

ABSTRACT

An entrepreneur cannot succeed in his venture and/or enterprise without a project. Project is useful to get finance from financial agencies for expansion, diversification and modernisation of the existing business or for starting a new venture. Entrepreneurs have no fully resources for starting a venture or to diversify, expanding and modernisation of the existing one. They have to depend on financial institutions or money lenders for getting finance. Money lenders issue credit at high interest rates. Entrepreneurs will have to depend on financial institutions for getting finance at reasonable interest rates. APSFC was started as a regional development bank in Andhra Pradesh for developing and promoting entrepreneurship. An insight into finance provided by the APSFC shows an irregular growth.

The project is a basic foundation of an enterprise and it is also very credential to the entrepreneur. Invariably, an entrepreneur cannot succeed in his venture and/or enterprise without a project. Thus, the project becomes a foundation stone of a venture. Generally, these projects may be for starting a new venture, diversification and expansion of the existing business. Adequate and timely credit to these projects makes the entrepreneurs succeed in the business. Financial institutions are playing very competent role in financing these projects. But, they are unable cater all the long term financial needs of the MSMEs. With the main aim to provide long term finance to the MSMEs, SFCs were started as Regional Development Banks. These SFCs are started under the State Financial Corporations Act, 1951 at the State Level by an Act of Parliament of India. Andhra Pradesh State Financial Corporation (APSFC) came into existence on 1st November 1956.

NEED FOR THE STUDY

The APSFC provides assistance to various people in the industry ranging from artistic entrepreneur to sophisticated manufacturers. Among the assisted industries, the maximum share of assistance is given to Food and Agro-based Industries followed by Chemical and Engineering industries. In spite of all the efforts to promote industrial development in the state, the corporation has lagging behind in providing adequate finance required by the industrial sector. There is a need to improve finance to the MSMEs. Hence, the study is important to focus a light on the performance APSFC in financing the MSME projects.

OBJECTIVES OF THE STUDY

This paper is focused on the following objectives:

1. To review the APSFC performance in financing MSMEs projects.
2. To know the reasons for decrease in finance to this sector.
3. To suggest measures to improve finance to the MSME sector.

SCOPE OF THE STUDY

This piece of writing is restricted to the period of 1990-91 to 2008-09. For fulfilling the above stated objectives, this paper is confined to the number of units and amount sanctioned by the APSFC to the

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MSME projects.

METHODOLOGY OF THE STUDY

DATA COLLECTION METHOD

The secondary data has been used in present study. The secondary data was collected from the APSFC annual reports, various magazines, news papers and internet.

TOOLS AND TECHNIQUES USED FOR DATA ANALYSIS

In the present study, statistical tools such as compound annual growth rate (CAGR), correlation, maximum value, minimum value, mean and standard deviation are used for effectively analyse the data.

PROJECT FINANCE BY APSFC

Table 1:

Purpose - Wise Loan Assistance Sanctioned(Effective) By APSFC During 1990 - 91 To 2008 - 09

(No. of Units)

Year (at the end of March)	New Projects	Expansion/ Diversification	Modernisation/ Rehabilitation	Balancing Equipment Rehabilitation	Supplementation Assistance	Power Generation	Total
1990-91	8521	249	29	444	52	93	9388
1991-92	4386	183	27	5	47	51	4699
1992-93	2958	178	20	174	28	31	3389
1993-94	1196	79	19	131	13	11	1449
1994-95	1003	144	7	0	6	46	1206
1995-96	1035	167	6	0	8	101	1317
1996-97	959	155	1	0	6	39	1160
1997-98	1068	174	2	0	0	26	1270
1998-99	1086	162	2	0	0	15	1265
1999-00	1537	185	0	0	1	8	1731
2000-01	1489	226	0	0	1	8	1724
2001-02	784	562	3	0	1	3	1353
2002-03	940	305	0	0	0	1	1246
2003-04	809	343	1	0	0	0	1153
2004-05	744	314	3	0	0	0	1061
2005-06	677	366	0	0	0	0	1043
2006-07	733	384	0	0	0	0	1117
2007-08	373	817	0	0	0	0	1190
2008-09	1149	0		0	0	0	1150

Source: Compiled from annual reports of APSFC

Table 2:

Descriptive statistics tests for the Number units financed by the APSFC

Particulars	New Projects	Expansion/ Diversification	Modernisation/ Rehabilitation	Balancing Equipment Rehabilitation	Supplementation Assistance	Power Generation	Total
CAGR*	-10.01	-100	-16.24	-100	-100	-100	-10.46
Correlation**	0.99	-0.10	0.82	0.88	0.91	0.61	1
Minimum	373.00	0.00	0.00	0.00	0.00	0.00	1043.00
Maximum	8521.00	817.00	29.00	444.00	52.00	101.00	9388.00
Mean	1655.11	262.79	6.37	39.68	8.58	22.79	1995.32
SD***	1900.79	184.06	9.64	109.21	16.00	31.04	2010.87

