CHAPTER X
SUMMARY, FINDINGS, CONCLUSION AND POLICY IMPLICATIONS

10.1: Introduction

This chapter provides a brief summary, major findings, conclusions and relevant policy implications of the study. This chapter also suggests the areas for further research.

10.2: Summary

Micro and Small Enterprises (MSEs), worldwide form an integral part of both developed and developing economies including India, provide considerable contribution to various areas like employment, exports, industrial output, industrial prosperity and social progress. There are many country-level and microeconomic studies that have assessed the importance of SMEs in the economic development and industrialisation process. There are evidences on the links between MSEs, economic growth and poverty alleviation. The literature survey on finance and economic development demonstrates that inadequacies in relation to finance are the key barrier to firm growth. While ranking all the obstacles that firms face in doing business, it was found that financing rank at the top for MSEs than larger firms. Further, lack of finance was found as the immediate reason for a business failure. The World Bank study (2006) also revealed that 90 per cent of small enterprises surveyed stated that credit was a major constraint. Hence, it has been concluded that financial constraints affect the smaller firms most adversely.
It was observed that majority of the researches on SMEs were concerned with the industrialised countries. There is limited literature available for developing countries because of sparser availability of basic data. Prior studies have identified several key research questions and observations that require investigation and affirmation. Among these, little is known about the relationships between the financing of MSEs and their socio-economic characteristics. Older firms apply to bank loans less often showing the increasing financial contentment with the firm age. Large proportion of small firms that are not using bank loans actually do not need any external finance or have been refused a loan for basic business reasons. Similarly a large proportion of these firms simply have no demand for finance or no good projects to finance. From the supply side, the main problems faced by banks in financing SMEs are the lack of quality or sufficient collateral, bankable business plan, tack record of firm or owner, poor financial condition or performance of MSEs, and lack of knowledge and information on MSEs and their industries.

The most successful innovation to improve the chances of survival of MSEs is the concept of industrial clusters. There is increasing agreement that clustering helps small enterprises to overcome growth constraints and compete in international markets. Cluster analysis has emerged as a new way of looking at economic development, integrating regional differences in development and economic specialisation.
One of the channels through which financial development fosters economic growth is through the entry of new firms. A systematic relationship exists between a country’s level of economic development and its level and type of entrepreneurial activity. Of course, the rate of aggregate entrepreneurial activity also depends on the demographic, cultural and institutional characteristics.

With this background, the present study attempts to examine the problem of access to finance for micro and small enterprises with specific reference to two selected artisanal clusters namely Thanjavur artplate cluster and Swamimalai icon cluster, both situated in Thanjavur district of Tamil Nadu. The study also analyses the factors influencing the credit to micro and small enterprises as viewed by owner-managers as well as lenders. In addition, the study examines the possible role of men self help groups in promoting the entrepreneurship among the worker-artisans. A study of the good examples or practices in improving the access to finance for MSEs elsewhere in the world is also attempted to draw possible lessons for India and Indian MSEs.

The research issues raised in this study are: (i) what are the characteristics of owner-managers and worker-artisans of micro and small enterprises in the chosen metalware clusters?; (ii) what are the funding options that are currently available (access) and used by the micro and small enterprises?; (iii) what are the factors that influence bankers in providing credit to micro and small enterprises?; (iv) what is the role of men self help groups in creating/promoting entrepreneurship? and (v) what could be the future direction in improving or expanding the access to finance for Indian MSEs in the light of selected international best practices?
More specifically, the objectives of the study are: (i) to compare the socio-economic characteristics of owner-managers and worker-artisans of micro and small enterprises in the study area; (ii) to analyse the funding options that are currently accessible and used by the micro and small metalware enterprises; (iii) to study the important factors that influence the bankers in providing credit to the micro and small enterprises; (iv) to examine the role of men self help groups in promoting entrepreneurship among the worker-artisans; and (v) to suggest the future direction for improving / expanding the access to finance for the micro and small enterprises by looking at some of the best practices of other selected countries.

