Dipstick Study on Loans to MSMEs by Financial Institutions in India - Effect and Gap Analysis

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Executive Summary

An estimated 6.3 crore MSMEs in India account for 45% of its manufacturing output and 40% of its exports and provide employment to about 11 crore people. The COVID 19 pandemic has disrupted small business across the country and the MSMEs are finding it difficult to sustain operations, achieve growth and to generate livelihood. The Govt. has reacted promptly since 2020 so as to provide, in addition to other support, financial support to these MSMEs through the banks and financial institutions. However, being commercial entities, banks and financial institutions are under internal pressure to reduce losses and to control NPAs accruing due to lack of repayment by the MSMEs, and hence are reluctant to lend to risky small business. Under the directions of the Govt., banks and financial institutions are engaged in releasing additional emergency financial relief to the existing MSMEs and also fund new start-ups, who are without experience or collateral. While the Govt. has realised that the revival of the MSMEs is key to employment generation, the response of the banks and financial institutions is not encouraging, and the MSMEs are finding it difficult to arrange working capital. Recognising problems between banks and financial institutions vis a vis MSMEs, the Govt. in MSME department commissioned a study to identify the gaps between the banks and the financial institutions vis a vis the MSMEs and to suggest measures towards sound growth of the MSME sector.

The overall objective of the research was to assess the effect of the financing provisions existing for the setting up and operations of MSMEs in the country and to generate recommendations for more robust financing mechanisms for successful operation of the MSMEs, in turn understanding the impact of MSME loans on financial institutions due to NPA. The perspectives of the banks and the financial institutions as well as of the MSMEs were studied. The priorities and objectives of the banks and financial institutions while lending to the MSMEs were studied by interviewing the bank and financial institutions personnel at all levels.

The problems and priorities of the MSMEs were also similarly studied by talking to a cross section of MSMEs covering different segments. Total sample of 5000 respondents were covered in the study, including 1350 through the qualitative method and 3650 through the quantitative survey method. Of this sample, a total of 1150 was from the MSME sector, and a larger share of 3950 was from the banking and related sector (including the KVIC, opinion leaders and industry associations). Out of 1150 Entrepreneurs we have only accepted 1000 MSME Entrepreneurs (40% Micro Enterprises, 30% Small and 30% Medium) completed responses and opinions for this study. Amongst this total MSME Entrepreneurs we spoke to 58% who were first generation of entrepreneur; those who had set up the enterprise, and the rest 42% were second generation entrepreneur who inherited a running business.

Both quantitative survey techniques and qualitative interviews were used to collect requisite information. Secondary literature was also explored to enrich the findings from primary enquiries which had created base for this study.
The introductory chapter describes the MSMEs along with the recent extension of the limits of micro, small and medium units. It lists the different schemes run by the Department of MSME such as Mudra, PMEGP, Atmanirbhar, etc., aimed at financial assistance, technology assistance and upgradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance for MSMEs. The various statutory organisations under the MSME and the support provided by digital platforms such as Champion are discussed. The large number of steps taken by the Govt. to enhance liquidity post-Covid are mentioned, including the CGTMSE, CLCSS, etc. The factors affecting the growth of MSMEs are mentioned such as lack of access to timely, long-term credit on competitive terms, ineffective credit appraisal, risk appraisal, lack of latest technology, lack of good marketing efforts, managerial skills, etc. The advantages of the MSMEs are mentioned, such as flexibility, entrepreneur management and inexpensive labour. The weaknesses of MSME are discussed, including lack of professional work culture, quality consciousness, financial strength, etc. The emerging roles and diversity of services of FinTech companies are also discussed and their role in solving the credit problem of MSMEs and related issues is also stressed.

The second chapter attempts a comprehensive review of relevant existing literature on the study topics. Many studies are reviewed. The studies link firm size to credit availability, the role played by information asymmetry in selecting MSMEs for credit and also in deciding on the credit scheme, age of the firm and its performance, role of managerial efficiency, type of MSME, the important role of small scale enterprises and the reducing role of statutory financing organisations, problems faced by small business in availing finance, the finance gap due to perception gap between bank and financial institutions vis a vis MSME, the characteristics of micro-manufacturing institutions, role of investment banks in industrial development, finance gap due to information asymmetry between borrower and lender, insufficient savings and cash inflow of MSMEs affecting credit flow, and other important studies. Considerable number of studies attributed failure of MSMEs to inadequate finance and credit. All these literature reviews been ratified through our study and reflected through different parameters.

The findings of the study are organised separately for bankers and financial institutions. Total 950 Banks we have covered out of which 45.5% PSB’s, 42.5% Private Banks and 12% NBFC’s are there vis a vis MSMEs (1000 MSME’s 40% Micro, 30% Small and 30% Medium Units are Covered). It is important to understand what made them register and what was their aspiration or expectation from their registration. It is found that Majority (46%) registered because of their Chartered Accountant or friends (27%) advices. However, minimum (9%) numbers of entrepreneurs been registered with Udhyam Aadhar because of the Bankers With regards to bankers and financial institutions, they provide different types of loans to suit the needs of the MSMEs, and they provide loans mostly to manufacturing units and less to service units. Banks and financial institutions are approached mostly by medium (35.3%) and small units (60.9%) and less by micro units. Banks and financial institutions report that about half of the MSME owners (47.2%) are already aware about the loans when they approach the banks for loans. Banks and financial institutions mostly give general business loan (52.7%), small business (16%)
or retail loan and cash credit facility (10.6%). Loans help business units mostly in buying machineries (49.5%). The bankers and financial institutions report that the MSMEs benefit from their loans as it takes less time (56%), the amount is flexible (57.8%), and the rate of interest is less (58.5%). Loans which are easier to get from the banks and financial institutions are general business loan (38%), cash credit and overdraft facility (2.3%), and loan against property or equipment (20.9%). Banks and financial institutions find it difficult to give loan to MSMEs due to lack of proper documents (37.6%), unit owners are not eligible to get the amount that they want (27.6%), they are unable to provide collateral, and their business is not established. Bankers and financial institutions reported that MSMEs do not trust the bank and financial institutions for providing collateral and they are unprofessional (mostly micro units) and fail to repay EMIs (18.5%). Yet bankers and financial institutions are happy that MSMEs come back to banks for repeat loans and can expand their business with their loans. They also consider the Offices of bank and financial institutions as their personal financial advisors and with time they learn to repay EMI on time (44%). Qualitative research with bankers and financial institutions also highlighted that the statutory organisations work in tandem with the banks and financial institutions to provide loans to MSMEs successfully, the processing is mostly digital and hence quick, the loans are collateral free and minimal documentation is required, the loans can be managed from the websites also and there are pre-approved offers of loans. Few negative points mentioned include lack of participation of statutory bodies after loan approval, work pressure on Officers of bank and financial institutions, lack of trust on MSMEs who come in through digital portal of statutory bodies, and lack of ownership of loan by the MSMEs.

Regarding MSME, more of micro units (46.8%) and more of manufacturing units (70%) were covered. Considerations for selecting a loan include low interest rate (29.3%), less approval time (10.0%), flexible repayment period (12.7%), simple documentation (13.7%), etc. MSMEs are aware about a variety of loans and this awareness is due to exposure to mass media, small group media, social media, direct approach from company and telemarketing messages and e-mails, etc. Even though majority of MSMEs know about the loans yet they wish to discuss before taking the loan. Most MSMEs covered who took loans are managing their units successfully. They availed subsidy, expanded their business, procured products and raw materials at lower rates, were able to start a manufacturing unit, and were benefitted in many ways. The MSME loans helped many jobless youths to become entrepreneurs, and, in the process, they also received free training and guidance also. However, most MSMEs found it difficult to cut through the procedures and priorities of the banks and financial institutions and had to follow the directions and conditions of the banks and financial institutions who gave loans on terms which are beneficial to them. Micro units report that banks and financial institutions consider lending to them risky and insist on additional and excessive collateral.

Based on the study findings, the following suggestions were made to create a positive environment for the MSMEs to seek a loan from the banks and financial institutions:

- Statutory agencies should be part of the loan processing process and three parties should meet and hold transparent discussion and negotiation.
- There should be a help desk or a customer information system and also a grievance portal or a single-window system for MSMEs.
• After loan sanction and operation of the unit, there should be a MIS system to report on timely implementation of each component of the project and hence early identification of any problem before the NPA situation arises.

• Each MSME unit must be linked to a technical support system where they get advice on technology, production and marketing to face market fluctuations effectively.

• In case of any default of payment and before NPA, the bank and the statutory agencies should join hands to provide support to avoid NPAs.

• “Once an entrepreneur, always an entrepreneur”. Govt. must send those lists of NPAs to the different training agencies to identify the potentials and upgrade their skills because in this segment some people are genuinely talented and know where they committed mistakes knowingly and unknowingly. Some failed because of external issues. There must be some approach to harness these potential entrepreneurs and give them chance to succeed.

Based on the findings and suggestions, following interventions are suggested.

• Champions to upgrade as one window solution for MSME entrepreneurs
• SLBC must be part of Champions.
• Soft-skills training to MSMEs as well as Bankers and financial institutions
• Special attention to failed entrepreneurs

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ni-msme
Abstract
The Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic and social development of the country often acting as a nursery of entrepreneurship and innovation. They also play a key role in the development of the economy with their effective, efficient, flexible, and innovative entrepreneurial spirit. The MSME sector contributes significantly to the country’s manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for a major share of industrial production and exports.

This research report delineates the findings of the dipstick during the pandemic that was conducted to understand the loan giving and taking process to the MSMEs and its effects on financial institutions. While the enthusiasm of the sector is extremely high – the financial span of the segment makes the entrepreneurs of MSME struggle to survive.

Background
The Indian economy has been experiencing significant slowdown over past few quarters. Investment and consumption demand had been languishing and numbers of incentive measures have been taken to bring back the economy on a growth path. There was a strong hope of recovery in the last quarter of the financial year. However, the COVID-19 pandemic has proved disruptive to the growth and could hit India’s exports to COVID-19 infected nations and affected everyone in this world. The three major contributors to GDP — private consumption, investment and external trade will get affected. This survey is undertaken in the backdrop of this pandemic and while the country has faced two consecutive prolonged lockdowns and faced the second wave. The outbreak has presented fresh challenges for the Indian economy now, causing severe disruptive impact on both demand and supply side.

MoMSME, GoI have extended support as loans and facilities to MSMEs and created several exemptions of statutory payments so that MSMEs can factor such crisis and can survive this demand shock and sustain further. In this backdrop this study had been initiated to understand the MSME loans and facilities and their impact on financial institutions.
Chapter 1
Introduction

New Force to Reckon with

MSME sector is emerging as a highly vibrant and dynamic sector of the Indian economy over the last five decades. Its significant contribution towards economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost is worthy of appreciation. It stands only next to agriculture. The sector has the potential to create new rules of survival by itself even at the time of this pandemic and beyond.

Wide angled spectrum and functioning of the MSME segment

MSMEs are complementary to large enterprises besides ancillary units (upstream or downstream) and this sector contributes significantly to the fast-paced enterprise development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. The MSME Ministry wants to see a progressive MSME sector by promoting growth and development of the sector. Its purview also includes Khadi, village, and coir, in cooperation with concerned Ministries/Departments, State Governments and other stakeholders. There is an active need to provide support to existing enterprises during this pandemic so that they can survive and absorb the shock. Adopting the cutting-edge technologies and encouraging creation of new enterprises to create jobs at much faster rate is the need of the hour to boost the economy.

The Govt. of India think-tank appreciates that while the zeal of the segment is astounding – they need the money and technology to see further growth to achieve the zenith.

The Ministry of MSME runs various schemes aimed at financial assistance, technology assistance and upgradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance for MSMEs. The Ministry is committed towards an agenda of inclusive development and has taken various initiatives and measures to ensure that demographically as well as geographically weaker sections benefit from its work.

Several statutory and non-statutory bodies are working under the aegis of the Ministry of MSME. These include the Khadi and Village Industries Commission (KVIC), the Coir Board, National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises (ni-msme) and Mahatma Gandhi Institute for Rural Industrialisation (MGIRI).

Existing Challenges and Handicaps

- All the participants of the team of MSME (the Govt. set up Bodies + Banks + MSME Entrepreneurs) need to be committed towards the development of the sector – therefore they should own responsibilities at this juncture.
Currently the KVIC and the DICs are addressing the issues virtually and delivering services accordingly. They need to know the consumer and the situation on the ground. This will enable better schemes.

The Banks (the PSU and Private Sector) are given target with respect to MSME loans so that they can actively get into making schemes popular. However, the bankers must understand the risks of the enterprises and sync with the scheme.

