Credit Accessibility and Issues to Formal Credit: A Study on Informal Micro Enterprises in Kochi Municipal Corporation

Jith George

Department of Economics, Sacred Heart's Autonomous College, Thevara-Kochin, India

Abstract: ***The informal sector has been a dominant characteristic feature of the developing countries providing livelihood to a large number of households and micro entrepreneurs for a prolonged period. However, enterprises in this sector are often stunted by myriads of problems among which meagre access to formal financial services is a crucial constraint as access to other enabling conditions often hinges upon the access to finance. This article is based on a study of such enterprises in the Kochi municipal corporation—the most populous metropolitan city in Kerala, where the number of micro enterprises are relatively higher in general. Samples of 275 units were found using convenience sampling and snowball sampling methods. The article explores the extent to which the informal micro-businesses can access external finance and the factors preventing access to credit from such formal financial institutions to these enterprises. The results revealed that even though respondents had access to external finance, the depth of financial access is very thin in most cases and the business risks influence the accessibility to credit facilities to a great extent followed by cost of credit, lack of information on finance and later the collateral requirements.***

Keywords: Credit Access, Formal Financial Institution, Informal Sector, Micro Enterprise (ME)

1. Introduction

Informal MSMEs have been the engines of economic and employment growth in the majority of developing economies. Particularly in developing countries, one third of the national income comes from this informal or unregistered sector. In India, for instance, MSME sector is vital to the economy as they account for about a third of the country's GDP, 45% of manufacturing production and 48% of its exports (MSME, 2017-2018). However, almost 95 percent of the entire MSME sector in India comprises of micro enterprises (IFC, 2018). Various studies emphasize the significant presence of entrepreneurs in this field (Gurtoo and Williams, 2009). It is evident that according to the Final Report of MSME's 4th All India Census (2006-07), out of 19.9 million overall unregistered businesses, unregistered micro enterprises were 19.8 million. Despite the widespread awareness of the value of the micro enterprises sector and the informal sector internationally, it is a challenging task to identify a micro enterprise, as each country has its own rationale. A clear, widely accepted definition of a micro business does not exist (Storey, 1994). In the Indian context, formerly, Micro enterprises were defined on the basis of investments put in; now the updated definition would also include the enterprises' turnover. Micro units are now being identified as the ones having investments up to 10 million and a turnover of not more than Rs. 50 million.

Considering the significance of these enterprises, regular survey of Unincorporated, non-agricultural enterprises were conducted by the National Sample Survey Organization (NSSO) in India. The latest of which took place in 2015-16 (NSS, 2017).Hereupon, the demonetization of currency (2016), introduction of new Goods and Services Tax regime (GST) and the Non-Banking Financial Services (NBFC) sector crisis in 2018 have exerted influence on economy and have detrimental effects on Micro enterprises' performance (Dev and Sengupta, 2020) .In addition, situations are being intensified by Covid 19 pandemic, as it is currently the world's gravest socio-economic challenge.

Informal micro-enterprises in Kerala also had to face the miserable massive brunt of the pandemic and the lockdown. The State Planning Committee of Kerala has developed a study evaluating the effects of the Covid-19 and the subsequent economic blockade. The study notes that manufacturing, trade, transport, hotels and restaurants are the enterprises that are likely to be impacted immediately by lock-down. The sectors constitute 57.7 percent of the total 12.7 million employees in the state (Harikrishnan, 2020). Production of goods and services has come to an abrupt and almost total halt. It is a huge shackle for the micro business, which had bounced back from two floods and the outbreak of Nipah. Here, in this case one can contemplate the quagmire of micro enterprises in the state.

Recently, the World Bank and the Government of India have signed an agreement to expand their flow of financing to micro, small and medium-sized enterprises (MSMEs), badly impacted by the COVID-19 crises. The agreement is worth 750 million US dollars. Besides, government issued a variety of relief package to the sector as such enterprises are inevitable for job creation and economic growth .In fact, the informal ME sector lacks access to sufficient institutional credit and a majority of Micro enterprises are self-financed due to various reasons (Dev and Sengupta, 2020; Economic Census, 2013).Considering the above statement, some questions come up. Will formal or Bank credit reach to the bottom level of enterprises? What are the credit sources and what are the issues faced by the informal micro entrepreneurs in accessing the institutional credit? In this juncture the study that formed the base of this article was conducted in the year 2019 and was taken up with the view to have a closer examination of the credit access of informal micro entrepreneurs as well as to closely observe the extent to which the various factors influence the formal credit accessibility of the entrepreneurs. Since a customised unit level data are not available for pursuing the issue, a field investigation had to be carried out. The city of greater Kochi on the south-west coast of India was selected as the broad location for the field investigation. The choice of the location is warranted on the ground that the major share in such enterprises was possessed by the greater Kochi in the state (NSS Division Department of Economics and Statistics, 2011).It is viewed as a major industrial hub and people from all walks of life fit themselves there.

