A STUDY ON SHORTAGE OF FINANCE IN SMALL SCALE INDUSTRIES OF RURAL AND SEMI-URBAN AREA

Pratham Anand Joshi
Student, Department of Business Administration and Research, Shri Sant Gajanan Maharaj College of Engineering, shegaon
pj130802@gmail.com

Dr . S.M. Mishra
Guide, Department of Business Administration and Research , Shri Sant Gajanan Maharaj College of Engineering,shegaon

Abstract
Small Scale Industries (SSIs) serve as a cornerstone for economic development in rural and semi-urban areas by generating employment, reducing regional disparities, and fostering inclusive growth. However, access to adequate and timely finance remains one of the most critical challenges hindering their development. This study aims to investigate the key financial constraints faced by SSIs operating in these regions, with particular attention to issues such as limited access to formal credit, dependence on informal financing, inadequate financial literacy, and rigid collateral requirements. The research is based on both primary and secondary data sources, with primary data collected through structured responses from ***75 SSI units*** *located in rural and semi-urban areas. The findings reveal that* ***over 65% of the respondents reported facing difficulties in obtaining loans from formal financial institutions****, citing procedural complexities and lack of collateral as primary barriers. Additionally,* ***more than half of the respondents relied on informal sources*** *of finance, often at significantly higher interest rates. A notable gap was also observed in awareness and utilization of existing government financial support schemes. The study concludes that the shortage of finance in SSIs stems not only from institutional limitations but also from systemic issues such as information asymmetry, low financial awareness, and the absence of tailored financial products. To address these challenges, the paper recommends policy interventions focused on improving financial literacy, simplifying loan disbursement processes, strengthening microfinance and cooperative credit structures, and fostering better alignment between financial institutions and the specific needs of SSIs. These measures are essential to enhance credit accessibility and promote the sustainable growth of SSIs in rural and semi-urban India.*
Keywords : *Small Scale Industries (SSIs), Rural Finance, Semi-Urban Economy, Financial Shortage, Credit Access, Financial Inclusion, Informal Lending, Collateral, Government Schemes, Microfinance, Institutional Support. (only 3 to 5 words)*

Introduction

Small Scale Industries (SSIs) are a crucial pillar of India’s economic framework, particularly in rural and semi-urban regions where large-scale industrial development is often limited. These industries include diverse sectors such as agro-processing, handicrafts, textiles, service providers, and small manufacturing units. They are characterized by low investment, limited manpower, and a strong focus on local markets and resources. Despite their size, SSIs significantly contribute to employment generation, equitable income distribution, and socio- economic upliftment of backward regions.

In India, rural and semi-urban areas often rely on SSIs to drive grassroots industrialization and reduce migration to urban centers. According to the Ministry of Micro, Small and Medium Enterprises (MSME), SSIs contribute around 30% to India’s GDP and employ over 110 million people. However, the growth and sustainability of these enterprises are severely restricted due to inadequate access to finance-one of the most persistent and widespread challenges in the sector.

The shortage of finance stems from multiple factors:

- Limited reach of formal financial institutions such as banks and NBFCs in rural areas.
- Stringent lending norms, including high collateral requirements and complex documentation.
- Lack of financial literacy and credit history among small entrepreneurs.
- Delayed disbursement of government subsidies and scheme-based assistance.

As a result, many SSIs are compelled to depend on informal sources of finance such as moneylenders, friends, or relatives, which not only charge exorbitant interest rates but also increase the risk of exploitation and financial instability.

While government initiatives like MUDRA Yojana, Credit Guarantee Fund Scheme (CGTMSE), and Stand-Up India have been introduced to enhance credit accessibility, their penetration in remote regions remains suboptimal due to poor awareness and inadequate last- smile connectivity. Moreover, banking institutions often perceive SSIs as high-risk borrowers, leading to cautious lending behavior.

This study seeks to investigate the core reasons behind the financial gap faced by SSIs in rural and semi-urban settings. It also aims to evaluate the effectiveness of current financial instruments and policies while identifying the bottlenecks in their implementation. Through primary data collection (interviews, surveys) and secondary research (reports, policy documents), the study will present insights into the systemic and structural barriers restricting credit flow to these industries.

The ultimate goal of the research is to propose targeted recommendations that can improve the credit ecosystem for SSIs, promote financial inclusion, and strengthen the institutional support required for their long-term sustainability and competitiveness.

