

## Access to Finance: Challenges Faced by Micro, Small, and Medium Enterprises in Telangana, India

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### Abstract

The nation's ability to access financing is major role to foster entrepreneurship and experience economic progress. It encourages fresh attempt at entrepreneurship the survival and growth of micro small and medium enterprises (MSMEs) rely on timely access to financing. The purpose of this paper is to explore the financing constraints and labour issue faced by MSME in Telangana State. Survey was conducted in Adilabad, Peddapalli, Mancheryal and Karimnagar districts of Telangana. The data analyzed using percentage method, chi square analysis and Anova. Result shows that there is significant association between financial problems and nature of MSMEs, whereas there is also significant difference among the categories of MSMEs and difficulties in assessing the capital.

**Keywords:** MSMEs, Access to financing, Entrepreneurship, economic progress, financial constraints.

### Introduction:

Small firms are considered to be the primary drivers of economic expansion and industrial development in the developing nation. Micro small and medium enterprises (MSMEs) played an essential role in creating employment with substantially lower capital cost than the large sector. According to national sample survey (NSS) 73<sup>rd</sup> round which was conducted out between 2015-16 by national sample survey office Ministry of statistics and programs implementation, there were 633.88 Lakh Unincorporated MSMEs in the non-agricultural sector operating across various economic activities (196.65 lakh in manufacturing , 230.35 lakh in trade, 206 .85 lakh in other services, 0.03 lakh in non-captive electricity generation and transmission) excluding registered MSMEs (MSMEs Annual Report 2022-23).The work is MSMEs are typically considered to labour intensive and generally have to low labour productivity in comparison with large firms (Little 1987).Informal finance plays a major role in providing to MSMEs.Indian Government had a favourable policy in favour of the MSMEs retaining exclusive some goods for MSMEs, however after 1991 there has been a tremendous change in policy in favour of MSMEs. In spite of a number of legislative initiative measures by the government since independence the majority of MSMEs issues still plague the industry. Finance is one of the major challenges faced by the MSMEs.The present study focuses on understanding the financial constraints and labour issues related to the MSMEs in Telangana.

### Definition of MSMEs

As per MSME, act 2006, MSMEs are classified in terms of investment and annual turnover.

Classifications	Micro	Small	Medium
Manufacturing	Investment <Rs 25 Lac	Investment <Rs 5 cr.	Investment <Rs 10 cr.
Services	Investment <Rs 10 lac	Investment<Rs 2 cr.	Investment < Rs 5 cr.

Source: MSMED Act 2006.

Micro and Medium Enterprises Development Act, 2006 is based on composite criteria of investment limits and turnover limits. The new definition is applicable with effect from 01.07.2020. This definition stipulates a turnover limit of 250 crores for MSMEs eligible to register under MSMED Act and avail benefits under that Act.

**Review of Literature**

In the developing countries like India the access to finance is the major concern. According to (Rajamani et al., 2022) it also suggested of All the limitations external financial access is the most crucial constraints. However, having access to financing has significant positive effect on the performance of MSMEs. Smaller firms are recognized for having limited financial resources and poor access to formal financing. MSMEs have growth constraints due to microeconomic uncertainties and limited managerial capacity of their small firm owners. (Mittal & Raman, 2021) suggest and predicted slower growth rate for the financially constrained firms. There are several obstacles like discrete presence of clients; High operating cost and low profitability; lack of proper risk management; Low literacy rate make MSME financing difficult for the SME finance business. In spite of such a high growth in the MSME sector still many MSMEs in India have problem of financial access and are not served (Maiti, 2018). (Beck et al., 2019) served from Uganda also finds that the external funding helps small businesses to generate large sales, increase in profit as well as expand more skill employment. (Ayyagari et al., 2007) The small businesses has several dimension of the business environment such as cost of entry, good credit information are associated to grow easier for small business and larger informal economy associated with higher exit cost. (Perez et al., 2017) find that the probability of getting bank loan is depend on the borrower's collateral such as borrower has a business asset and show ability to pay rent although having business capital is positively effect on the total sales and total expenses of the MSMEs firm. (Anthanasiou Fomum & Opperman, 2023) the data from Eswatini suggested that to improve access to certain financial services like business saving, bank accounts, formal saving, stokvels and informal saving having a positive impact on the yearly profit of small businesses. (Pendame & Akotey, 2023) Finds served from Malawi that moveable collateral registry created a register to keep record of MSMEs and it uses when the MSMEs needs fund from banks. After setting up registry, very small in number of MSMEs getting loan from banks in Malawi. When this firms demand loan from banks, it still preferred collateral of real property in case firms are unable to pay back the loan. (Raj S. N. & Sasidharan, 2018) suggested that the socially background entrepreneur owned firm faced the challenges in obtaining and it goes beyond the observable difference in their creditworthiness. Adding to this result also indicate that affirmative action program of credit market access has not much impact on socially marginalized entrepreneurs. (Mittal & Raman, 2021) finds that the characteristics of owner and firm attributes also experience financial obstacles by MSMEs owners. The research also confirmed that getting financing or cash flow, helps the firm for growth and development.