2. Objectives of the Study

Various policy attempts have been made to improve access to finance for the informal micro enterprises in India. The research is specifically aimed at examining the degree to which informal micro-business can access external finance. The research would also study the factors preventing access to credit from formal financial institutions for these enterprises.

Given these broad objectives, the null hypothesis tested is that credit access has no significant impact on the innovation and aspiration of the informal sector micro enterprises against the alternative hypothesis that credit access has significant impact.
This article consists of six sections. The second section presents the conceptual framework and a review of literature. The third section describes the data source and outlines the methodology applied. The fourth section presents and discusses the results. The fifth section draws policy implications from the exercise. The concluding section deals with the limitations of the study and areas for future research.

3. Review of Literature

Micro enterprises in the informal sector are substantially necessity driven (Friedman & Sullivan, 1974; Gomez, 2008), Studies indicate that micro or tiny enterprises in the informal sector are highly vulnerable to socio-economic changes and a few can survive beyond five to six years (Audet and St-Jean, 2007). This vulnerability is created by several factors. Yet the biggest weakness affecting the sustainability and development of micro-enterprises is inadequate financial resources (Udel and Berger, 1998 & 2002 Sachs and Radelet, 2001). Financial distress led to poor facilities for production, the use of out-dated technology, lack of quality control, insufficient business focus and low productivity (Dasanayaka, 2009). Ayyagari, Demirguc-Kunt and Maksimovic (2017) identified access to finance on the basis of cross-country company-level data as the most significant variable influencing firm growth.

Credit sources of informal micro enterprises

Finance is regarded as the life blood of any type of business, regardless of whether large or small. In the developing nations in the period of start-up, since it has tiny capital base, entrepreneurs were dependent on informal source of finance and experience the basic constraints i.e. mismanagement in cash flow (Sia, Manuel & Donna Nails, 2008). Accessibility of funds from family members and companions that is the primary motivating factor affecting the informal sector enterprise. Additionally, the greater part of the micro entrepreneurs in informal economies of developing countries relied on depended on outer sources (Murthy, 1980) and dealt with their money related exercises of saving and borrowing in informal ways manners and confronted the issue of lending, financing and marketing. They relied upon the moneylenders for their credit needs. However nearby moneylenders storing was inadequate and questionable and could be extravagant (Mistra and Bist, 1995). So the issue of finance was related to inadequate and inaccessibility of fund (Vijayakumar, 2013).

Micro-enterprise's major monetary issues

Micro-enterprise's major monetary issues were failure to get to inner and outer financing (Ch, Hari, Rao, &Apparao, 2012), insufficient funding, start-up costs, high prices of raw materials, high overall selling price (TarakeswaraRao et al., 2012;Fumo & Jabbour,2011), poor money management, difficulty in obtaining trade credit, inadequate income, financial obligations pressures, high health insurance. Financial issues of micro-enterprises could be separated into four general classes, such as 1) problem of credit accessibility 2) funding not available from banks 3) high borrowing costs and 4) financial mismanagement (Dasanayaka, 2009).Owners of these firms have no experience of financial leverage (Murthy, 1980). Small businesses needed more credit than large businesses and they were also more likely to fail (Timmons, 1978; Keasey and Watson, 1993; Storey, 1994).

Woodward and Rolfez (2011) signalled in a study of South African entrepreneurs that access to finance was the major stumbling block for South African entrepreneurs without a record of achievement or any kind of guarantee. For India, a vast dominant part of micro-enterprises did not have access to institutional credit (SIDBI, 2010), and firms in rustic zones were unable to access financial institutions' credit (Yadev, 2013). Micro and small firms confronted several problems associated with inadequate access to institutional credit, resulting in high financial costs (Fredland & Morris, 1976; DiPietro & Sawhney, 1977).

Difficulties in accessing Formal credit facilities

In their analysis of 241 micro-enterprises in Nairobi City County, Kenya, Anne Gichuki, Dr Agnes Njeru, Ondabu, &Tirimba, (2014) uncovered that the fundamental difficulties that keep micro and small businesses from accessing formal credit facilities were high reimbursement rates, strict collateral criteria, people's reluctance to act as guarantors, high processing fees for credit facilities and short reimbursement periods .Barriers to SMEs ' access to finance from formal institutions in India included collateral or guarantee conditions, inflexible rules, high lending rates, complex processes and the lack of financial knowledge of the scheme applicable to businesses (Singh, 2016). In addition to high interest loans offered by commercial banks (Mawoli&Aliyu, 2010). Due to lack of collateral requirements and took a long time to process loan applications (Noorinasab,ShojeiSeifabad&Zarei, 2016).

