

# Government Finance in the Growth of Msmes: A Study with Special Reference to Kannur District of Kerala

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## Abstract:

MSMEs have an important role in the development of Kerala in terms of their contribution to industrial production, export, employment, and creation of entrepreneurial base. Realizing the importance of MSMEs, Government at the State and Central have been instigating number of schemes and programmes to start MSMEs through various means. Though the government has implemented various schemes and programmes, many of the MSMEs are struggling for finance which may be due to lack of awareness about various schemes for entrepreneurs. Hence in this study an attempt is made to know the awareness and availability of government finance for MSMEs among the micro entrepreneurs. 60 sample entrepreneurs who are registered with DIC were selected and data were collected through structured questionnaire. The data collected were analysed by using percentage, weighted average mean, ranking etc. Prime Minister Employment Generation Programme (PMEGP) was the most popular financing scheme among the entrepreneurs. Still the supports provided by the government are not fully utilised by the entrepreneurs mainly because of unawareness about the various schemes available.

**Keywords:** Entrepreneurship, Entrepreneurship development, Financial Assistances, Government finance, MSMEs.

## Introduction

Development of entrepreneurship is very essential to a state like Kerala, where there is large number of unemployed people with higher qualification. Offering employment opportunities to all the people in the state is not possible to the government; as such commencing their own venture is the only solution, which results in industrial development and regional growth. Thus development of MSMEs viewed as an effective mechanism, as it is labour intensive and requires lower amount of investment. According to the Micro, Small and Medium Enterprise Development (MSMED) Act 2006 revised classification, Micro enterprises include, enterprises (both Manufacturing and Services) in which investment in plant and machinery or equipment does not exceed ₹ 1 crore and annual turnover not more than ₹ 5 crore. A Small enterprise should have investment less than Rs.10 crore and annual turnover less than ₹ 50 crore. Enterprises having investment not more than ₹ 50 crore and annual turnover not more than ₹ 250 crore are comes under the category of Medium enterprises.

MSMEs have an important role in the development of Kerala in terms of their contribution to industrial production, export, employment, and creation of entrepreneurial base. Furthermore they are generally

located in rural and village areas which contribute much to balanced regional growth. The industries coming under the MSME sector in Kerala mainly include handicrafts, handloom, garments, food processing, rubber, textiles and leather. Realizing the importance of MSMEs, Government at the State and Central have been instigating number of schemes and programmes to start MSMEs through various means but it is up to the entrepreneurs that how effectively they are exploring these opportunities.

Some of the financial supports provided by government and its agencies include Prime Minister's Employment Generation Programme (PMEGP), Mudra Scheme, Entrepreneurship Support scheme (ESS), Credit Guarantee Scheme for Micro & Small Enterprises (CGTMSE), Scheme of Fund for Regeneration of Traditional Industries (SFURTI), A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE), MSME Champions Scheme, MSME Sustainable (ZED) Certification and MSME-Competitive (Lean) manufacturing scheme. The MSMEs can avail the financial support from District Industries Centres (DICs), Kerala State Industrial Development Corporation (KSIDC), Small Industries Development Bank of India (SIDBI), Khadi & Village Industries Board (KVIB), Kerala Small Industries Development Corporation (SIDCO), Kerala Financial Corporation (KFC) etc. for developing enterprises.

### **Literature review**

Reddy (1987) studied the sick units in Visakhapatnam and Vijayawada and disclosed that most of the enterprises lack adequate working capital and managerial efficiency. He also suggests that the Government should also support SSI Units by providing financial assistance, technical advice and consultancy. Bhattacharya (1998) analysed the emergence of Small industries and inferred that the government has not made serious effort to promote Small enterprises in the manufacturing sector.

Hasmat, Md. Abdul (1991) studied the problems of Small Scale Industries and understood that majority of the enterprises have financial difficulty which adversely affects their performance. Majority of them approached government agencies as well as commercial banks for procuring finance. Rupali Sharma and Vijay Kumar (2004) studied the role of Government Policies for Entrepreneurship development in India and observed that an entrepreneur is in need of fund not only for setting up of business, but also for the regular operation of the enterprises. Hence the government provides supports in the form of setting up of banks and financial institutions, implementing various policies and schemes, etc.

