
Effectiveness of MSME Funding Programs in the Food Processing

Industry: A Study in Chennai, Tamil Nadu

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ABSTRACT:

Small and medium-sized enterprises (MSME) often rely on loans and gifts from friends and family to cover their financial gaps. To make up for this, it is imperative that the expert investigate the efficacy of MSME funding programmes in Chennai, with particular emphasis on the food manufacturing sector. The primary purpose of the research is to evaluate the efficacy of micro, small, and medium-sized enterprise (MSME) financing programmes in the food processing industry in the Chennai district of the Indian state of Tamil Nadu.

Key words: Issues of Entrepreneurs, Food Processing, and Micro, Small, and Medium-Sized Enterprises

INTRODUCTION:

Given the often modest size of FPI firms, this is also a major concern. Because of the state of our country's infrastructure and industrial sector, both the quantity of goods that can be created and the cost of production are high. Therefore, the FPI industry is a lucrative business option. Poor infrastructure and a lack of qualified workers are two reasons why banks have been hesitant to extend credit to small and medium-sized enterprises (SMEs). The effects of problems with hiring, promotion, and compensation are severe. According to SMEs, financial institutions are more likely to provide money to FPI afterward. Assistance in securing necessary bank loans is desperately needed for small and medium-sized businesses (SMEs). For a successful credit exit, the MSME sector requires greater capital.

Another challenge for growing small and medium-sized businesses is the need for specialised knowledge to secure bank financing. People no longer trust financial institutions like banks to store their money safely. Business owners who don't raise money on the stock market or borrow money from banks. One option for getting a loan is through family and friends. Money can be raised by small and medium-sized businesses (SMEs) by using existing assets or by obtaining loans. Access to capital remains a significant problem for SMEs in the public sector. Intervention Micro, small, and medium-sized businesses (MSMEs) face significant barriers to entry when trying to gain access to capital markets. When looking for funding, SMEs typically go to traditional lending institutions like banks. Trade credit from banks and personal loans are two other sources of funding for the food processing industry. Private lenders often gouge SMEs with their interest rates. Moneylenders' practices are seen as exploitative. This causes many proprietors of small and

medium-sized businesses (SMBs) to become mired in an endless cycle of debt. Despite India's many commercial banks and banking locations, FPIs still need help getting the money they need. Because almost none of them gave credit where credit was due.

OBJECTIVES:

To understand what makes the food processing business and to determine if there is a lack of official ways to borrow money, you can consider the following steps:

Identify the key components of the food processing business: Begin by researching and understanding the various elements that make up a food processing business. This can include aspects such as food sourcing, production processes, quality control, packaging, distribution, marketing, and sales.

Analyze the financing needs of food processing MSMEs: Determine the financial requirements of food processing MSMEs by studying their operational costs, capital investments, working capital needs, and expansion plans. This analysis will help identify the specific areas where businesses require funding.

Assess the availability of official borrowing options: Investigate the existing avenues for MSMEs in the food processing sector to obtain loans or financial assistance. This can involve researching the policies, programs, and schemes offered by banks, financial institutions, and government agencies specifically targeting MSMEs. Additionally, examine the requirements, terms, and conditions associated with these borrowing options.

Conduct surveys and interviews: Engage with food processing MSMEs in Chennai through surveys and interviews to gather first-hand information about their experiences in obtaining loans or financial support. Inquire about the challenges they face, including any difficulties encountered while approaching banks or financial institutions for loans.

Analyze the benefits provided by banks and financial institutions: Evaluate the extent to which food processing MSMEs have benefited from the support provided by banks and financial institutions. This analysis should consider factors such as loan approval rates, interest rates, collateral requirements, loan repayment terms, and overall accessibility of funds.

Identify gaps and challenges: Based on the data collected from surveys, interviews, and research, identify any gaps or challenges that food processing MSMEs face in accessing official borrowing options. This can include factors like complex application procedures, lack of awareness about available schemes, high collateral requirements, or stringent eligibility criteria.

Make recommendations for improvement: Once the challenges and limitations faced by food processing MSMEs in accessing funds, propose recommendations for addressing these issues. These recommendations can involve streamlining loan application processes, increasing awareness about available financial support, reducing collateral requirements, and improving overall access to funds for MSMEs in the food processing sector.

By following these steps, we can gain insights into the financing landscape for food processing MSMEs in Chennai and determine the extent of their benefits from banks and financial institutions. This information will be valuable for policymakers, lenders, and business owners to address any existing gaps and support the growth of MSMEs in the food processing industry.