From an institutional perspective, Indian banks were especially unwilling to finance micro and tiny business on grounds such as high non-performing assets, high transaction charges and the failure to check applicants financial soundness, high bank failure rates, previous years perforce, lack of collateral protection bid, high administrative costs, inadequate credit, insufficient record of loan repayment, insufficient risk management and information system failure (Prasad, 2006). The repayment dilemma has been more severe than the accessibility of financing for the repayment process because of low revenue and payment efficiency (Tambi 2013). The repayment mechanism has been frustrating rather than encourageable. The Reserve Bank of India (2005) also found as the main challenges stopping micro-sized enterprises from accessing lending programs are high repayment rates, high collateral standards, and the inability to serve as guarantors, high credit processing fees and limited recovery duration(“Reserve Bank of India - RBI Bulletin,”2015). Micro-enterprise funding is a challenging task for lenders and it is also daunting for informal micro-enterprises to secure credit facilities from financial institutions. The asymmetry of knowledge causes several effects during the credit facility cycle. There is a divide between the borrower and the lender when it comes to micro-enterprises lending, both financial and non-financial information which leads to adverse selection and moral hazards.

Access to credit and its determinants: A Theoretical Framework

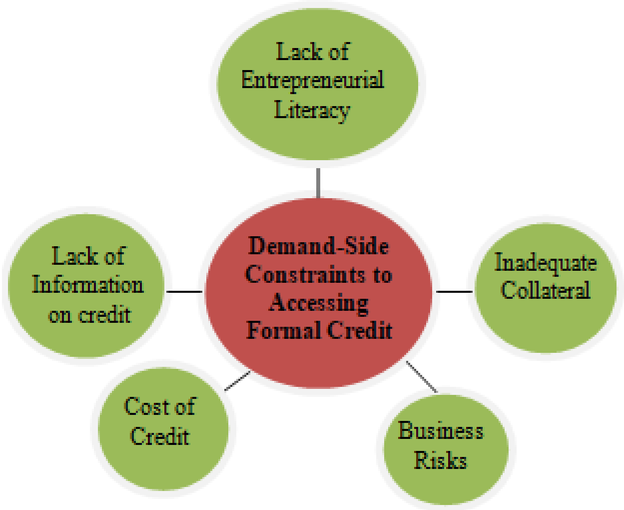
Credit Rationing Theory

The credit market, especially in developing countries such as India is vulnerable to imperfections. These imperfections are underpinned by two dominant factors: asymmetric information and adverse selection. Such two characteristics have significant implications for lenders actions and the efficacy of the market clearing price mechanism. This section briefly reviews asymmetric information and adverse selection as sources of credit market imperfections in order to identify some of the key determinants of an enterprise's credit access. Stiglitz&Weiss's Credit Rationing Theory (1981) is one of the most important theories that focused on financing gap analysis. In their formulation, (Stiglitz& Weiss, 1981) argued that the main reasons why micro units restricted access to finance were problems with agencies and information asymmetries. They contended that solitary micro enterprises knew their genuine budgetary structure, the genuine quality of the venture, and the compelling expectation to reimburse the obligation, i.e., firms had higher private data (asymmetric). The bank manager along these lines settled on choices based on unbalanced data and worked under a danger of good peril and unfavourable choice.

Under conditions of asymmetric information and credit rationing, Stiglitz and Weiss (1981) clarified the preference between different funding sources. Asymmetric information can bring about conditions for credit rationing by altering the distribution of risk-return. Constrained access to finance resulting from financial institutions' credit rationing actions may not be fruitful as managers operate under asymmetric knowledge conditions. This could bring about less productive undertakings being financed while sending out increasingly gainful ventures, bringing about unfavourable danger of rivalry and good risk. Asymmetric information could therefore explain asymmetric credit among firms with identical characteristics; lenders were not aware of the exact likelihood of bankruptcy for firms, they only knew that this likelihood was positive and therefore opted to increase the cost of debts. According to Stiglitz and Weiss (1981), lenders would like to classify borrowers who are the most likely to repay their loans although lender’s expected returns relied on the probability of repayment. Formal institutions had also failed to fulfil the credit needs of micro-enterprises that are perceived to be too risky and micro-enterprises very often have further access to informal credit facilities than to formal sources.

Adverse selections emerged because, in the absence of perfect information on the borrower’s interest rate increases, it enables lenders with the riskiest projects, and hence the least likely to repay, to borrow, while those with the least risky projects cease borrowing. Interest rates would thus therefore play the allocative function of equating demand-side and supply-side for loanable funds, and would also affect the average. Lenders should set very low-level interest rates and access to credit ration. In comparison, large firms were more likely to have transparency in terms of operations and performance such as having a financial statement audited. Lenders were therefore more willing to lend to large firms, and all those firms were less likely to be restricted in credit. The explanation was equally relevant to the firm's age (Winker, 1999). Consequently, Micro Enterprises, particularly younger and smaller ones, were likely to be credit constrained.

