

## CHAPTER - 5

### PROBLEMS OF ENTREPRENEURS AND BANK

Entrepreneurship Development is the outcome of concerted efforts of the Government Institutions/ Departments responsible for implementing entrepreneurship development programmes/ schemes, banks engaged in financing the entrepreneurs under these programmes/ schemes and the entrepreneurs availing loan under these programmes/ schemes. This chapter focuses on various problems that stand in the way of entrepreneurship development in the district. Some of the problems that hinder entrepreneurship development in the district are identified by interaction with the Government officials, banks officials and the entrepreneurs. Let us first discuss the problems faced by the entrepreneurs:

#### **Problems of raw materials**

The timely supply of raw- materials ensures the growth of an enterprise. The cost of product depends on the availability of raw- materials at a reasonable rate and time of need in the local market. But in reality, the entrepreneurs do not get either the raw-materials in time or what they get are not up to the mark. Besides this the transportation problems, strikes, bundhs, famines and other natural havocs also affect the supply of raw materials.

All entrepreneurs under study were of the opinion that irregular supply of raw materials stands on the way of development of their enterprises. The entrepreneurs were also asked to indicate their opinion regarding the factors responsible for creating problems of raw materials. Table 5.1 reveals the different factors which create the problem of regular supply of raw materials.

Table 5.1

Factors responsible for creating problems of raw materials

Types of problems	No. of entrepreneurs	Percentage
Transportation	105	58.78
Strikes/ bundhs	31	20.95
Natural havocs	12	8.10
Total	148	100

Source: Survey Data.

Table 5.1 reveals that 105 entrepreneurs face the problem of raw materials due to transportation, 31 due to strikes/ bundh, whereas 12 due to natural havocs.

### **Marketing problems**

This is another problem faced by the entrepreneurs in the Hailakandi district. There is no marketing organization which can ensure quick and prompt marketing of goods produced by the small entrepreneurs. Marketing is the backbone of small units. The small entrepreneurs are not in a position to popularize their product due to lack of marketing knowledge.

The entrepreneurs under study were asked to indicate their opinion regarding the various types of problems they face at the time of marketing their product. Table 5.2 reveals the opinion of the entrepreneurs regarding various marketing problems.

Table 5.2

## Marketing problems

Types of problems	No. of Entrepreneurs	Percentage
Lack of knowledge of how to market the product and whom to contact.	38	25.68
Heavy competition with big enterprises.	31	20.94
Exploitation by middlemen and difficulties in collection dues from credit sales.	29	19.60
Inadequate sales promotion avenues.	27	18.24
Lack of export marketing support	23	15.54
Total	148	100

Source: Survey Data.

Table 5.2 reveals that 38 entrepreneurs did not know how to market their products, 31 entrepreneurs faced heavy competition from big enterprises, 29 entrepreneurs stated that they were exploited by middlemen and find difficulty in collection of dues from the credit sales, 27 of them were facing the problem of inadequate sales promotion avenues and 23 stated that they did not get any export marketing support.

### **Transportation problem**

This is one of the pertinent problems faced by the inhabitants of this district. Most of the places of the district are not even connected by roads. The main cause for poor transportation facility in the district is its geographical isolation. The entrepreneur is not possible to move frequently or transport goods easily within the district. Moreover, the transportation cost of goods is high as compared to other parts of the state which in turn results in higher cost of goods and services. Most of the entrepreneurs covered under the study, especially those living in the interior villages

of Katlicherra block opine that they face great problem while procuring raw materials for their enterprises as well as transporting the products to the market due to lack of connectivity with the main road. They have to cross river by boat.

### **Financial problems**

Financial problem is a major problem faced by all entrepreneurs. Finance is the life blood of all business. There are different sources from which the entrepreneurs raise their capital. The entrepreneurs may start business with their owned capital encouraged and motivated by their family members, Moreover they can borrow from relatives, friends, banks and financial institutions. Table 5.3 reveals the various sources of financial help received by the entrepreneurs.