The issues chosen and the objectives specified helped to formulate the following hypotheses and were empirically tested. They are; (i) there is no significant difference between the two selected clusters on select socio-economic characteristics (firm age, educational qualification, age group of the respondent, number of employees, salary, family size, society membership, membership with SHG, bank account, accounting practices and specialisation in the work); (ii) there is no significant relationship between the two selected clusters on the access and usage of formal and informal sources of finance; (iii) there is no significant difference between the two clusters on the factors influencing bank credit; and (iv) membership in men self help groups and entrepreneurship are independent in both the clusters.
Both primary and secondary data were collected to test the hypotheses and to accomplish the objectives of the study. Secondary data was collected for a period of eighteen years from 1990-91 to 2007-08. Since the objectives considered warrant both primary as well as secondary data, the study relies on both. The primary data was collected from 63 owner-managers and 148 worker-artisans from both the Thanjavur and Swamimalai clusters drawn through disproportionate stratified random sampling method representing 50 per cent of the population from both the clusters. The data collected was analysed with the help of statistical techniques such as frequency tables, percentages, cross tabulation, chi-square, odds ratio, logistic regression, Cramer’s V, and ANOVA. The analysis of data revealed several findings related to the objectives of the study. A summary of the major findings of the study is presented below.

**10.3: Major Findings**

While the owner-managers from both the clusters were found to differ on age, learning of the trade, size, turnover, holding of bank account, SHG membership and customer base, they were found similar on other factors like the number of workers, society membership, maintenance of proper accounts and accounting knowledge. Similar analysis on worker-artisans revealed that the worker-artisans from both the clusters differ on almost all factors namely age, education, earning, work experience, diversification of work, holding of bank account, society and SHG membership. From the analysis of the customer
base of MSEs in the two clusters, it was found that while majority of MSEs at Thanjavur sell their proceeds to the society and local market, the MSEs at Swamimalai sell their produce to society, private agencies and also export, to some extent.

Despite the common social and cultural background, the organisational linkages among MSEs were not found in the study area. Cooperation in the form of joint investment or collaborative projects as one of the main features of clusters was also not observed, owing to the weak institutional context in which these firms are embedded. This finding was in line with the findings of Helmet and Karabulut (2006).

On the importance of eight different sources of finance as viewed by the owner-managers namely income or retained earnings, owner’s capital, bank, finance company, trade credit, Government funding, local financier and customer advance, it was found that except for trade credit, Government funding and local financiers (which were considered as more important at Thanjavur), there was no significant difference was found between the two clusters.

It was found that MSEs had limited use of bank finance. When analysing the easiness of getting the bank finance, both the clusters felt it difficult to obtain because of the lengthy procedures and the number of attempts to make in getting the loan. Except for the number of attempts to make in getting the loan (which was more felt at Swamimalai), there was no significant difference between the two clusters.
Regarding the usage of finance, only a small fraction of firms actually used any formal source of financing that was available. 20 per cent of the older firms (more than 20 years) use bank loans. This finding goes with the earlier findings by Beck et al. (2005), Paul Cook and Fredrick Nixson (2001), and Vos et al. (2007) that older firms apply to bank loans less often showing the increasing financial contentment with the firm age. Customer advance and bill discounting were used more at Swamimalai than any other source of financing. The major reason for the non-usage of finance was due to ‘not enough business’. This goes in line with earlier findings by Paul Cook and Fredrick Nixson (2001) that large proportion of the firms, who are not using bank credit, simply have no demand for finance or no good projects to finance. Again there was no significant difference between the two clusters on the basis of usage and the reasons for non-usage except for bill discounting and customer advance.

On the usage of different sources of financing by the MSEs it was found that the MSEs at Thanjavur utilised the self finance followed by informal (money lenders) and formal finance (bank). On the other hand, the MSEs at Swamimalai depended mostly on informal finance followed by self finance and from friends and relatives.

On the views of owner-managers over certain issues of formal boiTowing, it was found that the owner-managers of Thanjavur strongly agreed with the problems with security and cash flow, agreed with the effect of size on
borrowings and were neutral about the effect of age and availability of financial alternatives. At Swamimalai, the owner-managers agreed with the problems with collateral and cash flow and with the size effect, disagreed with adequacy of financial alternatives and were neutral about the effect of the firm age. Hence, no significant difference was found between the clusters on the issues with formal borrowing.