Another significant enterprise attribute that determines access to credit is its formality. But for a multitude of reasons, this is so. First lenders require extensive documentation when screening borrowers. It encompasses proper registration and/or operating license supporting documents, tax compliance, and professionally audited transactions. Informal micro firms are less likely to have all such records. So these firms are would probably be denied access to credit. Second, as noted above, collateral plays a major role in the access to credit of a business. In an attempt to be flexible and effectively concealed from regulatory agencies, however, informal firms are less likely to invest in fixed assets that are typically considered as applicable collateral by formal financial institutions. As a consequence, informal firms are more likely than their formal counterparts to be constrained in credit. Finally, the accessibility and enforcement of contracts are particularly sensitive to budgetary contracts. And given that informal firms are typically beyond the scope of the formal legal system, negotiating with such firms is practically impossible for conventional financial institutions. Informality is therefore an important determinant of the access of a firm to external finance. It should be acknowledged that the complexity of the agreement may be reversed, where a business that is strictly limited to credit might choose to perform informally. This is because it can minimize downtime that can be used for expenditure by operating colloquially and avoiding taxes. In proposition, asymmetric information leads to moral hazard and adverse selection, further exacerbating micro-enterprise financing difficulties.



4. Research Methodology

This article is based on the primary data collected during July–October, 2019, by conducting a sample survey in Kochi municipal corporation—the most populous metropolitan city in Kerala. The sampling frame could not be constructed due to insufficient records; hence, random sampling of the enterprises was not feasible. Due to the difficulties of getting the micro-enterprise population in the study area, convenience sampling and snowball sampling methods were employed. Cooper and Schindler (2006) indicate that the convenience sampling technique is a non-probability sampling technique in which subjects are selected on the basis of its convenient accessibility and proximity to the researcher. The Snowball sampling method is a technique of non-probability sampling in which current research participants recruit the future subjects from among their know-how. Conventional definition of micro enterprises was used to identify the entrepreneurs. Among those, 5 sectors were classified as; Street vendors, Retail units, Hotels, Repairing services and saloon units respectively. Utmost care was taken to minimise the limitations of non-random sampling. A sample of 275 units were selected, the sample consisted of 90 street vendors ,79retail business units, 50 Hotels,33 repairing services of cycle and motor vehicles, and 23saloon units. The questionnaire was administrated to entrepreneurs in the form of a face-to face interview. The interview became essential mainly because of low literacy levels of the respondents and the sensitivity of the subject matters because most of the unregistered entrepreneurs hesitated to provide their financial information. After collecting the data, they were properly classified, tabulated and analysed.

5. Results and Discussion

5.1 A Brief Profile of the Sample Enterprises

Before getting into the extent of financial access, and the growth and financial performance of the sample enterprises, a summary of the sample is first presented in this section for the sake of contextualising the core analytical results of the study. The sample consists of own account enterprises (OAE) as well as establishments. An OAE runs on a fairly regular basis without employing any hired workers; while the established enterprises employ at least one hired worker on a regular basis. Around 55 per cent of the sample enterprises were OAEs. The range of monthly turnover of sample enterprises given in Table 1 shows that the sample included enterprises of varied sizes starting from a tiny one with monthly turnover of mere ` 10,000to the biggest turnover of `2,00,000. On an average, the Hotel and retail businesses have higher turnover than the other enterprises. All the sample enterprises were at least 1 year old (refer Figure 1). Around 13 per cent of the sample entrepreneurs have never been to high schools, while 35.63 per cent were high school graduates (refer Figure 2).

Table 1: Distribution of the sample enterprises and their monthly turnover

Enterprises	Percentage of Enterprises	Monthly Turnover (in Rupees) Maximum	Minimum
Street vendors	32.72	25,000	10,000
Retail business	28.72	2,00,000	13,000
Hotels	18.18	2,00,000	10,000
Repairing of cycle and motor Vehicle	12	81,000	12,500
Saloon	8.36	78,000	11,000
All enterprises	100.00	2,00,000	10,000

Source: Authors' calculation from field survey data (July–October 2019).

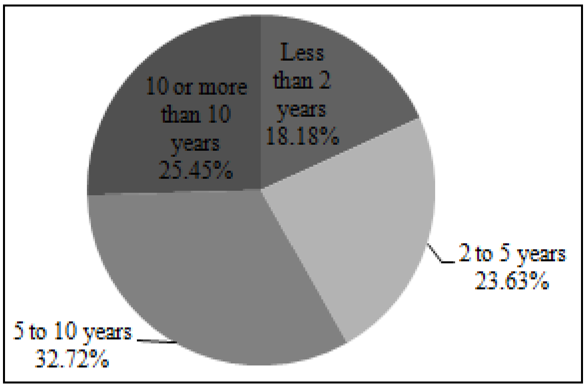


Figure 1: Percentage distribution of the sample enterprises according to their age

Source: Authors' calculation from field survey data (July–October 2019)

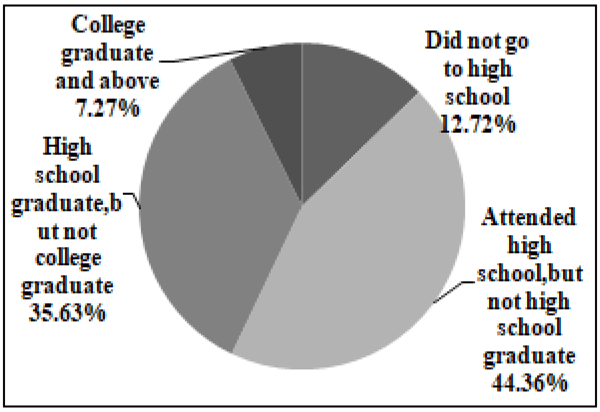


Figure 2: Percentage Distribution of the Sample Entrepreneurs According to Level of Education

Source: Authors' calculation from field survey data (July–October 2019).

