

## **ROLE OF PUBLIC SECTOR BANKS IN STRENGTHENING THE PERFORMANCE OF M.S.M.E.s**

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### **Abstract**

A country's Gross Domestic Product (GDP) is a good indicator of its wealth and success. India has recently become one of the nations with the quickest economies, competing in several fields with the most advanced and industrialised nations. One-third of India's manufacturing output is produced by Micro, Tiny, and Medium Enterprises, which are small businesses that carry out manufacturing and related activities and significantly contribute to GDP. MSMEs in India employ 12 crore people and account for 45% of all exports. Most developed nations contribute more than 50% of the global GDP, and according to a 2018 report by the Centre for Economics and Business Research, India's GDP will surpass that of the UK and France by 2032. The MSME sector in India must be strengthened immediately if the nation is to reach its goal of 5 trillion dollar economies. As a result, the research study under discussion conducts a critical investigation of the performance impact of public sector banks' aid to MSMEs. The study comes to the conclusion that effective management and development of MSMEs will increase employment and raise the nation's GDP.

**Keywords:** Growth, MSME, Public Sector Banks, Performance, Impact.

### **Introduction**

With an estimated 6.3 crore MSMEs, India generates 40% of its exports, 45% of its manufacturing output, and employs roughly 11 crore people. Small businesses across the nation have been negatively impacted by the COVID 19 pandemic, and MSMEs are struggling to maintain operations, experience growth, and produce income. Since 2020, the government has reacted quickly to offer these MSMEs financial help through banks and

other financial institutions, in addition to other forms of assistance. Banks and financial institutions, which are commercial organisations, are under internal pressure to cut losses and limit NPAs that are building as a result of MSMEs' failure to repay loans, therefore they are hesitant to extend credit to riskier small businesses. Banks and financial institutions are working to provide further emergency financial relief to the current MSMEs and also support new start-ups that lack expertise or collateral, as directed by the government.

The government is aware that reviving MSMEs is essential to creating jobs, but banks and other financial institutions have not responded in a way that is encouraging, and MSMEs are finding it challenging to secure working capital. The government's MSME department commissioned a study after realising there were issues with banks and financial institutions' treatment of MSMEs. The goal of the study was to pinpoint these issues and recommend solutions for the MSME sector's healthy growth. In order to understand the impact of MSME loans on financial institutions due to NPA, the research's overall goal was to evaluate the impact of the financing provisions currently in place for the establishment and operation of MSMEs in the nation and to recommend more reliable financing mechanisms for successful operation of the MSMEs.

The viewpoints of the MSMEs as well as the banks and other financial institutions were researched. By conducting interviews with bank and financial institution staff at all levels, it was possible to better understand the aims and goals of these organisations when lending to MSMEs. By speaking with a cross-section of MSMEs from various sectors, the issues and priorities of MSMEs were also investigated in a similar manner.

Only 1000 MSME Entrepreneurs (40 percent Micro Enterprises, 30 percent Small and 30 percent Medium) out of 1150 Entrepreneurs submitted replies and thoughts for this survey. Of the total MSME entrepreneurs we met with, 58% were first generation business owners who had founded the company. The remaining 42% were second generation business owners who had inherited an operating company. To get the necessary data, both quantitative survey methods and qualitative interviews were used. In order to supplement the original research that served as the foundation for this study, secondary literature was also investigated.

More micro units (46.8%) and more manufacturing units (70%) were covered in terms of MSME. Low interest rates (29.3%), quick approval (10.0%), flexible repayment terms (12.7%), easy documentation (13.7%), and other factors are taken into account when choosing a loan. MSMEs are aware of a range of loans, thanks to exposure to mass media, niche media, social media, direct firm outreach, telemarketing messages and emails, etc. Even though the majority of MSMEs are aware of loans, they still want to talk before applying for one. The majority of MSMEs surveyed who received loans are successfully running their businesses. They were able to build a manufacturing unit, grew their business, bought goods and raw materials at lower prices, and received subsidies.