Table 5.3

#### Source of initial capital

Source of Finance	No. of Entrepreneurs	Percentage
Owned contribution	35	23.65
Borrowed from family members	07	4.73
Borrowed from friends/relatives	15	10.13
Borrowed from commercial banks	87	58.78
Any other sources	04	2.70
Total	148	100

Source: Survey Data.

From the above table it is seen that 87 entrepreneurs borrowed capital from different commercial bank of the district as given in Table5.4

Table 5.4

Source of initial capital from different commercial bank in Hailakandi district

Name of the Banks	No. of Entrepreneurs	Percentage
United Bank of India	18	20.69
State Bank of India	25	28.74
Union Bank of India	11	12.64
United Commercial Bank	06	6.90
Canara Bank of India	09	10.34
Central Bank of India	10	11.49
Punjab National Bank of India	08	9.20
Total: 7 (13 branches)	87	100

Source: Survey Data.

Table 5.4 reveals that the maximum number of entrepreneurs have received the initial capital from State Bank of India followed by 18 from United Bank of India, 11 from Union Bank of India, 06 from United Commercial Bank, 09 from Canara Bank of India, 10 from Central Bank of India and 08 from Punjab National Bank. Most of the entrepreneurs were facing several problems at the time of receiving financial assistance from banks in the Hailakandi district like delay in processing loan, release of subsidy, tight repayment schedule etc .Again , many entrepreneurs cannot maintain accounts properly and they face problem due to poor financial management .

The entrepreneurs under study were asked to indicate the types of financial problems they have been facing. Table 5.5 reveals the different types of financial problems the entrepreneurs were facing.

Table 5.5  
Financial problems

Types of problems	No. of entrepreneurs	Percentage
Problems of getting loan and subsidy	24	27.59
Time taken to process loan	19	21.84
Tight repayment schedule.	17	19.54
Poor financial management and maintenance of account	16	18.39
High rate of interest	11	12.64
Total	87	100

Source: Survey Data

Table 5.5 reveals that 24 entrepreneurs faced problems at the time of getting loan and subsidy from the banks, 19 faced problem of delay in processing loan by the bank., 17 entrepreneurs considered tight repayment schedule of the banks as problem, 16 faced problem due to poor financial management and maintenance of account and 11 considered high interest rate is one of the problems.

The assessment of the adequacy of long term loans granted by the commercial banks is made on the basis of the difference between the amount of loan requested by the enterprise and the amount sanctioned by the banks.

Table 5.6  
Term loan sanctioned by commercial banks

Percentage of Loan Sanctioned	No. of Entrepreneurs	Percentage
100 percent	21	24.14
75 - 99 percent	36	41.38
50 - 75 percent	20	22.99
Less than 50 percent	10	11.49
Total	87	100

Source: Survey Data.

A study of the amount requested by the entrepreneurs and granted by the banks (Table 5.6) reveals that as much as 24.14 percent of the entrepreneurs received the full amount of loan requested by them, 41.38 percent of the entrepreneurs received loans ranging from 75 to 99 percent, while 22.99 percent of the entrepreneurs had been sanctioned loans ranging from 50 to 75 percent of the amount applied for. Only 11.49 percent of the entrepreneurs had been sanctioned less than 50 percent of the loans applied for. Thus, a vast number of entrepreneurs (66 out of 87 entrepreneurs constituting 75.86 percent), was secured less than the amount of loan applied for. This will force them to rely or depend on multiple agencies to meet their term loan requirements.

On the basis of the above analysis, we can also accept one null hypothesis that the financial assistance provided by the commercial banks in entrepreneurship development is not commensurate with the needs of the entrepreneurs.

Table 5.7 reveals the different sources from which 66 entrepreneurs filled up the gap of financial resources they applied for and sanctioned by the banks.

Table 5.7

Source relied to meet the shortfall

Source Relied	No. of Entrepreneurs	Percentage to 66*
By selling property/asset	42	63.64
From private finance / money lenders	15	22.73
From friends / relatives	10	15.16
From family members	11	16.67
Any other	09	13.64
Total	87	

Source: Data Survey.