It is to be understood that loans are given to help the entrepreneur. The bankers identify the schemes that benefits and safeguards both the interests e.g., on one side easy access to credit vis-à-vis on another side the steady loan recovery.

Regular follow up with the MSME consumers are important: the scheme of giving money on lesser interest with no collateral (CGTMSME) is a useful scheme but can turn into an attractive bargain for those who are looking for an easy buck and create more NPA.

MSMEs quite often start and close the enterprises at regular intervals. This leads to critical pitfalls for promoting schemes.

The Bank employee may be given an incentive when a loan is disbursed or entirely closed with full refund.

Despite curbing the MFIs under the scanner of regulatory authorities to operate as high interests to credits, the inaccessibility of credits just in time is pushing the entrepreneurs towards private lending with higher interest rate.

The Government of India has envisioned doubling the Indian economy to 5 trillion USD in five years. In order to achieve this goal, career opportunities for the younger population have to be generated and MSMEs have the potentials to serve as a key employment generator. Therefore, the Government has taken up promotion of MSMEs in order to create new jobs in this sector. Further, the Government aims to enhance MSMEs share in exports and its contribution to GDP. To achieve such steep target within this pandemic, the Government may need to invest in providing more back-end services to improve performance of the MSME sector as it supplies goods and services to the large enterprises. Lack of technology-based production activities, absence of upgraded design and low investment in R&D activities are the bottlenecks which was hindering the sector to become competent earlier. Now, during this crisis if we want to boost this sector, we may have to source globally available technologies and subsidise them to enhance the product quality of MSME players.

Government may invoke such policies to improve the existing resources. Government also may require helping the academic/training institutions in the form of promoting research and development services for product innovation, design thinking and technology upgradations at par with the global standards.

There is a need for streamlining single point operations. In this context re-engineering is necessary for departments. Already several state and central level departments are losing their relevance because of customer centricity.

1. Requirement of adequate and timely financial support
2. Awareness about different schemes and subsidies
3. Tapping appropriate technologies
4. Harnessing higher production capacity and high-end design and finish
5. Effective marketing strategy
6. Modernisation and expansions
7. Availability of skilled labour at affordable cost
8. Follow up with various Government agencies to resolve problems.

Financial Infrastructure is Robust – Research was undertaken to understand the ground reality of the loans and its effective use (in disbursement and in collection).

**Answers to Questions like –**

- To what extent has it transformed the segment?
- What are the problems that are associated with the loan giving and taking process?
- Are all the sectors of MSMEs enjoying the fruits of Government schemes equally or is there a gap that is needed to be addressed?
- The solution that is being sought both from the sides of the Organised Financial Sector (The Banks + the statutory bodies such as KVIC, DIC, etc.) in the urban and rural areas + Growing MSME segment

**Quotes that we believe are integral to the process of loans, especially in the MSME segment:**

> “The Banks and financers have to be careful enough to avoid NPAs. Real wealth is tangible things produced with tangible effort.”

> “Timely return of a loan makes it easier to borrow a second time”.

**360-Degree Pros and Cons of the Sector**

We looked through a 360-degree lens – so that one may be able to understand the entirety of the process. The understanding then is contextualised to create a greater level of learning.

The Story of the Financial Institution:

a. Triggers and Challenges in giving MSME loans and the good effects through their eyes.

b. What are the big prevailing Positives and what Negatives – how is one handling the negatives currently?

c. What are the long-time solutions that are required to set things right?

The story of the loan taking MSME: We have tried to understand by talking with the MSME entrepreneurs in the context of availing credit/loans from the banks. So that, we set out to understand their profiles with segmentation based upon

a. What were their dreams and aspirations while taking loans?

b. Loans availed and how it has helped the growth story (not only of theirs but the entire segment).

c. What were their challenges in terms of taking loan?

d. In what way did they overcome the challenges?

Additionally, the team also asked them for the kind of solutions they are looking for.
Knowing what MSME is

The Government of India has been constantly changing and fine tuning the definition of the MSMEs so as to include majority of the enterprises come under the ambit of this segment, however there are several overlaps e.g., Services segment of Tourism Sector is unaware that they still fall in the MSME Segment (Choudhury et al., 2020). Services segment been long neglected and later been included as part of MSME and as per the recent change in the mandate the retailers and wholesale traders have also been included within MSME Segment (MSME, July 2021).

The recent changes in the definition of micro, small, and medium-sized enterprises made as a part of the Atmanirbhar Bharat Abhiyaan relief package.

Table 1: Revised categorisation of Micro, Small and Medium enterprises

<table>
<thead>
<tr>
<th>Type of Enterprise (Manufacturing + Service)</th>
<th>Investment (₹)</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>1 crore</td>
<td>5 crores</td>
</tr>
<tr>
<td>Small</td>
<td>10 crores</td>
<td>50 crores</td>
</tr>
<tr>
<td>Medium</td>
<td>50 crores</td>
<td>250 crores</td>
</tr>
</tbody>
</table>

(Source: Mo MSME website: https://msme.gov.in/know-about-msme)

Combined with all previous economic stimulus efforts, the total amount of the relief package comes to a whopping ₹20 lakh crores.

We are aware that under the Chairmanship of Hon’ble Prime Minister Shri Narendra Modi, the Ministry of Micro, Small and Medium Enterprises implement various programmes/MSME schemes for the development and promotion of MSMEs across the country.

Additionally, the Government of India has been proactive to ensure that all the benefit of these MSME schemes reaches the MSMEs in time. To provide immediate relief to the MSME sector, various announcements (in addition to the various MSME schemes) have been made under the Atmanirbhar Bharat Package or MSMEs can even register their grievances under “Champions”.

Benefits provided to MSMEs

• Loans under the priority sector lending scheme.
• 25% share in procurement by Government and Government-owned agencies.
• Promoters are allowed to bid for stressed assets under the insolvency law (unlike large enterprises).
• Various Government schemes, funds, and subsidies.

Atmanirbhar Bharat (Self-Reliance)

• ₹3 lakh crore collateral free automatic loans for MSMEs (to buy raw materials, meet operational liabilities and restart businesses)
• ₹50,000 crore equity infusion through MSME Fund of Funds
• ₹20 crore subordinate debt for MSMEs
• Disallowing global tenders in procurements up to ₹200 crores to create attractive opportunities for domestic playeर
• Clearing of MSME dues by the Government and Public Sector Units (PSUs) within 45 days
• Extension of registration and completion date of real estate projects under RERA
• Immediate pending refunds issuance to all non-charitable trusts
• Extension of the due date for ITR for Financial Year 2019-20 to November 30, 2020

Significance of MSMED Act 2006

With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of services sector in the definition of Micro, Small and Medium Enterprises, apart from extending the scope for Medium Enterprises.

Share of MSMEs in India

The MSMEs have often been termed as ‘engine of growth’ for all developing economies including India. MSMEs have been playing a momentous role in overall economic development of a country like India where millions of people are unemployed or underemployed and are facing the problems of poverty. MSMEs are providing immediate large-scale employment, with lower investments and prove to be a second largest manpower employer, after agriculture, and occupy a position of prominence in Indian economy.

The MSME sector is a very important piece of India’s legacy economic model and a part of the critical supply chain for products and services. This sector is considered as the job creator and plays a crucial role in providing large-scale employment and industrialisation of rural and backward areas. As per the National Sample Survey (NSS) 73rd round, in 2015-2016, there were around 633.8 lakh unincorporated non-agriculture enterprises in the country which are dealing in different economic activities providing employment to 11.10 crore workers।

The MSMEs contribute significantly to value addition, employment generation, exports and overall growth and development of the country’s economy. The MSME sector is responsible for about 40 per cent of the exports and 45 per cent of the total manufacturing output in the country.

Categorisation of MSMEs: The MSMEs are now defined and categorised based on the composite criteria of investment and turnover. The latest categorisation is effective from July 2020.
Table 1: Categorisation of MSMEs

Revised Classification applicable w.e.f 1st July 2020

<table>
<thead>
<tr>
<th>Classification</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Enterprises and Enterprises rendering Services</td>
<td>Investment in Plant and Machinery or Equipment: Not more than ₹1 crore and Annual Turnover; not more than Rs.5 crores</td>
<td>Investment in Plant and Machinery or Equipment: Not more than ₹10 crore and Annual Turnover; not more than Rs.50 crores</td>
<td>Investment in Plant and Machinery or Equipment: Not more than ₹50 crore and Annual Turnover; not more than Rs.250 crores</td>
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Exactly a year later, the Govt. announced a revised guideline for MSME on 2nd July 2021 and included both retail and wholesale trading within the ambit of MSME. The revised guidelines will benefit 2.5 crore Retail and Wholesale Traders. Retail and wholesale trade were left out of the ambit of MSME, now under the revised guidelines, retail and wholesale trade will also get benefit of priority sector lending under RBI guidelines. With the revised guidelines the Retail and Wholesale trades will now be allowed to register on Udyam Registration Portal.

Importance of the MSME sector

The contribution of MSME sector to manufacturing output, employment and exports of the country is quite significant. The MSME sector employs about 110 million people in over 6.3 crore units throughout the country. There are around 10,000 products, ranging from traditional to high-tech items, which are being manufactured by the Indian MSMEs.

Additional issues pertaining to the importance of MSMEs in India are described below:

It creates large-scale employment: Enterprises that are inclusive in this sector require low capital to start up new business. Moreover, it creates a vast opportunity for the unemployed people to avail. According to 2011 Census, about 8.15% (98.615 million) of Indians are graduates passing out from Universities. There is no economy so far that could provide employment to that large number of freshers in one year only. MSME is the boon for the fresh talent in India.
Economic stability in terms of growth and leverage exports: It is the most significant driver in India contributing to the tune of 8% to GDP. Considering the contribution of MSME to manufacturing, exports, and employment, other sectors are also benefitting from it. Nowadays, MNCs are buying semi-finished and auxiliary products from small enterprises, for example, buying of clutches and brakes by automobile companies. It is helpful in creating a linkage between MSME and big companies even after the implementation of the GST. 40% of MSME sector also applied for GST Registration that plays an important role to increase the government revenue by 11%.

Encourages inclusive growth: The inclusive growth is at the top of agenda for Ministry of MSME for several years. On the other hand, poverty and deprivation are a deterrent to the development of India. Besides, it includes marginalised sections of a society which is a key challenge lying before the Ministry of MSME.

Cheap labour and minimum overhead: In the large-scale organisations, one of the main challenges is to retain the human resource through an effective human resource management professional manager. But, when it comes to MSME, the requirement of labour is less, and it does not need a highly skilled labourer. Therefore, the indirect expenses incurred by the entrepreneur is also low.

Simple management structure for enterprises: MSME can start with limited resources within the control of the entrepreneur. From this decision-making process gets easy and efficient. On the contrary, a large corporation requires a specialist for every departmental functioning as it has a complex organisational structure whereas a small enterprise does not need to hire an external specialist for its management and the entrepreneur manages on his own. Hence, it could run single-handedly.

The main role in the mission of “Make in India”: The signature initiative by the Prime Minister of India “Make in India” has been made easy with MSME. In addition, the Government has directed the financial institution to lend more credit to enterprises in the MSME sector.

Formation and activities

MSMEs came into existence after the Micro, Small and Medium Enterprises Development Act, 2006. The Act brought in a new approach to view the sector. The major features of the act included.

1. The term industry replaced by the term enterprise which includes service enterprises
2. Ambit of sector enlarged to cover medium enterprises
3. Constitution of MSME Board
4. Simplification of registration procedure for MSMEs
5. Progressive credit support to MSMEs
6. Penalty for delayed payments; and
7. Provision for exit policy
A good number of policy measures were initiated for boosting MSMEs. This includes reservation of items for exclusive manufacturing in small enterprises, preferential credit support measures, fiscal concessions, infrastructural development like development of industrial estates, testing labs, common facility centres, and entrepreneurship development.

The institutional support structure for MSMEs in India is extensive and includes institutions such as

1. Development Commissioner
2. MSME Development Institute (DI)
3. National Small Industries Corporation (NSIC)
4. National Institute for MSME (ni-msme)
5. Khadi & Village Industries Commission (KVIC)
6. Coir Board
7. Mahatma Gandhi Institute for Rural Industrialization

At the state level, the institutions include

1. Directorate of Industries
2. District Industries Centres
3. State Finance Corporation
4. State Industrial Development Corporation and
5. Technical Consultancy Organisations. Besides these organisations, there are Industry Associations, NGOs, and Banks/Financial Institutions.

Support activities: A major objective of the Ministry of MSMEs is to provide support to the MSMEs. A variety of support services are provided, including credit support, technological support, marketing support, etc.