On the problem of loan refusal, it was found that on an average one out of five owner-managers were refused loan for one reason or the other. An attempt was made to find out the relationship between various factors that could explain the loan refusal. The binary logistic regression revealed the following five factors attributed to the refusal of loan, namely too risky, lack of collateral, no personal contact with the lender, own contribution low and rejection without any reason by the lender.

An analysis was carried out to bridge the research gap as specified by Beck et al. (2005), and Paul Cook and Fredrick Nixson (2001) to explain the relationships between the financing of MSEs and select socio-economic characteristics. Based on the literature review, eight factors that influenced the bankers in providing loan/credit as viewed by owner-managers were identified and thus a mnemonic, namely SCANDRPF was coined.

These eight factors were analysed across ten socio-economic characteristics to arrive at different sets of mnemonics, based on the order of importance of these factors. These mnemonics would be useful to the financial
institution in screening loan applications, in addition to the existing norms and procedures. The mnemonic for Thanjavur was PDCRSAFN and for Swamimalai it was PSCRADFN. Similarly, the respective mnemonic for those using bank loan was PDRCANSF and for non-users it was PCSRDAFN. The mnemonic for those refused loan was found to be PCDRNASF and for others it was PSCRDAFN. These findings complement with the work of Cecile Nieuwenhuizen and Jaap Croon (2003), which brought out a list of success factors for the usage of financial institutions while application screening.

From the supply side, the main reason for the bank to start making loans to MSEs sector was social objectives followed by the governmental directives. Profitability and competition take the back seat as far as the lending for MSEs are concerned. Riskiness of this sector, however, was not cited as a significant discouraging factor for these banks. This finding contradicts an earlier study by Bay das et al. (1997) where it was argued that micro enterprises are viewed as too risky by banks.

Bank lenders have emphasised the determination of a borrower’s business viability as critical to their financial decision-making, and thus to the provision of finance. The important factor the bank considers for granting the loan is the ‘feasibility’ of the project as opposed to the collateral. Although the banker says that collateral is insisted whenever the advances crosses Rs.50,000. Anlysing the reasons for rejection of MSE’s loan applications it was found that viability or technical feasibility of the project and inadequate credit history were the major reasons followed by perceived lack of profitability.
It was found that only 41 per cent of the worker-artisans were part of SHGs, with more percentage of worker-artisans from Thanjavur than from Swamimalai. The predominant reason for not joining any SHGs was disinterest. A positive relationship was found between the leadership position within a SHGs and the holding of bank account, and this relationship was stronger at Swamimalai. All the SHG members were finding the SHGs as useful and active.

Only 20 per cent of the worker-artisans were interested in starting a new business. Interestingly, a large number of worker-artisans from Thanjavur were interested in venturing into new business than Swamimalai.

The profile of the would-be entrepreneurs was mapped. 31 per cent of the would-be entrepreneurs wanted to start the business within one year. 42 per cent of the would-be entrepreneurs were registered society members, 54 per cent of them were the members of SHGs with 29 per cent assuming leadership positions, 81 per cent and 100 per cent of the would-be entrepreneurs were having the work experience of more than 10 years in both clusters.

Many international good practices and experiences that help reduce the constraints faced by MSEs were studied. Twelve best practices that could be emulated by India were identified. These included Bank Rakyat Indonesia’s model on providing financial services on commercial terms instead of interest rate ceilings and providing more autonomy against state run institutions, Banco do Noreste’s group guarantee instead of Government guarantee policy, Wells Fargo’s Model towards reducing transaction costs, Bolivia’s supportive
regulations to MSEs, Kazakhstan’s model of supporting TA, Mexican model of promoting high competition through correspondent banking, Romania’s model of the usage of movable assets as collateral, BANSEFI’s model of promoting the development of semi-formal and informal financial institutions, FOGAPE model of providing credit guarantee, FIRA’s model of proving low subsidy and Bangladesh model of direct lending through microfinance. In alternative funding options to MSEs, IFC’s model in leasing, NAFIN’s model factoring services, SEAF’s model in venture capital, and FIRA’s model in securitisation were suggested.