Rajendran (2005) was of the opinion that adequate finance is not available to small scale industries and it adversely affects their performance. Though SIDBI is providing credit guarantee fund to the entrepreneurs, their performance are not up to the mark and the scheme has to be revised and improved for getting the desired result. The study conducted by Dhineshsanka, S. and Mayilvaganan, S. (2012) to measure the performance PMEGP scheme in Nagapattinam, concluded that the scheme is effective in disbursing margin money for the development of enterprises. They suggested that the government agencies should focus on providing financial assistance to deprived category of entrepreneurs in order to enable them to become entrepreneur.

Mathew Antony (2012) states that, in Kerala the MSMEs face problems at every stage of their operations - buying raw materials, manufacturing products, marketing the products or in finding the finance required. Abraham (2012) studies the environment of entrepreneurship development in Kerala and stated that the growth rate with regard to investment and employment generation is less in Kerala. Hence, the government and other stakeholders in the MSMEs have to take more measures for the development of MSMEs.

In order to overcome the difficulties in purchasing fixed assets, raising working capital, marketing the products and infrastructural problems faced by the MSMEs, Suresh (2013) suggested that the government agencies and other financial institutions have to introduce various schemes. Padmasani and Karthika (2013) conducted a study to know the Problems and Prospects of MSMEs and said that banks and financial institutions should try to provide credit facilities at lower rate of interest. Similarly Government and other agencies relating to MSMEs should provide support for export promotion of MSMEs for the economic development.

The study conducted by Suneetha and Sankaraiah (2013) to identify the problems of MSMEs and found that majority of the enterprises were facing financial problems and are more severe among the micro entrepreneurs. Some of them are availed low amount of financial assistances from government agencies. Sam B.A. Tende, (2014) examined the various government measures for the development of entrepreneurship in Nigeria and revealed that the government credit policies and programmes have no significant effect on the development of entrepreneurial activities. Usman, Askira and Gaya (2015) assessed the influence of Government in promoting and developing SSIs and found that the role of Government in contributing finance to SSIs in Maiduguri was less. Majority of the entrepreneurs are unaware about various schemes, subsidies and incentives provided by the government.

### **Statement of the problem and Significance of the study**

MSMEs contribute to economic growth in both developed and developing countries by creating large employment opportunities at lower amount of investment. They have a key role in the country's industrial production, exports, and creation of an entrepreneurial base. They also help in balanced regional development and are essential part of the entrepreneurial system of the nation. But these enterprises are facing number of problems in starting and operating these enterprises. Most important among them is the problem of finance. Considering the benefits of MSMEs, various initiatives have been taken by the government both at the central and state for providing required financial assistance in the form of subsidy relating to investment, research and development, taxes, working capital assistance etc. Though the government has implemented various schemes and programmes for MSMEs, many of them are struggling for finance which adversely affects their performance. In this context, the importance of government finance in the development of MSMEs is significant.

### **Objectives of the study**

1. To know the awareness of micro entrepreneurs regarding the various financing schemes of government for MSMEs.
2. To understand the extent of utilisation of government finance by the Micro entrepreneurs.

### **Methodology**

A descriptive and analytical study was conducted to know the awareness and usage of government finance in the Growth of MSMEs in Kannur district. Micro enterprises which are registered with DIC and availed any of the financial assistances from government constitute the population of the study. From the population, 60 sample entrepreneurs were selected by using random sampling method and data were collected by means of a structured questionnaire. The primary data collected were analysed by using percentage, weighted average mean, ranking etc.