\*Note: Total exceeds 66 because some entrepreneurs borrowed from multiple sources.

Table 5.7 reveals that out of 66 entrepreneurs to whom the term loan sanctioned was inadequate, a large number of them had invested their own money (42 out of 66 entrepreneurs) by mortgaging/selling their landed property or gold ornament. The other sources from which they borrowed include private finance / money lenders (15 entrepreneurs), friends or relatives (10 entrepreneurs), any other sources (09 entrepreneurs) and family members (11 entrepreneurs). These figures show the dependence of the entrepreneurs on multiple agencies to meet the gap in their requirements.

### **Type of mortgaged asset against loan borrowed from commercial bank**

In order to know about the type of assets mortgaged against the loan received from commercial bank, a question was asked to the entrepreneurs. Table 5.8 reveals that the commercial banks sanctioned loans to 31 entrepreneurs against their land document followed by 22 entrepreneurs against educational certificates. 19 entrepreneur's mortgaged LICI certificate and 15 did not mention the name of mortgaged items against their loan.

Table 5.8

#### Mortgaged against loan

Type of assets	No. of entrepreneurs	Percentage
Land document	31	35.63
LICI certificate	19	21.84
Educational certificate	22	25.29
Any other	15	17.24
Total	87	100

Source: Survey Data.



### **Time lag for sanctioning and disbursing loans**

The entrepreneurs under study were asked whether time taken by the commercial banks in sanctioning and disbursing of term loan to be 'normal', 'moderately lengthy' or 'too lengthy'. Their opinions were shown in Table 5.9

Table 5.9

#### **Time lag for sanctioning loan**

Opinion Regarding the Time Taken to Sanctioned and Disbursed the Loan	No. of Entrepreneurs	Percentage
Normal	32	36.78
Moderately Lengthy	30	34.48
Too Lengthy	25	28.74
Total	87	100

Source: Survey Data.

Table 5.9 reveals that 36.78 percent have stated the time lag in sanctioning and disbursing the term loan was normal, while 34.48 percent considered it to be moderately lengthy and 28.74 percent reported that the time lag was too lengthy. Thus, it can be concluded that the banks are not providing quick service to the entrepreneurs in sanctioning and disbursing the loans.

### **Service rating**

After asking the opinion regarding the above recovery procedure, the respondents under study were requested to rate the service of banks as 'very good' or 'good' or 'average' or 'bad' based on their experience. The same is shown below in Table 5.10.

Table 5.10

Rating of service of commercial banks

Service Rating	No. of Entrepreneurs	Percentage
Very Good	20	22.99
Good	24	27.59
Average	26	29.88
Bad	17	19.54
Total	87	100

Source: Survey Data.

Table 5.10 indicates that out of 87 entrepreneurs surveyed, 20 of the entrepreneurs have reported 'very good', 24 have reported 'good', 26 have reported 'average' and 17 of the entrepreneurs have rated it as 'bad'. These figures are really encouraging to the bankers.

**Problems of obtaining Government Assistance**

Both the Central and State Governments are implementing various assistance schemes for promotion of the small scale entrepreneurs. But in practice small entrepreneurs are facing many difficulties in obtaining various government assistances. Inadequate government assistance, complicated official procedures, redtapism etc. are some of the problems faced by the entrepreneurs.

The entrepreneurs under study were asked to indicate their opinion regarding the various problems of getting government assistance. Table 5.11 reveals the opinion of the entrepreneurs.

Table 5.11

## Problems of availing Government assistance

Problems	No. of entrepreneurs	Percentage
Inadequate government assistance.	22	25.28
Redtapism at various levels.	20	22.98
Corrupt practices.	18	20.68
Complicated and time consuming procedures for getting the assistance.	15	17.23
Government policies are not favorable.	12	13.73
Total	87	100

Source: Survey Data.

Table 5.11 reveals that 22 entrepreneurs feel that government assistance is inadequate, 20 stated redtapism is prevailing at various levels. 18 stated corrupt practices in the organisation, 15 face problem of complicated and time consuming procedures in getting the assistance and whereas 12 entrepreneurs think that Government policies are not favorable and encouraging.