**Data And Methodology**

It is difficult to find data for research related to small firms. In the present study both primary and secondary data is used for the study. The secondary data is obtained from various reports such Annual Report on MSMEs. The data for the study was collected during the period Jan 2024 – February 2024. The survey was done in four districts namely Adilabad, Peddapalli, Mancheryal, karimnagar. The sample covers both manufacturing and service units. The survey respondents are the owners or senior executives of the selected MSMEs who manage the day-to-day activities of the firms. The information gathered was tabulated and was analyzed by using percentage method, Chi Square Analysis and ANOVA.

**Distribution of MSMEs among the At All India Level**

MSMEs plays an important role in improving the employment opportunity, equitable distribution of the Income and reducing the regional imbalances.

**Table 1 Estimated Number of Enterprises**

Activity	Estimated Number of Enterprises (in lakh)			
	Rural	Urban	Total	Share (%)
Manufacturing	114.14	82.5	196.65	31
Electricity	0.03	0.01	0.03	0
Trade	108.71	121.64	230.35	36
Other service	102	104.85	206.85	33
All India	324.88	309	633.88	100

Sources: MSME Annual Report 2022-23

Rural India has more numbers of MSMEs than Urban. Trade related MSMEs has large share (36%) followed by other services (33%) and manufacturing (31%). India still MSMEs has role in the growth and development. Trade and Service oriented MSMEs almost 70 percent of the total MSMEs.

**Table 2 Estimated Numbers of Enterprises among the States**

State/UT	NSS 73rd round	
	Number(in lakh)	Share(%)
Uttar Pradesh	89.99	14
West Bengal	88.67	14
Tamil Nadu	49.48	8
Maharashtra	47.78	8
Karnataka	38.34	6
Bihar	34.46	5
Andhra Pradesh	33.87	5
Gujarat	33.16	5
Rajasthan	26.87	4
Madhya Pradesh	26.74	4
Total of Above ten States	469.36	74
Other States /UTs	164.52	26
All	633.88	100

**Sources: MSME Annual Report 2022-23**

Table 3 presents the number of MSMEs among the states. There are almost 633.88 lakhs MSMEs operating the country. Uttar Pradesh has the highest number of MSME operating there, accounting for 14% of all MSME in the country. West Bengal comes in second with a share of 14%, followed by Tamil Nadu and Maharashtra with 8% and Karnataka with 6%, after Uttar Pradesh. With a ratio of just 4%, Madhya Pradesh and Rajasthan have the lowest numbers of MSME operating in large states.

#### MSME in Telangana

**Table 4 Estimated Numbers of Enterprises in Telangana**

	Estimated Number of Enterprises (No in lakhs)							
State	Micro		Small		Medium		MSME	
	N	%	N	%	N	%	N	%
Telangana	25.94	4.11	0.1	3.02	0.01	20	26.05	4.10
All India	630.52	100	3.31	100	0.05	100	633.88	100

**Source: MSME Annual Report 2022-23**

Table 4 indicates the number of estimated numbers of enterprises in Telangana. State owns more numbers of medium enterprises followed by micro and small enterprises. Telangana holds almost 4 percent of total MSMEs in the country.

**Table 5 State wise Distribution of Employees**

State/UT	Female		Male		Total	
	N	%	N	%	N	%
Telangana	15.24	5.75	24.91	2.94	40.16	3.61
All India	264.92	100	844.68	100	1109.89	100

**Source: MSME Annual Report 2022-23**

Table 5 indicates an interesting phenomenon female working in MSMEs is quite higher than the males. Telangana state MSMEs is providing almost 4 percent of total employment in India.

### Socio-economic profile of the respondents among MSMEs

Table 6 clearly indicates that among MSMEs units 59 percent males and 41 percent females working with a majority of age group is 35-50 among the districts.