*CAGR=Compound Annual Rate of Growth, ** Correlation with Total, ***SD=Standard Deviation,

The Compound Annual Rate of Growth (CARG) in the case of APSFC financed number of projects (Table 2) showed most irregular growth. The number units got project finance had decreased hundred per cent in the case of expansion/ diversification, balancing equipment rehabilitation, supplementation assistance and power generation projects. But, in case of new projects it is decreased 10.01 per cent. Totally it showed a negative growth rate of 10.46 per cent. The correlation analysis with the total shows that, the new projects (0.99), supplementation assistance (0.91), balancing equipment rehabilitation (0.88), modernisation/ rehabilitation projects (0.82) and power generation projects (0.61) are increasing or decreasing according to the total projects. That means an increase or decrease in the total number of projects has positive impact on these projects. But in case of expansion/ diversification projects, an increase or decrease in the total projects has negative impact. The minimum number of units got APSFC finance is zero, in case of expansion/ diversification projects (in 2008-09), modernisation/ rehabilitation projects (between 1999-01, 2002-03, 2005-08), balancing equipment rehabilitation projects (between 1994-09), supplementary assistance projects (between 1997-99, 2002-09) and power generation projects (between 2003-09). The maximum number units got APSFC finance are, 8521 new projects (in 1990-91), 817 expansion diversification projects (in 2007-08), 444 balancing equipment rehabilitation projects (in 1990-91), 101 power projects (in 1995-96), 52 supplementation assistance projects (in 1990-91) and 29 modernisation/ rehabilitation projects (in 1990-91). In most of the study period, new projects (1655.10) in 3 years, expansion/ diversification projects (262.78) in 7 years, modernisation/ rehabilitation projects (6.36) in 6 years, balancing equipment rehabilitation projects (39.68) in 3 years, supplementation assistance projects (8.57) in 4 years and power generation projects (22.78) in 7 years had more than their mean units (Average units). The standard deviation shows there is no uniformity of units in new projects (1900.79), expansion/ diversification (184.06), modernisation/ rehabilitation (9.64), Balancing equipment (109.21), rehabilitation supplementation assistance (16.00) and power generation (31.04). Year by year there is a hefty increase for decrease.

Table 3:

Purpose - Wise Loan Assistance Sanctioned(Effective) By A P S F C During 1990 - 91 To 2008 - 09
(Rs. In Lakhs)

Year (at the end of March)	New Projects	Expansion/ Diversification	Modernisation/ Rehabilitation	Balancing Equipment Rehabilitation	Supplementation Assistance	Power Generation	Total
1990-91	21306.54	2107.27	177.60	581.69	260.73	224.51	24658.34
1991-92	17466.89	2137.05	209.38	69.39	431.79	155.55	20470.05
1992-93	14597.37	1452.62	281.62	2245.76	204.11	118.19	18899.67
1993-94	7766.06	954.43	161.70	347.73	97.24	80.04	9407.20
1994-95	10380.20	3356.59	101.40	0.00	37.31	95.41	13970.91
1995-96	13470.73	3846.19	244.73	0.00	12.61	426.89	18001.15
1996-97	12545.96	2416.86	11.50	0.00	30.49	215.90	15220.71
1997-98	16248.44	3870.51	468.00	0.00	0.00	123.61	20710.56
1998-99	21811.84	4884.72	39.90	0.00	0.00	110.75	26847.21
1999-00	28090.82	5400.50	0.00	0.00	0.38	27.28	33518.98
2000-01	30428.40	8725.00	0.00	0.00	8.70	28.74	39190.84
2001-02	21398.61	17437.27	144.71	0.00	19.00	6.13	39005.72
2002-03	24982.57	13477.50	0.00	0.00	0.00	27.85	38487.92
2003-04	24258.49	12681.87	6.56	0.00	0.00	0.00	36946.92
2004-05	25627.05	15499.33	207.65	0.00	0.00	0.00	41334.03
2005-06	31491.54	18319.24	0.00	0.00	0.00	0.00	49810.78
2006-07	42818.81	19859.33	16.18	0.00	0.00	0.00	62694.32
2007-08	40438.48	50807.34	16.18	0.00	0.00	0.00	91262.00
2008-09	75382.00	6.00	48.00	0.00	0.00	0.00	75436.00

Source: Compiled from annual reports of A P S F C

Table 4: Descriptive statistics tests for the Volume finance sanctioned by the APSFC