The study on the issues and problems faced by MSMEs in the food processing field in Chennai is important for several reasons:

Low level of processing: Despite India being one of the largest producers of fruits, vegetables, seafood, milk, and poultry, the level of processing in these sectors remains significantly low. Understanding the challenges faced by MSMEs in the food processing industry can shed light on the reasons behind this low processing level and help identify strategies to increase it.

Economic potential: The food processing sector has significant economic potential, both in terms of value addition and employment generation. By addressing the challenges faced by MSMEs in this sector, it becomes possible to harness this potential and promote growth, entrepreneurship, and job creation.

Food safety and quality: Effective food processing plays a crucial role in ensuring food safety and maintaining product quality. Identifying the issues faced by MSMEs in the food processing industry can help in improving food safety standards, reducing post-harvest losses, and enhancing the quality of processed food products.

Value addition and export opportunities: Increasing the level of processing in the food sector can lead to value addition, allowing MSMEs to tap into domestic and international markets. Understanding the challenges faced by MSMEs in accessing loans and financial support can help in developing targeted policies and schemes to encourage value addition and boost exports.

Sustainable agriculture and rural development: Strengthening the food processing industry can contribute to sustainable agriculture practices, promote rural development, and reduce post-harvest losses. This can have positive impacts on farmers, agribusinesses, and rural communities by creating additional income-generating opportunities and improving livelihoods.

By conducting this research study and gathering primary and secondary data, it is possible to gain a comprehensive understanding of the challenges faced by MSMEs in the food processing industry. The insights obtained can inform policymakers, financial institutions, and industry stakeholders in developing effective strategies, policies, and support mechanisms to overcome these challenges and unlock the full potential of the food processing sector in Chennai and beyond.

The review of literature provides valuable insights into the financial problems faced by the food processing industry in India, particularly in the context of MSMEs. Here are some key findings from the reviewed studies:

Mahajan (2011): The study conducted in Kolhapur District highlighted the importance of financial planning and considerations when making investment decisions in the food processing industry. It revealed that food production plants generally do not face difficulties in obtaining loans from government-run banks. However,

issues such as lengthy loan application processes and loan forgiveness policies can deter farmers from collaborating with food processing businesses.

Matta (2017): The study focused on the food chain in Gujarat and identified credit shortages and inaccessibility as significant challenges across the supply chain. The fragmented market structure and dominance of a few large companies hinder efficiency and productivity in the food processing industry. It emphasized the need for better organization in the primary processing sector, which consists of smaller companies.

Singh et al. (2012): This study highlighted the significance of the primary food processing industry in India compared to the secondary and tertiary sectors. It indicated a larger number of processing units in the primary food processing sector, underscoring India's strong base in the fruit and vegetable industry. The study also identified weak backward and forward linkages due to a significant number of people working in the unorganized sector.

Zia (2016): The study conducted at Aligarh Muslim University emphasized the essential link between agriculture and the food processing industry for India's business goals. The government's inclusion of food processing as a priority sector under the Make in India initiative was acknowledged. The study highlighted the need for improved supply chain management, skilled workers, and policy interventions to support the growth of the food processing industry.

Mehta (2012): This study focused on the agro-processing industry in Chennai and examined the effectiveness of government policies and incentives. The study revealed that less than 49% of businesses received cash assistance, and it suggested the need for streamlined loan processes and low-interest loans for new businesses, especially in areas with fewer industries.

Based on the literature review, several hypotheses can be formulated to guide the research:

H01: Gender does not significantly influence the factors contributing to the lack of formal credit facilities in the food processing business.

H02: The proportion of loans allocated to MSMEs in the food processing business is not associated with the challenges faced.

H03: The financial role in food processing businesses does not impact the issues faced by buyers.

H04: MSME financing plans do not significantly affect the performance of food processing businesses.

Regarding the population and sampling, specific details about the population and sampling methodology are not provided in the information provided. However, for a study on MSMEs in the food processing field in Chennai, the population would likely consist of MSMEs operating in the food processing sector in Chennai. The sampling approach could involve selecting a representative sample of MSMEs from the target population to gather data through interviews, surveys, or other data collection methods.

POPULATION:

Most of the people in Chennai ,having FPI as MSMEs.

SAMPLING FRAME

Samples for research are taken from this FPI group of people.