Credit support: Public sector banks are advised to double the flow of credit to MSMEs within 5 years (20% annual growth). A minimum of 40% of bank credit is earmarked for priority sector lending which includes loans to MSEs. Further, there are specialised SME Bank branches in industrial clusters for smooth flow of credit to the MSMEs. One major step in credit support is the initiation of the One Time Settlement (OTS) scheme for settling NPAs (Non-Performing Assets) of MSMEs.

Technological support: The Credit Linked Capital Subsidy Scheme for Technology Upgradation is meant to improve the quality of products by technology upgradation. Investment up to Rs.10 million has been made eligible for support with subsidy up to 15% on investment. Various Testing Centres have been set up in different important locations for Quality Certification. In addition, Tool Rooms and Technology Centres have also been established in several states for skill upgradation. There is also the incentive scheme for obtaining ISO Certification by MSEs.
Marketing assistance and export promotion: Number of activities are carried out by the agency to help in marketing of the products and services of the MSMEs. This includes support for participation in trade fairs and exhibitions – national as well as international, training programmes on packaging for exports, purchase preference in Government procurement, market development assistance for publicity, and market studies and adoption of modern market practices.

Cluster Development Programme: This is one more component of the agency. Cluster formation has been considered important for MSME development. A cluster is a local agglomeration of enterprises (mainly SMEs, but often also including some large enterprises), which are producing and selling a range of related and complementary products and services.

International Cooperation Programme: Under this programme the agency provides exposure to MSMEs to the latest technologies, and manufacturing practices prevalent in their fields in different countries. The agency also encourages the MSMEs to participate in international exhibitions for exports.

Factors affecting growth of MSMEs
Several factors are affecting the growth and development of MSMEs.

The factors include:

• There is lack of access to adequate and timely financing options available on competitive terms, particularly longer tenure loans. Accessing credit on easy terms has become difficult in the backdrop of current global financial crisis which has held back the growth of SMEs and impeded overall growth and development.

The policy and the regulatory framework also control the growth of the MSMEs and a liberal and encouraging framework with incentives for all stakeholders is needed to promote the quick growth of MSMEs. Regulations pertaining to contract enforcement, recovery of loans, bankruptcy, etc., are important issues.

• There is need for good institutions for credit appraisal, risk management, rebuilding agencies, etc.

• Lack of proper technology is one of the top challenges faced by SMEs in India. AI-based machinery and tools, Enterprise Resource Planning (ERP) technologies, and inventory management computer programmes can make businesses more organised and enhance productivity. However, since most MSMEs operate from rural or semi-urban areas, entrepreneurs are often not adequately educated about the software and hardware resources available to them. Even if they are aware of advanced accounting, management, or AI-based technologies, the price of purchasing a computer and software can be a significant problem faced by MSMEs. Shetty et al., (2020) found that this segment requires cloud computing very much to save their operational costs and Government must create such adequate provisions.

• The severe technology challenge comes in the way of application, follow up and even availing of loans. Sometimes, there is an emergence of a “3rd party” who take advantage
of the situation, and charge heavily for simple internet interaction and connectivity.

• Inadequate marketing also affects the income of MSMEs. Even if a small or medium business has a remarkably innovative idea, it may not become profitable. This often happens due to a lack of proper marketing. Improper marketing of products and services is one of the main SME challenges that impact revenues negatively. Inefficient marketing technique affects the income and the credit ratings of the MSMEs.

• There is absence of good monitoring tools for regular monitoring of the performance of the MSMEs. There is also lack of reliable credit information regarding MSMEs.

• Absence of assessing the risk profile of MSME for lenders is a problem.

• Access to skilled manpower, R&D facilities and marketing channels is limited.

• There is lack of skills about decision-making, good management, and accounting practices.

• MSMEs have inadequate access to modern technology.

• Inadequate supply of skilled manpower for the MSMEs.

• Supply of raw materials at a competitive rate is also irregular.

• Lack of any organised marketing activity.

• Lack of skill for project planning and managerial skills.

• Lots of competition from large scale units and imported items in the market.

• Inadequate infrastructure facilities like power, water and roads.

• Limited access to equity capital.

• Lack of support in designing, packaging, and product display.

**Strengths**

**Major strength of MSMEs observed are**

**Flexibility:** SMEs can easily absorb new innovations and adapt new method. The cost of changing the existing system is also relatively less.

**Entrepreneur’s management:** Entrepreneur’s management skills is a strength as this ensures quick decision making. This also ensures speed and reduces red-tapism in the unit.

**Inexpensive labour, less overhead and favourable capital-output ratio:** There is adequate supply of labour at a cheaper rate and for the smaller units, there is less overhead also which reduces expenses for the units. Due to these factors the capital output ratio is usually favourable for the smaller units. The main reason for sickness of large-scale industry is its labour problem and escalating wage bill. The strength of MSEs is its cheap labour and less overhead. SMEs are labour intensive. Through proper utilisation of resources SMEs can keep low level of capital investment per unit of output.

**Weaknesses**

**Lack of quality consciousness:** It is the major weakness. SMEs pay less attention to total quality programme and hence importance is less felt leading to quality problem. Study
reports show that underutilisation of capacity leads to reduction in level of productivity in SMEs sector in India.

**Lack of financial strength:** Lack of financial strength and brand image with absence of past track record in banks are hindrances in mobilising capital through other sources, and this is a challenge for SMEs.

**Lack of industrial work culture:** Labourers give more weightage to their personal work and do not maintain regularity and discipline at workplace. Getting and continuing with trained workers and satisfying them is difficult.

**Reasons of growing sickness among MSMEs:** Study reports show that in India many SMEs are sick and struggling to sustain in business. The main reason for many SMEs’ sickness is lack of quality and increased competition. The Government has taken steps in creating quality awareness and introduced schemes for adoption of continuous technology improvement.

MSME sector in India has been confronted with an increasingly competitive environment due to:

1. Liberalisation of the investment regime in the 1990s, favouring foreign direct investment at the international level, particularly in socialistic and developing countries
2. The formation of the World Trade Organisations (WTO) in 1995, forcing its member-countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports, and
3. Domestic economic reforms

The cumulative impact of all these developments is a remarkable transformation of the economic environment in which MSMEs operate, implying that this sector has no option but to ‘compete’. This is a double-edged sword, in one side which promotes the idea to build the capabilities of MSMEs to compete with high-end products as well as multinationals in another side not all players can compete and eventually seize to exist to promote the concept of “Survival of the fittest”. Therefore, there is a need to carefully nurture and support this sector. Joint efforts are needed from the Government and MSMEs to acquire technological effectiveness. Timely financial support to be ensured taking into consideration of the growing investment demand including the requirement of technology transformation. This sector needs to adopt a proactive approach where the Government may propose a long-term strategy to sustain themselves in the changing economic scenario and progress beyond the current GDP growth.

**Financial assistance as COVID Relief Package**

Credit requirement of MSMEs: One of the major problems affecting the MSMEs is lack of adequate credit to the MSME units. MSMEs require credit which should be available on appropriate time, the amount should be adequate, the interest rate should be less, and repayment period should be long, MSMEs usually lack any suitable asset to pledge as collateral for the credit. As these terms are not favourable for any financial institution, there is a net credit gap or an unmet need for credit by the MSMEs.
Financial assistance schemes for MSMEs

It is important to understand the financial assistance (loans and subsidies) that are made available to the segment. This will enable us to understand the gaps and needs. A variety of financial assistance schemes have been formulated by the Government of India. Some of the important schemes are described here:

The MSMEs occupy strategic importance in terms of output (about 45% of manufacturing output), exports (about 40% of the total exports) and employment (about 69 million people over 29 million units throughout the country) based on the Planning Commission, 2012. It is observed worldwide that as income increases the share of the informal sector decreases and that of the formal SME sector increases.

Worldwide trends in the SME sector

• Japan – SMEs employ 70% of the wage earners and contribute 55% of the value-added.
• Thailand – SMEs employ 60.7% of the population while contributing 38% to the GDP.
• China – SMEs contribute to over 68% of the exports – in the last 20 years created more SMEs than the total number of SMEs in Europe and the US combined.

Note: In China, an industrial SME is defined as having up to 2,000 employees, while a small business has less than 300 employees and medium-sized business has employees between 301 and 2,000.

Loan context

Before we get into the details of the loan process, it is important to understand the loans (subsidies as well) that are made available to the segment. This will enable us to understand the need and the gap. Most of the robust financial arrangements Government of India initiated and they are the largest buyer. Below we detail out those that are important in this context.

Multiple financial schemes to assist enterprises

One: Prime Minister Employment Generation Programme (PMEGP)

PMEGP scheme aims to generate employment opportunities in both rural and urban areas for the MSMEs through setting up of new self-employment projects in the country. This MSME scheme is being managed by Khadi and Village Industries Commission (KVIC) at the national level and being implemented by State KVIC, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks at the state and districts level.

Nature of assistance:

Corpus details: The maximum cost of the project/unit admissible in manufacturing sector is Rs. 25 lakhs and for the service sector, it is Rs 10 lakhs. Only new projects are considered for this scheme.

Applicant Details: Above the age of 18 years and VIII pass is mandatory

Existing units (under PMRY, REGP or any other scheme of Government of India or State
Government) and the units that have already availed Government Subsidy under any other scheme of Government of India or State Government are NOT eligible.

**Table 3: Categories of beneficiaries and subsidies under PMEGP**

<table>
<thead>
<tr>
<th>Categories of beneficiaries under PMEGP (for setting up of new enterprises)</th>
<th>Rate of Subsidy(of project cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>Urban</td>
</tr>
<tr>
<td>General Category</td>
<td>15%</td>
</tr>
<tr>
<td>Special (including SC/ST/OBC/ Minorities/ Women, Ex-servicemen, Physically Challenged, NER, Hill and Border areas, etc.)</td>
<td>25%</td>
</tr>
</tbody>
</table>

It is one of the most important financial assistance given to the youth of India. The scheme has 4 key objectives.

- To create employment in rural, as well as urban areas in India by setting up new self-employed micro enterprises or projects.
- To provide a common ground for the widely dispersed traditional artisans and unemployed youth in both rural and urban areas to come together and create or enhance self-employment avenue.
- To take steps to prevent migration of rural mass to cities to seek employment by giving them stable and sustainable employment. This is especially for traditional and prospective artisans and rural and urban unemployed youth who get traditional or seasonal employment and remain unemployed rest of the year.
- To enhance the earning capacity or capability of artisans or workers and focus on increasing the growth rate of rural and urban employment.

**PMEGP loan allocation:** Breakup of the money that is given under a PMEGP loan.

1. Once the application is approved, the bank allocates 95% of the project cost (for weaker sections of the society) or 90% (for general applicants)

2. Of this, 15-35% is the margin money or subsidy that is provided by the Government. The amount of margin money that will be taken by banks will be proportional to the actual capital expenditure availed by the applicant. The rest of the margin money that is proportional to the amount not availed will be returned to the Khadi and Village Industries Commission (KVIC).

3. The rest of the funds (i.e., 90/95% of funds allocated less 15-35% subsidy) is provided by the bank as a term loan or PMEGP loan. This loan is a term loan which is disbursed time to time after the repayment and utilisation of funds by the entrepreneur.

**Rate of interest:** The rate of interest on the PMEGP loan will be at a normal rate as applicable to the MSE sector.
Tenure of the PMEGP loan: After an initial moratorium (that usually does not exceed 6 months), the bank may provide a repayment schedule of 3 years for the borrowers to pay back the PMEGP loan.

Margin Money / Subsidy: The margin money is kept in a separate savings account that is linked to the loan account, and locked in for a period of 3 years, after which it is adjusted with the PMEGP loan or released.

Working capital requirements: The PMEGP loan requires that the working capital be equal to the cash credit limit at least once in the three years after the margin money is locked in. Moreover, it should not be less than 75% utilisation of the sanctioned limit.

Indicative sectors for which business loan under PMEGP Scheme is given:

The PMEGP loan is given for enterprises in the following sectors:
1. Agro-based food processing
2. Forest-based products
3. Handmade paper and fibre
4. Mineral-based products
5. Polymer and chemical-based products
6. Rural engineering and biotech
7. Service and textile

The amount of contribution required from the borrower is 10% for the General category and 5% for the Special categories, such as SC/ST/OBC, minorities, women, ex-defence employees, physically challenged persons, and people from the Northeast region, hills, and border areas.

The rate of subsidy will be 15% for the General category in urban areas and 25% in rural regions. For the Special categories of people, the subsidy from the Government will be 25% for urban areas and 35% for rural locations.

