

ROLE OF BANKING AND NBFC IN THE DEVELOPMENT OF THE MSME SECTOR IN SPSR NELLORE DIST, ANDHRA PRADESH

Authors:

1. Dr. P.C. Reddy*
2. K. Sai Bharath†

ABSTRACT

MSME sector is play vital role in the Indian economy. Significantly it has providing good number of employment and social development in the country. The SME sector is providing more number of goods and services to the highest population of the country and generating wealth of the nation. However, this sector is suffering with lack of financial support and capital to develop to the respective concerns. But, banks, non-banking financial institutions, micro finance companies are contributing little bit favour to the establishments of MSME sector. This study is aiming to know the role of banks and NBFC's to allocating the funds to develop MSME sector in Andhra Pradesh.

Key words: - MSME, SME, Banking and Financial Institution, NBFC's, Development of Industries, Start-up, Survival, Survival, Growth, Sustenance, Life cycle, Stages of MSME.

1. INTRODUCTION

The MSME sector in India has developed over the last 50 years into a vibrant and creative component of the nation's economy. It significantly contributes to the economic and social development of the nation by encouraging entrepreneurship and generating a large number of employment at low capital costs. Small and medium-sized firms (SMEs) play a crucial role in the country's equitable industrial development. Small and Medium-sized Enterprises (SMEs) are growing into new economic sectors and producing a diverse range of products and services to satisfy domestic and international needs. In Andhra Pradesh, initiatives like the Andhra Pradesh State Financial Corporation (APSFC) and various schemes by the state government also encouraging for the growth of MSMEs. However, it's important to note that while banks and NBFCs play a crucial role, the development of the MSME sector in Andhra Pradesh. The present study is highlighting about the role of Banks and NBFC's in the development of MSME.

* Asst. Professor, Department of Business Management, Vikrama Simhapuri University, Nellore

† Research Scholar, Department of Business Management, Vikrama Simhapuri University, Nellore

2. LITERATURE REVIEW

1. Dhal, Hiral & Patel, Sunil & Sheth, K. (2023):- The goal of this study is to determine how banks in Gujarat can help small companies develop. The data file underwent descriptive and graphical examination for verification. According to studies, Gujarat's small enterprises are significantly impacted by the banking industry and make excellent use of bank loans. This research demonstrated that small enterprises might grow with the aid of low-interest bank loans and professional advice. However, the majority of respondents had lengthy wait times, and half of them encountered difficulties obtaining bank loans.

2. Behara Yerram (2023) :- Micro, small, and medium-sized companies (MSMEs) in India continue to catch the attention of both the Union and State Governments due to their ability to contribute to the growth of the economy and export potential with their presence in more than 6000 commodities. With the exception of public administration, defence, and mandatory social security operations, about 77.6% of the 63.3 million enterprises covered by these goods are engaged in non-farming activities, and 89.8% are sole proprietorships (in which the owner is the only employee). As a result, creating a policy is a difficult undertaking. Sector policy will have a significant impact on a variety of industries, including pharmaceuticals, biotechnology, plastics, the military, electronics, electricity, solar energy, the environment, and others. The MSME Policy would be impacted by variables including the size of the sector's enterprises, the kind of relations between vendors and vendors, technical advancements, and the status of domestic and foreign markets. Less resource-intensive technologies are the newest ones on the horizon. Despite the sector's need for subsidies and concessions for survival and growth, the nation is unable to provide them because to ongoing budgetary strains brought on by competing demands on the national State from many areas, most notably infrastructure and minimal government. In this article, the strategies used to promote their spread are addressed and criticized.

3. Kumar Gaurav & Divya, K. (2022) :- Despite the fact that several studies have examined how loans from public sector banks impact MSME and how this impacts the economy as a whole. Micro, small, and medium-sized companies (MSME) will be able to receive finance more swiftly and readily thanks to my study, which attempts to fill the gap created by the public sector bank's unwillingness to lend to small firms. The study also recommends a conscious credit channel via NBFCs to assist SMEs in a significant and goal-oriented manner.

4. Nadaf, Rajahusain & Kadakol, Adivappa (2019):- The micro, small, and medium business (MSME) sector in India has benefited greatly from the efforts of the government and financial institutions. Many small and medium-sized businesses (MSMEs) in India have taken the initiative to develop and upgrade their operations as a result of the country's recent economic liberalization. The paper also looks at the role that various financial institutions are now playing in the expansion of MSMEs throughout the nation.