### **Lack of skilled labour**

The non availability of adequate number of skilled labourer in the study area is another problem generally faced by the entrepreneurs engaged in industry, trade and service sector. Some times when need arises, they generally have to hire skilled workers from outside the district with higher rate of wages.

### **Lack of power**

The non-availability of sufficient power supply is one of the major problems faced by the entrepreneurs in general and particularly by the industrial entrepreneurs in the district. 91.89 percent entrepreneurs engaged in steel and fabrication unit,

electrical repairing, ice and chocolate industry, poultry firm, fishery, grocery shops etc. expressed that they face severe problems in running their entrepreneurial activities efficiently on account of irregular and interrupted supply of electricity and high rate of power (Table 5.12). As such, some entrepreneurs had to purchase generators for making uninterrupted supply power to their enterprises during load shedding. This also involves additional cost.

Table 5.12

Use of power in the enterprises

Response of the entrepreneurs	Agriculture and allied sector	Industry sector	Trade and service sector	No. of entrepreneurs	Percentage
Yes	20	50	66	136	91.89
No	12	00	00	12	08.11
Total	32	50	66	148	100

Source: Survey Data.

### **Management problem**

Lack of managerial skills and capabilities is also one of the problems faced by many enterprises. Most of the entrepreneurs in the study area are not professionals and do not have any sort of training for acquiring managerial skills. Thus, bad or incompetent management and corrupt practices such as extravagant expenditure, under-invoicing of sales, over-invoicing of purchases etc. stand in the way of proper development of small entrepreneurship.

### **Lack of programmes organized by the banks**

The successes of the entrepreneurs also depends on their participation in different programmes like Entrepreneurship Development programmes, Management

Development Programmes, Industrial Seminars, Trade Fairs and Exhibition, Successful Entrepreneurs Meet etc.

The entrepreneurs under study were asked, whether they participated in any programmes conducted by the commercial banks. But not a single programme was conducted by the commercial banks which benefit the small entrepreneur in the district. Thus, the commercial banks should take necessary steps for the greater interest of the small entrepreneurs.

### **Poor assistance to small scale industries**

The non-availability of sufficient financial assistance is also a major problem faced by the small entrepreneurs in the district. Without sufficient assistance from the commercial banks the small entrepreneurs never get their goals.

Table 5.13 reveals the loan provided by the commercial Banks from the year 1995-96 to 2010-11 in Hailakandi District.

Table 5.13

## Assistance from commercial banks to Micro and Small Sntrepreneurs

Year	Name of the Bank	Total no. of Entrepreneurs	Total Gross Amount sanctioned (Rs.)	Total Amount Disbursed (Rs.)	Average amount (Rs.)
1995-96	UBI,	09	6,24,000	6,24,000	69,334
1996-97		38	21,72,000	21,72,000	57,158
1997-98		25	20,96,000	20,96,000	83,840
1998-99	SBI,	32	16,62,000	16,62,000	51,937
1999-2000	UCO,	25	3,22,00,000	3,22,00,000	12,88,000
2000-01		15	2,21,24,000	2,21,24,000	14,74,934
2001-02		15	47,32,000	47,32,000	3,15,467
2002-03	PNB,	29	19,00,000	19,00,000	65,517
2003-04	Canara Bank,	30	34,83,000	34,83,000	1,16,100
2004-05		36	15,00,000	15,00,000	41,667
2005-06		28	27,50,000	27,50,000	98,214
2006-07	Central Bank,	49	48,25,000	48,25,000	98,469
2007-08		29	28,75,000	28,75,000	99,138
2008-09		25	24,20,000	24,20,000	96,800
2009-10	Union Bank.	34	33,30,000	33,30,000	97,941
2010-11		26	25,25,000	25,25,000	97,115
Total		445	9,12,18,000	9,12,18,000	9,12,18,000

Source: Branch Manager, MSME, Silchar, 31-03- 2012.