Khadi and Village Industries Commission (KVIC) is the nodal implementing agency at the national level. KVIC, Khadi and Village Industry Boards (KVIB) and District Industry Centres (DIC) are the implementing agencies in the States and the agency routes the potential application for loans to the banks. Financial assistance/loans are provided through Banks. Government pays margin money subsidy to the beneficiaries through banks at the above-mentioned rates for different categories.

Two: Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE)

Ministry of MSME and SIDBI has jointly established the Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE) to implement Credit Guarantee Scheme for MSEs. The corpus of CGTMSE is contributed by the Government of India and SIDBI.

Corpus details: Upfront subsidy of 15% on institutional credit up to ₹1 crore (i.e., subsidy cap of ₹15 lakh) for identified sectors/subsectors/technologies. However, to be considered as eligible, for special benefits, there is no restriction for identified sectors.
Applicant details:

Any SME having valid Udyam Registration can avail institutional credit to buy new plant and machinery approved under the scheme.

Special benefits are applicable in case of SC/ST, Women, NER/Hill States/Aspirational Districts/LWE Districts. The subsidy shall be admissible for investment in acquisition / replacement of plant and machinery/equipment’s and for the technology up-gradation of any kind (Core plant and machinery). Second hand and fabricated equipment are not eligible.

Three: Credit Linked Capital Subsidy for Technology Upgradation (CLCSS)

This scheme is to facilitate technology to MSMEs through institutional finance for induction of well-established and proven technologies in the specific and approved 51 sub-sector/products. Both upgradation projects (with or without expansion) and new projects are eligible.

The objective of the Credit Linked Capital Subsidy Scheme for Technology Upgradation is to offer 15% upfront capital subsidy on institutional finance availed by the MSME units, including khadi, tiny, village, and coir enterprises. The support is provided when the finance is availed by the enterprises to establish the latest technologies in the workflow of the eligible sectors/products.

Some of the eligible sectors that can avail the subsidy are:

- Biotech industry
- Corrugated boxes
- Pharmaceuticals and drugs
- Food processing, including ice cream manufacturing.
- Leather and leather products
- Steel furniture
- Paints, varnishes, alkyds and alkyd products
- Sewing machine industry
- Cosmetics
- Ready-made garments

Loans are also given by multiple private NBFCs, Banks and other Fin-Tech start-ups who find the MSME segment to be one where the money needed is always high. In most cases the loan approval time that a MSME looks for is quick and simple process. It is also to be appreciated that the segment, be it 2nd generation set up or a 1st generation start-up always has a working capital requirement or other requirements. While the private sector funding boosts the MSMEs to a great deal – yet it is the Government who can help the sector more effectively with compassion. Therefore, the MSMEs ideally look for loans from the Govt. sectors to reduce the costs of capital, not from the private entities.
Contextualising the problem at hand: Seeing the problem areas of MSME financing

The financial schemes from Government to help MSMEs is immense, and it is evident from the schemes that a vast cross section of the MSME entrepreneurs have been kept in mind when planning for loans. Starting from street vendors who can avail Atmanirbhar SVANidhi loans to MSME loans up-to rs.25 lakhs (RBI regulations) from 7.6% yet the MSME segment is timid compared to our expectation.

Why is the growth not optimising as was envisaged by the authorities?

The cost of starting a small enterprise can be higher even if someone has an excellent idea or an extremely innovative product. Most of the SME entrepreneurs look towards financial institutions to ease the cost of starting a business. However, not every entrepreneur finds co-operating financial institutions or friendly bankers towards setting up a new enterprise.

Therefore, the unavailability of proper credit is one of the most significant problems faced by majority of the SMEs. SME loans often come with complex documentation, need for extensive collateral, strict repayment tenures, and higher-interest rates. These can make it difficult for SME entrepreneurs to opt for a loan and achieve financial independence. However, loans to SMEs are reckoned as part of priority sector with a lending target of 40% for scheduled commercial banks.

The other challenges faced by the MSMEs relates to higher loan approval time.
Chapter 2
Literature Review

This chapter lists and describes several existing studies and publications which have been conducted on the topic of providing credit and finance to micro, small and medium enterprises. The priorities of the financing institutions and the tendencies of the small businesses are highlighted in the light of existing research findings.

- **Fatoki and Asah (2011)** find out that firm size impacts MSMEs’ access to debt finance from commercial banks whereby small enterprises are less favoured to large firms. The literature suggests that market failure in lending to SMEs can arise for several reasons, primarily relating to their relatively small size, lack of resources and opaqueness.

- In the seminal contribution by **Stiglitz and Weiss (1981)** they show that, due to asymmetric information and principal-agent problems, lending institutions find it difficult to distinguish between good and bad risks, resulting in adverse selection and moral hazard problems. In this context, financial institutions like banks are finding it less risky and less costly to lend to large enterprises. From their point of view, therefore, it is rational to apply credit rationing to SMEs, which are subject to greater opaqueness and risk.

- The age of the firm refers to the length of time that a firm has existed, usually expressed in years. Firms at the early stage of operation used to experience difficulties in access to debt finance because of informational disparities. The firm starts to operate and grows with business performances on a trade which create a reputation in the credit history. Credit reputation reduces the moral hazard dilemma hence creates a path to access debt finance. The study conducted by **Klapper (2010)** discovered that the firms with less than 5 years (younger firms) in operation are less likely to rely on debt financing.

- **Ngoc Le and Nguyen (2009)** supported the argument that younger firms face hardship and more costs in accessing external financing from lenders because of information asymmetry. Thus, it is a theoretical presence of a positive relationship between the firm age and MSMEs access to financing.

- Entrepreneurship plays a crucial role in deciding the capital structure of MSMEs. Managerial entrepreneurship is regulated by fear of insolvency and a shareholder’s possession is guided by agency cost and cost of insolvency arises due to debt financing. Therefore, both are less likely to use debt in the capital structure of their firms (Abor, 2008). Thus, the age of the firm, size of the firm, asset structure, profitability, risk, and managerial entrepreneurship are important in influencing the capital structure decisions (Abor, 2008; Watson, Newby, and Mahuka, 2009).

- **Cassar (2004)** found out that lenders observe incorporation as a good indicator of the firm’s trustworthiness and commitment to operational laws. The study conducted by Coleman and Cohn (2000) and Fatoki and Asah (2011) evidenced the presence of a positive association between debt financing and the legal formation of the business organisation. It is also evident that there is an existence of a positive relationship...
Dipstick Study

between incorporation and access to debt financing by MSMEs. The literature review on MSME financing summarises profitability, age, size, tangibility, and growth as the major factors affecting the capital structure of MSMEs.

- **Satish Kumar and Purnima Rao (2015), Sutton (1997)** examined the effect of firm characteristics on performance. The study on the effect of firm characteristics on performance predominantly stems from Gibrat’s Law or the law of proportionate effect, which is the probability that the next opportunity taken up by any active firm is proportional to the current size of the company.

- **Ayyagari et al. (2014) and Quartey et al. (2017)** researched the effects of firm characteristics, such as firm size and age. Thus, it is theoretically evident that there is a presence of a positive relationship between the firm attributes and SMEs access to financing.

- **Basu (1957)**, in his study, tried to examine the financial problems of small-scale industries and assessed their place in the country’s Second Five Year Plan. The study pointed out the inadequate role of state finance corporations in financing the small-scale industries.

- **Sharma (1973)**, in his PhD thesis entitled ‘Role of Institutional Finance in the Industrial Development of Bihar’, explained industrial financing by national-level financial institutions. The study also discussed the role of the state financial institutions in financing industries of Bihar. The author suggested that the financial institution should act as a guide, philosopher, and promoter of industries and recommended the setting up of small industries bank.

- **Pareek (1978)**, in his work titled ‘Financing of Small-scale Industry in a Developing Economy’ revealed the role of financial institutions and state agencies in extending credit to small-scale units and pinpointed their attitude of indifference in catering to the need of the tiny units. He suggested that financial institutions had to tune their policies in consonance with the needs of a small-scale sector in general and the smaller among small-scale units in particular.

- **Singh (1986)** in his study titled ‘Agricultural household models: Extensions, applications, and policy’ made an analytical survey of the institutional sources of finance to the SSI and other small and tiny units, after critically examining the various aspects of the functioning of the financial institutions for the growth of the small-scale sector.

- **Raghuram (1991)**, in his PhD thesis titled ‘Role of Commercial Bank in Financing SSI - A Case Study Dakshin Kannada’, tried to analyse the problems faced by small-scale units while availing the bank finance. The problems faced by the bankers and the procedures adopted by the bank in extending finance are also examined.

- **Park and Krishnan (2001)**, in their article titled ‘Supplier Selection Practices among Small Firms in the United States: Testing Three Models’, observed that the commercial banks came forward and provided immense help to the growth of SMEs. There was a gap which required analysis about the role of the banks in the post-economic reforms in United States of America. They suggested an in-depth study on the bankers’ role in providing the credit to promote the SMEs.
• *Kumar, J (2002)*, in their article titled ‘Contribution of Financial Institutions in the growth of MSMEs in Ambala District of Haryana state.’ studied the role of SIDBI in meeting financial requirement of small-scale industries through its various loan schemes. Based on this study, they concluded that the role of SIDBI in providing financial assistance was generally commendable both in terms of number of schemes sanctioned and the quantum of loans disbursed over a period of 8 years.

• *Tarun (2004)* conducted a study on CSR in Industrial Areas/SMEs: Activities, Policies and Strategies in New Delhi, Business Community Foundation. A comprehensive review of literature is an essential part of any investigation as it not only gives an idea about the work done in the past and assists in delineation of the problem area but also provides a basis for interpretation of findings. Accordingly, the available relevant literatures on MSME have been reviewed with reference to their financial as well as other related aspects.

• *Kotler and Lee (2005)*, in their book titled ‘CSR – Doing the Most Good for Your Company and Your Cause’, New Jersey: John Wiley and Sons Inc., emphasised more on the needs and feasibilities of MSMEs and also estimated how relevantly the MSMEs emphasise the use of inherently available local resources in industrial development, but the contents, though touch upon the availability of financial resources for their surveillances, do not penetrate much about the role and effectiveness of bank finance in this respect.

• *Chaniyara (2012)*, in his PhD thesis entitled ‘A Study on Role of Investment Banks for Development of Indian Small and Medium Enterprises’, stated as outcome of the study, with the help of investment bank’s services like private placement of equity, business advisory services, and merger and acquisition, the Indian SMEs could overcome so many challenges like inadequacy of requisite R&D support, constraints in adopting energy efficiency in production process, non-availability of adequate and timely credit, inability to upgrade technology and production facilities to achieve cost competitiveness, lack of proper means and support for brand building, and non-availability of skilled personnel.

• *Kavitha Vani. (2015)*, in her PhD study entitled “A study of finance gap between commercial Banks and micro, small and medium enterprises with reference to Karnataka”, tried to address the issue by analysing the problem from the perspective of supplier of finance and demand for finance. The main finding of the study was that the finance gap which was there in Karnataka was perception gap between banks and SMEs that resulted in high financial exclusion.

• *Sen and Salim (2016)*’s study dealt with the importance of MSMEs in West Bengal. They examined the performance with respect to number of units, investment, and employment generation. The study observed the existence of regional disparity among districts of West Bengal in respect of MSME units, investment, and employment. The study concluded with some suggestions for industrial clusters with the Government. Industrial clusters might ensure the common facilities that would be helpful to reduce the operating cost, increase the competitiveness, and develop the skills for the sector. Also, Government was needed to enhance financial support which would be strongly boosting the development of state industry.
Das and Das (2017), in their research paper, tried to explore the operational and economical characteristics of Micro-Manufacturing Enterprises (MMEs) and their status of development in particular in context of West Bengal. Based on 67th round NSSO unit level data, the study found that MMEs in West Bengal made important contribution towards the employment generation and output of the state economy. Approximately 10% of the output of India was produced in the West Bengal state. The productivity of MMEs was comparatively higher than the OAEs (Own Account Enterprises), but the profit rate was comparatively higher in OAE than in the MME. The study suggests that Government should invest in introduction of new technologies and provide them proper training.

Biswa, Srivastava, and Kumar (2018), in their article, made attempts to identify various factors that influence the financing gap in the MSME sector, and which lead to the imposition of credit rationing approach by the banks. The paper was mainly review based and the author did a descriptive survey carried out on the bank officials in the districts of Varanasi and Chandauli. According to authors’ suggestion, it is necessary for the MSME entrepreneurs to reduce information asymmetries between the borrower and the lender by operating in a transparent manner and increasing their probability of availing formal credit to reduce the financing gap in the MSME sector.

