Reasons for Micro Entrepreneurs not getting Institutional Finance

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Abstract

After the 1991 financial reforms, the Indian MSMEs are finding it difficult to cope with the challenges of globalization mainly because of poor access to financial services. The MSME sector faces financial problems such as low capital, delayed payments, working capital, lack of timely credit, collateral and interest rate, etc. This study attempts to identify the reasons for micro-entrepreneurs failing to obtain institutional finance for their business. Simple random sampling has been used to collect data from 257 micro-entrepreneurs using a well structured interview schedule. Results of the study reveal that quantum of loan requested by the micro-entrepreneurs seems to be too much for the banks to sanction and this is the major factor contributing to these entrepreneurs failing to get bank credit for their business ventures. Using Factor Analysis, three factors such as poor management, credit capacity and inadequate capital and collateral have been identified as the most important reasons for these micro-entrepreneurs failing to get bank credit for their business. Canonical Correlation has been used to find out the most important reasons for the micro-entrepreneurs failing to get bank credit The reasons vary according to their family size, generation of entrepreneurship, family-orientation of business, location of business venture, type of industry, capital employed and number of business ventures owned and managed by the micro-entrepreneurs.

Keywords: Micro enterprises, Non-instituional sources, Credit capacity

Introduction

Micro, Small and Medium Enterprises (MSMEs) serve as engine of growth for economic development of emerging economies like India. This sector has been a highly vibrant and dynamic sector in India for the past three decades. 99 per cent of total enterprises in the European Union and 80 per cent in USA are small enterprises. In India too, the share is as high as 97 per cent. MSMEs play a critical role in the development of any economy because of its ability to generate employment opportunities, develop entrepreneurial skills and contribute significantly to export revenue. MSMEs are generally characterized as being highly skill-oriented, low capital, local resource-based, and local market-driven enterprises that have been helping in industrialising rural and backward communities, consequently leading to the reduction of regional imbalances. This ensures that the country's national income and wealth is equitably distributed.

Overview of MSMEs in India

MSMEs contribute significantly to manufacturing output, employment and exports of the country. MSMEs contribute 8 per cent to the country's GDP. In terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of total exports of the country. It has been estimated that there are some 26 million MSMEs in the country, producing over 6000 products ranging from traditional agro-based products to high-technology items, employing almost about 60 million people. The six states of Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka house more than 55 per cent of these enterprises. Most importantly, almost 7 per cent of MSMEs in India are owned by women and more than 94 per cent are run as sole proprietorship or partnership ventures. However, it is very significant to note that among the 26 million MSMEs, only 1.5 million are registered formally as an enterprise while the remaining 24.5 million (94 per cent) are still unregistered.

Overview of Institutional Credit Structure for MSMEs

The Reserve Bank of India (RBI) constantly reviews the flow of credit to the MSME sector. To improve the flow of credit, the RBI has constituted several committees and working groups since 1991. Notable among the committees are Nayak Committee (1991), Kapur Committee (2002), Ganguly Committee (2004), Murthy

Committee (2005) and Chakrabarthy Committee (2008). Appropriate measures are taken by the RBI and Government from time to time based on the decision of the Standing Committee on SSIs, constituted by the RBI. An exclusive refinancing bank, called Small Industries Development Bank of India (SIDBI) was set up in 1990 (Noman, 2003). To date, a multi-level institutional structure has been promoted for financing of small enterprises and non-farm enterprises in India. This consists of commercial banks, cooperative banks, RRBs and State Financial Corporations (Rashid, 2005; Rao, 2006). Credit to small enterprises comes under the priority sector lending programme of banks (Vastava, 1987). Furthermore, National Bank for Agricultural and Rural Development (NABARD) plays an important role for credit delivery to micro enterprises through the development of SHGs-banks linkage model. However, it is significant to note that majority of the SHG-bank linkage credit is in the form of micro credit to meet the production and consumption needs of individuals and not for micro enterprises.

Problem Statement

Given its significant contributions to the national economy, most MSMEs are not able to stand up to the challenges of globalization, mainly because of poor access to financial services, which are in most cases, inadequate, delayed and costly (Sarma, 1991). According to the Fourth All-India MSME Survey, a mere 5.2 per cent of the 26 million enterprises have availed of institutional finance while some 2 per cent have sought help from informal source of finance. It is unfortunate to observe that a staggering 92.8 per cent of enterprises had no access to finance from any source. Furthermore, 11.2 per cent and 1 per cent of the registered enterprises received finance from institutional and non-institutional sources respectively.

MSMEs generally have availed of loans from banks in the form of term-loans and working capital loans (Saini, 1998). Among the unregistered enterprises, only 4.8 per cent and 2.1 per cent availed finance from formal and informal sources respectively. This huge difference between the number of micro enterprises and the quantum of credit availed from banks and other formal sources of financing explains the plight of micro-entrepreneurs in managing their businesses. Banks are also not able to reach the prescribed target of lending to the priority sector (Ahmed, 2011). The situation at hand hence necessitates providing more impetus for the flow of credit to this sector. Given this financial concern among entrepreneurs, this study attempts to identify the reasons for micro-entrepreneurs failing to get institutional finance for their business ventures.