Many young people without jobs were able to start their own businesses with the aid of MSME loans, and they also received free training and counselling in the process. The majority of MSMEs, however, found it challenging to get around the policies and considerations of banks and financial institutions and were forced to abide by their rules and requirements in order to receive loans on favourable terms. Micro businesses claim that banks and other financial institutions view lending to them as dangerous and require excessively high collateral.

### **Literature Review**

Numerous research on various topics relating to MSMEs have been carried out in India. Researchers have worked diligently and sincerely to review pertinent literature on the subject. Here are a few significant studies:

A study was undertaken by Sen, Salim (2016) to address the significant geographical disparities in the expansion of the MSME sector. Recognizing the significance of this industry, the governments of West Bengal and India jointly established a number of programmes to address the problems of high credit costs, staffing, planning, and inadequate infrastructure facilities.

Vasa (2016) conducted research on a few chosen chemical, pharmaceutical, and textile industries in China and India, as well as their effects on the performance of SMEs in these industries. However, MSMEs still face a number of issues, including insufficient capital, a lack of access to the global market, high credit costs, issues with planning, product display, and inadequate infrastructure.

N. Aruna (2015) did a study to determine the issues that businesses encounter that are affecting their growth, which in turn is influencing the growth of the nation. The statistics also showed that India's overall economic environment, which has become more globalised, has been favourable for the development of micro and small-scale industries. To ensure compliance and secure benefits, policies and procedures must be made simple and obvious so that these businesses can use, understand, and apply them. There are several government programmes, but the survey found that the majority of these businesses are unaware of them and do not comprehend how they might profit from them.

In order to comprehend, analyse, and explain the role of micro companies in Haryana's quick growth, Goel, Prakash (2014) undertook a study. The number of units, investment, employment, and production have been used as benchmarks to measure or assess the contribution of the micro-enterprises to enhancing the state's financial well-being and economic environment. We require effective governance, also referred to as SMART (SIMPLE, Moral, Action Oriented, Responsive and Transparent) administration, to ensure the implementation of the policies and programmes for micro firms.

Sangeetha Kavitha (2014) investigated the circumstances of Tirupur's small businesses. In terms of industrial organisation, city infrastructure, electricity shortage, export procedures, labour organisation, governmental regulations, pollution, and other issues, Tirupur's industrial growth has also encountered a number of challenges along the way. This study makes an effort to analyse various exporters' problems in Tirupur. Government must address the significant issues of competitiveness, raw material availability, electricity shortages, etc. by developing appropriate policies and plans.

According to Chandraiah and Vani's (2014) analysis, the MSME sector suffers significant difficulties including the inability to obtain sufficient and timely credit, high loan costs, collateral requirements, restricted access to equity capital, and the need to buy raw materials at competitive prices. It comprises actions to address issues with credit, money, infrastructure, technology, marketing, and cluster-based development.

A study was carried out by Ali and Husain (2014) to describe the situation of MSMEs in India. Bank credit is sometimes required, rural areas compete with large corporations,

people lack technology skills because there aren't any good training and skill development programmes available, etc. Foreign banks are less interested in approving loans for the MSME industry.

From the general manager's perspective on the financial viability of chosen textile companies in Tamil Nadu, Jessica, Marimuthu (2013) identified the obstacles that textile companies are facing. The development of MSMEs is crucial for India's development, as Srinivas, K. T. (2013) demonstrated. In the state of Karnataka, he did study to comprehend the idea of MSMEs and their needs, as well as how best to use the financial aid offered to MSMEs.

Gupta and Agarwal (2013) conducted a study on various schemes for MSMEs with special reference to SIDBI. It focussed on various financial and non-financial assistance provided by SIDBI to MSMEs. Rao and Apparao (2013) studied MSMEs contribution to GDP, employment and the role of MSMEs in the supply chain for large businesses. They found that most of the MSMEs in rural areas face the problem of shortage of finance to advance business growth. MSMEs require lot of setup capital, liquid capital, investment capital to survive and grow in this competitive business world.