Fredland & Morris (1976), Di Pietro & Sawhney (1977) Small and medium enterprises face several problems related to inadequate access to institutional credit which leads to high finance cost.

Timmons (1978); Keasey & Watson (1993); Reynolds & Storey (1994) Small enterprises have high failure rate, no collateral security offer, less creditworthiness, high administrative cost, inadequate credit history, not suitable risk management and lack of information system with financial institution of MSMEs which demotivates to give credit. In comparison to large business, small businesses need more credit, and they have higher propensity to fail also.

Murthy (1980); Yadav M & Kumar A (2013). Study of Financing Pattern by Entrepreneurs of Small-Scale Sector, I.J.A.B.E.R, 11(2), 343-353. Small and medium enterprises face the problem of lending, financing and marketing problem. SMEs are not following the definite capital structure. Enterprises are not having the adequate finance. Enterprises in rural areas are unable to access credit from financial institutions. Entrepreneurs of these enterprises do not have financial leverage knowledge. Micro enterprises rely on external sources. Small scale enterprises are not maintaining the adequate financial records also.

Andrea (1981) Because of insufficient finance small enterprises are unable to solve problems of inadequate skilled labour, accessibility to modern and new updated technology and are unable to access market.

Namasivayam G. & Ganesan S. (2008); Gunatilaka (1997), Ganesan (2000) Researchers found that MSMEs are not having sufficient savings and cash inflows which creates problems in getting outside credit. In Sri Lanka financial and non-financial institutions do not lend credit to MSMEs for development.
Researchers found that because of bankruptcy there is a high risk of failure of enterprises. Studies conducted by researchers found that an inadequate financial resource is the main problem of SMEs which creates hurdles in the growth and development of MSMEs. MSMEs can obtain debt with the sufficient level of collateral. MSMEs entrepreneurs should follow financial management practices so that financial institutions can lend loan to them.

Researchers found that there has been huge reduction in the credit facilities provided to micro, small and medium enterprises.

Turnover, Profitability, Liquidity debt and solvency determines the financial features of SMEs. In small enterprises inadequate finance leads to bankruptcy. Small enterprises have low profitability as they maintain liquid assets.

Wrong selection of location, under estimation of cost of capital, demand over estimation, not timely implementation of project, inadequate financial management, and cost control and managerial insufficiency, inadequate finance and working capital, weak collection of bill receivables, weak management of funds are some of the problems of small industries.

Shortage of liquid assets, not satisfactory debt equity ratio, delayed payment to suppliers, problems in payment of instalments are some of the financial problems of MSMEs.

Researchers found that low ability to provide collateral for loan, lack of financial expertise, inadequate management skills, undercapitalised, lack of knowledge of management of cash flow, dependence on local market and restricted customers are the problems which MSMEs face. Investors are unable to access long term credit and they lack accurate information. MSMEs face the financial problems like investors have inadequate access to long run credit, detailed information is not available to investors, and this decreases the pre-investment cost which is high.

Inadequate finance facility of financial institutions and non-financial institutions towards MSMEs also hinders the survival of MSMEs.

Policies affect the funding and credit worthiness of MSMEs in both developed and developing nations. Credit availability affects the micro, small and medium enterprises of any country. In US, smaller SMEs rely on internal source of finance i.e., personal savings, angel finance, and trade credit for the initial level of capital. This is because of narrow accessibility to small level business in the market.

Capital is needed for companies so that they can meet the requirement of fixed assets and working capital. Many companies face the difficulty of inadequate capital in establishing and operating enterprise, so they must borrow the money. The dependence on debt depends on size of firms. If firm is small there will be more debt dependency. Services related small firms have the tendency of transacting in cash and keeping less records. Manufacturing enterprises and order-driven services require more money as they have longer working capital cycle and more capital expenditure.
• **Ramachandra (2001)** Sick enterprises can be revived by providing suitable technology, training relating to management, skilled labour, promotion of export and all this is possible with sufficient finance. The financial institutions should disburse enough to SMEs which promotes them. There is a need of awareness of credit availability and various schemes of SMEs.

• **Berger and Udell (2002)** There are various problems which affects survival and growth of MSMEs. There are economic problems which affects the survival of micro, small and medium enterprises i.e., unable to obtain external finance, inadequate capital, high operating expenses, weak money management, high losses because payroll meeting, unable to obtain trade credit, inadequate profit, lacks ability in meeting financial obligations, high health insurance cost, high cost of workers’ compensation.

• **Fumo and Jabbour (2011); Rao and Ganesh (2011)** In year 2011 Fumo and Jabbour found that micro and small enterprises are mostly affected by financial and competitive barriers which creates problem in the development of a nation. Inability to obtain external finance, internal finance, not sufficient capital, start-up costs, high price of raw materials, high wholesale price are the various financial problems of MSMEs. According to research done by Rao and Ganesh in year 2011, lack of bank credit is the major problem of micro enterprises. Banks are not willing to provide credit to women, women are unable to provide security and margin money, and tight schedule of repayment are various problem of enterprises. The major reason of not getting credit is inadequate information about credit and security.

• **Malhotra et al. (2007)** Small firms face difficulties like inadequate access to financial services, distortion of financial sector policy, inadequate bank knowledge, inadequate audited financial statements, and high risk associated to SMEs lending.

• **Sia, Manuel and Donna Nails (2008)** The micro and small entrepreneurs have small capital base, they are dependent on personal savings, and loan taken from friends and relatives. In the developing countries in the phase of start-up, entrepreneurs are dependent on informal source of funding and experience the basic problems i.e., mismanagement in cash flow.

• **Dasanayaka (2009)** Finance affects the growth of small and medium enterprises. Suffering from financial problem leads to weak production facilities, use of out dated technology, lack of quality control, and inadequate market orientation which lead to low profitability. Finance problem can be divided into four broad categories 1) Finance is not available by banks 2) Loan accessibility problem 3) Cost of borrowings is high, 4) Mismanagement of finance. Sufficient finance should be available on time for the survival and growth of the enterprises. MSMEs capital base is normally weak as initial investment is done through own fund or loan taken from friends and relatives. (2010). MSMEs face problem in raising funds from both capital and money market. Loans are provided by commercial banks based on the availability of collateral security, risk level, and performance of previous years. Commercial banks provide loan at high interest.

• **Yesseleva (2010)** Majority of entrepreneurs are not satisfied with the services provided by financial institutions.
• **Yartey (2011)** MSMEs are facing universal problem of inadequate finance. The stakeholders of manufacturing sectors of MSMEs are facing the problem of inadequate access of internal and external source of finance, unfavourable conditions of market and weak tax regime.

• **Naidu and Chand, (2011)** Micro, Small and Medium Enterprises face the various challenges like inadequate collateral, poor preparation of accounts, poor cash management, inability to obtain internal and external finance, inadequate capital, and high cost of start-up.

• **Rao and Ganesh, (2011)** Banks do not provide credit to women entrepreneurs because women are unable to provide adequate security. This and strict repayment regime are some of the problems of MSME sector.

• **Kamalian, Rashkian and Arbabi, (2011)** as compared to large enterprises, MSMEs are dependent on external finance with high rate of interest. They are riskier, and rate of failure is more. MSMEs cannot implement innovative ideas because of inadequate financial resources. Due to high-risk project of innovation, financial institutions do not provide loan to small firms. Government does not provide funds for innovative ideas because of bureaucratic procedure of application. Because of regulatory reasons innovative projects are unnecessarily delayed.

• **Rao and Ganesh, (2011)** A significant reason of finance problem of micro enterprises is non-adequate credit from banks. Unwillingness of bank in extending credit to women, inability to provide adequate margin money and security, and strict repayment schedule are various problems which are faced by enterprises.

• **Fumo and Jabbour, (2011)** Researchers found that MSMEs are unable to obtain external finance and, unable to obtain trade credit. They are also affected by weak money management, inadequate profit, high health insurance cost and workers compensation cost. Financial and competitive barriers are likely to be most affected in micro and small enterprises for their growth and development.

• **Chancharat, (2011)** Business organisation fails because of poor management, poor cash flow management, deficiency in accounting, not suitable finance source, dependent on suppliers or customers, weak research, marketing and overtrading, and fraud. Business fails also due to external factors like suppliers or customers’ bankruptcy, environmental protection, and international development.

• **Joshi, (2011); Arun and Kamath (2015)** There are three problems: access to market, credit and capital, which faced by micro, small and medium enterprises. There is no systematic approach to MSMEs, transaction cost is high, procedure of granting loan is lengthy but at the end loan disbursement is inadequate. Inadequate access to formal source of funds and non-availability of full information are other factors. Rate of interest for investment and working capital is quite high. Many MSMEs lacks transparency, inadequate financial and managerial capabilities.

• **Sandhu, Hussain and Matlay, (2012)** Women entrepreneurs have low risk-taking ability. Women entrepreneurs commence business with low level of capitalisation and debt finance and do not utilise private equity for the sustainability of business. Women are not involved in banking activities due to illiteracy and cumbersome procedure of
Banks are not interested in providing loan because of low credit worthiness, high interest rates, non-existence of history of credit, low credit bearing capacity, and absence of healthy relationship with banks for availing bank loans. Women entrepreneurs do not have the knowledge of financial assistance i.e., incentives, subsidies, tax relief, etc., which leads to business failure. Women entrepreneurs are dependent on small personal savings, loan taken by family, friends which are not enough for sustainability of business.

- **Aldaba (2012)** Firms must borrow because of lack of collateral requirement, and it takes long duration in processing loan application. Micro, small and medium enterprises find loan restructuring problematic. They are also affected by the short period of repayment. Financial institutions charge high interest and there is inadequate fund for start-up, and inadequate access to venture capital funds. Financial institutions treat MSMEs as high-risk borrowers. Bank thinks that MSMEs lacks the financial management capacity.

- **Rao and Appa Rao (2012)** The major financial problems of MSMEs are inability of entrepreneurs to obtain internal and external finance, high cost of start-up, insufficient capital, costly raw material, huge losses due to scrap rate, decrease in sales, write offs and bad debts, high cost of equipment, high Government tax, high cost of transportation and petrol, high rate of interest on loans, high cost of insurance and payment delay of account receivables.

- **Mehta (2013)** The various problems of MSMEs are inadequate finance, capital and limited knowledge, high cost of credit, inadequate skilled manpower and inaccessibility to global markets.

- **Tauringana and Afrifa (2016)** Working capital management is the major challenge for micro and small enterprises.

- **Tambi (2013)** Repayment problem is more serious than availability of finance. The procedure of repayment of financial liabilities are stressful and are not encouraging because of low sales and paying capacity.

- **Vijayakumar and Naresh (2013)** The problem of finance is related to inadequate finance, difficulties arise in getting credit from bank, low capacity of bearing risk, inability to expand due to inadequate capital, problem in capital for expansion, lack of awareness of suitable source of finance, inadequate collateral security, and cumbersome procedure for availing loan. Women entrepreneurs suffer from lack of financial resources. Entrepreneurs are not able to avail loan due to low creditworthiness and lack of collateral and bank balance.

- **Bose (2013)** They are performing task with inadequate capital. These enterprises depend on entrepreneurs’ capital and business revenue. There are various issues like low technology, inadequate product variants and inability to increase manpower, etc. These issues cannot be solved without sufficient credit. With sufficient credit enterprises can invest in distribution network, building brand, technical knowledge, research and development. These suppliers face the problem of realisation of payments for product and services. In the absence of credit, enterprises are unable to expand operations and if there is inadequate working capital then existing operations cannot be performed well.

- **Kumar and Kumar (2014)** Small and women entrepreneurs face the problem of lack of financial resources and working capital. They have inadequate external funds because
of lack of collateral security and credit in the market. Women are not having properties on their name that is why they lack security for availing loan. Women do not understand the difficult and complicated formalities of bank loans. Time taking process in obtaining loans and huge transaction cost involved makes it difficult for women in getting loans and in becoming successful entrepreneurs.

- **Jain and Jain (2012)** Finance is treated as life blood of any type of business organisation irrespective of big or small. Women entrepreneurs face problem of lack of fund in two ways. Firstly, women do not have property in their name so that it cannot be used as collateral for procuring funds. Women have limited access to external source of funds. Secondly, banks and financial institutions treat women as less credit worthy and a bank assumes that women borrowers can leave the business organisation any time. Women rely more on friends and relatives, and personal savings which is quite inadequate. Due to these reasons and because of lack of funds women entrepreneurs fail to become successful entrepreneurs.

- **Dhameja and Yadav (2015)** Inadequate working capital is the main financial problem of women-oriented enterprises.

- **Siddiqui (2012)** The various problems of financing are high credit cost, insufficient working capital, unable to recover money from debtors, adequate and timely credit is not available, lack of collateral requirement. For availing loan paperwork is excessive used in financial institutions.

