

**MSMES FINANCING IN PANIPAT REGION
(WITH SPECIAL REFERENCE TO TEXTILE INDUSTRY)**

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ABSTRACT

In the era of globalization and liberalization, Small and medium enterprises are losing their importance and are being ruined by the big business houses. But it is a proven fact that Micro, small and medium enterprises act as a growth engine in any economy of the world. In India it is estimated that MSMEs contribute to the 45% of the manufacturing output and around 40% of the total export of the country. Finance is the most important and indispensable input of any business enterprise whether operating at a small or large level. It is observed that most of the MSMEs are underutilized due to the paucity of the funds. This problem creates a need to study the financing aspect of MSMEs. This paper aims to study the challenges and prospects for future growth and development in the Textile Industries (MSMEs) of Panipat region in Haryana. Panipat is today world-famous for its beautiful handlooms and blankets. But due to imbalanced growth in this cluster, MSMEs are not gaining the desired momentum. The data has been collected through structured questionnaire and for this purpose sample of 62 entrepreneurs or firms has been chosen to analyze the financing problems faced by the entrepreneurs.

Keywords: *Micro, small and medium Enterprises, Textile Industry, Growth, Development.*

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INTRODUCTION

MSMEs IN INDIA

In the era of globalization and liberalization, Small and medium enterprises are losing their importance and are being ruined by the big business houses. But it is a proven fact that Small and medium enterprises play a vital role in the industrial development of any country. Value addition is being done by these enterprises for the large scale companies. Their life cycle dictates that they grow from a small firm to a medium to a large scale firm in a shorter span of time.

"This growing recognition of the greater need for the SME sector to be treated as a sector worthy of research is based on the understanding that the SME sector has a different set of experiences, a different set of problems, such as financial constraints, human resource issues and the emergent nature of their planning." (*Bell et.al, 2004*)

In India it is estimated that small medium enterprises contribute to the 45% of the manufacturing output and around 40% of the total export of the country. In recent years the consistent higher growth in the SMEs leads to the employment potential at low capital cost. This sector employs an estimated 59.7 million persons spread over 26.1 million enterprises in India. "SMEs' contribution to GDP is projected to go up to 22 per cent by 2012 from 17 per cent currently," industry body Assocham said, adding that more than 55 per cent of the units are aggressively upgrading technologically to reduce input cost and increase production. (*Business chartered,2009*)

SMEs are exposed to many opportunities for expansion, diversification and modernization in the different sectors of the economy, Market is growing rapidly and entrepreneurs in India are making outstanding progress in Industries like Manufacturing, Retail, Textile & Garments, Food Processing, Pharmaceutical, Agro and Service sector etc. It also emphasized judicious use of foreign exchange for labour intensive mode of production, employment generation, discouraging monopolistic practices and with low import-intensive operations

Till liberalization and globalization, during the period of 1951-1991, Government has provided the sufficient protection to the small scale industries as many services and product were reserved for these industries. SMEs help the government in many ways to achieve the following objectives:

1. High contribution to domestic production
2. Low investment requirements

3. Location wise mobility
4. Low intensive imports
5. Import substitution
6. Technology – oriented industries
7. Competitiveness in domestic and export markets

“There are around 26 million SMEs in India. There is a fragmented process of business lending for the SMEs. To fill in the information gap, we have created this portal. It has been a successful model in the US, so we brought it to India.” (*Business chartered, 2011*)

Challenges in the MSME Sector

Despite its remarkable contribution to the economy, SME Sector does not get the required support from the concerned Departments of the Government, Banks and the Financial Institutions for various kind of assistance in financial and non-financial manner, which becomes the major constraints for the SMEs becoming more competitive in the National and International Markets.

SMEs are facing number of problems like absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low production capacity, ineffective marketing strategy, inadequate exposure to international environment, inadequate contribution towards R&D, identification of new markets, constraints on modernisation & expansions, non availability of highly skilled labour at affordable cost, followup with various government agencies to resolve problems etc.

TEXTILE INDUSTRY

The textile industry plays a prominent role in the Indian economy. It is the largest Industry of modern India. This sector contributes substantially in providing employment and earning foreign exchange. The country is rich in natural resources such as cotton, jute and silk. The textile industry is the second largest employer, after agriculture, with a total workforce of around 35 million. India is next only to China among the world's largest producers of textiles and garments. The industry is the largest foreign exchange earner, as the import content is insignificant compared with those of other major export products. Its contribution in exports is nearly 20 per cent.