Review of Literature

Several studies have been undertaken in India and overseas regarding problems, issues, challenges and constraints faced by entrepreneurs in terms of marketing, operations, technology, management, entrepreneurship, etc. However, very few studies have touched the area of finance and financial assistance offered to business enterprises. Some of the key findings of the available literature are presented below.

Lack of access to finance and timely credit as well as escalating cost are the primary reasons for under utilization of the manufacturing capabilities of SMEs (Seshasayee,2006). Start-ups receive less formal finance compared to established enterprises (Natarajan, 1987; Assibey, 2012). SMEs cannot attain or absorb new technologies without proper access to finance (Srinivas, 2005). Government should motivate not only new industries but also create mechanism for protecting existing units and more liberal working capital should be made available to small units (Ramesh, 1991).

Unclear government policies, insufficiency of credit and finance, lengthy credit delivery process and increasing interest rates are some of the key concerns for micro-entrepreneurs (Saini, 1998; Vikram, 1999; Sujatha, 2002; Ramachandran, 2003; Neelam & Madan, 2012). Geographical locations, maintenance of financial documents, supportive training opportunities and gender have been identified as major detrimental factors to access credit (Aga & Reilly, 2011). In a similar study, value of assets, business sector, operating profit, financial performance and size of business enterprise dampened MSEs access to finance (Isaac, 2011). Education level, type of ownership and acquisition play a significant role in influencing enterprises to successfully avail finance (Gebru, 2009).

Prasad (2006) recommended that banks should play the role of a collection agent for MSMEs to collect dues from the buyers to minimize the chances of delay in payments. This has been a major problem for MSMEs. Also financing to MSMEs, such as lease finance, hire-purchase finance and propagation of incubation centers could be undertaken in order to bridge the financial gap. Banks are also not able to reach the prescribed target of lending to the priority sector (Ahmed, 2011).

Increasing the availability and participation of formal and informal lenders in the creation of micro enterprises is a challenge (Heino, 2006). Increasing credit deployment among industries while reduction among agro-based enterprises poses major challenges (Kanagasabai, 1999). FICCI (2006) found that there is some improvement over time in the availability of working capital finance from banks to the SSI units. Financial institutions, apart from finance to SMEs, should introduce financial services such as leasing, hire purchasing, factoring and venture capital for more sources of funds (Chawla, 2004).

Siringoringo et al (2009) found that competition, lengthy documentation process, product quality, export barriers from country destinations, low potential for high production, delay in shipping and logistics, inadequate communication, lack of market knowledge, entry barriers related to international market, export procedures, inefficient production cost, unofficial fee in export documents processing, higher supply product in-time and traditional transactional models were the most important challenges encountered by Indonesian SMEs.

Research Methodology

The study is descriptive in nature. Primary data are collected from micro entrepreneurs, who are engaged in manufacturing activity using a well-structured interview schedule. The micro-enterprises located in the Vellore district of Tamilnadu represent the sample universe for the study while the list of MSMEs collected from District Industries Centre (DIC), Vellore is the sample frame. The sample size for the study is 257 which has been arrived at using the formula of $n = ((std.dev*1.96)/(mean*0.05))^2$. The sample unit for the study has been drawn at random using lottery method.

Reasons For Not Getting Formal Finance

Finance is one of the important resources for every business whether it is small or large. Formal financial system of the country fails to cater to the financial requirements of Indian micro, small and medium enterprises. There are numerous reasons for the MSMEs in India failing to get bank credit and these may be internal or external. Some of such reasons may be low capital, insufficient security, poor credit history, lack of profit, huge volume of credit and poor business plan. The main focus of this study is to identify and analyze the reasons for MSMEs failing to get formal bank credit.

Table 1: Reasons for MSMEs not getting formal Credit

Sl. No.	Persons	Mean	Rank
1	Poor credit history	3.62	III
2	Lack of profitability	3.03	VII
3	Insufficient collaterals	3.69	II
4	Lack of own capital	3.57	VI
5	Lack of opportunities for business	3.61	IV
6	Inadequate business plan	3.60	V
7	Higher size of the credit requested	3.74	I

Micro-entrepreneurs were asked to indicate their response to the seven reasons which might have contributed to their failure to get bank credit, in a Likert's five point scale and Table 1 displays the responses. Based on the mean value, it is found that among the seven reasons for MSMEs failing to get formal bank credit, high quantum of loan requested occupies the foremost position (3.74), followed by the other reasons of inadequate collateral (3.69) and poor credit history (3.62). Lack of opportunities for business (3.61) and inadequate business plan (3.60) occupies the fourth and fifth place, while lack of own capital and low profitability are the least considered reasons for MSMEs not getting bank credit.