Almost 95 per cent of the surveyed entrepreneurs have reported the shortage of capital and/or lack of access to financial services, including bank credit, as a constraint.

5.2 Sources of Financial Access of the Sample Enterprises

Approximately three quarters (77%) of the sample entrepreneurs have savings bank account, but just 14.2 per cent have current accounts. It should be noted that only a businessman is qualified to have a current account. Similarly while 30% of the sample entrepreneurs are covered by life insurance, just 5% are covered by business insurance. About 97 per cent of surveyed enterprises are not using the banking system for payment purposes. The remaining 3 per cent are making some of their bank transfers. In reality, a large majority of the entrepreneurs surveyed do not have knowledge about the business insurance and payment practice through the banking system. As for credit, it was found that entrepreneurs borrow from formal, semi-formal and informal sources. Banks and other term lending institutions are comprised in FFIs. Semi-formal financial institutions (SFFIs) contain self-help groups (SHGs) and micro-finance institutions and the informal sources encompass indigenous moneylenders, traders, friends and relatives. Table 2 indicates the percentage distribution of sample entrepreneurs by their access to credit from different sources. About90per cent of the sample entrepreneurs, regardless of source, had access to credit. Yet, only 18.2 per cent had obtained a loan from FFIs, and the remaining borrowed either from informal sources or from SFFIs. A significant section of sample enterprises (81.8 percent) consider that securing a bank loan is a tedious and time consuming task.

Table 2: Percentage of entrepreneurs accessing credit from different sources

Type of Source	Frequency	Percentage of Sample Enterprises
Formal financial institutions	50	18.2
Semi-formal financial institutions	30	10.9
Friends and relatives	80	29.1
Money lenders	55	20.0
Personal savings	30	10.9
More than one source	30	10.9
Total	275	100.0

Source: Authors' calculation from field survey data (July–October 2019).

5.3 Amounts of Credit received recently

The study also sought to know the amount of credit received recently by the respondents. The study found that 94 per cent of respondents received credit between Rupees 0–50,000 recently. While only 6 percent received credit ranging from Rupees 51,000–100,000.This indicated that the informal micro units at Kochi city applied and received a meagre amount of credit mainly for running their businesses and a few for expanding the business. The results of the study are as shown in Figure 3;

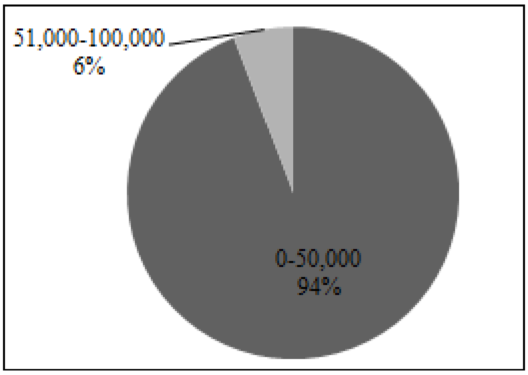


Figure 3: Amount of credit Received Recently

Source: Authors' calculation from field survey data (July–October 2019).

Hence, the study involved more clarification as to whether any formal financial institution had ever lent business loans to the respondents and whether the respondents had ever sought a loan from any financial institution. The outcomes are as shown in Table 3.

Table 3: Loan application

Responses	Frequency	Percent
Yes	188	68.4
No	87	31.6
Total	275	100.0

Source: Authors' calculation from field survey data (July–October 2019).

The majority of the participants (68.4%) confirmed that they had sought loan(s) from financial institutions for their business growth although nearly one-third (31.6 percent) did not seem to have ever sought a loan from financial institutions. while about a third (31.6%)appears not to have ever requested a loan from financial institutions. Surprisingly, for those who have applied for loan, 18.2 percent (Table 2) could avail. Such findings indicate that many of these informal micro entrepreneurs in Kochi have approached banks in need of credit but were refused as they do not satisfy the requirements.It was found that mainly those enterprises that were registered in some local governments or the trade unions could avail loans from the financial institutions than those unregistered.Yet, this alone is not enough as such enterprise's monthly turnover has also been a deciding factor in the credit availability. The education levels and the age of the enterprises also influenced the credit decision of the entrepreneurs. It was found that as education among them were scarce; entrepreneurs often lacked awareness about the different loan products offered by the banking system.