Yadav (2013) investigated how MSMEs sought commercial banks for short-term borrowings after using trade credit to the fullest extent possible. Due to the restricted market access, the owner's money are scarce in these industries. In 2013, Shihabudheen N. performed research on the purposes and advantages of the MSMEs Act of 2006. The act aims to give MSMEs access to resources for business growth and increased competitiveness. The study was crucial for understanding how the MSME Act affected SSI Units and for recommending strategies for improved performance. Progressive financing policies for micro and small businesses and special funds for promotion, development, and boosting competitiveness were established. In the study, both primary and secondary data were employed.

### **Objectives of study**

The study was undertaken with the following two key goals in mind:

- To research the growth prospects and performance of MSMEs in India;

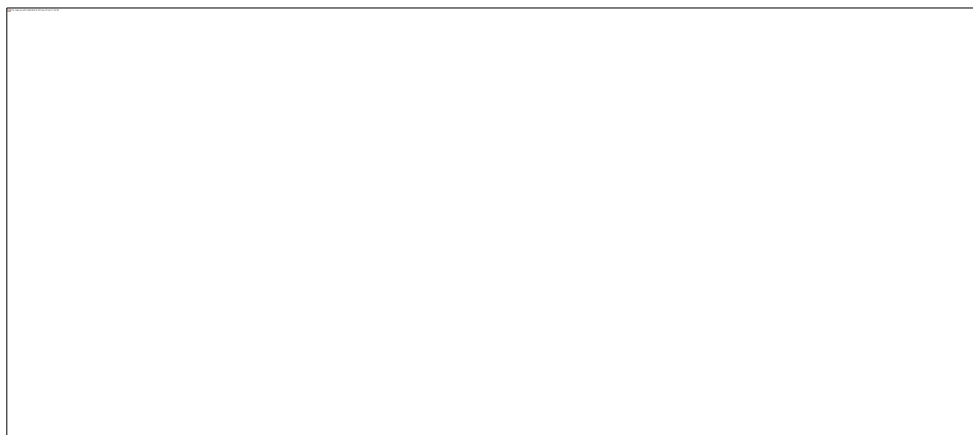
- To learn about the many issues and difficulties that MSMEs in India face.

### **Research methodology**

MSMEs have risen to a prominent position in financial inclusion, which is one of the Union Government's key priorities for the nation's equitable development. The industry mostly uses bank financing to fund its activities, which entail numerous financial and non-financial concerns. Secondary data that are published by the Reserve Bank of India, SIDBI, GOI, and banks in their various committee reports, speeches, and quarterly reports have been employed in the present study due to the vast range of MSME finance. In addition to publicly available banking statistics, primary data from branches has been acquired for a case analysis to compare the feasibility of MSME credit to other loan segments in big size credit. Understanding the Micro and Macro elements was crucial. We set out to interview both groups of people—those who provided the loan and those who received it—in-depth (together they will be termed as subjects to make the understanding easier). Therefore, a variety of methodologies were used to fully comprehend the causes and provide evidence in the form of the "number" of people whose opinions were similar to or dissimilar to those in question.

### **Data Analysis and Discussion**

Table 1 - respondents included in the study's sample



### **Entrepreneur generation covered:**

Of the 1000 MSME owners we surveyed, 58% were first-generation business owners who had founded the company, while the remaining 42% were second-generation entrepreneurs who had inherited an operating company.



Figure 1 - The survey addressed both first- and second-generation businesses.

Unit size covered A slightly higher percentage of the total MSME sample came from the micro category, whereas a considerably smaller percentage came from the small and medium group.

Table 2 - Dimensions of MSME units included in the study

### **MSME unit types covered**

The study's interviewees included MSMEs in both manufacturing and services. Electronics, auto components, food processing and packaging, fabric spinning, hand washing, detergent, and other industries were among the production facilities. The retail (buy and sell), skill development, educational, etc., service MSME units were covered.

Figure 2 - MSME units included in the analysis



### **Making conclusions using the qualitative-quantitative method**

Through qualitative research, we were able to develop a comprehensive set of values (both rational and emotional). The list was then distributed to the other survey participants so they may segment the values gradationally. For instance, we learned about some of the challenges in dealing with banks and gaining access to the loan procedure through the qualitative dialogues. They were.

- a. The language used on the portal was difficult to understand.
- b. Having access to the records that the bank requested.
- c. Continual trips to the bank
- d. No reliable source of details about the procedure
- f. There is no "ask me" button, inquiry desk, or customer service line where a beginner can go to ask.
- g. There has been no word from the bank on whether they would be paid or not.