5. Dahale, Ms & Khairnar (2015) :- The development of the micro, small, and medium-sized business (MSME) sector in India has been significantly aided by the country's government and financial institutions. It is critical to recognize the role that India's financial institutions played in the growth of micro, small, and medium-sized companies (MSMEs) in that nation. Institutions that provide credit have contributed significantly to the expansion of the MSME sector. The research examines how financial institutions aid in the development of micro, small, and medium-sized businesses (MSMEs) in the US. The main objective of this study is to provide policymakers with a better understanding of the opportunities and challenges confronting the sector when it comes to financing through financial institutions.

3. AIM OF THE STUDY

The main aim of the study is to know the role of Banking and NBFC in the development of MSME Sector. This study is with reference to SPS Nellore district, Andhra Pradesh.

4. METHODOLOGY

4.1 Data Source: Primary and Secondary source of data are collected for this study.

Primary data are collected from the selected respondents.

4.2 Sample Size: this study is conducted at SPS Nellore region, further the respondents are identified from the existing and new entrepreneurs from the micro, small and medium sectors which shown in Table 1.

Table.4.1: Sampling Size

Name of Enterprise	No. Of Respondents
Micro	49
Small	33
Medium	03
Total	85

Table –4.2: Life cycle stage wise sample

Stage of Establishment	Type of Enterprise			Total
	Micro	Small	Medium	
Start – Up (< 3 years)	19	12	1	32
Survival (3- 6 years)	14	6	1	21
Growth (7 – 9 years)	10	8	1	19
Substance (> 10 years)	5	7	0	12
Total	48	33	03	85

Table –4.3 Sector wise sample distribution

	Start- up	Survival	Growth	Substance	Total
Manufacture	19	11	9	1	40
Service	20	10	13	2	45

5. DATA ANALYSIS AND INTERPRITATION

1. Life cycle stages of enterprises

In the selected region Most of the firms were in the maintenance phase, however some of them are in the growth phase. The number of enterprises in the survival phase was among the lowest. 49 of the 85 companies were microenterprises, with 22 in the maintenance phase, 10 in the growth phase, 10 in the maintenance phase, and 10 in the launch phase. 33 small enterprises were involved, of which 10 were continuing operations, 15 were growing, and 4 were still in the early, pre-profit stage. Two medium-sized enterprises were in the growth stage when they participated in the research, and one was in the maintenance stage. See the table 5.1 for the life cycle stages of the enterprises

Table 5.1: Life Cycle Stages of the Enterprises in the Sample

Stage of the Enterprise	Micro (N = 49)	Small (N = 33)	Medium (N = 3)	Total (N = 85)
Start-up (<3 years)	20.4	12.1	0.0	16.5
Survival (3–6 years)	14.3	12.1	0.0	12.9
Growth (>6 years)	20.4	45.5	66.7	31.8
Sustenance (>6 years)	44.9	30.3	33.3	38.8

2. Sector-Wise Distribution of Enterprises in the Sample

In the early stages of growth and expansion, service firms dominated, but manufacturing enterprises dominated in the latter stages, as seen in Table 5.2.

Table 5.2: Distribution of Sample Businesses by Industry

Stage of Enterprise →	Start-Up (<3 years) (N = 14)	Survival (3–6 years) (N = 11)	Growth (>6 years) (N = 27)	Sustenance (>6 years) (N = 33)	Total (N = 85)
Enterprise Sector ↓					
Manufacturing	35.7	36.4	55.6	54.5	49.4
Services	64.3	63.6	44.4	45.5	50.6

Source: - Calculated data

3. Challenges in Accessing MSME Finance

Businesses were polled on the challenges they've had in the past and now while trying to get funding. We used a scale with 1 for no difficulty at all, followed by 2 for moderate difficulty and 3 for tough. Table 5.3 shows the results of a percentage calculation based on how many companies found a particular issue to be challenging in proportion to how many firms overall found at least one issue to be challenging across all phases.

Table 5.3: Financial Barriers at Every Stage of the Life Cycle

Challenges	Start-Up Stage (N = 24)^a	Survival Stage (N = 11)	Growth Stage (N = 24)	Sustenance Stage (N = 30)
Difficulty in collateral/guarantee	87.5	63.6	54.2	83.3
High rates of lending	54.2	45.5	54.2	50.0
Procedural complications	70.8	63.6	45.8	63.3
Lack of knowledge about available schemes	75.0	54.5	62.5	60.0
Lengthy processing time for the loan application	87.5	54.5	45.8	60.0
High service fees for processing loan requests	62.5	54.5	58.3	56.7
Difficulty in procuring/completing the required documentation	62.5	54.5	50.0	56.7
Lack of available infrastructure	41.7	0.0	4.2	10.0
Lack of availability of skilled workers	29.2	0.0	8.3	13.3
Absence of current account (active for 6 months)	16.7	18.2	8.3	0.0
No formal accounting system	20.8	18.2	12.5	3.3
Tax compliance issues	16.7	18.2	16.7	16.7
Labor law compliance issues	12.5	0.0	12.5	16.7
Registration of enterprise	12.5	0.0	20.8	16.7