The interview schedule was first tested for its relevance and content validity through a pilot study. Eight statements representing the reasons for MSMEs failing to get bank credit were initially recognised and included in the schedule. The percentage of reliability at the first instance came to 0.693. However, the Confirmatory Factor Analysis (CFA) Model reveals that the factor loadings in respect of the item "Industry Too Risky" is very low. Hence this statement is removed from further analysis. The ultimate reliability percentage using Cronbach's alpha after removing this statement is 0.697. Hence, only seven statements are finally taken as the reasons for the MSMEs failing to get bank credit for the final analysis.

Factor Identification of reasons for Poor success of MSMEs in obtaining Bank Credit

Though there are seven reasons listed in the study, all the seven reasons may not be distinctive reasons. Some of the reasons may be related. The entrepreneurs may have similar perception about some reasons. Such reasons may be clubbed together. For this purpose factor analysis is used. The main purpose of factor analysis is to reduce variables into a minimum number of factors based on relationship among the statements. Before taking the factor score into consideration, it is important to examine the KMO and Bartlett's Test for sample adequacy to find whether the number of sample is sufficient or not.

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.691
Bartlett's Test of Sphericity	Chi-Square	295.194
	Df	21
	Sig.	.000

Table 2 shows that the KMO value is 0.691 which is greater than 0.5 which is the acceptable score. The Bartlett's Test of Sphericity is 295.194 which is significant at 0.000 thereby confirming that the data is satisfactory enough to perform factor analysis.

Table 3: Variance Explained by reasons of not getting loan

Component	Eigen Value	% of Variance Explained	Cumulative %
1	2.509	23.211	23.211
2	1.262	21.647	44.858
3	1.076	21.117	65.975

Table 3 explains the factor extracted with Eigen value and the percentage of variance explained by these factors. Factor analysis extracted three factors from seven statements with a satisfactory Eigen value score of greater than 1. The three factors extracted explain for about 66 per cent of total variance which can sufficiently explain all seven statements. Hence it can be concluded that seven main reasons for not getting formal finance by micro enterprises can be reduced into three factors. For further analysis, these three factors alone can be considered.

Table 4: Rotated Component Matrix

	Component		
	1	2	3
Perceived lack of opportunities for business	.872		
Inadequate business plan	.740		
Lack of profitability	.515		
Higher size of the credit requested		.861	
Poor credit history		.580	
Insufficient collateral			.871
Lack of own capital			.731

Table 4 indicates the factor loading extracted under each factor. First factor is named as 'poor management' which consist of three sub-factors. The second factor is named as 'credit capacity' which consists of two variables and the third factor is named as 'inadequate capital and collateral' which contains two sub-factors. Though seven reasons are included in the initial stage of analysis, now it can be concluded that there are only three distinctive reasons for not getting loans such as poor management, credit capacity and inadequate capital and collateral.

Segmentation of Reasons for MSMEs not Getting Bank Credit

All micro-entrepreneurs might not have encountered all the cited seven problems while trying to avail bank credit. Nor would they have encountered the difficulties at the same magnitude. Hence, the need arises to segment the entrepreneurs based on their level of agreement to the seven quoted reasons. Based on the three identified factors, the micro-entrepreneurs can be segmented. K-means cluster analysis is used to categorize micro-enterprises into three clusters based on the level of agreement of the entrepreneurs to the reasons for not getting formal source of finance.

Table 5: Final Cluster Centers and ANOVA

Factors	Cluster			F	Sig.
	1	2	3		
Poor management	2.74 (III)	3.34 (II)	3.81 (I)	92.419	.000
Credit capacity	3.45 (II)	2.62 (III)	4.13(I)	140.946	.000
Inadequate capital and collateral	2.94 (III)	3.71 (II)	3.99(I)	84.897	.000
Average	3.04	3.22	3.97		
No. of cases	77	42	138		
Percentage	30	16	54		

Table 5 contains the mean value scores of three factors related to reasons for not getting loans. The table shows that 30 per cent of the enterprises surveyed (77) constitute the first cluster, 16 per cent of the MSMEs (42) constitute the second cluster and 54 per cent of the enterprises (138) belong to the third cluster. It can be inferred that majority of MSMEs surveyed constitute the third cluster.

Observation of F value reveals that credit capacity has the highest F value followed by poor management. It reveals that credit capacity is the most significant factor relating to reasons for not getting formal finance by micro enterprises. Nevertheless it is important to note that all three factors are found to be significant at 0.000. This means that poor management, credit capacity and inadequate capital and collateral all significantly contribute to the segmentation of enterprises into three clusters.

Poor management

The first cluster is named as poor management with reference to the sub-factors it contained. Generally, micro-enterprises cannot easily fulfil the terms and conditions required by the formal finance sector for getting loans for business activities. These enterprises have low entrepreneurial skills, poor management, no scope for products, local market, simple and similar products and traditional goods.