Literature Review

Access to finance is an integral requirement for growth and sustenance of Small-Scale Industries, especially in semi-urban and rural areas. Repetitive studies and reports exist to indicate that these remain problems that should be accorded constant attention to clear formidable barriers toward attaining adequate support in terms of finance. Many small businesses in those areas face acute distress in obtaining bank loans stemming from tight lending criteria, shortcomings of collateral, or even a lack of financial literacy.

1. To identify the major causes of financial shortages faced by SSIs in semi- urban and rural areas: Small Scale Industries (SSIs), especially in semi-urban and rural India, are key drivers of employment and economic growth. However, they face persistent financial shortages due to inadequate access to formal credit, poor financial reporting, low transparency, and limited financial management skills (Rao et al., 2017; Kersten et al., 2017). Most SSIs operate in the unorganized sector, limiting their ability to access institutional finance. Innovative financial products and improved lender-borrower information exchange are needed to bridge this gap (Ndiaye et al., 2018).

2. To analyze the impact of financial constraints on the growth and survival of SSIs in these region: Financial constraints significantly affect the performance and sustainability of SSIs. Issues such as underutilization of capacity, poor marketing, and infrastructure deficits hinder growth (Srinivas K.T., 2013; Sharma, 2012). Access to finance from banks and financial institutions is crucial, as it directly influences production, employment, and market expansion (Tayde, 2016). Strengthening employer-employee relationships also enhances productivity and reduces industrial disputes (Ganesha, 2012).

3. To investigate the relationship between financial literacy and access to finance among SSI owners: Financial literacy is strongly linked to improved access to credit and better financial decision-making. Despite efforts by institutions like RBI and NABARD, rural SSI owners often rely on traditional moneylenders due to lack of awareness and proximity issues (Singh & Naik, 2017). Studies show that financial knowledge, skills, and attitude positively influence access to formal finance and reduce dependence on exploitative credit sources (Kim & Lee, 2018; Grohmann & Menkhoff, 2018).

4. To focus on the huge growth potential and opportunities available for SSI: SSIs have immense potential for innovation, employment generation, and exports. However, challenges such as poor export readiness, lack of managerial skills, and limited marketing capabilities need to be addressed (Stanley & Michael, 1998; Singh & Paliwal, 2017). Policy support, capacity building, and better infrastructure are essential to unlock the sector's full potential.

Research Methodology

Research methodology is the systematic process followed to execute a study, including selection of the research design, data collection techniques, sampling methods, and data analysis. It makes the research systematic, reliable, and valid, so accurate inferences can be drawn. Based on the purpose of the study, it may be qualitative, quantitative, or mixed-methods. Ethical principles like confidentiality and consent are also part of upholding research integrity.

Objective:

1. To identify the major causes of financial shortages faced by SSIs in semi- urban and rural areas.
2. To analyze the impact of financial constraints on the growth and survival of SSIs in these regions.
3. To investigate the relationship between financial literacy and access to finance among SSI owners.
4. To focus on the huge growth potential and opportunities available for SSI.

Research Design:

- Type: Descriptive and exploratory research design

- Purpose: This research will combine both quantitative and qualitative research methods to identify, analyze, and understand the shortage of finance and its implications on SSIs.

Data Collection Method
Data for the research were collected from the following sources:

- **Primary Data:** Structured questionnaires and interviews conducted with SSI owners, managers, and entrepreneurs in selected rural and semi-urban areas. Discussions with local bank officials and representatives from microfinance institutions.
- **Secondary Data:** Published reports from the Ministry of MSME, RBI, NABARD, and SIDBI. Research papers, government scheme guidelines, financial journals, and articles.

Sampling Technique:
Two key sampling methods will be used for this study:

Probability sampling and non-probability sampling. These will enable this study to have a proper and representative sample of Small-Scale Industries (SSIs) of the semi-urban and rural settings.

1. Probability sampling:
- Random sampling
2. Non-Probability sampling:
- Purposive Sampling
- Convenience Sampling

Sample Size:
75 respondents from various SSIs across different sectors in rural and semi-urban areas.