6. Factors Influencing the Access to Credit Facilities

The study sought to know the extent to which various factors influenced the access to credit facilities for informal micro enterprises in Greater Kochi. The extent to which the factors influenced access to credit was measured on a Likert scale of 1-5 where; 1- Strongly disagree, 2- Disagree, 3- Neutral, 4- Agree 5- Strongly agree;

6.1 Collateral and credit accessibility

The respondents were asked to indicate their level of agreement on the aspect of collateral and credit accessibility. From the results presented in Table 5, it can be construed that just over a half(51.6%) of the respondents agreed that they have applied for business loan on many occasions to boost their businesses, but was rejected due to lack of items to guarantee the loan requested. On statement of whether banks rely more on the possibility of repaying loans than on collateral in the business, two fifths (40%) of the respondents disagreed with it, while 30.4% agreed to it. Furthermore, approximately three quarter (76.9%) of the respondents agreed on the statement that they were pushed to seek other ways to finance business, such as borrowing from relatives and buying credit from moneylenders.

Moreover, the study sought the respondent's opinion on the statement of applying for loans, as a community can easily co-guarantee each other and get the loan quickly. Based on the results, 51.6% agreed to it, 37.5% of the respondents who participated in this study strongly agreed to this statement. The other point was on the aspect of evaluating the probability of loan repayment, and how financial institutions are taking a risk-averse approach towards small businesses rather than concentrating on an entity's revenue-generating potential. About 35.5% of the respondents strongly agreed to this statement.

Table 5: Collateral and credit accessibility

Percentage Distribution of Responses						
Opinion on Collateral	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Applied for a business loan on many occasions but was rejected due to lack of collateral security	0.0	0.0	10.9	51.6	37.5	100
Banks rely more on the possibility of repaying loans than on collateral in the business	0.0	40.0	15.1	30.4	14.5	100
Collateral obligation forced to look for other ways to finance business, such as borrowing from relatives and buying credit from moneylenders.	0.0	23.1	0.0	76.9	0.0	100
Often apply for loans, as a community can easily co-guarantee each other and get the loan quickly	0.0	0.0	5.5	60.2	35.3	100
In determining the likelihood of repayment, financial institutions take a risk-averse approach towards micro units	0.0	23.4	12.2	28.9	35.5	100
Source: Authors' calculation from field survey data (July–October 2019).						

6.2 Cost of Credit and credit accessibility

On the aspect of interest charged by financial institutions and credit accessibility, the upshots are as displayed in Table 6. It can be construed that 36.7% of the participants of this research disagreed to the statement that interest rates and processing fees charged by institutions are high. However, 52.1% of the respondents agreed to the opinion that Banks prefer big corporations to lend huge amounts of money as loans. Additionally, 57.4% of the respondents had strong agreement on the aspect of financial institutions being reluctant to avail credit to micro units since they work informally while they face difficulties in collecting financial records and accounts, and lack good CIBIL score.

Similarly, respondents had strong agreement (69.9%) on the issue of time consuming loans. On whether failure to pay back on time leads to forfeiture of business assets by financial institutions which preclude borrowing, more than three quarter of the respondents (77%) agreed to this opinion.

Table 6: Cost of Credit and credit accessibility

Percentage Distribution of Responses						
Opinion on Cost of Credit	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Interest rates and processing fees for loans are higher.	5.8	36.7	10.2	35.4	11.9	100
Banks prefer big corporations to lend huge amounts of money as loans.	4.2	20.2	0.0	23.5	52.1	100
Informal micro units face difficulties in collecting financial records and accounts, and lack good CIBIL score.	11.7	13.4	0.0	25.4	49.5	100
The loan provided by financial institutions requires awhile, which insists on acquiring from other outlets	0.0	6.9	0.0	23.2	69.9	100
Failure to pay back on time leads to forfeiture of business assets by financial institutions which preclude borrowing.	0.0	7.7	4.6	77.0	10.7	100
Source: Authors' calculation from field survey data (July–October 2019).						

6.3 Lack of Information on Credit and Entrepreneurial Literacy and credit accessibility

In determination of credit accessibility based on lack of information on credit and entrepreneurial literacy, nearly one third (32%) of the respondents strongly agree with the statement that they lack knowledge about government policies and loan schemes for micro enterprises. The respondents were further asked to give their viewpoints on the aspect of discouragement from borrowing a loan due to the fact that information related to specific lending procedures and documentation. In this respect, just under a half of the respondents (49.0) strongly agreed. On the other hand just over a half (51.1%) of the respondents were neutral on the statement about lack of training on financial management. Ultimately, respondents revealed their attitude towards registration, well over three quarters of entrepreneurs strongly agreed that registering the enterprises

Paper ID: SR20806212724 DOI: 10.21275/SR20806212724

increased their tax burden while a tiny fraction (4%) disagreed to the statement. All registered businesses are obliged to pay taxes to the government. Entrepreneurs are keen at tax evasion and have a feeling that the benefit received from tax evasion is much greater than the credit facilities availed after registration which holds them from expanding.

Table 7: Lack of Information on Credit and Entrepreneurial Literacy and credit accessibility

Percentage Distribution of Responses						
Opinion on Cost of Credit	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Lack of information about government policies and loan schemes for micro enterprises	21.9	23.6	0.0	22.5	32.0	100
Lack of information about specific lending procedures and documentation.	0.0	23.3	10.4	17.3	49.0	100
Lack of training onfinancial management	0.0	14.3	51.1	20.3	14.3	100
Registering the enterprises increase the tax burden	0.0	4.0	14.2	2.8	79	100
Source: Authors' calculation from field survey data (July–October2019).						