Particulars	New Projects	Expansion/ Diversification	Modernisation/ Rehabilitation	Balancing Equipment Rehabilitation	Supplementation Assistance	Power Generation	Total
CAGR*	6.88	-26.54	-6.65	-100	-100	-100	6.06
Correlation**	0.86	0.74	-0.46	-0.26	-0.37	-0.59	1
Minimum	7766.06	6.00	.00	.00	.00	.00	9407.20
Maximum	75382.00	50807.34	468.00	2245.76	431.79	426.89	91262.00
Mean	25290.04	9854.72	112.37	170.77	58.02	86.36	35572.28
SD***	15369.18	11881.36	128.83	524.59	116.55	110.84	21727.88

*CAGR=Compound Annual Rate of Growth, ** Correlation with Total, ***SD=Standard Deviation,

The CAGR shows that (Table 4), the sanctions to new projects have grown 6.88 per cent. But, in the case of expansion/ diversification and modernization/rehabilitation projects the sanctions decreased 26.54 per cent and 6.65 per cent. In case of balancing equipment, supplementation assistance and power generation projects it is decreased 100 per cent. Overall the sanctions to the MSME projects had increased by 6.06 per cent. The correlation analysis shows a positive relation between the new projects & total projects (0.86), expansion/diversification & total projects (0.74). But in the case of modernization/rehabilitation (-0.46), balancing equipment (-0.26), supplementation assistance (-0.37) and power generation (-0.59) projects with the total projects shows negative correlation. It shows that an increase or decrease in the total project finance has a positive effect on new projects and expansion/diversification projects. But in the case of modernization/ rehabilitation, balancing equipment, supplementation and power generation projects it is negative effect. The minimum amount of finance sanctioned to the new projects (Rs.7766.06 lakhs) in 1993-94, to expansion/ diversification projects (Rs.6.00 lakhs) in 2008-09. In case of modernization/ rehabilitation (from 1999 to 2001, 2002-03 and also from 2005 to 2008), balancing equipment (from 1994-95 to 2008-09), supplementation assistance (from 1997-99, from 2002 to 2009) and power generation (from 2003 to 2009) the minimum finance sanctioned is zero. The maximum amount sanctioned to new project Rs.7538.00 lakhs (in 2008-09), expansion/diversification Rs.50807.34 lakhs (in 2007-08), modernization Rs.468.00 lakhs (in 1997-98), balancing equipment Rs.2245.76 lakhs (in 1992-93), supplementation assistance Rs.431.79 lakhs (in 1991-92), power generation Rs.426.89 lakhs (in 1995-96). The standard deviation (15369.18) is less than the mean (25290.04) value of the new projects. Which is shows less deviation from the mean value. But, in the case of expansion/ diversification, modernisation/rehabilitation, balancing equipment rehabilitation, supplementation assistance and power generation there is high deviation with the mean value. Which is shows an abnormal growth in finance to these projects.

It is observed from the above analysis that, there is an abnormal growth in the expansion/ diversification, modernisation/rehabilitation, balancing equipment rehabilitation, supplementation assistance and power generation projects. And also there is abnormal growth, both in volume of units as well as in volume of finance to these projects. In the case of new projects, their volume of units and finance is decreased, but compared to other projects it is much better. It can be conclude that, the APSFC is more concentrating on new projects rather than other projects. We cannot blame only APSFC for this. There are problems with APSFC and also with entrepreneurs for this decrease. There is an urgent need to focus on other projects also.

MEASURES TO IMPROVE FINANCE TO MSMEs

1. The MSMEs are not properly maintaining their records. They should improve their book keeping and record management to enhance the confidence of the financial institution.
2. The poor quality of projects submitted for financing, which is often well below minimum standards is a major constraint for approval. This is also applies to MSME industry, where more than a few business ideas do not meet the basic standards for receiving any serious consideration by financiers. The issue of the quality of projects is a problem for approval.
3. Another constraint is that promoters are often unable to make the best use of available opportunities, irrespective of the intrinsic quality of the projects. This relates not only to their limited ability to convincingly articulate business ideas, but also to the unwillingness of many small entrepreneurs to 'waste time' in dealing with financial institutions. In this respect, the MSME have no exception. Certainly, there are examples of promoters who have been able to cultivate a strong relationship with venture capitalists or business angels, and who have been able to gradually build a relationship of trust and familiarity that could compensate for other factors. However, in many cases, high tech promoters tend to concentrate exclusively on

technical aspects and are not inclined to invest time in creating financing opportunities. Even in the case of well-established businesses, there are indications that knowledge of financial instruments is limited. Business associations and incubators can sometimes help in overcoming this attitude.

4. The major reasons for delays in sanction and disbursement of loans are the lengthy documentation and legal procedures involved in the process. While the large industries can afford to hire specialists for the job, the small scale entrepreneurs are often ill-equipped to handle this job on their own. It will greatly help SMEs if facilitation services are provided by various promotional agencies like MSME Development institute (SISIs), DICs, SIDCs, industry associations, banks, etc.
5. In the process of intuitional financing of SMEs, the disposal of applications itself is much delayed. Therefore, the institution should initiate measures for expeditious disposal of loan applications to avoid financial repercussions.

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