**Discussion**

The profile of sample respondents collected through the structured questionnaire are given in table 1

**Table No. 1 Profile of MSME entrepreneurs**

Variables	Group	Number	Percentage
Age	Less Than 20	0	0.00
	20-30	2	3.33
	30-40	16	26.67
	40-50	23	38.33
	More Than 50	19	31.67
Gender	Male	52	86.67
	Female	8	13.33
Educational Qualification	SSLC	9	15.00
	Pre- Degree/ Plus Two	16	26.67
	Graduation	24	40.00
	Post Graduation	8	13.33
	Others	3	5.00
Category	General	21	35.00
	OBC/ OEC	35	58.33
	SC/ST	4	6.67
Marital Status	Married	57	95.00
	Unmarried	3	5.00
Period Of Business Existence	Up To 5 Years	33	55.00
	5-10 Year	17	28.33
	10-15 Years	10	16.67

Source: Field survey

Majority of the micro entrepreneurs are male and comes under the age group of 40 - 50. Graduates are more in number and most of them are married. Most of them have 5 years of experience in the field. Awareness of micro entrepreneurs regarding various government finance schemes are provided in Table

2

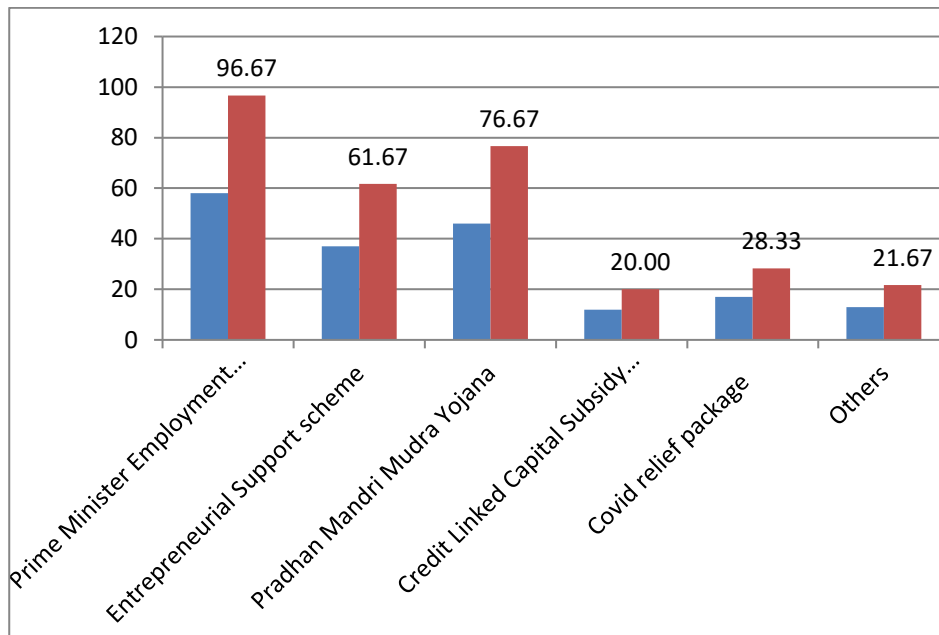
**Table No. 2 Awareness of government finance schemes**

Schemes of finance	No.of respondents	Percentage
Prime Minister Employment Generation Programme (PMEGP)	58	96.67
Entrepreneurial Support scheme (ESS)	37	61.67
Pradhan Mandri Mudra Yojana	46	76.67

Credit Linked Capital Subsidy Schemes	12	20.00
Covid relief package	17	28.33
Others	13	21.67

Source: Field survey

All most all the entrepreneurs are aware about the Prime Minister Employment Generation Programme (PMEGP) followed by Pradhan Mandri Mudra Yojana and Entrepreneurial Support scheme of Kerala Government. For getting a clear understanding, the details are depicted in Diagram 1.



**Diagram 1 Awareness of schemes**

Though the entrepreneurs are aware about the various financial schemes of government, many of them are not availing those assistances. Majority of the micro entrepreneurs availed financial assistance under Prime Minister Employment Generation Programme (PMEGP) and Entrepreneurial Support scheme of Government of Kerala. Table 3 presents the various government schemes availed by micro entrepreneurs.

