

Research Paper



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FACTORS AFFECTING PROCUREMENT OF FINANCE FROM LONG TERM SOURCES BY MICRO AND SMALL ENTERPRISES IN BARAK VALLEY, ASSAM

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ABSTRACT

Finance is the life blood of micro and small enterprises. Micro and small enterprises get finance from both long term sources and short term sources. There are various factors affecting procurement of finance from long term sources and short term sources by the enterprises. The present study has assessed the relative importance of factors affecting procurement of finance from long term sources by micro and small enterprises in the Barak Valley of Assam. The study has also assessed the relative importance of factors affecting procurement of finance from long term sources by manufacturing enterprises and service enterprises in the Valley. The enterprises which are registered with District Industries and Commerce Centers of the three districts of the Valley namely Cachar, Karimganj and Hailakandi districts as on 31-3-2012 and which are functioning have been studied in the present study. 'Time period' is found to be the most important factor affecting procurement of finance from long term sources by micro and small enterprises in the Barak Valley while 'form of organisation' is found to be the least important factor affecting procurement of finance from long term sources by micro and small enterprises in the Valley.

KEYWORDS: Time Period, Form of Organisation, Knowledge, Cost of Finance, Micro Enterprises and Small Enterprises.

INTRODUCTION

Finance is the life blood of an enterprise and it is called 'science of money' (Basu, 1939). Micro and small enterprises fulfill their financial requirements from both long term sources and short term sources. Micro and small enterprises generally faced problems in procuring finance from long term sources and short term sources. The banks and financial institutions do not provide finance at the time of the requirements of the enterprises. Entrepreneurs also do not get required amount of loan at an appropriate time and hence they become dissatisfied with banking services. Inadequacy of loan amount along with delay in disbursement further aggravated the problem and compelled the entrepreneurs to take loan from private sources at a high rate of interest. Again, due to illiteracy and ignorance of the entrepreneurs, the subsidies amount are misappropriated (Raul, 1997). Besides these problems, there are various factors affecting procurement of finance from long term sources and short term sources by the enterprises. Cost of credit and business

risk are the two important factors affecting access to credit by micro enterprises (Subeyr, 2017). Collateral, high interest rates, lack of adequate accounting information are the challenges facing small scale entrepreneurs in accessing loans from banks (Aunga & Birore 2017). As per financing obstacle is concerned the high interest rates top the lists of specific financial obstacles, followed by the lack of access to long-term loans (Beck, Kunt, Laeven & Maksimovic 2006). The present study has been made by taking Barak Valley of Assam as a base. Most of the enterprises of the Valley are micro and small enterprises and least of them are medium and large enterprises. Therefore, present study addresses the factors affecting procurement of finance from long term sources by micro and small enterprises in Barak Valley of Assam.

OBJECTIVES OF THE STUDY

The broad objective of the study is to assess the relative importance of the factors affecting procurement of finance from long term sources by micro and small enterprises in



Barak Valley, Assam. However the sub-objectives of the study are as follows:

1. To assess the relative importance of the factors affecting procurement of finance from long term sources by micro and small enterprises in Barak Valley, Assam.
2. To assess the relative importance of the factors affecting procurement of finance from long term sources by manufacturing enterprises and service enterprises in Barak Valley, Assam.

HYPOTHESES OF THE STUDY

The hypotheses of the study are as follows:

1. The responses of the owners / managers of micro enterprises and small enterprises do not significantly vary about the degree of importance of select factors capable of affecting procurement of finance from long term sources by the enterprises in Barak Valley.
2. The responses of the owners / managers of manufacturing enterprises and service enterprises do not significantly vary about the degree of importance of select factors capable of affecting procurement of finance from long term sources by the enterprises in Barak Valley.

METHODOLOGY

The study is basically based on primary data. To test the above hypotheses, the researcher collected the data from primary sources. The primary data has been collected by field survey of the existing micro and small enterprises of

Barak valley by personal interview method. Only the registered enterprises which are functioning have been studied in the present study. The enterprises which have at least one year of experience have been studied. Based on the perception of the respondents, the importance of the factors affecting procurement of finance from long term sources by the enterprises in Barak Valley has been identified. For that five points likert scale has been used. Likert items are Extremely Important (EI), Largely Important (LI), Moderately Important (MI), Slightly Important (SI) and Not Important (NI). The value has been assigned to the likert items as EI=5, LI=4, MI=3, SI=2 and NI=1. Total score of each factor has been calculated by multiplying the frequency of each degree of importance of the factors with their value and then by adding the total value of each degree of importance of the factors. The mean score of the factors has been identified by dividing the total score by the total sample enterprises.