Source: - Calculated data

To sum up, micro, small, and medium-sized businesses (MSMEs) face a number of challenges as they grow. Each of these financing-related concerns was considered challenging by at least one firm in both the launch and growth stages. Infrastructure, labour, compliance with labour rules, and company registration problems do not prevent businesses in the survival phase from acquiring funding. Businesses already have access to enough resources, including infrastructure and labour. Since they have active current accounts, strong businesses do not perceive this as an issue. See table 5.4 which shows the challenges faced by the MSME in different stages while acquiring the funds.

Table 5.4 :- Challenges facing by MSMEs in accessing finance

Challenges	Start-up	Survival	Growth	sustenance
Difficulty in collateral/guarantee	Y	Y	Y	Y
High rates of lending	Y	Y	Y	Y
Procedural complications	Y	Y	Y	Y
Lack of knowledge about available schemes	Y	Y	Y	Y
Lengthy processing time for the loan application	Y	Y	Y	Y
High service fee for processing loan request	Y	Y	Y	Y
Difficulty in procuring/completing the required documentation	Y	Y	Y	Y
Lack of available infrastructure	Y	N	Y	Y
Lack of availability of skilled labour	Y	N	Y	Y
Absence of current account (active for 6months)	Y	Y	Y	N
No formal accounting system	Y	Y	Y	Y
Tax compliance issues	Y	Y	Y	Y
Labour law compliance issues	Y	N	Y	Y
Registration of enterprise	Y	N	Y	Y

Y – Challenging, N – Not challenging

Source: - Calculated data

4. Time taken to acquire the loan from Banks and NBFCs

Banks took almost 1.5 times as long as NBFCs to handle loan requests from MSMEs in the maintenance phase. MFI's were predicted to need an average of one week. Banks typically take the same amount of time to process loan applications regardless of whether the firm is just getting off the ground or is well established and growing. Although NBFCs processed loan requests more quickly than banks on average, they took almost four times as long now as they did during the boom period. It could be too soon to make any clear judgments about microfinance institutions given the small number of companies reporting on this parameter. However, the lengthened processing times encountered by enterprises in the expansion and maintenance stages may be attributable to the additional due diligence performed by Banks and NBFCs.

Table 5.5 Time Taken to Acquire a Loan from Various Financial Institutions (Banks, NBFCs, and MFIs) on Average

Stages of Enterprise	Source of finance used	Mean	Minimum	Maximum	Median	No. of Respondents
Start – up	Bank	114	2	365	44	4
	NBFC	4	1	7	4	2
	MFI	10	10	10	10	1
Survival	MFI	1	1	1	1	1
Growth	Bank	35	15	73	29	18
	NBFC	6	3	9	6	5
Sustenance	Bank	38	22	82	33	30
	NBFC	24	14	33	24	3
	MFI	7	7	7	7	1

Source: - Calculated data

5. Loan processing fee at major financial institutions

In the survival round, just one company disclosed that it had added interest to their microloan. Compared to the start-up and survival periods, the growth and sustainability phases were reported by more firms. When firms were just starting out, banks were able to process loans for relatively little money. The average processing costs for bank loans to developing enterprises were approximately twice as high as those for sustaining businesses, despite equal median values. For firms in their early stages of operation, the average processing fee charged by NBFCs for loans was almost nothing; nevertheless, for enterprises in their development phase, the fee skyrocketed to more than three times that amount. The average processing fee for loans from microfinance institutions was much higher for enterprises in the survival stage compared to those in the sustenance stage. Despite banks' generally higher processing costs, a larger proportion of reporting firms said they preferred to ask them for financial assistance. Table 5.6 indicates that throughout the stages of growth and maintenance, non-bank financial institutions (NBFCs) may have been the second-best option for enterprises.

Table 5.6 Loan Processing Fees at Major Financial Institutions, Banks, NBFCs and MFIs

Stages of Enterprise	Source of finance used	Mean	Minimum	Maximum	Median	No.of Respondents
Start – up	Bank	3.50	2.00	5.00	3.50	2
	NBFC	0.00	0.00	0.00	0.00	1
Survival	MFI	10.00	10.00	10.00	10.00	1
Growth	Bank	80.03	7.17	290.00	25.83	16
	NBFC	18.83	15.08	22.58	18.83	5
Sustenance	Bank	42.05	3.67	150.00	22.52	20
	NBFC	6.88	1.25	12.50	6.88	3
	MFI	1.00	1.00	1.00	1.00	1

6. CONCLUSION

Source: - Calculated data

Banks and Non-Banking Financial Companies (NBFCs) play an indispensable role in shaping the growth and prosperity of the Micro, Small, and Medium Enterprises (MSMEs) sector in Andhra Pradesh. Their financial support and services foster the establishment and expansion of businesses, facilitate technology upgradation, encourage entrepreneurship, and bolster the economic framework of the state.