6.4 Business risk and credit accessibility

On a different note, the study sought to establish how credit accessibility can be hindered through the business risks of the enterprises and the findings are as indicated in Table 8. It can be revealed that majority (47.5%) of the respondents strongly agreed that they face severe competition in the area. To add to this, respondents had an equally divided view on Unpredictable operating environment impacting the expected return from the enterprise, as those who strongly agreed to it and those who disagreed each had 30.4% respectively. The study further sought to determine the level of agreement of respondents on Government policies such as Demonetization and its impact on business. Fiercely, well over three quarters of respondents (79%) strongly agreed that their business were adversely affected. Roughly one quarter of the (26.4) respondents were neutral on the statement of insufficient human and financial capital in enterprises being vulnerable. Finally 59.7 % respondents agreed about the Inability to use Digital technology impacted the efficiency of business. Street vendors mentioned that instead of purchasing from vendors and hawkers, people preferred to go to modern retail stores and department stores where online payment is acceptable in order to make cash-free transactions.

Table 8: Business risk and credit accessibility

Percentage Distribution of Responses						
Opinion on Business risk	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Severe competition	21.5	23.6	0.0	22.5	47.5	100
Unpredictable operating environment impacting the expected return from enterprise	0.0	30.4	11.9	27.3	30.4	100
Business was adversely affected by government policies such as demonetization	2.3	5.2	6.3	7.2	79.0	100
Insufficient human and financial capital in enterprises is a vulnerability	15.9	19.9	26.4	18.4	19.4	100
Unable to use Digital technology impact the efficiency of business	10.1	10.3	0.0	9.9	59.7	100
Source: Authors' calculation from field survey data (July–October2019)						

7. Conclusion

The primary objective of the study was to investigate the extent of accessibility to external finance by informal micro-enterprises. In addition, the study examined the various formal credit accessibility issues of the micro enterprises. Considering the sources of credit, most of the sample entrepreneurs depended on their friends and relatives and other informal sources. Even though respondents had access to external finance, the depth of financial access is very thin in most cases. Access to credit from formal financial institutions is limited. The study found that the usual demand and supply issues obstructing formal credit flow to these entrepreneurs still persist. Many entrepreneurs were hesitant to approach banks, even if a bank branch was there in their vicinity. Clearly, there are credit criteria's that informal micro entrepreneurs cannot meet. Similarly, Entrepreneurs' perceive that getting a bank loan is a lengthy and cumbersome process. The study further sought to establish the extent to which collateral requirements, cost of credit, availability of information and business risks influenced the access to credit facilities by informal micro enterprises in Kochi city in Kerala, India. From the findings, this study concludes that business risks influence the accessibility to credit facilities to a great extent followed by cost of credit, lack of information on finance and later the collateral requirements

Concerning formal credit, awareness about the facility and its usefulness is generally lacking. Sample micro entrepreneurs are keen at tax evasion and have a feeling that the benefit received from tax evasion is much greater than the credit facilities availed after registration. Hence, if the informal micro enterprises are to be enhanced and contemporaneously amalgamated into the formal sector, constant and immediate attention should be paid to expanding the financial access of the entrepreneurs. On one side, the government and formal financial institutions must be broadened and fastened their outreach to these grassroots level entrepreneurs. On the other side, it is essential that the entrepreneurs have to become more and more aware about the benefit of various financial services and how they access them.

8. Limitations of the Study and Area of Further Research

The credit accessibility issues can only be carried out comprehensively if the demand-side and the supply-side factors are taken into account. A major constraint of this study is that it only addresses the demand-side aspect of the financial access of the entrepreneurs. A compendious study could be conducted by future researchers, covering both demand-side and supply-side factors. A detailed study on the impact of demonetization and digital growth can also be studied, especially the impact of cashless economy on micro-enterprises.

References

[1] Anne, J., Gichuki, W., Dr Agnes Njeru, Ondabu, I., &Tirimba. (2014). Challenges Facing Micro and Small Enterprises in Accessing Credit Facilities in KangemiHarambee Market in Nairobi City County, Kenya. *International Journal of Scientific and Research Publications*, *4*(12). Retrieved from http://www.ijsrp.org/research-paper-1214/ijsrp-p3614.pdf

[2] Ayyagari, M., Demirguc-Kunt, A., &Maksimovic, V. (2017). What Determines Entrepreneurial Outcomes in Emerging Markets? The Role of Initial Conditions. *Review of Financial Studies*, *30*(7), 2478–2522. Retrieved from https://ideas.repec.org/a/oup/rfinst/v30y2017i7p2478-2522..html

[3] Beck, T., &Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, *30*(11),2931–2943. Retrieved fromhttps://econpapers.repec.org/article/eeejbfina/v_3a30_3ay_3a2006_3ai_3a11_3ap_3a2931-2943.htm

[4] Behera, S. and Wahi,G. (2018). *How have MSME Sector Credit and Exports Fared? Mint Street Memo Number 13*, Reserve Bank of India.