The textile industry occupies a unique place in our country. One of the earliest to come into existence in India, it accounts for 14% of the total Industrial production, contributes to nearly

30% of the total exports and is the second largest employment generator after agriculture. Textile Industry is providing one of the most basic needs of people and the holds importance; maintaining sustained growth for improving quality of life. It has a unique position as a self-reliant industry, from the production of raw materials to the delivery of finished products, with substantial value-addition at each stage of processing; it is a major contribution to the country's economy. Its vast potential for creation of employment opportunities in the agricultural, industrial, organized and decentralized sectors & rural and urban areas, particularly for women and the disadvantaged is noteworthy (www.economywatch.com).

Strengths of Indian Textile Industry

- ✓ Huge textile production capacity
- ✓ Large pool of skilled and cheap workforce
- ✓ Entrepreneurial Skill
- ✓ Huge Export Potential
- ✓ Large Domestic Market
- ✓ Very low Import content

Weaknesses of Indian Textile Industry

- ✓ Increased global competition in the Post 2005 trade regime under WTO
- ✓ Imports of cheap textiles from other Asian neighbors
- ✓ Poor supply chain management
- ✓ Huge unorganized and decentralized sectors
- ✓ High production cost

Segments of Indian textile industry

- Cotton Textiles
- Silk Textiles
- Woolen Textiles
- Readymade Garments
- Hand-crafted Textiles
- Jute and Coir

TEXTILE INDUSTRY AT PANIPAT

Panipat is today world-famous for its beautiful and jubilant handloom made-ups, blankets and other upholstery. This new fame seems to have superceded the nostalgia of the three historical battles of Panipat. Some important features of the textile industry of Panipat are:

- There is hardly any city of this small size in India that has such a big textile-manufacturing base.
- This Industry comprises of seven segments that is handloom, woolen carpets, shoddy yarn spinning, open end cotton yarn spinning, power-loom industry, wet processing and hosiery woolen yarn industry. All of these together makes a business of around Rs 4000 crores and provide employment to 2 lacs people.
- It contributes 50% of the total exports of the Handloom products from the country.
- Panipat town has got a global distinction of having the maximum number of shoddy spinning units at one particular place.
- Panipat has been awarded Gold Trophy by the Export Promotion Council for the highest quantity of exports in woolen hand tufted carpets,
- The industry of Panipat is meeting out 75% demand of Barrack Blankets for the Indian Military.

In a nutshell, Panipat is an industry with a wide range of handloom textiles, whether required for a five star hotel or for a poor man's cottage. However, Panipat is not an exception case during these days of overall industry recession. The industries of Panipat are seriously suffering from low capacity utilization, credit problems, less margins, labour problems, overseas competition and changing preferences of consumers, which is resulting in shut down of most of the small scale manufacturing units. In view of above there is an urgent need for a need based, flexible, focused and action oriented policies targeted at sustained development of the industry and economy.

2.0 REVIEW OF RELATED LITERATURE

Economic development creates a natural place for development and growth of enterprises of all sizes of establishment (micro, small, medium as well as large). The size of a business establishment depends on a variety of factors, of which two most important ones are market and technology (*Panandiker,1996*).SMEs are a major source of entrepreneurial skills and creativity and

contribute to economic and social cohesion. They hold the key to innovation and are also emerging as global players, by participating in worldwide production and supply chains (*Renner et. al, 2008*). The problems in the areas of securing finances for establishing and running SMEs, lack of entrepreneurial and management competence and exposure, problems in finding the markets and distribution networks; limited opportunities for promotion and participation; limited amount of government and institutional support; absence of technological know-how and integration mechanism; and rampant corruption in an undisguised or disguised form, as major bottlenecks (*Singh & Belwal, 2008*). Extensive international experience has not been massively successful and that the application of a stricter market-led approach to the provision of MSME business development services will not be successful if it ignores the way that western “institutionalism” dictates the supply offer (*Gibb, 2006*). Financial and competitive barriers are the main barriers faced by the analyzed MSEs. These barriers vary according to the field of activity of the enterprises (*Fumo et al., 2011*). The pro-MSMEs believe in the significant role played by small business in the economic prosperity of a country, the anti-MSMEs are of the view that larger organisations played relatively significant role than MSMEs (*Agyapong, 2010*). Gross rates of job creation and destruction are higher in MSMEs, there is no a systematic relationship between net job creation and firm size (*Davis et al. 1993*). The financing of small and medium enterprises (SMEs) has attracted much attention in recent years and has become an important topic for economists and policymakers working on financial and economic development. This interest is driven in part by the fact that SMEs account for the majority of firms in an economy and a significant share of employment (*Hallberg 2001*). SMEs are more likely to be informal, particularly in developing countries. This not only makes opaqueness worse, but it also poses additional obstacles and risks to SME lending (*Gatti and Honorati (2007)*).