**Table No. 3 Government financing schemes availed**

Schemes of finance	No.of respondents	Percentage
Prime Minister Employment Generation Programme (PMEGP)	28	46.67
Entrepreneurial Support scheme	12	20.00
Pradhan Mandri Mudra Yojana	8	13.33
Credit Linked Capital Subsidy Schemes	7	11.67
Covid relief package	3	5.00

Others	2	3.33
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Source: Field survey

Most of the entrepreneurs availed financial support from the government for establishing new enterprises. Some of them availed fiancé for purchasing plant and machinery. The details regarding the purpose for which the fiancé availed are used are revealed in Table 4.

**Table 4 Purpose of availing the financial assistance**

Purpose of finance	Number	Percentage
For establishing new enterprise	34	56.67
for purchasing plant and machinery	26	43.33
Technological up-gradation	9	15.00
Capital for growth and expansion	17	28.33

Source: Field survey

The micro entrepreneurs who availed the financial assistance are not highly satisfied with the various assistances provide by the government and the weighted average of all the variables falls below 4 (satisfied ) which indicates the schemes and policies are to be reviewed and necessary modifications are to be made. The level of satisfaction of entrepreneurs regarding the various financial assistances is depicted in Table 5.

**Table 5 Satisfaction level of entrepreneurs**

Variables	Weighted average
Types of Schemes and incentives	3.4
Duration of getting the assistance	3
Amount of assistance	3.6
Rate of interest	3.4
Response of officials	2.8
Formalities for getting the assistance	2.1

Source: Field survey

For promoting the development of enterprises, the government is providing various subsidies, incentives and other measures. Still the micro entrepreneurs are not fully utilising them mainly because of unawareness about these schemes. Some of them are of the opinion that too much formalities and delay in granting the assistances hinders them in availing the assistances. The reasons for not availing the assistance are exhibited in table 6.

**Table 6 Reasons for not availing the assistances**

Reasons	Rank
Unawareness about the schemes	1
Too much formalities	2

Beaurocracy	5
Unsupportive attitude of government officials	4
Delay in granting the assistances	3
Absence of security	6

Source: Field survey

### Major findings

- Majority of the micro entrepreneurs are male in the age category between 30 and 50
- Prime Minister Employment Generation Programme (PMEGP) was the most popular financing scheme followed by Pradhan Mandri Mudra Yojana and Entrepreneurial Support scheme of Kerala Government
- Many of the entrepreneurs availed the financial assistance under Prime Minister Employment Generation Programme (PMEGP) and Entrepreneurial Support scheme
- Most of the entrepreneurs availed financial support for establishing new enterprises and for purchasing plant and machinery.
- The entrepreneurs are not satisfied with the form of financial assistance and the amount of assistance. Further the time for sanctioning and disbursing the assistance is also very high.
- The supports provided by the government are not fully utilised by the entrepreneurs mainly because of unawareness about the various schemes available. Similarly undue delay and unsupportive attitude of officials also create barriers in the disbursement of supports.

### Suggestions

Government should take measures for increasing the financial awareness of MSME entrepreneurs by conducting seminars and workshops and provide publicity of information through newspaper, television, magazines and other related Medias. In order to improve the performance of various schemes and assistances, it is necessary to reduce the formalities required for getting the assistance. A cordial relationship among the officials of government and entrepreneurs are also essential. Similarly reduction of beaurocracy and implementation of transparency in sanctioning the assistance is very much needful. Moreover, more subsidies and incentives are to be provided and finance for meeting the working capital also to be provide to them.

### Conclusion

Micro, small and medium enterprises are an inevitable part of economic prosperity of a nation as it leads to employment generation, development of rural areas, balanced regional development, industrialization, economic development, export promotion etc. By realising the importance of such enterprises in India, especially in Kerala, The government at the Central and State implemented several schemes for the promotion of MSMEs. However many of the potential entrepreneurs are not much benefitted due to lack of awareness about the various assistance provided. Therefore, the government has to take measure for improving the awareness about the supports provided by them for the enterprises. Similarly simplifying the procedures and avoiding undue delay in providing the assistance should also be ensured.

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