[5] Cooper, D. S. (2006). *Business Research Methods.* McGraw-Hill.

[6] Corporation, I. F. (2018). *IFC Annual Report.* Washington,DC.

[7] Dev, S. M.,and Sengupta, R. (2020).Covid-19: Impact on the Indian economy. *Indira Gandhi Institute of Development Research*, Mumbai April.Working Paper No. -2020-013

[8] Friedmann, J., & Sullivan, F. (1974). The Absorption of Labor in the Urban Economy: The Case of Developing Countries. *Economic Development and Cultural Change*, *22*(3), 385–413. Retrieved from https://www.jstor.org/stable/1152628?seq=1

[9] Gomez, G. M. (2008, June). Do micro-enterprises promote equity or growth? *Evaluation reportWoord en Daad, Gorinchem*. The Netherlands: Government of India Ministry of Micro, s. a. (2017-2018). *MSME Annual report.*

[10] Gurtoo, A., & Williams, C. C. (2009).Entrepreneurship and the Informal Sector; some lessons from India. *The International Journal of Entrepreneurship and Innovation*, *10*(1), 55–62. https://doi.org/10.5367/000000009787414280

[11] Harikrishnan, C. (2020, May 07). Covid + Lockdown impact: Kerala estimates Q1 loss of Rs 80,000 crore to GVA. *The Economic Times*.

[12] IFC. (2018). *Financing India's MSMEs Estimation of Debt Requirement of MSMEs in India.* Washington,DC: International Finance Corporation.

[13] Keasey, K. &. (1993). *Small Firm Management* .Blackwell, Oxford.

[14] Mawolo, M. A. &Aliyu, A.N. (2010). Entrepreneurship and Small Business Management in 21st Century Nigeria,*Makurdi: Aboki Publishers.*

[15] Micro, Small and Medium Enterprise Finance in India.(n.d.). Retrieved from www.ifc.org website:https://www.ifc.org/wps/wcm/connect/region__ext_content/ifc_external_corporate_site/south+asia/resources/msme+report

[16] Mistra and bist. (1995). *Success and Failure in New Business Start-ups Ph.D Thesis*, Chhatrapati Shahu Ji Maharaj University, Kanpur.

[17] Murthy. (1980). *Financing of SSI In Rayalaseema. Ph.D Thesis*, Sri Venteshwara University, Anantapur

[18] Noorinasab, A., ShojaeiSeifabad, H., &Zarei, A. (2016). Problems Faced by Entrepreneurs to Startup the MSMEs -A Case Study of Visakhapatnam City. *International Journal of Research in Management*, *06*. Retrieved from http://indusedu.org/pdfs/IJRMEC/IJRMEC_840_64512.pdf

[19] NSS Division Department of Economics and Statistics. (2011). *Unincorporated Non agriculturalEnterprises in Kerala*. Government of Kerala.

[20] NSS. (2017). *National Sample Survey Report* . Government of India, Ministry of statistics and programme implementation.

[21] Prasad, C. S. 2006. *Micro, Small and Medium Enterprises Financing in India—Issues and Concerns.CAB Calling*. July–Sept, 35–40

[22] Reserve Bank of India - RBI Bulletin. (2005).Retrieved from www.rbi.org.in website: https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=6913

[23] Sasidharan, S., & Rajesh Raj, S. N. (2014). The Growth Barriers of Informal Sector Enterprises: Evidence from India. *The Developing Economies*, *52*(4), 351–375. https://doi.org/10.1111/deve.12057

[24] Sia, M. N. (2008). *Winning Strategies For Successful Small Buisness.* Chicago: ShoreCap Exchange.

[25] Storey, D. (1994).*Understanding the Small Business Sector.* Abingdon-on-Thames:Routledge

[26] Stiglitz, J., & Weiss, A. (1981).Credit Rationing in Markets with Imperfect Information. *The American Economic Review*, *71*(3), 393–410. Retrieved from http://www.economia.puc-rio.br/mgarcia/Macro%20II%20-%20Mestrado/StiglitzWeiss1981.pdf

[27] Tambi, S. (2013). The Challenges Faced By SMEs In The Textile Industry:Special Reference

[28] To Hand Printing Enterprises In Jaipur. *Global Journal of Management And Business studies,741-750*

[29] Timmons, J. (1978). Characteristics and Role Demands of Entrepreneurship.*American Journal of Small Business*, 5-17.
[30] Vijayakumar,T., &Naresh,B.(2013).Women Entrepreneurship in India-Role of Women in Small and Medium Enterprises.*Trans Asian Journal of Marketing and Management Research*,2 (7),13-24.
[31] Winker, P. (1999).Causes and effects of financing constraints at the firm level. *Small Business Economics*, *12*(2), 169–181. https://doi.org/10.1023/a:1008035826914