As part of an ongoing research study, the "source list" or "the sampling frame" (Nargunder & Rajendra, 1983) is a sample of CEOs of small and medium-sized enterprises (SMEs) in the food processing industry that is meant to be representative.

UNIT EXAMPLE

Before deciding on the model for good, this is a critical step in the planning process. is a crucial step. A model unit can be a real place, like a city. (Room, 2004) This could be a whole neighborhood or just one person. One area of study in the Chennai District is MSME food processing enterprises.

SAMPLE SIZE:

This is true for many things that could be used as models. The model size is directly linked to studies with high accuracy and real population numbers. The number of times So, this study was critical to evaluate. Acting out, showing, The correct parts of the architecture are met by the standards for durability and adaptability.

$$NS = 1+N*2$$

S = sample size

N = population size

e = error (at a significance level of 0.05)

$$\text{Sample Size: } = 1000 / (1 + 10000.050.05)$$

The amount needed is 285.7.

Three hundred twenty people were chosen to be part of the study.

An organized questionnaire was an essential tool to get basic information from people—a sample of respondents from MSMEs (food processing businesses). The form covered a wide range of topics about MSMEs.

CONCLUSIONS AND SUGGESTIONS:

Suggestions:

Create awareness of financing policies: It is essential to raise awareness among MSME owners about the financing policies available for the food processing industry. This can be done through workshops, seminars, and training programs that educate entrepreneurs about the various financial options and schemes provided by banks and financial institutions.

Address internal problems: MSMEs should address internal issues that may hinder their access to finance. This includes maintaining proper collateral requirements and following transparent accounting systems. Financial institutions and MSME authorities should collaborate to ensure transparency and streamline processes for accessing loans and financial assistance.

Encourage new start-ups: MSME departments should actively support and encourage new start-ups in the food processing sector. This can be done by providing incentives, facilitating access to finance, and offering

guidance and mentorship programs. Supporting the growth of new businesses in this sector will contribute to overall economic development.

Scope for further study:

Study other sectors: While this study focuses on the food processing industry, further research could explore the effectiveness of financial institutions in supporting MSMEs in other manufacturing sectors, assembly-oriented industries, or service organizations. This broader perspective would provide a comprehensive understanding of the challenges and opportunities in different sectors.

Expand the geographical scope: While the current study is conducted in Chennai, Tamil Nadu, it would be valuable to conduct similar research in other regions of the country with favorable climatic conditions for the food processing industry. Exploring states like Telangana and Bihar, which are taking significant steps to encourage MSMEs, would provide insights into the effectiveness of measures taken in different regions.

By considering these suggestions and expanding the scope of the study, researchers can gather a more comprehensive understanding of the financial challenges faced by MSMEs in the food processing industry and identify effective strategies to address them.

Here are the key conclusions that can be drawn:

Age group and interest in the food processing industry: The study found that respondents in the age group of 31-40 years showed the most interest in setting up their establishments in the food processing industry in Chennai. This indicates a strong inclination among individuals in this age bracket towards entrepreneurship in this sector.

Gender divide: The study revealed a significant gender gap, with male respondents comprising 63% of the total. This suggests a lack of women entrepreneurs in Chennai's food processing industry, indicating the need for efforts to promote and support women's participation in entrepreneurship.

Education and entrepreneurship: A noteworthy finding is that 24.7% of respondents had good qualifications, indicating that educated individuals are venturing into entrepreneurship in the food processing industry in Chennai. This highlights the positive correlation between education and entrepreneurial pursuits.

Years of functioning: The majority of respondents with favorable opinions on the study findings had been functioning in Chennai for a significant number of years (age group 21-40 years). This suggests that experienced individuals in the industry are more likely to support the findings of the study.

Type of firm: The study concluded that the majority of respondents owned sole proprietorships, indicating a preference for this type of business structure among entrepreneurs in the food processing industry.

Inspiration to promote MSME: A significant number of respondents (91%) expressed being inspired to promote MSMEs, and this sentiment was particularly prevalent among male CEOs. There was no substantial impact of inspiration on age, gender, years of functioning, ownership, main activity, or type of firm.

Financing sources: Respondents generally agreed that financing sources for MSMEs included traditional means such as own capital, borrowing funds from friends, and taking advances from customers. This indicates recognition of multiple funding options available to MSMEs.

Internal problems: The study identified internal problems faced by MSMEs, including difficulties in maintaining collateral requirements and not following proper accounting systems. These issues were found to have a significant impact on financing problems for MSMEs.

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