3.0 RESEARCH METHODOLOGY

Research problems tend to be different from one another and so it requires own special emphasis and different approach.

3.1 Statement of the problem

The main objective of this research is to know the status of MSMEs financing in Textile Industry and to know the main financial problems faced by these enterprises. The research problem

investigated herein has been precisely defined as- “MSMEs Financing in Panipat Region (With Special Reference to Textile Industry)”.

3.2 Objectives

1. To assess the financing problems in current MSMEs scenario that is the lending procedures, rate of interest and complications involved in procurement of capital.
2. To assess the problems of entrepreneurs related to the policies of Haryana Government.
3. To understand and analyze factors that would facilitate MSMEs financing in Panipat region.

3.3 Justification of the Study

In developing countries like India most of the resources are taken up by the large enterprises. MSMEs are still deprived of the resources mainly Finance. Haryana has been at the forefront of rural development as most of the MSMEs are established in this state. It is with this concern this research is undertaken, to research and determine the problems with the MSMEs in the Textile Industries in Panipat- ‘A’ class town of Haryana

3.4 Hypothesis

In order to ensure effective analysis and understanding of data collected for the Purpose of this study, the following hypothesis have been framed:

1H₀: There is no significant difference between the problems faced by different entrepreneurs running micro, small and medium enterprises.

2H₀: There is no significant difference between financial problems faced by the entrepreneurs

3H₀: There is no significant difference between the opinion of different entrepreneurs running micro, small and medium enterprises regarding Financial Issues

3.5 Research Design

The present research is descriptive in nature. Information has been collected from the respondents with the help of a structured questionnaire and personal interview technique has been used in some cases to draw out relevant information. The universe of the study was the Panipat region in Haryana. Size of 75 respondents has been chosen randomly out of which 13 questionnaires were found to be incomplete or faulty in some or the other manner and hence were excluded from the final compilation. Therefore, data from 62 entrepreneurs has been collected, compiled and analyzed.

3.6 Tools of Data Analysis

The data collected has been duly tabulated and classified. Thereafter it has been analyzed with the help of simple percentage technique to describe the present status of respondents. Chi-square test (χ^2 -Test) has been used by the researcher to study the association between various variables as well as to study the quantitative and qualitative variables.

Table I
PROFILE OF RESPONDENTS

Age	No. of respondents (62)	
	Frequency (N)	%
0-20	2	3.22
20-30	8	12.90
30-40	16	25.81
40-50	24	38.71
50 and above	12	19.35
Classification of Units	No. of Firms (62)	
	Frequency (N)	%
Micro	20	32.25
Small	22	35.48
Medium	20	32.25

H_0 : There is no significant difference between the problems faced by different entrepreneurs running micro, small and medium enterprises.

Table II

Units	Finance		Marketing		Entrepreneurial Development		Technology Up-gradation		Total
	N	%	N	%	N	%	N	%	
Micro	16	80	2	10	1	5	1	5	20
Small	15	68.18	2	9.09	3	13.64	2	9.09	22
Medium	5	25	3	15	0	0	12	60	20
Total	36		7		4		15		62
$\chi^2: 24.99$, DF- 6, Table Value 12.59									

From the above it can be analyzed that majority of micro (80%) and small (68.18) size entrepreneurs have the problems related to finance but medium size entrepreneurs that is 60% has the problem related to technology

Thus the above information leads us to the conclusion that problems vary according to the size of enterprise. Since, the calculated value of χ^2 at 5 % level of significance is greater than tabulated value; hence we **reject** H_0 and conclude that there is a significant difference between the problems faced by different entrepreneurs running micro, small and medium enterprises as micro and small size entrepreneurs face mainly the problems of finance and medium size entrepreneurs are generally concerned with the technology upgradation.