Inadequate capital

The second cluster is named as inadequate capital which contains sub-factors referring to capital and credit. Basically, micro enterprises are low capital based, low technology and use locally available goods.

Many reasons

The third cluster is named as many reasons referring to both internal and external factors that affect micro-enterprises for not getting formal loans. The enterprises included in this cluster feel that they have all three reasons such as poor management, credit capacity and inadequate capital and collateral.

Reliability of Segmentation

Consistency of the cluster classification and its stability across the samples is verified using discriminant analysis. The three factors (poor management, credit capacity and inadequate capital and collateral) are taken as independent variables and the cluster classification is taken as grouping variables (dependent variables) to find out the reliability of cluster classifications.

Table 6: Eigen values and Wilks' Lambda

Function	Eigen value	Canonical Correlation	Wilks' Lambda	Chi-square	Df	Sig.
1	1.699[a]	.793	.208	396.780	6	.000
2	.778[a]	.661	.562	145.575	2	.000

From Table 6, it can be inferred that only one function is having satisfactory Eigen value of more than one, while the largest Eigen value corresponds to the maximum spread of the groups' means. From the three clusters, two discriminant functions are formed. This shows that there is a good difference among the clusters on the factors. The canonical correlation helps to measure the association between the functions and factors. Analysis reveals that function one and two has high canonical correlation. Wilks' lambda for the first function is 0.208 and for function two it is 0.562 which indicates that the group means are different from function 1 and function 2.

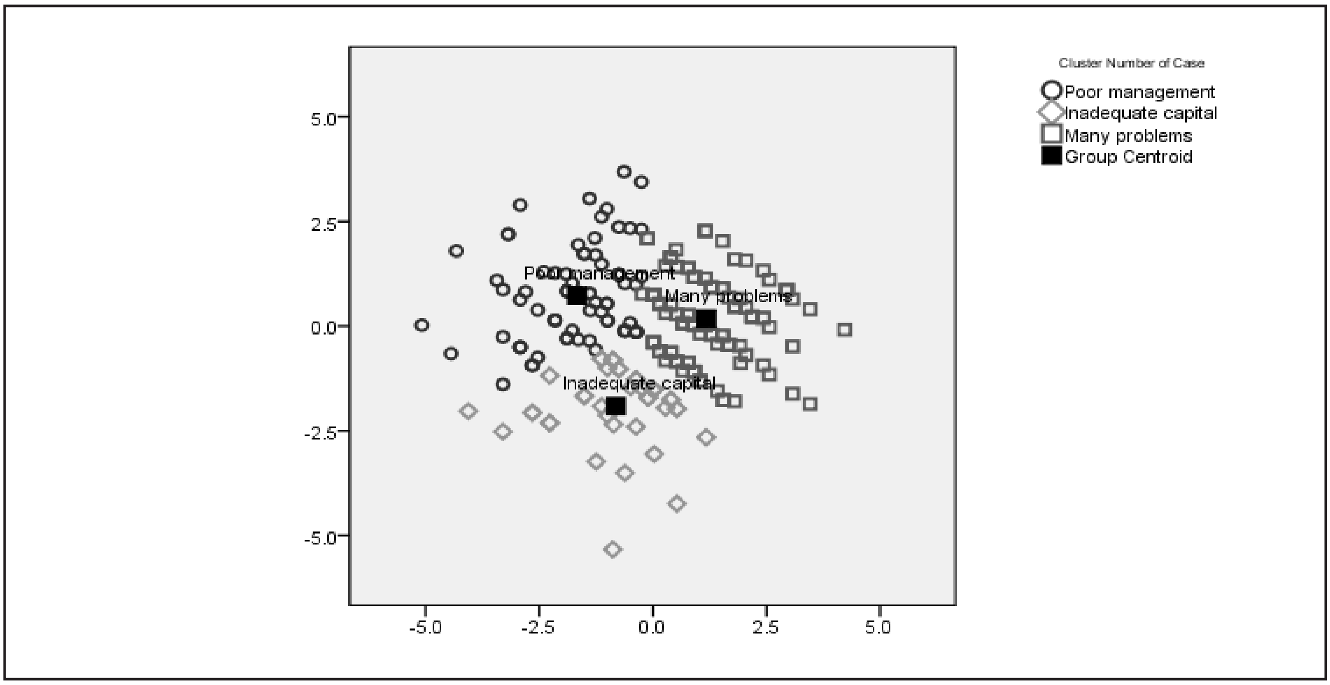
Table 7: Structure Matrix

	Function	
	1	2
Poor management	.640*	-.202
Inadequate capital and collateral	.587*	-.325
Credit capacity	.606	.790*

Table 7 presents the structure matrices and reveals that two functions can be formed from the three clusters. These two domain functions can be used separately to describe the characteristics of the population studied.

The two domain functions are Z1 = 0.640* poor management + 0.587* inadequate capital and collateral, Z2 = 0.790 * credit capacity.

