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CHALLENGES FACED BY BANKS IN FINANCING TO MSEs WITH RESPECT TO NAGPUR CITY

Miss. Anjali M. Chandak

Research Scholar, Department of Commerce (Business management),
Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur

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ABSTRACT

Banks play a crucial role for the financing of Micro, small and medium-sized enterprises (SMEs). SMEs contribute significantly to employment and growth. SMEs are important for knitting any economic system with society, they were facing numerous challenges such as unavailability of low cost finance and subsidy issues. Despite of challenges ahead Indian SME sector are always ready to consent and obtain new technologies, new business Ideas and automation in industrial and engineering sector. Maharashtra is considered one of the most desired industrial locations in the country for setting up industries. The State has shown rapid industrial growth in the recent years. Micro, Small and Medium Enterprises form an important and growing segment of Maharashtra's industrial sector. The performance of the commercial banks in Maharashtra State is commendable in terms of spread of banking network, mobilization of deposits, disbursement of credits, penetration of the cooperative movement, etc. Adequate and timely availability of Finance is one of the most important key inputs for any business. This is equally applicable while setting up of a MSME unit by an entrepreneur. Micro, small or medium business owners are generally first time entrepreneurs with very little capital or without capital, need not only technical, marketing and managerial support but also require the much needed seed capital to start the business. Many MSME units also need additional capital for technology up gradation, capacity expansion growth, and marketing and for imports and exports. Banks in India have been providing financial facilities to numerous businesses through their branch offices, regional offices in across the length and breadth of the country In Maharashtra also banks have been providing all forms of financial support to these MSME entrepreneurs. This paper examines the major problems faced by banks in financing of micro and small enterprises in the Nagpur city.

INTRODUCTION

I. Indian Banking Sector:

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payments banks to be created recently thereby adding to the types of entities operating in the sector. However, the financial sector in India is predominantly a banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial system. The Government of India has introduced several reforms to liberalise, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These measures include launching Credit Guarantee Fund Scheme for Micro and Small Enterprises, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by both government and private sector, India is undoubtedly one of the world's most vibrant capital markets.

Therefore, the banking sector in most emerging economies is passing through the challenges and India is not exception to this rule. When we consider financial matters, we think of banks as the primary financial entity. However, the continuing wave of bank mergers and acquisitions has raised concern about the availability of debt capital, especially to business firms. Now this issue is more hotly debated in Indian banking sector, where small firms dominate the business sector. In the light of the importance of financial intermediation and the difficulties that several countries have encountered in restructuring their fragile banking systems, it would be useful to examine the performance of the banking sector with respect to the procedure of giving loan in India. A loan is a

legal contract between the lender and the debtors. The major business of banking company is to grant loans and advances to traders as well as commercial and industrial institutes. The most important use of banks money is lending. There are also some risks in lending. While lending loans the banks usually keep securities and assets as a supports so that lending may be safe and secured.

Some of the Government finance schemes for MSME are:

- 1] Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):
- 2] Credit Linked Capital Subsidy (CLCS) for Technology Upgradation:
- 3] Marketing Assistance:
- 4] Micro & Small enterprises Cluster Development Programme (MSE-CDP)
- 5] Pradhan Mantri Mudra Yojana:

2] Micro, Small and Medium Enterprises (MSMEs):

Worldwide, Micro, Small and Medium Enterprises (MSMEs) play a crucial role in sustaining and accelerating the competitiveness of an economy in turn form an integral part of economic growth, providing significant contributions to every aspect of economic development. MSMEs have been playing a momentous role in overall economic development of a country like India, where millions of people are facing the problems of unemployment and poverty. The MSME sector contributes about 8 percent of the GDP of India, 45 percent of the manufactured output and 40 percent of the total exports. The sector provides employment to more than 80 million persons through more than 36 million enterprises producing over 6,000 products.

