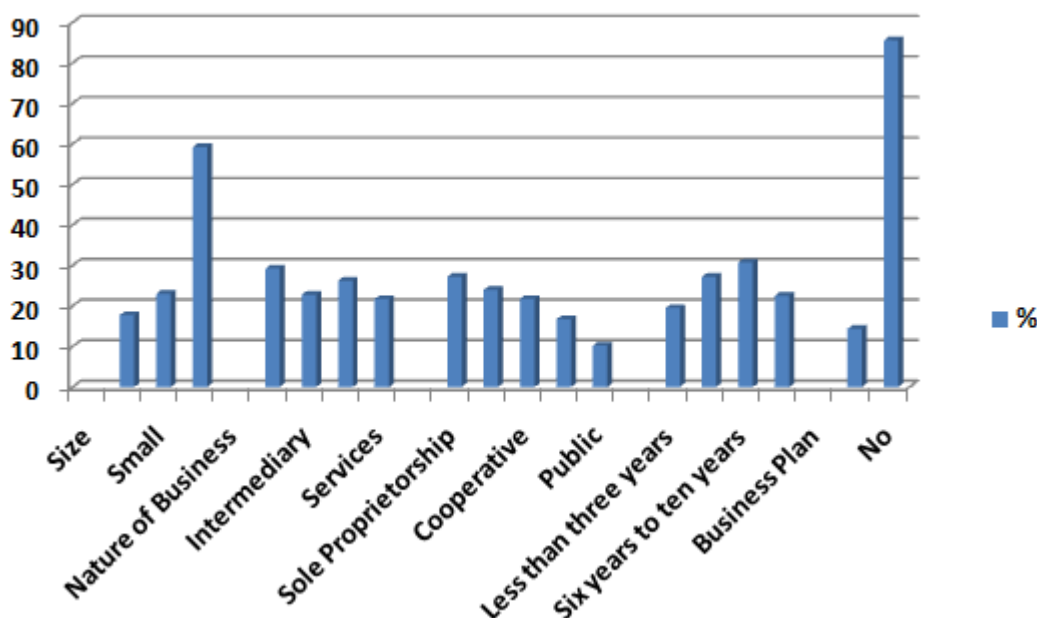| Private	16.75
Public	10.25
Firm Age	
Less than three years	19.50
Three years to five years	27.25
Six years to ten years	30.75
Ten years to above	22.50
Business Plan	
Yes	14.40
No	85.60

Figure 1 Profile of MSME

There are typically four distinct kinds of MSMEs based on the industry they operate in. Among them are the following: service, supplier, middleman, and manufacturer. The majority of respondents (29.55%) were from the manufacturing sector, followed by the supplier (26.25%), the intermediate (22.75%), and the least number of respondents (21.75%) from the services sector. Sole proprietorships, partnerships, cooperatives, private companies, and public entities are the five most common forms of ownership. In this survey, the most common business structure was a sole proprietorship, which accounted for 27.25 % of people that took the survey. Among the MSME respondents, 24.00% belonged to the partnership ownership type, 21.75% to the cooperative, 16.75% to private ownership, and 10.25% to the public(Table 1 and Figure 1).

A key factor in obtaining loan or financing for MSME is the firm's age, thus keeping that in mind is crucial. The majority of the MSMEs that were taken into account (30.75%) were founded during the last six to ten years, according to Table 1 and Figure 1. Those in the 3–5 age brackets came in second, with 27.25 percent of the vote. Most micro, small, and medium-sized enterprises (MSMEs) were founded during the last 10 years, with a small percentage founded in the last three years (19.50%). In regards to the business strategy, it was discovered that out of all the MSME respondents, only 14.40% had one and 85.60 % did not(Table 1 and Figure 1).

Hypothesis Test

The hypothesis about the correlation between the Size of the Firm and the Availing of Finance was examined via the use of simple linear regression. Availing of Finance, as indicated by an R-squared value of 0.560 and the ANOVA result (F = 318.411, p = 0.000) for the models of regression demonstrated the validity with Getting of Finance and the beta value for the Scale of the Company (β=0.602, t=17.843, p=0.000) is a statistically significant indicator of Availing of Finance. Hence, the null hypothesis was rejected and the alternative hypothesis (H1) was approved due to their p-values being below 0.05.

The hypothesis explores the correlation between the kind of property held and the availability of financial resources was tested using simple linear regression. And moderate impact on the Availing of Finance ($R2 = 0.157$). The corresponding ANOVA value (F =131.828, p=0.000) for the regression models had indicated the validation with Availing of Finance. And the beta value for the kind of Owners (β=0.499, t=11.482, p=0.000) is a significant predictor of the Availability of Finance. Therefore, the null hypothesis was rejected and the second hypothesis (H2) was approved due to their p-values being lower than 0.05.