- **Noorinasab, Seifabad and Zarei (2016)** Entrepreneur’s face problems like how to raise capital for start-up, and inadequate fund. Many entrepreneurs are unable to access external funds because of inadequate security and credit in market. The process of loan availing facility is time consuming. Other problems are decrease in profit because of competition, financial statements are not properly maintained by entrepreneurs of MSMEs, inadequate guarantees for raising loans, equity problem in raising capital, and dependence on money lenders for loans which are high cost.

- **Siddiqui (2018)** During early growth stages micro, small and medium enterprises need timely and sufficient capital. MSMEs rely on various sources of finance. Various financial problems are inadequate and non-timely credit, limited knowledge and capital, collateral security requirement, not sufficient working capital, recovery from debtors, and requirement of paperwork for availing loan from financial institutions.

- **Kira and He (2012)** Firm-level data collected by the World Bank shows that shortage of access to finance is perceived to be one of the main obstacles to doing business. Several studies have revealed that financing is a major constraint for SMEs to grow than for larger firms, mainly in the developing world.

- **Banerjee and Duflo (2012)** A study by the IFC in 2012 estimated the potential financial demand gap by MSMEs in India to be $418 billion. It is one of the biggest gaps that we see in the South Asian Region of developing countries.
Few recent steps taken by Govt. of India

The Ministry of MSME runs various schemes aimed at financial assistance, technology assistance and upgradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance to MSMEs. The Ministry is committed towards an agenda of inclusive development and has taken various initiatives and measures to ensure that demographically as well as geographically weaker sections benefit from its work. Several statutory and non-statutory bodies work under the aegis of the Ministry of MSME. These include the Khadi and Village Industries Commission (KVIC) and the Coir Board besides National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises (ni-msme) and Mahatma Gandhi Institute for Rural Industrialisation (MGIRI).

- Non-Banking Finance Companies (NBFCs) have requested the Reserve Bank to extend the one-time restructuring scheme of MSME advances till March 31, 2022, as these players are unable to revive their businesses. In February last year, the Reserve Bank had permitted one-time restructuring of existing MSME advances, classified as 'standard' without downgrade in the asset classification subject to certain additional provisioning and other compliances.

- The Govt. of India COVID schemes are trying to help the MSME segment a great deal – so that the NPA numbers do not increase. This closing down or bad debt syndrome can severely affect the entire economy of the nation. Every scheme will make sense when the MSMEs are able to maximise on its benefits.

- **In March 2021**, the Ministry of MSME, through the Development Commissioner (DC-MSME) implemented the Technology Centre Systems Programme (TCSP) to establish 15 new Technology Centres (TC). The centres will aid the industry, predominantly MSMEs, in General Engineering, Automotive, Fragrance and Flavour and ESDM sectors.

- **In March 2021**, the Finance Ministry allowed private retirement funds to invest up to 5% in Category I and II AIFs regulated by SEBI; this will help widen the fundraising options for MSMEs and expand the domestic pool of capital.

- Category I AIFs consists of infrastructure, venture capital, angel and social venture funds. Category II AIFs covers funds where at least 51% of the size can be invested in either infrastructure, SMEs, venture capital or social welfare entities.

- **In March 2021**, MSME support and development organisation, National Small Industries Corporation (NSIC) announced that they will assist MSMEs working with the Agricultural and Processed Food Products Export Development Authority (APEDA) across multiple areas.

- The NSIC, through a MoU with APEDA, will help its MSME members in exploring the export potential of their agricultural and processed foods products. Additionally, APEDA members will get access to NSIC schemes, which would help them to address the issues pertaining to technology adoption, skills, product quality, and market access.

- The relationship will also support promotion of green and sustainable manufacturing technology for MSME clusters, enabling units to switch to sustainable and green production processes and products.
• **In February 2021**, Walmart's Vriddhi programme was extended to Uttar Pradesh, with launch of an e-institute to facilitate small businesses in granting access to skills and competencies across online and offline platforms such as Flipkart's marketplace and Walmart's global supply chain. The company stated that this new e-institute will benefit 50,000 MSMEs across the country to expand domestically and globally.

• **In February 2021**, Mastercard and Razorpay signed a partnership to help small businesses and entrepreneurs in India embrace digital payments. The partnership integrates Razorpay's payment processing capabilities with Master card's digital banking platforms and card services.

• **In February 2021**, Bank of Maharashtra has collaborated with Vayana Network, a Supply Chain Financing (SCF) platform, to provide financial assistance to the MSME market. Through this partnership, the bank will provide short-term credit to address the budget needs of legitimate corporate dealers/vendors through the bank's 'Mahabank Channel Financing Scheme' and Vayana Network's expertise.

• **In February 2021**, Indian Bank signed a Memorandum of Understanding (MOU) with the Society for Innovation and Development (SID), a project of the Indian Institute of Science, to provide exclusive credit to start-ups and MSMEs.

• **In February 2021**, SIDBI, a financial institution dedicated to the promotion, financing, and development of MSMEs, signed an agreement with the Government of Andhra Pradesh to help expand the state's MSME ecosystem.
Chapter 3
Study Rationale

MSMEs require credit to grow and develop, preferably adequate and concessional credit, and such credit assistance is usually available to a limited extent from Government financial institutions at a low rate of interest, and thus MSMEs are forced to avail credit from private institutions and other personal sources at higher rates of interest and on more stringent terms. At the same time, Govt. is devising schemes for providing easy credit to the MSMEs so that all the interested entrepreneurs can avail credit on easy terms and thus set up and run MSMEs that generate more income and provide employment to larger number of people. However, due to number of reasons, the financial institutions are not willing to provide credit to the MSMEs according to the terms and conditions of the schemes designed by the Govt. Because of the reluctance of the financial institutions to provide finance according to the schemes, despite clear directions from the Govt., the MSMEs are unable to start or continue their business as projected and expected by the Government. In addition to credit, the Govt. is also designing technical and institutional support packages for the MSMEs so that the MSMEs take off, but credit remains a weak point. In this scenario, COVID came in and had to be countered by imposing lockdown in the entire country due to which many livelihood activities were forced to stop, and the MSMEs were also included in this. Due to closure of business, both MSMEs and workers suffered. MSMEs who had availed credit were constrained to repay and the Govt. had to come in with the relief packages for them, with moratorium on declaration of the loans of the MSMEs as NPA by the banks and resultant recovery procedures. Additional credit was also given to the MSMEs to resume and continue operations to tide over the crisis period. Number of steps was taken by the Govt. to help the MSMEs in recovering their status.

Credit gap in MSMEs

Overall finance demand from the MSME sector is of rs.32.5 trillion, of which 78 percent, or rs.25.5 trillion is either self-financed or from informal sources. Formal sources cater to only 22 percent or rs.7 trillion of the total MSME debt financing. Within the formal financial sector, banks account for nearly 85 percent of debt supply to the MSME sector, with Scheduled Commercial Banks comprising rs.5.9 trillion. Non-Banking Finance Companies and smaller banks such as Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs) and government financial institutions (including State Financial Corporation and State Industrial Development Corporations) constitute the rest of the formal MSME debt flow (Financial Constrains, Abhijeet Biswas, BHU, India, 2014).

Gap that exists between the demand and the supply

There is a total finance requirement of rs.32.5 trillion in the MSME sector, which comprises of rs.26 trillion of debt demand and rs.6.5 trillion of equity demand. Thus, after excluding (a) sick enterprises, (b) new enterprises (those with less than a year in operation), (c) Enterprises rejected by financial institutions (d) micro enterprises that prefer finance from the informal sector, the viable and addressable debt demand is estimated to be rs.9.9 trillion, which is 38 percent of the total debt demand. The viable and addressable equity demand is estimated to be rs.0.67 trillion, after excluding:
a. Entrepreneurs’ equity contribution to enterprises estimated at Rs.4.6 trillion and,

b. Equity demand from micro and small enterprises that are structured as proprietorship or partnership and are unable to absorb equity from external sources.

The second is estimated to be worth Rs.1.23 trillion.

MSME finance gap in the sector: Despite the increase in financing to MSMEs in recent years, there is still a considerable institutional finance gap of Rs.20.9 trillion. After exclusions in the debt demand (62 percent of the overall demand) and the equity demand (from MSMEs that are structured as proprietorship or partnership), there is still a demand-supply gap of Rs.3.57 trillion, which formal financial institutions can viably finance in the near term.

This is the demand-supply gap for approximately 11.3 million (Ref: International Journal of Interdisciplinary and Multidisciplinary Studies (IJIMS), 2014, Vol. 1)

For most developing and transition economies, the common challenges for MSMEs typically include financing, overcoming institutional, legal issues. International Journal of Interdisciplinary and Multidisciplinary Studies (IJIMS), 2014, Vol. 1, No.5, 60 - 68.

MSME size wise credit gap: While many MSMEs have already received some form of formal finance, they are significantly underserved with only 40-70 percent of their demand currently being met. With appropriate policy interventions and support to the MSME sector, a considerable part of the currently excluded demand can be made financially viable for the formal financial sector. Of the viable and addressable demand-supply gap, the debt gap is Rs.2.93 trillion and the equity gap is Rs.0.64 trillion. The micro, small, and medium enterprise segments respectively account for Rs.2.25 trillion, Rs.0.5 trillion and ₹0.18 trillion of the debt gap that is viable and can be addressed by financial institutions in the near term. Micro and small enterprises together account for 97 percent of the viable debt gap and can be addressed by financial institutions in the near term. Available data indicates that medium enterprises in India are relatively well financed. The equity gap in the sector is a combined result of demand-side challenges such as the legal structures of enterprises, as well as supply-side gaps, such as a lack of investment funds focused on MSMEs (Ref: “Financing Constraints for MSME Sector” Abhijeet Biswas Faculty of Management Studies, 2014)

Firm-level data collected by the World Bank shows that shortage on access to finance is perceived to be one of the main obstacles to doing business. Several studies have revealed that financing is a major constraint for SMEs to grow than for larger firms, mainly in the developing world (Kira & He, 2012) studies.

Within-country evidence also points to credit constraints for MSMEs. For example, an impact evaluation from India in access to a targeted lending programme finds that many SMEs are credit constrained, and that providing additional credit to SMEs can accelerate their sales and profit growth (Banerjee and Duflo 2012). A study by the IFC in 2012 estimated the potential financial demand gap by MSMEs in India to be $418 billion. It is one of the biggest gaps that we see in the South Asian Region of Developing countries. (Ref: MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets, was authored by Miriam Bruhn, Martin Hommes, Mahima Khanna, Sandeep Singh, Aksinya Sorokina and Joshua Seth Wimpey. Analytical support was
Government efforts towards financing MSMEs

Government of India has taken the correct steps to bridge this gap – so that the MSME market gets finance and market as well:

The Government has taken multiple steps to ensure that MSME segment finds market within our country (and also within the Govt. machineries) as well as out of the country. One big example of push that is been given by the Govt. is the “MSME-SAMBANDH Portal” established on the 8th of December: 2017. The portal helps in monitoring the procurement by Central Government Ministries, Departments and Central Public Sector Enterprises (CPSEs) and enables them to share the list of required products/services from MSEs. The result was appreciating worthy. As of December 2020, a total number of 111 CPSEs have uploaded details for 2020-21. These CPSEs have reported procurement of rs.57016.60 crore. The share of purchases from all MSEs amounts to rs.18963.05 crore (89911 MSEs benefited) which work out to be 33.26% of the total procurement. The number of purchases from SC/ST owned MSEs amounts to rs.349.49 crore (3621 MSEs benefited). The number of purchases from Women owned MSEs amounts to rs.357.81 crore (2374 MSEs benefited).

The portal also has a provision of a grievance cell, so that queries can be uploaded, and the appointed nodal officer has been given the responsibility to solve the problems being faced by the segment. More than 750 FAQs have been already uploaded on the portal to help the
MSME units for better understanding of schemes related to MSMEs. FAQs related to MSME/MSME Scheme(s) are being added on regular basis to provide necessary guidance. As of the end of 2020 total queries/grievance received was 25,855 on the portal. Out of which 25,520 queries i.e., 98.7% have been responded while 335+ queries are in process of being resolved.

**Study to address the Credit Gap**

Considering the existing gap in credit for the MSMEs and the continuing efforts made by the Govt. of India to bridge this gap, a study was envisaged to gain a better understanding of the credit availability and the credit accessing by the MSMEs to generate suggestions and action points for the Govt. of India. A study was commissioned by the National Institute for Micro Small and Medium Enterprises (ni-msme). The details of the study are described.
Study objectives

The overall objective of the research was to assess the effect of the financing provisions existing for the setting up and operations of MSMEs in the country and to generate recommendations for more robust financing mechanisms for successful operation of the MSMEs in turn understanding the MSME loans impact on financial institutions due to NPA.