Through various financial products and credit guarantee schemes, these institutions create a safety net for MSMEs, helping them navigate through challenging and risky scenarios. Their role in financial advisory services is instrumental in aiding businesses to make well-informed decisions about investments, risk management, and strategic planning.

While the direct financial assistance provided by these institutions is critical, their contribution extends beyond mere lending. They act as key catalysts for infrastructural development and technological advancement within the MSME sector, thereby strengthening its competitiveness.

The main obstacles for businesses in the maintenance phase are the difficulties in providing collateral or a guarantee, the complexity of procedures, the ignorance of available schemes, and the length of time it takes to complete loan applications. Challenges were widespread in this stage, as they had been in the previous ones, and included a lack of understanding about available MSME funding programs and the need to provide collateral for loans. It was surprising to learn that well-established businesses' market credibility and goodwill were not enough collateral for banking institutions.

However, it's important to note that the contribution of these institutions alone isn't sufficient to ensure the robust growth of the MSME sector. This necessitates a cooperative ecosystem involving supportive government policies, favourable market conditions, and a thriving economic climate.

7. REFERENCES

1. Dhal, Hiral & Patel, Sunil & Sheth, K. (2023). Examining the banking sector's contribution to the growth of MSME businesses in Gujarat. 2023.
2. Behara Yerram. (2023). MSMEs in India Policy environment. 10.13410/RG.2.2.36623.10401.
3. Kumar, Gaurav & Divya, K. (2022). Non-Banking Financial Companies contribution to credit support for MSME: A literature study. 10.37896/YMER21.12/L3.
4. Nadaf, Rajahusain & Kadakol, Adivappa. (2019). "A study on Role of Financial Institutions in Developing MSME's in India".
5. Dahale, Ms & Khairnar, Mr & Jain, Siddharth & Patil, Prashant. (2015). Critical Analysis of Role Played by Financial Institutions in Development of Indian MSME's. Mallick, S. K., A. Sarkar, K. Roy, T. Duttachaudhuri, and A. Chakrabarti. 2010. Dynamics of Emerging India's Banking Sector Assets: A Simple Model. *Journal of Asset Management*. 11(1). pp. 62–70.
6. Lahiri, R. 2012. Problems and Prospects for Micro, Small and Medium Enterprises (MSMEs) in India in the Era of Globalization. Paper presented at the International Conference on the Interplay of Economics, Politics, and Society for Inclusive Growth, 15–16 October, Thimphu, Bhutan.
7. Irwin, D., and J. M. Scott. 2010. Barriers Faced by SMEs in Raising Bank Finance. *International Journal of Entrepreneurial Behavior and Research*. 16(3). pp. 245–259.
8. Bebczuk, R. N. 2004. What Determines the Access to Credit by SMEs in Argentina? (Documento de Trabajo Nro. 48 [Working Paper No. 48]). Buenos Aires, Argentina: Universidad Nacional de la Plata.
9. Ambrose, J. 2012. Venture Capital (VC): The All Important MSMEs Financing Strategy under Neglect in Kenya. *International Journal of Business and Social Science*. 3(21). pp. 234–240.
10. Purnamasari, F., & Darmawan, A. (2017). Islamic Banking and Empowerment of Small Medium Enterprise. *Etikonomi*, 16(2), 221-230.
11. Afanasova, M., Chursin, A. A., Shamin, R. V., & Fedorova, L. A. (2017). ERSJ Volume XX, Issue 3A, 2017. *European Research Studies Journal*, 20(3A).
12. Onakoya, A. B., Fasanya, I. O., & Abdulrahman, H. D. (2013). Small and medium scale enterprises financing and economic growth in Nigeria. *European Journal of Business and Management*, 5(4).
13. Imoughele, L. E. I. (2014). The impact of commercial bank credit on the growth of small and medium scale enterprises: Econometric evidence from Nigeria (1986-2012). *Journal of Educational Policy and Entrepreneurial Research*, 1(2), 251-261.
14. Oleka, C. D., Maduagwu, E. N., & Igwenagu, C. M. (2014). The Impact of Micro-Finance Banks on the Performance of Small and Medium Scale Enterprises in Nigeria. *IJSAR Journal of Management and Social Sciences (IJSAR JMSS)*, 1 (2); 45, 63.