Fig.1: Group Centroids for Reasons of not Getting Loans



The group centroids diagram shows that all the three clusters are significantly different having different group centroids and different mean values. The cluster members are aligned separately from other group members.Thus there is no error of discriminant classification. This indicates that there exists a good variation among the three discriminant groups.

Table 8: Extent of Correct Classification

	Reasons for not getting formal loans	Predicted Group Membership			Total
		Poor management	Inadequate capital	Many reasons	
Count	Poor management	76	1	0	77
	Inadequate capital	0	42	0	42
	Many reasons	3	0	135	138
%	Poor management	98.7	1.3	.0	100
	Inadequate capital	.0	100	.0	100
	Many reasons	2.2	.0	97.8	100.0

Table 8 presents the extent of success of the classification on the basis of reasons. The number and percentage of cases classified correctly and wrongly are displayed in the table. It can be inferred from the table that 98.7 per cent of poor management segments are correctly classified and only one case is included in inadequate capital segment. In the Inadequate capital segment, 42 cases accounting for 100 per cent are correctly classified. In the case of many reasons segment, 135 cases accounting for 97.8 per cent are correctly classified and only 3 cases are included in the poor management segment. Therefore, it can be inferred that the segmentation of micro enterprises based on reasons for not able to get bank loan is correct by more than 98 per cent.

Relationship between demographic variables and reasons for not getting bank credit

The relationship between demographic variables and reasons for micro-entrepreneurs not able to get formal bank credit has been analysed using chi-square analysis. There are ten demographic variables used for this study.

Table 9: Relationship between demographic variables and reasons for not getting loans

Sl. No	Variable	Chi-Square value	Poor management	Credit capacity	Inadequate capital and collateral
1	Age	8.761 (.187)	.648 (.585)	1.834 (.141)	1.086 (.355)
2	Gender	1.255 (.534)	-.330 (.740)#	-.223 (.824)#	1.835 (.070)#
3	Religion	6.099 (.192)	.287 (.751)	.523 (.594)	.124 (.883)
4	Social class	5.209 (.517)	.836 (.475)	.776 (.509)	.768 (.513)
5	Family size	14.451 (.025)*	5.423 (.001)	1.350 (.259)	2.430 (.066)
6	Education	11.502 (.320)	3.054 (.011)*	1.244 (.289)	1.138 (.341)
7	First time entrepreneur	8.683 (.013)*	1.383 (.168)#	1.500 (.135)#	.956 (.340)#
8	Family business	8.683 (.013)*	-1.565 (.119)#	-1.241 (.216)#	-.956 (.340)#
9	Year of experience	4.505 (.609)	.884 (.450)	.226 (.878)	1.466 (.224)
10	Family members involved	5.661 (.685)	1.923 (.107)	1.389 (.238)	3.577 (.007)*

# indicates Independent sample t test and parentheses indicates the significant p value.

The chi-square value along with their level of significance (in the bracket) is shown in Table 9. If the value of significance is less than 0.05, the variables are associated. Among the ten demographic variables for this study, Chi-square Analysis reveals that the three variables of family size, generation of entrepreneurship and family-orientation of business have significant association with reasons for the micro-entrepreneurs not able to get bank credit.

Subsequently, Analysis of Variance has been used to test the relationship between demographic variables of the micro-entrepreneurs and reasons for them not able to get bank credit. Among the ten demographic variables, age of the entrepreneurs and existence of family members with business background are having significant relationship with reason for the micro-entrepreneurs not able to get bank loans at 5 per cent level of significance.

Table 10: Duncan table for education and reasons for not getting bank credit

Sl.No.	Education	Poor management (mean value)
1	No formal education	3.08 (I)
2	8^{th} and Less	3.24 (I)
3	HSC	3.46 (I)
4	SSLC	3.50 (II)
5	Graduate	3.56 (II)
6	Professional	3.83 (III)

Table 10 shows the mean of different categories of micro-entrepreneurs grouped on the basis of education. It can be observed that the highly educated (professional) entrepreneurs fall under the third group with high mean of 3.83, while the graduate entrepreneurs fall under the second group with mean value of 3.56 while all the other categories of entrepreneurs fall under the first group. This means that highly qualified professional and graduate entrepreneurs feel poor management is the primary reason for not getting bank loans. This does not mean that professional people are not managing properly. They are able to identify poor practices easily.

Relationship between industry variables and reasons for not getting bank loans

Eight industry variables have been considered for this study. The relationship between industry variables and reasons for the micro-entrepreneurs failing to get bank loan have been analysed using chi-square analysis. Each of the clusters arrived at using Cluster Analysis is taken as dependent variable and the industry variables are taken as independent variables.