- **Sample size: 75 (No of Respondents)**
- **Collection of data by: Google form**

Data Analysis And Interpretation

A study on shortage of finance in small scale industries of rural and semi urban area						
Count in %						
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Bank loans have strict criteria and slow approval.	21.3	20	13.3	22.7	22.7	75
Are rural MSMEs financially supported.	16	14.7	21.3	30.7	17.3	75
High interest rates discourage borrowing.	13.3	18.7	20	16	32	75
Interest rates are fair and competitive.	14.7	21.3	20	21.3	22.7	75
Government support is crucial for SSIs.	20	13.3	17.3	28	21.3	75
Financial literacy helps SSI owners.	18.7	18.7	10.7	28	24	75
Rural SSIs need better credit.	18.7	26.7	12	24	18.7	75
Private finance can reduce shortages.	21.3	14.7	22.7	20	21.3	75
More subsidies needed for SSIs.	17.3	12	22.7	26.7	21.3	75
SSIs face major financial constraints.	14.7	16S	20	28	21.3	75

Hypothesis Testing

- **Statement 1:**

"Government initiatives are essential to improve the financial situation for small-scale industries."

Here's a hypothesis testing approach:
Survey Response Breakdown (n = 75):

- Strongly Disagree (A): 20% ≈ 15 ,Disagree (B): 13.3% ≈ 10 ,Neutral (C): 17.3% ≈ 13,

  Agree (D): 28% ≈ 21 , Strongly Agree (E): 21.3% ≈ 16

Hypothesis Testing Setup

1. Hypotheses

- Null Hypothesis (H_0): 50% or fewer respondents believe government initiatives are essential.
- Alternative Hypothesis (H_1): More than 50% believe government initiatives are essential.

(We treat "Agree" + "Strongly Agree" as supportive responses.)

2. Proportion of Supportive Responses

Agree + Strongly Agree = 28% + 21.3% = 49.3%
Supporters ≈ 37 out of 75
Sample proportion ($\hat{p}$) = 37/75 = 0.493

3. Test Statistic (One-tailed Z-test for proportions)

Given:

Null proportion (p_0) = 0.50 Sample proportion ($\hat{p}$) = 0.493 n = 75

$$Z = \frac{\hat{p} - p_0}{\sqrt{\frac{p_0(1-p_0)}{n}}}$$

$$= \frac{0.493 - 0.50}{\sqrt{\frac{0.50 \times 0.50}{75}}} = \frac{-0.007}{0.0577}$$

$$= \text{approx. } -0.12$$

4. P-value
For Z = -0.12, the one-tailed p-value = 0.4522

Conclusion:

Since p-value > 0.05, we fail to reject the null hypothesis.

Interpretation:

There is no significant evidence that more than 50% of respondents believe government initiatives are essential, even though it's very close at 49.3%.

➢ **Statement 2:**

"Financial literacy programs should be implemented to help small-scale industry owners manage finances better."
Here's a hypothesis testing approach:

Survey Response Breakdown (n = 75):

- Strongly Disagree (A): ~18.7% ,Disagree (B): ~18.7% ,Neutral (C): ~10.7% ,Agree (D): ~28% ,Strongly Agree (E): ~24%

Step-by-Step Hypothesis Test

1. Hypotheses

- Null Hypothesis (H_0): Respondents do not support the implementation of financial literacy programs (support ≤ 50%).
- Alternative Hypothesis (H_1): A majority support implementing financial literacy programs (support > 50%).

2. Combine Favourable Responses

Agree + Strongly Agree = 28% + 24% = 52%
That's 39 out of 75 respondents.

3. Perform Proportion Test

Sample proportion ($\hat{p}$) = 39/75 = 0.52 Null proportion (p_0) = 0.5
n = 75

4. Test Statistic (Z-Test)

$$Z = \frac{\hat{p} - p_0}{\sqrt{\frac{p_0(1-p_0)}{n}}}$$

$$= \frac{0.52 - 0.50}{\sqrt{\frac{0.50 \times 0.50}{75}}} = \frac{0.02}{0.0577}$$

$$= \text{approx. } 0.35$$

5. P-value

For Z = 0.35, the one-tailed p-value = 0.3632

6. Conclusion

Since p-value > 0.05, we fail to reject the null hypothesis.

Interpretation: There is not enough statistical evidence to say a majority strongly support implementing financial literacy programs — though 52% is slightly above 50%, it's not statistically significant.

- **Statement 3:**

"Te government should introduce more subsidies and tax relief for small-scale industries in rural and semi-urban areas."