Sampling design

The sampling technique of the study is 'convenience sampling'. Population has been identified particularly for micro and small enterprises on consultation with District Industries and Commerce Centre (DICC) officials and permanent registers of DICCs of the three districts viz., Cachar, Karimganj and Hailakandi district. Total number of registered micro and enterprises which is the population of the study is 3161. Sample size of the study is 246 which is calculated through sample size calculator macorr with 95 percent confidence level and 6 percent sampling error.

Table 1: District-wise Distribution of Population and Sample Size

Districts	Population (No. of registered enterprises as on 31-3-2012)	Sample size
Cachar	1862	145
Karimganj	766	60
Hailakandi	533	41
Total	3161	246

Source: General Managers, DICCs, Cachar, Karimganj and Hailakandi district.

Of the 246 sample enterprises, 145, 60 and 41 enterprises have been selected from Cachar district, Karimganj district and Hailakandi district respectively through 'proportionate stratification method (table 1).

Table 2: Distribution of Sample Enterprises

Type of Enterprises	Number of Enterprises	Per cent
Micro	201	81.71
Small	45	18.29
Total	246	100
Nature of Enterprises	Number of Enterprises	Per cent
Manufacturing	194	78.86
Service	52	21.14
Total	246	100

Source: Field Survey

Of the 246 sample micro and small enterprises 81.71 % are micro enterprises and 18.29 % are small enterprises. The manufacturing sector plays a dominant role in the economy of the Barak valley and thus accounted for 78.86 % of the total sample enterprises. Similarly, the service sector accounted for 21.14 % of the 246 sample micro and small enterprises (table-2).

Statistical Design

Arithmetic mean and standard deviation have been used for data analysis. The hypotheses are tested with the help of the statistical technique 'Mann-Whitney U test'. The conclusion is drawn on the basis of data analysis. The statistical computations have been done by Microsoft Excel, 2007 and SPSS 16.0.

Geographical Area

The study area is the entire three districts of Barak Valley viz., Cachar, Karimganj and Hailakandi districts of Assam.

RESULTS

Table 3 delineates the weightage of importance of factors affecting procurement of finance from long term sources by micro and small enterprises in Barak Valley. It also shows the factor-wise distribution of mean score of the factors on the basis of which ranks are provided to the factors.

Table 3: Relative Importance of Factors Affecting Procurement of Finance from Long Term Sources by Sample Enterprises

Factors	Mean Score	Standard Deviation
Documentation formalities	2.53	1.548
Inadequacy of finance	2.85	1.426
Cost of finance	2.37	1.327
Time Period	3.40	1.351
Risk	3.27	1.397
Form of Organisation	2.28	1.232
Financial Capacity	2.45	1.230
Knowledge	3.06	1.578

Source: Field Survey

Based on the mean score as reflected in table 3, it has been found that the factor 'time period' (3.40) is the most important factor affecting procurement of finance from long term sources by micro and small enterprises in Barak Valley while 'form of organisation' (2.28) is the least important factor affecting procurement of finance from long term sources by micro and small enterprises in the Valley.

The value of standard deviation of the factor 'financial capacity' (1.230) is the lowest among all the factors affecting procurement of finance from long term sources by micro and small enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated. On the other hand, the value of standard deviation of the factor 'knowledge' (1.578) is the highest among all the factors affecting procurement of finance from long term sources by micro and small enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

Table 4: Relative Importance of the Factors Affecting Procurement of Finance from Long Term Sources by Micro Enterprises and Small Enterprises

Factors	Micro Enterprises		Small Enterprises		U-value	p-value
	Mean Score	Standard Deviation	Mean Score	Standard Deviation		
Documentation Formalities	2.43	1.554	2.98	1.454	3525.000	.016
Inadequacy of finance	2.73	1.424	3.36	1.334	3398.500	.008
Cost of finance	2.31	1.370	2.64	1.090	3734.500	.058
Time Period	3.29	1.352	3.89	1.247	3399.500	.007
Risk	3.13	1.405	3.82	1.191	3134.000	.001
Form of Organisation	2.19	1.228	2.69	1.184	3473.500	.011
Financial Capacity	2.46	1.265	2.38	1.072	4434.500	.833
Knowledge	3.23	1.555	2.31	1.474	3035.000	.000

Source: Field Survey

On the basis of the mean score as reflected in table 4, it is observed that the factor 'time period' (3.29) is the most important factor affecting procurement of finance from long term sources by micro enterprises in Barak Valley while the factor 'form of organisation' (2.19) is the least important factor affecting procurement of finance from long term sources

by micro enterprises in the Valley. On the contrary, the factor 'time period' (3.89) is also found to be the most factor affecting procurement of finance from long term sources by small enterprises in the Valley while the factor 'knowledge' (2.31) is found to be the least important factor affecting procurement of finance from long term sources by small enterprises in the Valley.