10.4: Testing of Hypotheses

The empirical findings helped to test the hypotheses formulated for the study. The first hypothesis of the study stated that there was no significant difference between the two selected clusters on select socio-economic characteristics (firm age, educational qualification, age group of the respondent, number of employees, salary, family size, society membership, membership with SHGs, bank account, accounting practices and specialisation in the work). This hypothesis was tested for both owner-managers and worker-artisans. In the case of owner-managers, this hypothesis was proved for number of workers, society membership, maintenance of proper accounts and accounting knowledge and disproved for firm age, learning, firm size, turnover, holding of bank account and SHG membership. In the case of worker-artisans, this hypothesis was proved for family size and disproved for all other factors listed above.
The second hypothesis stated that there was no significant relationship exist between the two selected clusters on the access and usage of formal and informal sources of finance. Regarding access of finance except for the number of attempts to make for getting the loan (which was felt more at Swamimalai), there was no significant difference between the two clusters was noticed. On usage, there was no significant difference between the two clusters on the basis of usage and the reasons for non-usage except for bill discounting and customer advance. Hence the hypothesis was proved.

The third hypothesis stated that there was no significant difference between the two clusters on the factors influencing bank credit. It was found that the mean scores of all the factors, except for size, fell in the same category. Hence, except for size, there was no significant difference between the two clusters of the factors influencing bank credit. That means all other factors were important in both the clusters, namely reputation, collateral, demand for the product, networking, ability to repay, financial statements and personal relationship. Thus, the third hypothesis was also proved.

The fourth hypothesis stated that the membership in men self help groups and entrepreneurship were independent in both the clusters. It was found that only 20 per cent of the worker-artisans were interested in starting a new business. It was further revealed that only 54 per cent of the would-be entrepreneurs were the members of SHGs and also only 40 per cent of the would-be entrepreneurs responded that SHGs were useful in venturing the business. Hence, it was concluded that the SHG experience was not found useful in venturing a new business across both the clusters. Thus, the fourth hypothesis was also proved.
Access to finance has been the subject of great interest in recent times. The World Bank is carrying out pioneering work in this area. Access to finance is a fairly broad area and hence this study has taken only the aspect of MSEs with specific reference to metalware clusters of Thanjavur district, Tamilnadu, India. The present study is a maiden attempt in many respects. The study deals with the access to finance problem in a developing country, and thus adds to the existing literature on access to finance in emerging economies. The study analyses micro and small enterprises against the majority of studies that considers only small firms. The study follows ‘comparative case study method’ and has chosen MSEs in two artisanal handicraft metalware clusters that were known for historic importance, heritage and culture. The clusters chosen were not researched earlier.

The study attempts to fill the research gap of relationships between the financing of firms with their socio-economic characteristics. The study consists of five broad objectives to analyse the socio-economic characteristics, access to finance related issues, factors influencing credit to MSEs, men self help groups and its possible use in promoting entrepreneurship and learnings from international experiences on improving access to finance to MSEs.

It is concluded that the access to finance is not a problem in the study areas concerned, as most of the MSEs had voluntarily excluded themselves, citing business reasons. The problem lies in expanding the demand / market for the products and hence the poor usage of bank loan. Further, the study supports
the findings of Vos et al. (2007) on contentment hypothesis. The study has
developed a series of mnemonics for the usage of financial institutions while
screening the loan applications. The concept of men SHGs is yet to develop, as
many of the artisans were not the members of any of the SHGs.

10.6: Policy Implications

The foremost action should be the building up of cooperation among the
Cluster participants. This can be achieved by active participation of all the firms
in both the clusters. The societies should take the lead role in developing the
clusters.

The linkages with stakeholders should be made strong. The main problem
among the owner-managers or MSEs is ‘not having enough business’. This can
be tackled through cluster initiatives. The Government institutions and the
societies concerned should enhance their marketing networks and hence
increase the demand for the products produced in the clusters both at national
and international levels. Though Government is undertaking many activities in
this front, separate departments can be created to rejuvenate artisanal
specialisations that are traditional, classical, and cultural and heritage centered.

The export markets for these products are to be developed. In
Thanjavur, the owner-managers hesitate to access the export market mainly
because of fear and due to lack of trust in intermediaries. The Government
through its various departments can create the market and provide support to
MSEs, so that their products are exported. In this front, Government can use
latest technologies such as video conferencing facilities. In
Swamimalai, only a few big players are exporting their produce. As of now, only word of mouth brings-in the customers. Government can create or use the existing formal marketing channels to increase the customer base.