Table 11: Relationship between industry variables and reasons for not getting loans

Sl. No	Variable	Chi-Square value	Poor management	Credit capacity	Inadequate capital and collateral
1	Place	51.496 (.002)*	1.272 (.230)	1.976 (.023)*	1.619 (.080)
2	Type of industry	61.515 (.005)*	1.963 (.012)*	1.246 (.226)	1.879 (.018)*
3	Registration of industry	1.099 (.577)	1.116 (.265)#	.175 (.861)#	.964 (.336)#
4	More than one business	8.334 (.015)*	.398 (.691)#	2.136 (.034)#*	.078 (.938)
5	Ownership of premises	3.123 (.537)	.265 (.768)	.160 (.852)	1.961 (.143)
6	Factory near to	7.972 (.093)	3.502 (.032)*	.845 (.431)	3.305 (.038)*
7	Employment	10.518 (.396)	4.799 (.000)*	1.936 (.089)	1.990 (.081)
8	Type of ownership	4.131 (.389)	5.309 (.006)*	.484 (.617)	3.346 (.037)*

# indicates Independent sample t test and parentheses indicates the significant p value.

Table 11 of Chi-square analysis reveals that the three industry variables such as place of business, type of industry and number of business ventures owned by entrepreneurs are significantly associated with the reasons for micro-entrepreneurs not getting bank credit at 5 per cent significance. Hence, it can be stated that industry variables also make significant contribution to the micro-entrepreneurs failing to get bank credit.

Analysis of Variance explains the significant relationship between industry variables of the micro-entrepreneurs such as place, industry type, nearness of factory, ownership type and employment and reasons for them not getting bank credit. It can be observed that all the industry variables but for “ownership of business premises” are significantly associated with the reasons for the micro-entrepreneurs failing to get formal bank credit.

Independent sample t-test confirmed significant relationship between ownership of more than one business with reasons for micro-entrepreneurs not getting bank credit.

Table 12: Duncan table for factory location and reasons for not getting bank credit

Factory nearness	Poor management (mean value)	Factory nearness	Inadequate capital and collateral (mean value)
Raw material	3.30 (I)	Raw material	3.46 (I)
Market	3.35 (I)	Both	3.66 (I)
Both	3.57 (II)	Market	3.74 (II)

Duncan Table 12 reveals that location of enterprises near to both (market and place) markets have more issues related to poor management and inadequate capital and collateral. Hence, these two items fall under the second group. The locally available resource based enterprises are less risky in terms of poor management and lack of capital and collateral.

Table 13 displays the results of Duncan Analysis performed to explore the relationship between number of employees engaged by the micro-entrepreneurs and reasons for the micro-entrepreneurs failing to get bank credit. It can be inferred that those enterprises engaging up to 30 employees fall under the first group, while those enterprises employing more than thirty constitute the second, third and fourth groups. This implies that enterprises with larger number of employees shall command better entrepreneurial managerial skills.

Similarly, the Duncan Table reveals that private limited enterprises have quoted poor management and inadequate capital and collateral as the major reasons for not able to get bank credit. Similarly, the self-owned and partnership enterprises have encountered very less problems relating to poor management and lack of sufficient capital and collateral. Hence the mean value is less compared to private limited companies.

Table 13: Duncan Table for Number of Employees and reasons for not obtaining formal credits

Number of Employees	Poor management (mean value)	Type of ownership	Poor management (mean value)
6-10	3.24 (I)	Sole proprietor	3.36 (I)
11-20	3.33 (I)	Partnership	3.64 (I)
1-5	3.38 (I)	Pvt. Ltd	3.93 (II)
21-30	3.83 (I)	Type of ownership	Inadequate capital and collateral (mean value)
31-50	4.12 (II)	Sole proprietor	3.60 (I)
More than 50	4.50 (III)	Partnership	3.65 (I)
		Pvt. Ltd	4.10 (II)

Relationship between capital variables and reason for not getting bank loans

Six variables were identified in this study. The relationship between capital structure variables and reasons for not getting bank loans by micro enterprises are analysed using chi-square analysis. The clusters formed using Cluster Analysis are taken as dependent variable and the capital structure variable of enterprises is considered as independent variable.

Table 14: Relationship between capital and reasons for not getting bank credit

Sl. No	Variables	Chi-Square value	Poor management	Credit capacity	Inadequate capital and collateral
1	Capital/ investment	12.816 (.046)*	11.456 (.000)*	2.902 (.035)*	3.978 (.009)*
2	Sources of capital	2.162 (.339)	-.476 (.634)#	-.439 (.661)#	-1.252 (.212)#
3	% of own money	6.761 (.344)	2.239 (.084)	1.937 (.124)	2.269 (.081)
4	% of borrowed money	3.078 (.799)	2.069 (.105)	.666 (.573)	2.565 (.055)
5	Working capital	1.125 (.570)	.817 (.416)#	.403 (688)#	-1.320 (.188)#
6	Capital contribution	.931 (.920)	1.402 (.248)	3.659 (.027)*	1.880 (.155)

Results of the Chi-square Analysis depicted in Table 14 indicates that among the six capital variables only one variable i.e. investment, is associated with reasons for the micro-entrepreneurs not able to get bank credit. It means that capital is the important factor for all enterprises.