The specific objectives were:

- To assess the existing provisions for financing of different types of MSMEs in the country, focusing on the banks,
- To critically assess the functioning of the banks in providing finance to MSMEs with reference to the formal provisions and the performance in actual practice, focusing on the MSME financing schemes initiated and supported by the Govt.
- To identify the problems faced by the banks in financing MSMEs, focusing on the bankers at all levels.
- To assess the financing requirements of the MSMEs and the extent to which those are fulfilled by the financial institutions
- To understand the experiences of the MSMEs in arranging finance from the banks, focusing on the MSME financing schemes of the Govt.
- To identify the strengths of the MSME financing provisions existing in different financial institutions
- To identify and document the challenges and the opportunities in provision of finance to the MSMEs and to generate recommendations for more effective financing of the MSMEs.
- To understand the MSME loans NPA and relationship with Indian economy and financial institutions.

Scope of the study

The study intends to understand the loan disbursement and the recovery process, both from the point of view of the financial institutions and from that of the MSME entrepreneurs. The importance of enterprises and industry in production of goods and services and in generating employment is immense and realising that Govt. has been devising and implementing a lot of steps to promote the MSMEs to sustain and enhance the production and employment generation by the MSMEs.

One must appreciate all the steps taken by Government of India to encourage the growth of the MSME segment and leveraging upon the potential. It is working with various statutory bodies, both Government and NGOs, to create an environment of knowledge, so that loan applications and further processing becomes smooth and easy. Necessary subsidies have
been put into place and the interest on the loans has been regulated to encourage growth in the MSME segment. With repeated annual lockdowns coming in the way of easy functioning of the sector – the Ministry strived to remain one step ahead in figuring out schemes that work for the entrepreneurs e.g., extended moratorium, interest rate subventions, so that the MSMEs do not turn into NPA due to extreme financial stress.

In this regard, research was conducted to understand the ground reality of what is happening and what can be improved to make the process easier.

- To find an actual reflection of the entire process we spoke in detail to all the parties of the transaction. The financial loan providers and beneficiaries.
- To understand the points of view of the two parties to the Loan Giving and Loan Taking system. We spoke to the authorities – Those who have been instrumental in disbursing the loans that the MSME segment needed. They are the Banks, KVIC, NSIC, DICs and other Govt. of India institutions. We tried to establish the two sides of the story and identify the big role of loans in creating the boost to MSME. We tried to understand the entire process from both sides of the loan.

**Deliverables**

We looked through a 360-degree lens – so that one understands the entirety of the process. The understanding then is contextualised to create a greater level of learning.

**The story of the financial institution**

Triggers & challenges in giving MSME loans and the good effects through their eyes. What are the big prevailing Positives and what are the Negatives – how is one handling the negatives currently? What are the long-time solutions that is required to set things right?

**The story of the loan taking MSME**

We understood the context of loans. So, we set out to understand their profiles. What were their dreams and aspirations when taking loans? Loans availed and how it has helped the growth story (not only of theirs but the entire segment). What were their challenges in terms of taking loans – and in what way did they overcome the challenge. Additionally, the team also asked them for the kind of solutions they looked for.

**Research methodology**

MSMEs have acquired a high place in financial inclusion which is a top agenda of Union Government for equitable development of the nation. The sector mainly relies on bank finance for funding its operations that involves a good number of financial and non-financial issues. In view of the wide spectrum of MSME finance, secondary data which are published by Reserve Bank of India, SIDBI, GOI and banks in their various committee reports, speeches, and periodical reports; have been used in the present study. In addition to published statistics on banking, primary information has also been gathered from branches for a case analysis to assess viability of MSME credit over other segment of loans in large size credit.

It was important to understand the Micro and the Macro details. We set out to ask in-depth questions to both set of people – the givers and those who availed the loan (together
they will be termed as subjects to make the understanding easier). So, a combination of methodologies was implemented to understand the reasons in detail and support it with the “number” of people whose thoughts compared similarly or in other ways.

**Qualitative process: Stage One**

A discussion is held with subjects and open-ended answers are accepted. The open-ended question in most cases gives rise to in depth discussion. This results in a wide range of information gathering. Qualitative research involves any research that uses data that do not indicate ordinal values. It aims to study things in their natural setting to make sense of a phenomenon in terms of meanings people bring to them.

**Quantitative process: Stage Two**

It is defined as a systematic investigation of a phenomenon by gathering quantifiable data and performing statistical, mathematical, or computational techniques. Through set questionnaire data was collected from subjects, the results of which would be depicted in the form of numerical tables. The report of the same is given in the document.

**Sampling and Sample distribution**

Total sample of 5000 respondents were covered in the study, including 1350 through the qualitative method and 3650 through the quantitative survey method. Of this sample, a total of 1150 was from the MSME sector, and a larger share of 2950 was from the banking and related sector (including the KVIC, opinion leaders and industry associations).

**Table 3: Sample of respondents covered in the study**

<table>
<thead>
<tr>
<th></th>
<th>MSME Micro</th>
<th>MSME Small</th>
<th>MSME Medium</th>
<th>Banks</th>
<th>KVIC</th>
<th>Opinion Leaders</th>
<th>Industry Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>100</td>
<td>500</td>
<td>500</td>
<td>100</td>
</tr>
<tr>
<td>Quantitative</td>
<td>400</td>
<td>300</td>
<td>300</td>
<td>850</td>
<td>450</td>
<td>450</td>
<td>900</td>
</tr>
<tr>
<td>Total Interactions</td>
<td>450</td>
<td>350</td>
<td>350</td>
<td>950</td>
<td>950</td>
<td>950</td>
<td>1000</td>
</tr>
</tbody>
</table>

**Generation of entrepreneur covered:**

Of the 1000 MSME owners we spoke to 58% who were first generation of entrepreneur; those who had set up the enterprise, and the rest 42% were second generation entrepreneur who inherited a running business.
Size of units covered

Of the total MSME sample, a slightly larger proportion was from the micro category and relatively smaller proportion was from the small and medium category.

Table 4: Size of MSME units covered in the study

<table>
<thead>
<tr>
<th>Type of MSME</th>
<th>No. of units covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Enterprise</td>
<td>300</td>
</tr>
<tr>
<td>Micro Enterprise</td>
<td>400</td>
</tr>
<tr>
<td>Small Enterprise</td>
<td>300</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>1000</strong></td>
</tr>
</tbody>
</table>

Types of MSME units covered

The research team spoke to both service and manufacturing MSMEs. The manufacturing units included electronic, auto spare parts, food processing and packaging, fabric spinning, hand wash, detergent and other such sectors. The service MSME units that were covered are retail (buy and sell), skill development, educational, etc.
Learning inferences through the qualitative-quantitative process

Qualitative research made us come up with the entire gamut/ list of values (both rational and emotional). The list was then given to the others to survey respondents to arrive at the gradational segmenting of the values.

E.g., We found out through the Qualitative discussions some of the difficulties when interacting with the banks and getting access to the loan process. They were.

a. Difficulty in understanding the language that was written in the portal.
b. Access to documents that were asked for from the bank.
c. Repeated visits to the bank
d. No source of information about the process
e. No “ask me” or enquiry desk / number or customer care number where the novice can go to ask.
f. No update from the bank regarding if they are getting paid or not.

When we listed them out and output it through the Quantitative process, we found that language comprehension was the most important problem that was faced by MSME when interacting with the bank. Multiple visits to the bank were the least important problem. “If
To be noted

The first-generation entrepreneur had higher knowledge of the legalities of finance and rules of the Government. The second generation of business was more focused into running the business and had lower knowledge of legal situations about running an organisation.

The grid shows us the division in the same size who we have spoken to. All the respondents whom we spoke were registered as MSME organisations. A subset of them was also registered as Udyam entities. It is important to understand what made them register and what was their aspiration or expectation from their registration.

Fig 4: Problems faced during interaction with banks

Fig 5: Reasons for registering as MSME

There were two BIG expectations from being a registered Udyam or MSME enterprise.

- Get easy and affordable loans
- Get Government projects / orders = bigger profits.
Chapter 5
Study Findings

Based on the information collected using both quantitative survey and qualitative techniques, the data was analysed by an experienced team and findings were generated. The findings obtained through both the methods were compared and matched with the already existing literature and the findings of the previous studies on the topic. The findings are presented here according to the data sources or the respondent groups. Findings are presented separately for the financial institutions and for the MSME respondents.

Banks and officers covered in the study

Designation of the person with whom discussion was held in the bank: It is seen that of the total sample of 1000 people from the bank interviewed, the largest majority was Assistant Manager (37%). The next common person was the Manager (32%). This includes the branch manager and other categories of managers such as the loan manager, sales manager, etc. Another 17% of the sample was the Executive of the bank. This also includes the senior executives, field executives, personal loan executives, etc. Next comes the cashier or the clerk (8%). Even though they do not officially represent the loan disbursement process of the bank, nevertheless in smaller branches they do all types of work, and they also talk to MSMEs who come for loans. The rest who was interviewed include staff of the bank, auditors, loan officers, investment bankers, etc. This shows that a large variety of banks were approached, and a wide variety of officers were interviewed. This is good for the study as the opinions of a larger cross-section of bankers are useful in terms of the variety of information generated.

![Bank personnel covered](image)

Fig 6: Types of banking personnel covered in the study

Banks approached for study

A large variety of banks were approached for the study and thus the information represents the opinions and feedback from a large variety of people who have diverse experiences in different corners of the country. It is seen that the largest number of officers are from the State Bank of India, followed by private banks such as Axis bank, HDFC bank, ICICI bank, etc.
Other public sector banks covered in larger number include Bank of Baroda, Canara bank, Union Bank, Punjab National bank, and other less common banks.

Type of bank covered

All the banks can be categorised into few types. Those types include the public sector bank, the private sector banks, and the Non-banking Financial Institutions. Here it is seen that the maximum coverage was from the public sector banks (SBI, UBI, BOB, Canara, PNB, UCO, etc.). The public sector banks form the largest segment which was covered (45%), followed by the private sector banks (43%). The representation of the NBFCs was only (12%) in the entire sample.

States and cities where banks were covered

About 8 cities were covered in the study and banks were visited for information in these cities. Of the 8 cities covered, the largest number of banks was covered in Kolkata, closely followed by Delhi. The number of banks covered in Punjab, Rajasthan and UP is almost equal.
Feedback from the financial institutions

Types of loans given by the bank

All the banks covered in this study were asked about the types of loans that they provide to their customers. The overall finding is that a wide variety of loans were mentioned by almost all the bank branches visited. A big list of loans which are available in the bank was given by the people who were interviewed. This was true both for private banks and for the public sector banks. The types of loans which were mentioned include General business loan, Loan against property, Balance transfer, Working capital loan, Channel finance/Supply chain finance, Personal loan, Gold loan, Retail loan (small business loan), Cash credit facility and Overdraft facility, Letter of Credit (LC) facility and Bank guarantee.

It is observed that, the list includes loans which are usually taken by the MSMEs. For their business they usually take general business loan. Working capital loan is taken by those who already have investments in plant and machineries and need cash only for raw materials or salaries or other cash expenses. Retail loan is taken by those who have a retail unit. Cash credit facility is availed by enterprises where they have a loan limit, and they pay interest only on the amount which they have borrowed within the last month. When the business volume is fluctuating from month to month and the volume of business or orders one will receive in one month is not fixed, then this facility is amazingly effective. One pays interest based on the actual cash loan one has availed in one month. Overdraft facility is also related and when the order or volume of business in one month is excessive and one needs finance to invest, then one can avail of this overdraft facility when the bank sanctions more than one’s normal limit. The interest on this overdraft facility is generally higher, but it fulfils entrepreneur’s purpose when he must invest a high amount suddenly in one month. In addition to the usual business loan where an entrepreneur takes working capital loan for investing in the raw materials or other items besides machineries, when there is sudden need of more cash for investing in products, then one takes recourse to gold loan or personal loan, which is given readily by banks without much documentation. When an entrepreneur has exhausted his loan limits, then he or she takes recourse to such loans. Similarly, the Letter of credit or Bank guarantee is also useful for MSMEs as they do not have to pay cash to order goods or raw materials. Instead of paying through bank draft which one makes based on cash deposit in the bank, one can give bank guarantee for ordering products. The bank gives guarantee...
based on deposits in the bank, but the entrepreneur does not have to pay cash upfront but uses the deposit in the bank to order things which he later repays after selling his finished products. Thus, he uses the funds available in the bank and does not pay the party by investing cash. This saves him the interest amount. Thus, we see that the banks usually have a variety of facilities as products for loans for the entrepreneurs which may be availed by him for his various business needs.