Table 5.13 reveals that, in 2000-01 total gross amount sanctioned to 79 entrepreneurs was Rs. 81, 25,000 out of which Rs.76, 27,000 was actually disbursed. The average amount of loan received by each entrepreneur was Rs. 96,544. The table reveals that the total numbers of entrepreneurs assisted by banks have been increasing since 2000-01 to 2008-09 i.e. from 79 to 595 entrepreneurs. Again, the average amount of loan disbursed by the bank has also been increasing i.e. Rs. 96,544 in 2000-01 to Rs. 2, 03,529 in 2008-09.

### **Heavy competition**

The small entrepreneurs are facing the problems of heavy competition in open market. After asking the opinion regarding about the nature of heavy competition in the market all entrepreneurs replied they faced heavy competition in the market from their competitors.

### **Low educational qualifications of the entrepreneurs**

Due to low educational qualifications, the entrepreneurs have to face problems in different aspects viz., dealing with banks and Government officials, dealing with customers, dealing with the new scheme etc. Majority of the entrepreneurs i.e., 64 out of a total of 148 entrepreneurs faced problems in dealing with Government, 52 dealing with customer and 32 are dealing with the Government new schemes bank officials (Table – 5.14)

Table – 5.14

Problem faced by the entrepreneurs due to lack of education

Types of problems	No. of Entrepreneurs	Percentage
Dealing with the customers	52	35.14
Dealing with the banks	64	42.24
Dealing with the Government new schemes	32	26.62
Total	148	100

Source: Survey Data.

### **Repayment of loans to the banks by the entrepreneurs**

The entrepreneurs financially assisted by the banks are required to repay their loan amount within a period given by the bank. Being asked about the repayment of loan amount to the banks within the scheduled period, only few entrepreneurs under

the study responded positively. The response of the entrepreneurs is shown in the Table 4.15

Table 5.15  
Repayment of loan amount

Response of the entrepreneurs	No. of entrepreneurs	Percentage
Yes	28	32.18
No	59	67.82
Total	87	100

Source: Survey Data

Table 4.15 reveals that highest 59 of the entrepreneurs did not pay their loan within the scheduled time while only 28 repaid their loan as per schedule. On being asked the reasons behind their inability to repay the loan as per schedule given by the banks, 18 entrepreneurs considered loss in business, 20 considered heavy competition in the market, 08 considered as family or self illness, 09 considered the natural havoc and 04 entrepreneurs expressed exploitation by middlemen.

#### **No separate cell for small scale industries**

The bank officials are over burned with their work. They cannot pay much attention to the problems of the entrepreneurs. Thus there is need for opening a cell for the entrepreneurs in each branch of the bank. Actually there is no separate cell for small scale entrepreneurs in any bank situated in Hailakandi district.

#### **Repayment period of loan**

The entrepreneurs under study were asked whether the time allowed by the banker was sufficient for repayment of long term loans. Table 5.16 shows the repayment period of loans in the study area.



Table 5.16  
Repayment period of loans

Opinion Regarding the Repayment Period of time allowed	No. of Entrepreneurs	Percentage
Sufficient	45	51.72
Insufficient	42	48.23
Total	87	100

Source: Survey Data.

Table 5.16 shows the opinion of entrepreneurs regarding the time given for repayment of loans. Out of 87 entrepreneurs, 51.72 percent felt that repayment period was sufficient while the remaining 48.23 percent opined that the time allowed is insufficient.

### **Rate of interest**

The entrepreneurs under study were asked to indicate their opinion regarding the rate of interest charged by the banks for long term loan (Table 5.17).

Table 5.17  
Rate of interest charged by commercial banks

Opinion Regarding the Rate of Interest	No. of Entrepreneurs	Percentage
Normal	34	39.08
Moderately High	36	41.38
Too high	17	19.54
Total	87	100

Source: Survey Data.

Table 5.17 revealed that 41.38 percent of the total entrepreneurs felt that the rate of interest was moderately high, while 39.08 percent of the total entrepreneurs

felt that the interest rate was normal and only 19.54 percent of the total entrepreneurs opined that interest was too high.