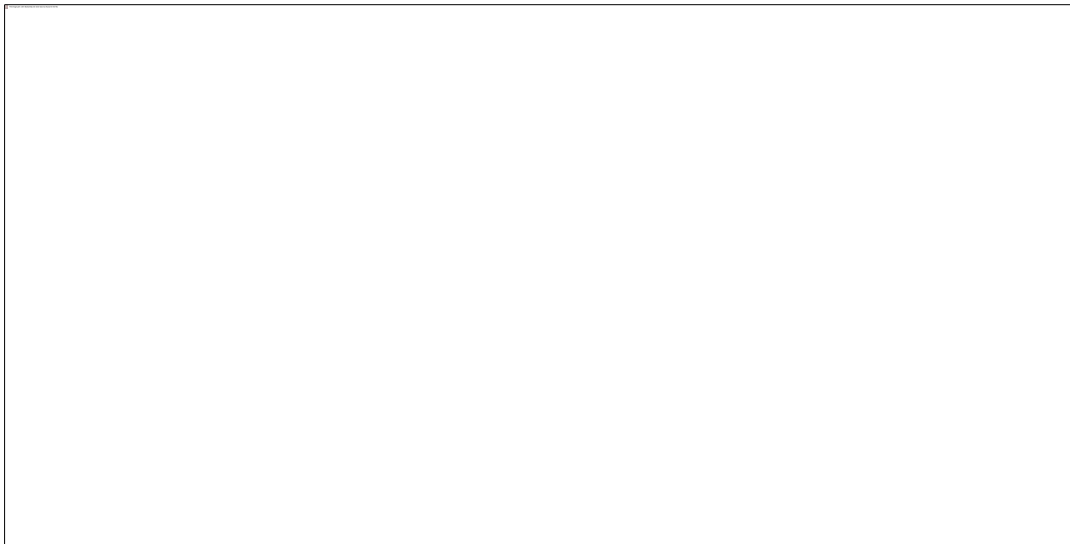
The most significant issue that MSME encountered when interacting with the bank was language comprehension, according to our list of issues and output from the quantitative process. The least serious issue was frequent trips to the bank. "We will need to keep visiting if we want to finish our work. For anything we desire to do, that is true. So, in my opinion, it's not a big deal, a respondent respond.





issues encountered when interacting with banks

First-generation business owners were more familiar with government regulations and financial issues. The second generation of business owners was less familiar with legal issues related to establishing an organisation and was more focused on managing the business. The grid displays the split of people we've spoken to in the same size. Every respondent with whom we interviewed was a registered MSME. They were also registered as Udyam entities for a portion of them. It's critical to comprehend why they registered as well as their goals or expectations for doing so.



Motives for becoming an MSME

Being a registered Udyam or MSME firm came with two LARGE expectations.

- Obtain quick and inexpensive loans.

- Obtain government contracts or orders to increase profits.

## Conclusion

MSMEs make significant economic contributions to the nation and create a lot of jobs at a relatively low cost. Therefore, the national government is working to promote MSMEs through a variety of channels. Due to widespread advertising of the simplicity and advantages of starting an MSME unit, many units have lately emerged. A number of support services are essential to the creation and growth of MSMEs that have been institutionalised. Such units are the focus of funding that is essential for the start-up and expansion of businesses, and the funding has been released to the units in a straightforward and efficient manner. The MSME sector still has a substantial unmet financing need. Many businesses were established as a result of the favourable atmosphere fostered for MSME unit start up, and as it turned out, there were also many units that failed. Because of this, financial institutions were put under pressure, and the government had to spend a lot of money to compensate for or write off their losses. The introduction of COVID and associated lockdowns drove already struggling MSMEs over the edge, and as a result of their failure to pay their debts to the banks, MSMEs were quickly placed to the NPA list. To deal with the issue, the government had to present a package of relief measures. A dip stick research was envisioned to carefully examine the related problems and to produce solutions for closing the bank-MSME gap since both the MSMEs and the financial institutions were under pressure.

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