Micro Small and Medium Enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The percent ceilings on investment for enterprises to be classified as Micro Small and Medium Enterprises are as follows:

Manufacturing Sector:

Investment in plant and machinery

| | | |
|--------------------|---|--|
| Micro enterprises | ⇒ | does not exceed Rs. 25 lakh |
| Small enterprises | ⇒ | More than Rs. 25 lakh but does not exceed Rs. 5 crore |
| Medium enterprises | ⇒ | More than Rs. 5 crore but does not exceed Rs. 10 crore |

Service Sector:

Investment in equipments

| | | |
|--------------------|---|---|
| Micro enterprises | ⇒ | does not exceed Rs. 10 lakh |
| Small enterprises | ⇒ | More than Rs. 10 lakh but does not exceed Rs. 2 crore |
| Medium enterprises | ⇒ | More than Rs. 2 crore but does not exceed Rs. 5 crore |

3] Review of Literature:

Gupta, Yogesh and Kumar, Sanjeev¹ (2008) in their research paper, analyzed the performance of public and private sector banks regarding priority sector lending in India. The percentage share of small scale industrial lending continuously declined and that of other priority sector lending increased in the case of both public and private banks. The study further analyzed that NPAs in priority sector of both the banks were lesser than those of non-priority sector but more than those of public sector. Sector wise analysis showed that the contribution of small scale industrial sector in priority sector NPA was highest in the case of both public and private sector banks.



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Uppal²(2009), in his research paper evaluated the performance of public, private and foreign banks in India and analysed the target achievement by them during 2006-07. He found that priority sector advances of public and private sector banks were higher than foreign banks. He examined various issues related to priority sector like low profitability, more NPAs, government interference, high transaction cost etc. He also suggested various strategies to overcome these issues.

Marcia Parida³ (2010) analysed that increasing access to finance for MSMEs is important to improve overall economic growth in India. There is evidence that small enterprises in India are not currently able to grow to their potential because the flow of finance to these enterprises is restricted. On the one hand, banks in India discriminate MSMEs because of high transaction costs and information asymmetry.

Sangeeta Mohanty⁴ (2011) revealed that all most all the bankers favor to the big corporations while giving the loan. The bankers are giving more importance on the financial system, the size of the firm and less importance on business experience while giving the loan.

K. S. Ramachandra Rao⁵ (2006) revealed that the high incidence of bad loans arising out of Small Scale Industry advances could be one of the reasons for the declining share of SSI loans of the commercial banks.

4] OBJECTIVES OF THE STUDY:

Primary Objectives

- 1] To study the problems faced by Bank in financing to MSEs.
- 2] To analyze the factors contributing default in banks' loan by MSEs.
- 3] To study the possible measures to make processing and documentation procedure simple to reduce turnaround time.
- 4] To study the bankers perspective towards reasons of Bank financing gap.

5] METHODOLOGY:

A research methodology is conducted for collecting data pertaining to the subject in question. It outlines how research project will be conducted and guides data collection, analysis and report preparation.

Research type:

The researcher has used **Descriptive study** for the research. Descriptive research, also known as statistical research, describes data and characteristics about the population or phenomenon being studied.

Data Collection:

The data required for the research is collected through two main sources namely primary data and secondary data.

Primary Data:

Data which is collected for the first time keeping in the view of the objectives of the study is known as primary data. Primary data for the study collected from the bank officers with the help of questionnaire.

RESEARCH INSTRUMENT

The research instrument used for the study is multi-choice questionnaire formulated for the respondents.

Types of Questions:

1. Open-ended question
2. Multiple-choice Question

Secondary Data:

RBI lending circulars, Books, Research Journals, Committees Reports of Government of India, RBI, MSME, Business magazines, Newspapers, Websites.



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Sampling:

Sampling Unit:

The Respondents taken for the sampling unit are the Bank officers of public sector banks and private sector banks in Nagpur city.

Sample Size:

The sample size Consist of 50 Respondents in total.
The selection of these respondents is done in Nagpur city.