**Table 6 shows socio-economic profile of the respondents**

S.no.	Variable	Classification	Frequency	%
1.	Gender	Male	59	59
		Female	41	41
		Total	100	100
2.	Age	Less than 35	24	24
		35-50	63	63
		50 & above	13	13
		Total	100	100
3.	Year of incorporation	Before 1991	10	10
		1991-2000	36	36
		2000-2011	35	35
		After 2011	19	19
		Total	100	100
4.	Education	no format education	7	7
		Up to 5th std	21	21
		Up to 10th std	28	28
		up to 12th std	18	18
		up to degree level	13	13
		Technical qualification	13	13
		Total	100	100
5.	Location	Rural	60	60
		Urban	40	40
		Total	100	100
6.	Category	Manufacturing	95	95
		Service	5	5
		Total	100	100
7.	Types	Micro	52	52
		Small	34	34
		Medium	14	14
		Total	100	100
8.	Nature of ownership	Self owned	49	49
		family business	20	20
		partnership	25	25
		company	6	6

		Total	100	100
9.	Type of firm oriented	Local	58	58
		Export	29	29
		National	13	13
		Total	100	100
10.	No. of employee	Below 10	61	61
		11-20	22	22
		21-30	4	4
		more than 30	13	13
		Total	100	100

**Source: Primary data Jan-Feb 2024**

Table 6 clearly indicates that among MSMEs unit's 59 percent males and 41 percent females working with a majority of age group is 35-50 among the districts. The majority of MSMEs were incorporated between 1991-2011. Majority of entrepreneurs education qualification up to 10 standard.

Majority of enterprises are manufacturing and micro in nature. Enterprises are mostly self-owned. MSMEs are largely fulfill the local requirements .61 percent of MSMEs have employees less than 10 person. Only 13 percent MSMEs employing more than 30 people.

#### Financial constraints in MSMEs

**Table 7 Sources of Finance**

Types of MSMEs	Sources of Finance									
	Personal fund		Loan from family/friends		Bank		Other sources		Total	
	N	%	N	%	N	%	N	%	N	%
Manufacturing	16	16.84	14	14.74	59	62.11	6	6.32	95	100
Services	1	20	1	20	1	20	2	40	5	100
<b>Total</b>	17	17	15	15	60	60	8	8	100	100

**Source: Primary data Jan-Feb 2024**

Banks consists a major of sources of finance for manufacturing MSMEs followed Personal funds and loans from own family/friends While Service oriented MSMEs other sources were main source of finance. Interestingly formal sector is predominant source of finance among the MSMEs.

**Table 8 Perception among the Entrepreneurs regarding Bank loans**

Banks in Telangana are willing to provide loans		
	Opinion of respondents	In percentage
Not Willing	14	14
Somehow Willing	69	69
Definitely Willing	17	17
Total	100	100
Financial Stability of Enterprises		
Very Weak	3	3
Weak	42	42
It's OK	34	34

Stable	9	9
VeryStable	2	2
Total	100	100
<b>Percentage of amount of finance are required have been granted repaid the Loan</b>		
FullyPaid	21	21
Partly Paid	64	64
Not Paid	15	15
Total	100	100

**Source: Primary data Jan-Feb 2024**

Table 8 shows that majority of entrepreneurs have opinion that banks are showing their willingness to provide loans to MSMEs. While corresponding data shows almost 64 percent of entrepreneurs at least have paid partly loans. These loan repayments have positive impact on bank's perception on MSMEs.

### Opinion about the financial constraints

**Table 9 shows the opinion about the financial constraints on MSMEs**

Name of the Constraints	StronglyDisagree (1)		Disagree(2)		Neutral(3)		Agree(4)		StronglyAgree(5)		Total	
	N	%	N	%	N	%	N	%	N	%	N	%
Depending on own capital	21	21	4	4	5	5	8	8	62	62	100	100
Borrowing funds from friends	2	2	20	20	3	3	14	14	61	61	100	100
Borrowing funds from Relatives	2	2	5	5	22	22	12	12	59	59	100	100
Sometimes Advance taking From customers	0	0	9	9	9	9	30	30	51	51	100	100
Retained earnings	6	6	2	2	10	10	26	26	56	56	100	100
Borrowing funds from local moneylenders	1	1	7	7	11	11	54	54	27	27	100	100
Borrowing loans from financial institutions/banks	4	4	6	6	25	25	47	47	18	18	100	100

**Source: Primary data Jan-Feb 2024**

Table 9 states the perception about the financial constraints on MSMEs by entrepreneurs. Around 50-60 percent of respondents strongly agree on depending on own capital, borrowing funds from friends and relatives and retained earnings. Around 45 -55 percent of respondents agreed on borrowings from the local moneylenders and financial institutions.

### Labour Issues

One of the key challenges faced by the MSMEs in India is the availability of skilled labour. India's large share of the labour force we still faced shortage of skilled labour particular in MSMEs. Even though MSMEs are find difficult to get skilled manpower for maintain of machinery, manage finance and marketing etc.