The value of standard deviation of the factor 'form of organisation' (1.228) is the lowest among all the factors affecting procurement of finance from long term sources by micro enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated and the value of standard deviation of the factor 'knowledge' (1.555) is the highest among all the factors affecting procurement of finance from long term sources by micro enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated. On the other hand, the value of standard deviation of the factor 'financial capacity' (1.072) is the lowest among all the factors affecting procurement of finance from long term sources by small enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor

is more concentrated and the value of standard deviation of the factor 'knowledge' (1.474) is the highest among all the factors affecting procurement of finance from long term sources by small enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

The result of two independent samples Mann-Whitney U test reveals that there is statistically significant difference between the responses of the owners / managers of micro enterprises and small enterprises about the degree of importance of the factors namely 'documentation formalities', 'inadequacy of finance', 'time period', 'risk', 'form of organisation' and 'knowledge' capable of affecting procurement of finance from long term sources by the enterprises in Barak Valley at 5% level of significance.

Table 5: Relative Importance of the Factors Affecting Procurement of Finance from Long Term Sources by Manufacturing Enterprises and Service Enterprises

Factors	Manufacturing Enterprises		Service Enterprises		U-value	p-value
	Mean Score	Standard Deviation	Mean Score	Standard Deviation		
Documentation Formalities	2.60	1.552	2.29	1.525	4476.500	.193
Inadequacy of finance	2.93	1.386	2.54	1.540	4250.500	.074
Cost of finance	2.45	1.308	2.10	1.376	4191.500	.052
Time Period	3.53	1.264	2.94	1.564	3934.000	.012
Risk	3.35	1.370	2.96	1.468	4282.000	.087
Form of Organisation	2.27	1.200	2.35	1.356	4939.000	.810
Financial Capacity	2.37	1.207	2.73	1.285	4268.000	.078
Knowledge	3.07	1.623	3.04	1.414	4922.000	.783

Source: Field Survey

Table 5 reveals that the factor 'time period' (3.53) is the most important factor affecting procurement of finance from long term sources by manufacturing enterprises in Barak Valley while the factor 'form of organisation' (2.27) is the least important factor affecting procurement of finance from long term sources by manufacturing enterprises in the Valley. On the other hand, the factor 'knowledge' (3.04) is found to be the most important factor affecting procurement of finance from long term sources by service enterprises while the factor 'cost of finance' (2.10) is found to be the least important factor affecting procurement of finance from long term sources by service enterprises in Barak Valley.

The value of standard deviation of the factor 'form of organisation' (1.200) is the lowest among all the factors affecting procurement of finance from long term sources by manufacturing enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated and the value of standard deviation of the factor 'knowledge' (1.623) is the highest among all the factors affecting procurement of finance from long term sources by manufacturing enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated. On the other hand, the value of standard deviation of the factor 'financial capacity' (1.285) is the lowest

among all the factors affecting procurement of finance from long term sources by service enterprises in Barak Valley which imply that the opinion of the respondents with regard to this factor is more concentrated and the value of standard deviation of the factor 'time period' (1.564) is the highest among all the factors affecting procurement of finance from long term sources by service enterprises which indicates that the opinion of the respondents with regard to this factor is less concentrated.

The result of two independent samples Mann-Whitney U test reveals that there is statistically significant difference between the responses of the owners / managers of manufacturing enterprises and service enterprises about the degree of importance of the factors namely 'time period' capable of affecting procurement of finance from long term sources by the enterprises in Barak Valley at 5% level of significance.

SUGGESTIONS

The study suggests the following important suggestions:

1. It has been suggested that the lenders should provide finance to the micro and small enterprises in the Valley at the time of their requirements.
2. Banks, non-banking financial institutions and even DICCs should simplify documentation formalities

to increase the accessibility of finance by micro and small enterprises in Barak Valley and they should reduce their charges to the enterprises in the Valley.

3. Banks and non-banking financial institutions set more flexible, affordable and attractive requirements in financing micro and small enterprises and they should lower their interest rates and also grant loans on business asset and income as collateral securities.

CONCLUSION

The study finally let us to conclude that the relative importance of the factors affecting procurement of finance from long term sources by the enterprises in Barak Valley is not same. 'Time period' is the most important factor affecting procurement of finance from long term sources by the enterprises in Barak Valley while 'form of organisation' is the least important factor affecting procurement of finance from long term sources by the enterprises in the Valley. The study also conclude that there is statistically significant difference between the responses of the owners / managers of micro enterprises and small enterprises about the degree of importance of the factors namely 'documentation formalities', 'inadequacy of finance', 'time period', 'risk', 'form of organisation' and 'knowledge' capable of affecting procurement of finance from long term sources by the enterprises in Barak Valley.

AREA FOR FURTHER RESEARCH

Further research can be conducted in the areas of unregistered micro and small enterprises, medium enterprises and large scale enterprises. Also the utilisation of finance, the accounting and marketing practices followed by the micro, small and medium enterprises are the suitable areas where research can be conducted.

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