Sampling Method:

In this Project work Non- Probability method of sampling is used in determining the sampling size.

DATA ANALYSIS

The primary data which is collected with the help of structured questionnaire by means of personal interview is analyzed with the help of statistical tools.

1. The data are grouped under various headings.
2. Analyses are drawn from the table.
3. Graphs like bar chart and pie chart are drawn according to data in the table.
4. Inferences are drawn from the analysis of graphs and tables.
5. This inference will finally lead to conclusion.

After collection the primary data from the respondents the data is analyzed to find out the results of the study. The data was analyzed using tables, graphs and charts. The coding and decoding of the collected data from questionnaire is done with the help of SPSS software. The data was collected from 50 respondents who are bank officers of public sector banks and private sector banks. Respondents were contacted directly and necessary information was collected with the help of structured questionnaire. This analysis will help to understand the problems faced by banks in financing to Micro, Small Enterprises (MSEs). This analysis will also be helpful to the enterprises to understand the bank policies and can access finance.

LIMITATIONS

Due to constraints of time and resources, the study is likely to suffer from certain limitations. Some of these are mentioned here under so that the findings of the study may be understood in a proper perspective. The limitations of the study are:

- 1] The study was limited to Nagpur city. Therefore the sample size and the parameters were selected accordingly so as to finish the work within the given time frame.
- 2] The information given by the respondents might be biased as some of them might not be interested to give correct information.
- 3] Some of the respondents could not answer the questions due to lack of knowledge.
- 4] Time period for research was limited.

RESULTS & DISCUSSION

- 1] Most of the MSMEs work in unorganized sector. Therefore they do not maintain proper accounts. This hinders banks in lending credit to MSMEs.
- 2] Private sector banks consider the viability of MSEs projects and person's ability before lending while public sector banks give more emphasis on sound business plan as important lending criteria.
- 3] First generation borrowers don't have business experience and own contribution towards project or business. These entrepreneurs face problems in securing credit from banks because of the lack of credit history.
- 4] Bank lending criteria changes in response to the external financial environment.
- 5] Banks have a sector-specific focus in dealing with MSEs.



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- 6] Increasing NPA of Public sector banks restricts them in financing to projects as compared to private sector banks.
- 7] Lack of collateral availability and Lack of Financial documents are major reasons for Banks financing gap towards MSEs.

CONCLUSION

The micro and small enterprises are facing problems to access bank finance. The majority of problems due to which banks are not finance are due to lack of collateral, poor financial statement, no past experience, risky project, lack of infrastructure etc., in Nagpur city. Researchers have identified prospects of micro and small enterprises in Nagpur and suggest suitable measures can be adopted by banks. Public sector banks are leading in terms of financing to this sector as compared to private sector banks. But increasing NPA of Public sector banks restricts them in financing to projects. Private sector banks managed to control their NPA since last few years.

RECOMMENDATIONS

- 1] Entrepreneurs in Nagpur city are unaware of required documentation and legal procedures. Banks awareness programmes will create more information and understanding about documentation and legal procedures. Bank should made minimum documentation load and to make computerizations system in process. This will reduce the processing time of loan proposal.
- 2] Public sector bank is increasing in last few years as compared to private sector banks. Public sector bank should adopt new strategies to reduce their NPA and ensure the repayment of loan in collateral free schemes too.
- 3] Many entrepreneurs in Nagpur city are not aware about all the financing schemes for MSMEs given by government/banks. Due to this government schemes are underutilize. Banks should conduct awareness programmes to create more information and understanding about schemes. Such knowledge will assist bank employees as well during discuss of loan proposal.
- 4] Government/RBI should establish expert management counseling centre which will facilitate entrepreneurs to acquire new management strategies and expert opinions on business issues and market environment.
- 5] Entrepreneurs in Nagpur city should focus to update the technology and product diversification. Due to this, firm can maintain business advantage with competitors.

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