$2H_0$: There is no significant difference between financial problems faced by the entrepreneurs

Table III

Units	Lack of Capital		High Production Cost		Difficulty in Obtaining Loans/Credit		High rate of Interest		Total
	N	%	N	%	N	%	N	%	
Micro	7	35	8	40	2	10	3	15	20
Small	3	13.6	10	45.45	4	18.18	5	22.73	22
Medium	2	10	12	60	2	10	4	20	20
Total	12		30		8		12		62
$\chi^2: 5.757$, DF- 6, Table Value 12.59									

Table III depicts that majority of micro (40%), small (45.45%) and medium (60%) size entrepreneur's feels that their cost of production is too high and on the other hand small (22.73%) and medium (20%) size entrepreneurs also feel that the rate of interest being charged by the financial institutions are also high.

Thus the above information leads us to the conclusion that financial problems faced by them are more or less is same. Since, the calculated value of χ^2 at 5 % level of significance is less than tabulated value; hence we **accept** $2H_0$ and conclude there is no significant difference between financial problems faced by the entrepreneurs

$3H_0$: There is no significant difference between the opinion of different entrepreneurs running micro, small and medium regarding Financial Issues

Table IV

Factors	Calculated Value of Chi-square(χ^2)	Hypothesis
Lending Procedures of financial institutions to MSMEs	45.938	Rejected
Existing policies of Haryana/Central government related to MSMEs (Taxation/subsidy)	8.212	Accepted
Opportunities for growth in competitive market of MSMEs	9.623	Accepted
R & D in MSMEs	19.315	Rejected
Corporate Structure in MSMEs	1.9604	Accepted
D.F = 8, Table Value = 15.5073, Level of Significance = 5%		

From the table above, one may see that out of total **5** statements, to comparatively study the opinion of different entrepreneurs related to financial issues, we accept 3 hypotheses and reject only two. Majority of the respondents feels that policies of the government are not clear and credit procedure were also found to be lengthy and cumbersome. Thus it may be safely concluded that there is no significant difference between the opinion of different entrepreneurs

running micro, small and medium regarding Financial Issues. The financial issues faced by the MSMEs were found to be similar in one context or the other.

Further it can be analyzed that majority of the 52 (83.87%) firms are in operation from last 6-7 years. The main source for the procurement of capital was found to be loans from financial institutions. Majority of respondents, that is 42 (67.74 %) take the financial help from financial institutions while others who have strong background that is 13 (20.9%) generally prefer family funds. Near about 47 (75%) respondents feel that MSMEs has sufficient access to finance but also have the view point that those who have good reputation and strong family background can procure the finance easily and for others it is difficult to procure the required capital. Majority, that is 56 (90.32%) respondents were found to be aware about the methods of protection available to them from unfair competition from large firms while some of them were found to be unaware about the same. Majority of respondents, 42(67.74%) agree to this statement that finance is the major or key problem for the growth of MSMEs, However, they also feels that problem of finance is critical for those who are new to this business, well established businessman's face less problems comparatively. Analysis revealed that majority of the respondents 58 (93.5%) strongly favors that MSMEs plays critical role in the overall development of the country and it is necessary that proper facilities should be provided to these enterprises. It was also revealed that shortage of power supply was the biggest issue for the MSMEs in the Panipat Region which leads to increase in the cost of production and decrease in the inventory turnover ratio. Majority of the respondents 43 (69.35%) are satisfied with the R&D facilities and they also feel that innumerable opportunities are available for the growth of MSMEs. However some of the respondents 12 (19.35%) also feel that they are not satisfied with the corporate structure in MSMEs.

CONCLUSION

From the above analysis it may be concluded that the MSMEs in the Textile Industries generally face critical problems related to the finance. MSMEs are considered to be the growth engine of every country of the world. It is also considered that the Government has been providing support to these MSMEs in one way or the other. But the picture is different in this region as the government policies are not adequate to meet the requirement of the entrepreneurs, the situation becomes worst incase of new entrepreneurs. Government policies related to the taxation and subsidies are not clear to the entrepreneurs. There is huge rush of financial institutions who are

keen to provide the finance but at a high rate of interest with the lengthy and cumbersome procedures. Among the common problems of finance cost of production is the major issue due to the shortage of power in the region which leads to the higher cost and lesser profits. Respondents are not aware about the term Venture Capital, they procure the seed capital from the family funds. MSMEs play a vital role in the growth of the region as it generates employment opportunities. Most of the MSMEs in this region are of labour intensive in nature who generally lack in knowledge of R&D and technology. But the respondents are least concerned about the same.

However, at the same time Government should take some important steps like lower interest rates, tax holiday period, entrepreneurial development programs etc. to boost the MSMEs in the region. India is mainly known for textile industries in the world and there is large number of MSMEs interconnected to it. So, the growth is indispensable.

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