The Analysis of variance result shows that capital structure variable such as investment and capital contribution are significantly related to reasons for micro enterprises not getting formal bank credit. This implies that capital is the major impediment encountered by micro enterprises trying to access formal bank credit.

Table 15: Duncan table for capital and reasons for not getting formal bank credit

Capital (Rs)	Poor management (mean value)	Capital (Rs)	Credit capacity (mean value)
6 to 10 lacs	3.25 (I)	11 to 15 lacs	3.56 (I)
< 5 lacs	3.37 (I)	6 to 10 lacs	3.57 (I)
11 to 15 lacs	3.56 (I)	< 5 lacs	3.67 (I)
16 to 20 lacs	4.63 (II)	16 to 20 lacs	4.35 (II)

Duncan analysis depicted in Table 15 reveals that the micro enterprises employing Rs. 16-20 lakhs as capital run a very limited chance of failing to access formal bank credit compared to those with capital of less than 16 lakhs. It may be due to small size and low capital leads them to poor management and credit related problems.

Table 16: Duncan Table for capital and capital tie up

Capital (Rs)	Inadequate capital and collateral (mean value)	Capital tie up	Credit capacity (mean value)
< 5 lacs	3.57 (I)	Supplier	3.17 (I)
11 to 15 lacs	3.70 (I)	No	3.71 (II)
6 to 10 lacs	3.74 (I)	Buyer	3.78 (II)
16 to 20 lacs	4.35 (II)		

Table 16 illustrates that low capitalized enterprises have higher chances of failing to access formal bank credit compared to their higher capitalised counterparts.

Similarly, those enterprises managing to have capital tie-up arrangements with suppliers have very little chance of formal bank credit being denied to them.

Relationship between market variables and reasons for not getting formal bank loans

Three market variables have been included for the purpose of analysing reasons for micro enterprises failing to get formal bank credit. The relationship between these market variables and reasons for the micro enterprises failing to get formal bank credit has been explored using chi-square analysis. The cluster formed using Cluster Analysis is taken as dependent variable and market variables are taken as independent variable.

Table 17: Relationship between market variables and reasons for not getting credits

Sl. No	Variable	Chi-Square value	Poor management	Credit capacity	Inadequate capital and collateral
1	Area of market	9.368 (.312)	2.552 (.040)*	1.291 (.274)	2.616 (.036)*
2	Annual sales	15.398 (.052)	9.194 (.000)*	2.018 (.092)	3.411 (.010)*
3	Annual profit	8.856 (.182)	7.822 (.000)	1.844 (.140)	4.202 (.006)*

Table 17 shows the results of chi-square and Analysis of Variance. Chi-square analysis shows that all the three marketing variables do not have significant association with the reasons for micro enterprises failing to get bank credit. However, analysis of variance results reveal that people operating in different markets differ in their opinions on poor management and inadequate capital as the reason for not getting loan. Likewise, people who are having difference in turnover have difference in opinion on poor management and inadequate capital as the reason for not getting formal credit.

Table 18: Duncan Table for area of market and business profit

Marketing area	Poor management (mean value)	Marketing area	Inadequate capital and collateral (mean value)	Profit (Rs)	Poor management (mean value)
Domestic	3.36 (I)	Domestic	3.39 (I)	< 5 lakhs	3.36 (I)
TN	3.38 (I)	only exports	3.50 (I)	6-10 lakhs	3.36 (I)
Only exports	3.50 (I)	TN	3.61 (I)	16-20 lakhs	3.50 (I)
South India	3.53 (I)	South India	3.84 (I)	11-15 lakhs	4.27 (II)
India & abroad	4.24 (II)	India & abroad	4.36 (II)		

The Duncan Table:18 indicates that entrepreneurs engaged in both local as well as outside feel that poor management and inadequate capital as the important reason for not getting bank loan. Hence, these two factors fall under the second group with high mean value. Those micro entrepreneurs earning Rs 11-15 lakh profit have chance of failing to get bank credit due to poor management.

Factors influencing failures of getting institutional finance

From the Chi-square analysis it is clear that family size, generation of entrepreneurship, family business, place, type of industry, more than one business and capital are having significant association with reasons for micro entrepreneurs not getting formal sources of finance.

The next step is to find the order of influence of these variables. For this purpose canonical correlation is used. Canonical correlation is the examination of the relationship between two sets of variables. The first set consists of the independent variables, while the second set comprises of the dependent variables of criteria. The first set contains three variables which are extracted from factor analysis, namely poor management, credit capacity and inadequate capital and collateral. The second set contains seven variables of family size, generation of entrepreneur, family business, place, type of industry, more than one business and capital, in respect of which the chi-squared values are significant.

In order to know the set relationship between members' economic variables and micro-enterprises economic variables, the Canonical Correlation is used.