The association between the Type of Business and usage of Finance was examined via the use of simple linear regression. And the modest effect on the usage of Finance, as indicated by an R-squared value of 0.165. The ANOVA result (F = 137.152, p = 0.000) for the models of regression suggested a strong validation using Finance. And the beta value for the Type of Business variable (β=0.522, t=11.711, p=0.000) represented a statistically significant predictor of the usage of Finance. Therefore, the null hypothesis was rejected and the other hypothesis (H3) was approved due to their p-values being below 0.05.

The association between the kind of industry and the usage of finance was examined via the use of simple linear regression. And the moderately influential effect on the usage of Finance, as evidenced by an R-squared value of 0.273. The ANOVA result (F = 261.079, p = 0.000) for the models of regression suggested that the validation was performed using Finance. And the beta value for the kind of company (β=0.337, t=16.158, p=0.000) represented a statistically significant predictor of the use of finance. Therefore, the null hypothesis was rejected and the alternative hypothesis (H4) was approved due to their p-values being below 0.05.

The hypothesis about the correlation between a business's duration of operation and its use of finance was examined via the application of simple linear regression. And the modest effect on the Getting of Finance, as indicated by an R-squared value of 0.120. The ANOVA result (F = 94.761, p = 0.000) for the models of regression demonstrated a significant validation with the use of finance. And the beta value of business' duration (β=0.371, t=9.734, p=0.000) represented a statistically significant predictor of the usage of finance. Therefore, the null hypothesis was rejected and the alternative hypothesis (H5) was approved due to their p-values being below 0.05.

This research analyzed the problems and challenges of the entrepreneurs in terms of availability of financial accommodation for their business and perception of the entrepreneurs towards services of the banks. This research also analyze the impact of availing finance on overall functioning of MSME and given suggestion for preventive measures and solutions for improving financial services of banks towards MSME. Hence resulted, the null hypothesis was rejected and the alternative hypothesis (H1), (H2), (H3), (H4), (H5) was approved due to their p-values being below 0.05 with respect of research objective and following findings as given.

FINDING

- An organization's capacity to get financing is significantly affected by its size, according to the empirical research.
- This study's research revealed that the form of ownership has a minor influence on the availability of financing.
- There is a modest effect of the independent variable company type on financing availability.
- Type of industry has a substantial influence on the dependent variable, which is availing of financing, according to the empirical investigation.
- According to the entrepreneurs, the dependent variable, which is the availability of financing, is somewhat affected by the influence of the duration of the firm.
- Findings showed that procedure problems somewhat affect the dependent variable of financing availability.
- It is clear that the dependent variable, the availability of financing, was hardly affected by the independent variable, the lack of understanding of financial plans.
- The difficulty of the paperwork had a modest effect on the ability to get a loan.
- At last, having access to funding affects sustainability is assessed. The results disclosed that availing finance has high impact over sustainability.

CONCLUSION

The critical importance of MSMEs (micro, small, and medium-sized enterprises) to the economy and growth of the country has recently gained increased attention in India. MSMEs play a vital role in job generation; 111.4 million people are employed by the nation's 48.8 million MSMEs. MSMEs produce more than 6,000 different products in the manufacturing sector alone, accounting for 7.7% of the country's GDP. MSMEs make up 27.4% of the country's GDP in the services sector (Asian Development Bank Institute given by Raj and Avvari, 2023). Despite what they contribute, MSMEs in India face a variety of challenges. We have selected 500 entrepreneurs of MSME in which 50 bank officials are selected for MSME financing in Dehradun. It was concluded, MSMEs are not aware of many sources of finance that are available to them. Due to lack of awareness, the lack of finance prohibits business growth, limiting the reach of refined-talent to a particular region. Hence, the null hypothesis was rejected and the alternative hypothesis ($H1_0$, $H2_0$, $H3_0$, $H4_0$, $H5_0$) was approved due to their p-values being below 0.05 with respect of research objective for MSME financing in Dehradun, Uttarakhand. They frequently have to balance the risk of becoming obsolete with the task of keeping up with quickly changing technology. Adequate financing sources are a prime requirement for the MSMEs. Progress is not satisfactory due to different problems, especially financing problems. Financing issues are creating a burden to running the business recently an economic survey found that sources of funding are the biggest task for both registered and unregistered sector. The Government and other financing institutions should take initiative to grant loans for this sector, and

create more employment and wealth. Hence there is a need for a research study into the financing problems and opportunities of MSMEs.

RECOMMENDATION

There is a need to investigate options other than collateral, particularly from startups in the functioning of the MSME. The new-age startups are using state-of-the-art technology to understand the customer better and offering convenience sitting at home. Technologies like OCR (Optical Character Recognition) helps lenders in reading the documentation virtually, Neural & Deep Learning are changing the way Banks and lenders used to know & appraise the customer. A new term for such high technology companies is 'Neo Banks'. It's important for lenders to partner with such Neo Banks to use data points to understand the customer better, improve speed, reduce risk and offer convenience to the customer. The suggestion was also made to create good link between entrepreneurs and government information to start venture in proper ways.

DECLARATION OF CONFLICTING INTERESTS

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

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