### **Attitude of the commercial banks towards the entrepreneurs**

Table 5.18 shows that 43.68 percent of the entrepreneurs said that the attitude of banks towards entrepreneurs was helpful, 25.28 percent opines that attitude was indifferent and remaining 19.54 percent were not satisfied as to the attitude of the commercial banks towards the entrepreneurs.

Table 5.18

Attitude of commercial banks towards the entrepreneurs

Attitude	No. of entrepreneurs	Percentage
Helpful	38	43.68
Indifferent	22	25.28
Not helpful	17	19.54
Total	87	100

Source: Survey Data.

### **Problems of banks**

The problems faced by the banks were identified after conducting an interview with the bank officials in the study area. The following are some of the problems faced by the banks:

#### **(A). Shortage of the employees**

Employee is the vein of all commercial banks. The performance of the commercial banks also depends on their employees. The number of employees of different commercial banks in their respective branches at Hailakandi is shown in Table 5-19.

Table - 5.19

Employees of different commercial bank branches in Hailakandi district as on 31<sup>st</sup> March, 2009

Sl.no.	Name of the Bank	Location of the Branches	No. of Employees
1	United Bank of India	Lala	07
2	United Bank of India	Lalamukh	05
3	United Bank of India	Natunbazar	05
4	United Bank of India	Hailakandi	48
5	State Bank of India	Hailakandi	132
6	State Bank of India	Matijuri	06
7	State Bank of India	Monacherra	08
8	Union Bank of India	Latakandi	05
9	Union Bank of India	Katlicherra	08
10	UCO Bank of India	Krishnapur	07
11	Canara Bank of India	Govindapur	12
12	Central Bank of India	Panchgram	07
13	Punjab National Bank	Chibitabichia	07
	Total	13	257

Source: Survey Data.

Table – 5.19 reveals that highest number of employees i.e. 132 working in the state Bank of India, Hailakandi branch followed by 48 employees in UBI Hailakandi branch, 12 in Canara Bank of India. In other branches of the banks, the number of employees was less than 10.

### **Poor recovery performance**

Poor recovery of loan amount specially under the Government schemes by the bank branches has not only affected the normal operation of the banks but has also posed problem in extending credit to the enterprises in different small scale enterprises. The recovery rate of the loan from all small entrepreneurs in Hailakandi

district is very poor i.e. it is in between 3 percent to 4.78 percent on an average during 2001-02 to 2005-06. The bank branches could recover only 16.7 percent in the year 2006-07. However, during 2007-08 the recovery rate was 12.34 percent and 11.72 percent as shown in table 5.20.

Table – 5.20

Recovery performance of the Term Loan

Year	Name of the Banks	Total amount loan Sanctioned	Total Recovery	
		Amount (Rs.)	Amount (Rs.)	Percentage
1999-2000	UBI	3,22,00,000	8,59,740	2.67
2000-2001		2,21,24,000	6,30,534	2.85
2001-2002	SBI	47,32,000	1,41,960	3.00
2002-2003		19,00,000	62,130	3.27
2003-2004	Union Bank	34,83,000	1,44,544	4.15
2004-2005		15,00,000	86,250	5.75
2005-2006	UCO	27,50,000	1,31,450	4.78
2006-2007		48,25,000	8,05,775	16.7
2007-2008	Central Bank	28,75,000	3,54,775	12.34
2008-2009		24,20,000	2,83,624	11.72
2009-10	Canara Bank	33,30,000	6,16,050	18.50
2010-11		25,25,000	5,75,195	22.78
	Punjab National Bank			
Total	13	8,46,64,000	49,75,651	

Source: Lead Bank, Hailakandi, 31<sup>st</sup> March 2012 Report.

### **Problems faced by the banks in selection of entrepreneurs**

The bank officers also faced problems at the time of selection of the entrepreneurs. Political interference, recommendation from higher authority etc. stand in the way of proper selection of the entrepreneurs.

### **Conclusion**

From the above mentioned discussion, it becomes clear that in spite of different efforts made by the Government for entrepreneurship development, the problem of entrepreneurs and banks stand in the way for entrepreneurship development in the district.