There is no authentic data available on the number of MSEs, owner-managers and worker-artisans in the study areas. The list available with District Industries Centre (DIG) was outdated and the list available with the societies concerned has not been updated for a long period. Hence, the list of all members (registered as well as non-registered) has to be created. Further, the societies concerned should update their member list at least once in three years.

One of the impediments for MSEs towards the access to formal finance from the bank is the lack of bill culture. The banks normally make payment directly to the raw material supplier against the bills produced by the MSEs. The raw material suppliers usually pass on the sales tax to the buyers in every sale transaction. This increases the input costs for the MSEs and hence they were not insisting on any bill. Without any bill, banker will not provide any credit. Due to the absence of demand or market for their products, they would be forced to sell their produce at a loss. Also the customers were not ready to pay higher price. Hence, the Government should educate the MSEs and the traders on the importance and uses of bills. In this respect reducing the input costs of raw materials through centralised bulk procurement can be adopted. The cluster through the respective societies can buy the raw materials in bulk (thereby reducing the unit cost of raw materials) and pass on to MSEs at lower rates or even subsidised rates.
The banks are presently using both relationship lending as well as formal lending methods based on hard facts. While checking the creditworthiness, bankers use standard formats or mnemonics. In addition to the above, the bankers can also consider the factors that buyers believe in providing credit to them. In the present study, eight such factors were considered namely reputation, size, collateral, product demand, networking, ability to repay, financial statements and personal relationship. The order of importance of these factors vary depending on the background of the owner-managers. A set of mnemonics were developed for varied types of owner-managers. These mnemonics can be used by the bankers in assessing the loan application in addition to the existing method. The bank can also consider counter guarantee from the society or group guarantee from SHG members from the group they belong to. Further, as learned from international experiences, banks can consider current assets for collateral purpose.

An intermediary between the banks and artisans can be created or any existing NGO can act as one that provides *micro enterprise finance* or similar to *QCOM* finance as explained by Jonathan Tucker and Jonathan Lean (2003) in their work on ‘Small Firm Finance and Public Policy’. Previous studies such as Berger and Udell (2006) also strongly suggest that lending infrastructures have important effects on SMEs credit availability.

All the 12 lessons learned from the international experiences can be considered for adaptation to improve the access to finance for Indian MSEs.

Government should think of incubation centres to create new
entrepreneurs in this trade. Even though there are many training centres to impart the skills, the trained manpower is just let out to find its own fortune. Some of them join the existing firms and some are working for handicrafts showrooms owned by state Government like Poompuhar, on temporary basis. In addition, Government can handhold and support these trained manpower in setting up their own production centres.

The Sthapathis at Swamaimalai needs to have the knowledge of Agamas and Silpa sastra to design and construct temples and idols for worship purposes. This knowledge, normally tacit knowledge (unwritten) passes on from one generation to the other, mostly from father to son. The number of people having this knowledge is very limited. In order to protect the artisanal specialisation, trade and expertise, knowledge management tools can be used to store this knowledge for future use. In addition, these Agamas and Sastras are to be taught to anyone interested in the trade, irrespective of caste or creed. Government has to take necessary steps towards protecting this national heritage and culture.

Even though the existing SHGs are active and found useful by all SHG members from both the clusters, there are many people who are not member in any SHGs. In the sample that was selected for this study, only 41 per cent of the respondents were SHG members. Further, many of the non-members felt that SHGs are not useful. Hence, the authorities concerned with the formation and running of SHGs have to educate the people on the importance and usefulness of SHGs. The authorities also need to check the end use of the credit given to SHG members.
10.7: Areas for Further Research

The area of research in access to finance is very vast. The present study has attempted to explore the access to finance related issues of micro and small metalware enterprises of two handicraft artisanal clusters of a single district. Therefore further studies can be carried out in other metalware handicraft clusters of the same district or other districts. Further studies can be conducted on other industry clusters as well. As the present study is limited only to the access and use of credit by MSEs, further studies can concentrate more on cluster mapping, microfinance facilities provided through the self help groups, SHG-bank linkages, the ways and means of promoting artisanal products, developing knowledge management systems, measuring and tracking the access to financial services.