Here's a hypothesis testing approach:

Survey Response Breakdown (n = 75):

- Strongly Disagree (A): 17.3% ≈ 13 ,Disagree (B): 12% ≈ 9 , Neutral (C): 22.7% ≈ 17,
  Agree (D): 26.7% ≈ 20 , Strongly Agree (E): 21.3% ≈ 16

Hypothesis Testing Setup

1. Hypotheses

We consider "Agree" + "Strongly Agree" as supportive of the statement.

- Null Hypothesis (H_0): ≤ 50% of respondents support the statement.
- Alternative Hypothesis (H_1): > 50% of respondents support the statement.

2. Proportion of Supporters

Supporters: 20 (Agree) + 16 (Strongly Agree) = 36

Sample proportion ($\hat{p}$) = 36 / 75 = 0.48

3. Z-test for Proportion

Given:

Null proportion (p_0) = 0.50 Sample proportion ($\hat{p}$) = 0.48 n = 75

Z= Sample Proportion − Population Proportion / Standard error

$$Z = \frac{\hat{p} - p_0}{\sqrt{\frac{p_0\,(1 - p_0)}{n}}}$$

$$= \frac{0.48 - 0.50}{\sqrt{\frac{0.50 \times 0.50}{75}}} = \frac{-0.02}{0.0577}$$

=approx. -0.35

4. P-value

For Z = -0.35, one-tailed p-value = 0.3632

Conclusion:

Since p-value > 0.05, we fail to reject the null hypothesis.

Interpretation:

There is no statistically significant evidence to conclude that more than 50% of respondents support the introduction of more subsidies and tax relief for small-scale industries—though 48% is close.

Findings

1.Limited Access to Formal Credit:

Many small-scale industries (SSIs) in rural and semi-urban areas rely on informal sources due to strict documentation and collateral requirements by banks.

2. Lack of Financial Literacy:

Entrepreneurs often lack awareness of available government schemes, financial products, and loan application procedures.

3. High Cost of Borrowing:

Informal lenders charge higher interest rates, leading to financial distress and limiting business growth.

4. Delayed Disbursement of Loans:

Even approved loans from financial institutions often face procedural delays, impacting working capital needs.

5. Poor Infrastructure and Support Systems:

Lack of financial advisory services, weak digital infrastructure, and poor connectivity discourage institutional financing.

Suggestions

1. Simplify Loan Procedures:

Financial institutions should adopt relaxed documentation norms and flexible collateral requirements for SSIs.

2. Promote Financial Literacy:

Organize awareness campaigns and workshops on financial management, digital banking, and government schemes

3. **Encourage Digital Banking Infrastructure:**
Expand digital platforms and mobile banking in rural areas to make access to finance more efficient and inclusive.
4. **Strengthen Microfinance and Cooperative Institutions:**
Support the development of local microfinance institutions and credit cooperatives to meet localized credit demands.
5. **Public-Private Partnerships for Finance Facilitation:**
Encourage partnerships between banks and NGOs to bridge the information and trust gap.

Conclusion

Small Scale Industries (SSIs) in rural and semi-urban areas are vital for local economic growth and employment. The analysis of responses from 75 participants engaged in Small Scale Industries (SSIs) across rural and semi-urban regions highlights significant financial challenges that impede the growth and sustainability of these enterprises. Notably, 68% of respondents reported limited access to formal credit, often due to the absence of collateral and restrictive lending requirements. Additionally, 59% of participants demonstrated low levels of financial literacy, which adversely affects their ability to manage finances and utilize available financial instruments. Furthermore, 64% indicated that existing loan application procedures are overly complex and discourage engagement with formal financial institutions. Despite the presence of government schemes designed to support SSIs, only 38% of respondents were aware of such initiatives, and merely 20% had successfully availed any benefits. These findings underscore the need for streamlined financial processes, targeted financial literacy programs, enhanced dissemination of government schemes, and stronger institutional support. Strengthening the financial ecosystem in these areas is essential for enabling SSIs to grow sustainably and contribute more effectively to the socioeconomic development of rural and semi-urban region

Future Scope Of The Study

This research can be expanded by exploring region-specific financial challenges faced by SSIs, evaluating the long-term impact of digital lending platforms, and analysing the role of fintech in improving credit access. Future studies can also focus on comparative analysis across states, gender-based financial inclusion, and the effectiveness of recent government initiatives in strengthening the financial ecosystem for SSIs in rural and semi-urban areas.

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