**Table 10. Opinion related to Manpower in MSMEs.**

**Source: Primary data Jan-Feb 2024**

Variables	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	
	N	%	N	%	N	%	N	%	N	%	N	%
During start-up I found enough Employees to start with	21	21	4	4	12	12	42	42	21	21	100	100
Employees are hard working	3	3	20	20	10	10	36	36	31	31	100	100
Employees are trained and Skilled	2	2	7	7	32	32	31	31	28	28	100	100
Absenteeism is less without Any reason	1	1	4	4	18	18	46	46	30	30	100	100
Overtimes on need basis are Done	2	2	3	3	12	12	39	39	43	43	100	100
Skilled labor force is available From locality(within a vicinity of 30 km)	6	6	3	3	20	20	42	42	30	30	100	100
Unskilled labor force is available from locality(within Avicinityof30km)	1	1	9	9	18	18	54	54	18	18	100	100
Attrition Rate is low	3	3	3	3	32	32	51	51	11	11	100	100
Health issues are minimal	1	1	3	3	21	21	55	55	20	20	100	100

Table 10 states that 30-40 percent of employees agreed that they founded enough employees to start with, hardworking and trained employees.46 percent of employees agreed that absenteeism with any proper reason a challenge.82 percent employees agreed to overtimes when the need arises in the organization. Majority Employers agreed the skilled and Unskilled labour force is available from local region.50 percent of employees agreed the attrition rate and health issues are low among the employees.

**Table 11 opinion for future needs of labour and local youth preference**

Future needs of labour							Preference for Local Youth					
	Yes		No		Total		Yes		No		Total	
	N	%	N	%	N	%	N	%	N	%	N	%
Micro	48	55	5	42	53	53	41	59	12	39	53	53
Small	30	34	4	33	34	34	20	29	14	45	34	34
Medium	10	11	3	25	13	13	8	12	5	16	13	13
Total	88	100	12	100	100	100	69	100	31	100	100	100

**Source: Primary data Jan-Feb 2024**

Table 11 shows the needs for future labour in MSMEs it clearly shows that 55 percent of Micro entrepreneurs compared to small and medium entrepreneurs. 45 percent of small entrepreneurs prefer the local youth for the employment in the organization. Hence overall needs for future labour and local youth .

### Financial challenged faced by the MSMEs in Telangana

**Table 10 states financial problem and Nature of MSMEs**

		Nature of MSMEs		Total
		Manufacturing	Services	
Financial problem	Yes	84	2	86(86)
	No	11	3	14(14)
Total		95	5	100(100)

**Source: Primary data Jan-Feb 2024, note: In bracket indicates in percentage**

The data shows the distribution of MSMEs form based on nature of the Business (manufacturing and service) and whether they are experiencing financing constraints. 86 out of 100 were reported having financial problems. On other hand only 14 percent have stated that having no financial problem.

**Table 11 Chi-Square Tests**

	Value	df	P value
Pearson Chi-Square	9.250	1	0.002
Continuity Correction <sup>b</sup>	5.665	1	0.017
Likelihood Ratio	6.157	1	0.013
Fisher's Exact Test			
Linear-by-Linear Association	9.157	1	0.002
N of Valid Cases	100		

Hypothesis 1 (Ho): There is no significant association between financial problems and Nature of MSMEs. The results of the chi-square test have been presented in Table 5. It can be analyzed from Table 5 that the Pearson chi-square value is 9.250 at 1 df and p-value is 0.002, which is less than 0.01 at a 1% level of significance. Hence, the null hypothesis has been rejected. It can state that there is significant association between financial problem and Nature of MSMEs.

**Table 12 ANOVA Results**

	Sum of Squares	df	Mean Square	F	P value
Between Groups	9.568	2	4.784	4.104	0.019
Within Groups	113.072	97	1.166		
Total	122.64	99			

Hypothesis 2 (Ho): There is no statistically significant difference between categories of MSMEs and difficult in accessing the capital. The results of the ANOVA test have been presented in Table 12. Table 12, presents the ANOVA results, from which we can observe that the F-value is 4.104 and p-value is 0.019, which is less than 0.05 with a significance level of 5%. Hence, the null hypothesis has been rejected. It can be observed that there is significant difference among the categories of MSMEs and difficult in accessing the capital.



### Conclusion

MSMEs play pivotal role in promoting economic growth and job opportunities, especially for young adult from rural background. They frequently run into serious obstacle to obtain financing from sources like financial institution, banks and government agencies. The study showed that 84% of manufacturing enterprises are facing financial difficulties and 62% of MSMEs are dependent on bank finance followed by personal fund loan from family and friends and other sources. 55% of Micro Enterprises prefer local youth for employment in the organization. Employment opportunities are available for the local youth. The result of the study stated that there is significant association between financial problem and nature of MSMEs. On the other side it is observed that there is significant difference among the category of MSMEs and difficulties in assessing the capital. Therefore further research should be conducted with the large data to explore the MSMEs concerning the access to finance and the impact on the performance of MSMEs in Telangana. Secondly the study covered only Telangana Districts whereas the situation on the axis to financing other states may significantly vary.

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