The Canonical correlation reveals that the entrepreneurs differ with regard to poor management as the reason for failure of getting loans because of their difference in the level of capital, family size and industry type. This implies that size of family and industry type are the primary factors in respect of management skills which differentiate the entrepreneurs on the reasons for not getting formal bank credit for business purpose. The second unit of canonical correlation explains that the micro entrepreneurs have different opinions on credit capacity as the reason for not getting formal bank credit. The third unit of canonical correlation depicts that there is no relationship among the demographic, industry and capital variables among the reasons for not obtaining loans. The canonical correlations explain that, among the three main reasons for failures of getting bank loans, poor management is having higher coefficient value of 0.4201 and is followed by credit capacity of 0.2144. The probability values for test of significance for all canonical correlation values indicate that all co-efficient are highly significant.

Table 19: Canonical correlation of reasons for failures of getting formal loans

Linear combinations for canonical correlations   Number of obs = 257

	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
u1						
poormanagm~t	-1.08534	.2064427	-5.26	0.000	-1.491882	-.6787973
creditcapa~y	.0157868	.1934859	0.08	0.935	-.3652399	.3968135
inadequrec~l	-.5445458	.2006715	-2.71	0.007	-.939723	-.1493685
v1						
familysize	.8901907	.2413327	3.69	0.000	.4149406	1.365441
firsttimee~r	-.4854041	1.11066	-0.44	0.662	-2.672598	1.70179
familybusi~s	-.5882715	1.120157	-0.53	0.600	-2.794168	1.617625
place	.0076568	.0329871	0.23	0.817	-.0573038	.0726174
typeofindu~y	.1060607	.0272262	3.90	0.000	.0524449	.1596765
morethanon~s	.1088309	.4171297	0.26	0.794	-.7126118	.9302735
capital	-.7990713	.1863124	-4.29	0.000	-1.165971	-.4321712
u2						
poormanagm~t	.5510708	.4354259	1.27	0.207	-.306402	1.408544
creditcapa~y	-1.412194	.4080975	-3.46	0.001	-2.21585	-.6085379
inadequrec~l	.1218597	.4232534	0.29	0.774	-.7116423	.9553616
v2						
familysize	-.5049462	.5090153	-0.99	0.322	-1.507337	.4974444
firsttimee~r	3.241408	2.342588	1.38	0.168	-1.371788	7.854605
familybusi~s	3.313467	2.362619	1.40	0.162	-1.339177	7.966111
place	.1414715	.0695759	2.03	0.043	.0044575	.2784854
typeofindu~y	.0439586	.0574251	0.77	0.445	-.0691271	.1570442
morethanon~s	2.20869	.8798038	2.51	0.013	.4761157	3.941265
capital	-.0045011	.3929673	-0.01	0.991	-.7783614	.7693592
u3						
poormanagm~t	.9103373	1.525842	0.60	0.551	-2.094463	3.915138
creditcapa~y	.1868389	1.430076	0.13	0.896	-2.629373	3.003051
inadequrec~l	-1.368067	1.483187	-0.92	0.357	-4.288868	1.552734
v3						
familysize	.5355674	1.783718	0.30	0.764	-2.977061	4.048196
firsttimee~r	2.799981	8.209017	0.34	0.733	-13.36582	18.96578
familybusi~s	3.4551	8.279211	0.42	0.677	-12.84893	19.75914
place	.1476043	.2438114	0.61	0.545	-.3325271	.6277357
typeofindu~y	-.0697303	.2012318	-0.35	0.729	-.4660109	.3265503
morethanon~s	-1.239927	3.083054	-0.40	0.688	-7.311304	4.831451
capital	-.2409748	1.377056	-0.17	0.861	-2.952776	2.470827

(Standard errors estimated conditionally)

Canonical correlations:
0.4201 0.2144 0.0625

Tests of significance of all canonical correlations

	Statistic	df1	df2	F	Prob>F	
Wilks' lambda	.782628	21	709.801	3.0118	0.0000	a
Pillai's trace	.226318	21	747	2.9024	0.0000	a
Lawley-Hotelling trace	.266356	21	737	3.1159	0.0000	a
Roy's largest root	.214269	7	249	7.6219	0.0000	u

e = exact, a = approximate, u = upper bound on F

Conclusion

The study has revealed that exorbitant amount of loan requested by the micro entrepreneurs occupy the top most reason for micro entrepreneurs not being able to access formal bank credit. Poor management, credit capacity and inadequate capital and collateral are the three individual distinctive reasons for failure to get bank loans. The micro entrepreneurs are segmented into three groups based on the reasons for not getting formal loans. One set of people have many reasons and the other group feel poor management and inadequate capital are the main reasons for not getting loan. Majority of the micro entrepreneurs included in the study have failed to get institutional credits because of both internal and external problems. The reasons for not obtaining formal bank credit by the entrepreneurs vary according to family size, generation of entrepreneurship, family business, place, type of industry, ownership of more than one business and capital.

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