*Banks have different types of loan products for enterprises, to suit specific need of the enterprises.*

**Types of MSMEs who come for loan**

The banks were asked about the types of MSMEs and the various categories who approach them for loans. This includes the micro, small and medium enterprises. It is seen that in majority of cases the banks are approached by small units (61%). This is closely followed by the medium units and the bank is approached by such units in (35%) of cases. Only (4%) of the banks mentioned being approached by micro units. It may be noted here that the proportion of micro units are the maximum in the entire MSMEs. It is totally dominated by the micro units.

<table>
<thead>
<tr>
<th>Type of MSME Enterprises</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Enterprises</td>
<td>353</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>609</td>
</tr>
<tr>
<td>Micro Enterprises</td>
<td>38</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1000</strong></td>
</tr>
</tbody>
</table>

But it is also discussed that the micro units do not get registered as MSMEs and they also avail loans of other types for their cash needs such as the personal loan, gold loan, etc. Their requirement is not normally for plant and machinery and working capital loan separately and they take cash loan which they spend in both capital investments and in running expenditure. It is also one of the findings of the study that the micro enterprises have less education and hence less confidence and thus they are reluctant to approach banks for loans as they do not have the confidence to talk to the bank managers. The small and medium owners, on the other hand, are those with good education and moderate professional setup. They usually come from business families and have experience of running a business and know about the terminologies of term loans, cash credit, etc. So those entrepreneurs approach the banks directly whenever they require loans for business.

*Mostly small and medium enterprises come to banks for loans. Very few micro enterprises come to banks for loans.*

**Type of MSME to which loan is provided**

MSME units cover two types of business, including manufacturing and service segment. Very recently, Govt. has also included trading, both retail and wholesale, also under MSMEs. It
is seen that large majority of the banks mentioned that they provide loans to both types i.e., manufacturing and services. About 15% mentioned that they provide loans to only manufacturing sector and not to service sector, whereas a small minority mentioned that they provide loans to only service sectors. It may be noted here that earlier the banks were not in favour of lending to service sector as they do not have any capital investment and it is difficult for the bank to keep anything as hypothecation and their risk is not covered. So, they always feel insecure to lend to service sector as they will not be able to seize or sell anything in case of default in payment and the bank will make a loss. On the other hand, the manufacturing sector has good investment in land and machineries, and this provides confidence to the bankers that they can realise their funds by seizing and selling the assets in case of default. However, as they are mandated by RBI and Govt. to provide loans to MSMEs belonging to both the sectors and they have provisions for lending to both the sectors.

### Table 6: MSMEs to whom loan is provided by banks

<table>
<thead>
<tr>
<th>Segment of MSMEs</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both</td>
<td>81.1%</td>
</tr>
<tr>
<td>Manufacturing Enterprises</td>
<td>14.9%</td>
</tr>
<tr>
<td>Service Enterprises</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

81% of banks provide loans to both manufacturing and service sector, 15% to only manufacturing.

**Level of awareness of the MSMEs approaching for loans**

Previous knowledge of the MSME owners about the loans available in banks and other financial institutions, the types of loans available, the difference between capital and cash credit, the interest rate usually charged, savings and current accounts, balance sheet, etc., is an asset when discussing about awareness about loans with the banks. The banks find it comfortable to discuss with such persons and they must specify their interest rates and other terms. On the other hand, if an entrepreneur who is unaware about the loans available in banks comes for discussion, then the bankers must spend a lot of time in explaining him about the types of loans and other details. Keeping these things in mind the bankers were asked about the level of knowledge and awareness of the persons who approach them for loans. It is observed that about 47% of bankers are of the opinion that half of the entrepreneurs coming to them for loans are already aware about the loan types and benefits. About 40% believed very few entrepreneurs are aware about the loans. Over 12% of the bankers reported that most of the entrepreneurs coming to them are already aware of
the types and benefits of loans.

Table 7: Awareness levels of MSMEs coming for loans

<table>
<thead>
<tr>
<th>Opinion of Bankers on awareness of the entrepreneurs who come for loan</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Half of the Entrepreneurs are aware about the loan types and benefits</td>
<td>47.2%</td>
</tr>
<tr>
<td>Most of the Entrepreneurs are aware about the loan types and benefits</td>
<td>12.3%</td>
</tr>
<tr>
<td>Only very few of the Entrepreneurs are aware about the loan types and benefits</td>
<td>40.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

It can be safely assumed that about half of the entrepreneurs going to the banks for discussing loans are already aware about the different types of loans and the terms and conditions of those loans. This makes it easier for the bankers to deal with such people and to discuss further business loans with them and the chance of a successful loan is also higher in this scenario. This indicates a lot of preparedness on the part of the MSME entrepreneurs regarding the loans.

**Types of loans mostly disbursed by the bankers**

Irrespective of the type of entrepreneur approaching them and the type of business being pursued by the entrepreneurs, the bankers were asked about the type of loan which they mostly give to the MSMEs. It is seen that a large majority of bankers reported general business loan (51%) as their most popular loan for MSMEs. About 16% of bankers reported giving mostly small loans for retail units or small business loans. Just about 9% of the bankers reported that they mostly give cash credit facility and overdraft facility for enterprises. These are mostly cash loans availed for getting raw materials and are used by entrepreneurs very popularly. The bankers also earn a good amount of interests on these loans. A small number of bankers mentioned that they mostly give loans against property, gold loans and personal loans. It may be worth mentioning here that such loans are usually availed by the microenterprises, and these require less documentation and are not business specific loans. These are loans which are available quickly and the bankers also prefer these as the loans are secured in case of property and gold, and in case of personal loan also they insist on a guarantor or give it to only salaried people. It may also be noted that typical micro business loans such as Mudra loan was mentioned by less than 1% and is not at all popular.

About half of the entrepreneurs are aware about loan types and benefits when they approach to the banks for loans.
How the loan helped MSME

Bankers narrated how the loan taken for business purpose is helping people. It is helping in the growth of business. People are sincerely toiling after the MSME and due to this there is a growth in business. People who have done business seriously are doing good. With the help of the loan, they have been able to pay back their amount and now they are planning to buy a bigger machine and to run the enterprise more profitably. Many are taking a second loan after paying back the first one.

---

**Fig 10: Type of loan given mostly to MSMEs**

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital loan</td>
<td>2.3%</td>
</tr>
<tr>
<td>Retail Loan (small business loan)</td>
<td>16%</td>
</tr>
<tr>
<td>Personal loan</td>
<td>2.9%</td>
</tr>
<tr>
<td>Mudraloans</td>
<td>0.8%</td>
</tr>
<tr>
<td>Loan against property</td>
<td>6.1%</td>
</tr>
<tr>
<td>Loan against machinery/equipment</td>
<td>4.6%</td>
</tr>
<tr>
<td>Gold Loan</td>
<td>3%</td>
</tr>
<tr>
<td>General Business Loan</td>
<td>52.7%</td>
</tr>
<tr>
<td>Channel Finance/Supply chain finance</td>
<td>0.8%</td>
</tr>
<tr>
<td>Cash Credit Facility and Overdraft Facility</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

**Fig 11: How the loan benefits MSME**

- In quickly paying one loan and take a second one: 19.8%
- In growth of business: 30.6%
- In buying more and more machineries: 49.5%
Benefit to MSMEs from a loan

Bankers gave their perceptions about the way MSME has been benefitted from a loan. Low interest rate was mentioned by 58% of bankers and the MSMEs saved a large amount due to this. The loan amount is flexible and gives them the benefit that they can take an amount according to their requirement. This also comes to their rescue when they get a big order, and they also save by not taking a higher amount when it is not required. About 56% reported that this loan is easier to get. About a third of bankers (32%) reported that the loan can be availed extremely fast, and it does not take much to disburse the loan amount. Another advantage is that the documentation is amazingly simple, and it does not take much time to get the loan cleared, as reported by 15% of bankers.

![Fig 12: How the loan benefits MSME](image)

Type of loan which is easier to get

The bankers were asked about the loan which is easier to get for the MSMEs. The response shows that none of the loan types is extremely popular. The loan which is easiest to get is the cash credit facility and overdraft facility and this is mentioned by over 21% of bankers. The general business loan is also easy to get and is reported by 25% of bankers. The next easy loan is loan against property. Retail loan and gold loan were also reported by less than a tenth of bankers. A small minority of bankers reported personal loan as the easiest loans to give.

Table 8: Type of loan which is easier to get for MSME

<table>
<thead>
<tr>
<th>Loan</th>
<th>Bankers reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Transfer</td>
<td>1.2%</td>
</tr>
<tr>
<td>Cash Credit Facility and Overdraft Facility</td>
<td>21.4%</td>
</tr>
<tr>
<td>General Business Loan</td>
<td>25.2%</td>
</tr>
<tr>
<td>Gold Loan</td>
<td>9.3%</td>
</tr>
<tr>
<td>Letter of Credit (LC) Facility and Bank Guarantee</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
General business loans and cash credit facility are relatively easier to get from the banks.

**Type of loan which is difficult to get**

<table>
<thead>
<tr>
<th>Type of loan</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan against machinery/equipment</td>
<td>7.9%</td>
</tr>
<tr>
<td>Loan against property</td>
<td>19.2%</td>
</tr>
<tr>
<td>Personal loan</td>
<td>8.9%</td>
</tr>
<tr>
<td>Retail Loan (small business loan)</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

**Figure 13: Type of loan which is most difficult to get**

After asking bankers about the loan, which is easiest to give, they were also asked about the loan which is most difficult to give. The report of the bankers shows that the general business loan is the most difficult to give (34%). Loan against property (18%) and loan against machinery or equipment (24%) are also difficult to give as reported by bankers. Working capital loan was mentioned to be most difficult to give by about 14% of the bankers. Loans such as retail loan or small business loan, letter of credit, cash credit facility or overdraft facility were mentioned as difficult by very less bankers, indicating that bankers do not find it difficult to give such loans.

General business loan, loan against machinery, loan against property and working capital loans are difficult to get from the banks.

**Why it is difficult to get the loan**

Bankers cited some reasons for saying that getting a loan is difficult. The most common response is that it is not possible to get all the documents required by the bank (37.6%). The other reason is that people usually ask for large amount. They want higher amount, but their documents do not show such high income or transactions. Some bankers mentioned that
it is not possible to give loans to new business and they always look for experience. A very strange reason was cited by some bankers. As they said, since the loan is collateral free, the bankers try to verify all the documents submitted and try to make field visits to verify this.

<table>
<thead>
<tr>
<th>Why it is difficult to get loan?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since no collateral, all papers strictly verified</td>
</tr>
<tr>
<td>Document does not support the requirement</td>
</tr>
<tr>
<td>Difficult to give loan to non-established business</td>
</tr>
<tr>
<td>People not eligible for the amount which they want</td>
</tr>
<tr>
<td>One cannot give all documents</td>
</tr>
</tbody>
</table>

**Figure 14: Why it is difficult to get loan**

**Big challenges/problems in providing loans to MSMEs:**

Bankers were asked to report from their experiences with the MSMEs regarding the problems and challenges faced by them in providing loans to MSMEs. This includes the stage before giving loan and the phase when one is monitoring the business and the repayment of the loan. The issue which was reported by most (87%) is that it is difficult to get all the documents necessary for the loan in one go and the person takes a long time and multiple visits to get all the documents. This is an awfully bad experience as they must wait for the documents to be submitted and verify the documents. Over half of the bankers (53%) stated that they find it difficult to approach the MSMEs for giving loans. About 44% of bankers mentioned that they face problems in getting the EMIs from the MSMEs and they must give multiple reminders to the persons. This indicated lack of professionalism in the MSMEs, and this happens mostly in the micro enterprises. Another interesting factor was mentioned by over 37% of bankers that the MSMEs do not trust the bankers for submitting the collaterals. They have a vague notion that the banks will somehow take away their land or other collateral and are reluctant to submit any collateral in the application process. A minority of bankers mentioned that MSMEs are not aware of the credit verification process, they also said that they lack the necessary documents, and this makes the process of sanctioning loans to them difficult.

**Table 9: Challenges in providing loans to MSMEs**

<table>
<thead>
<tr>
<th>Challenges mentioned</th>
<th>Weightage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty in getting all the required documents at one go during application process</td>
<td>87.2%</td>
</tr>
<tr>
<td>Difficulty in approaching the MSMEs for business,</td>
<td>53%</td>
</tr>
</tbody>
</table>
Most MSMEs need multiple remainders for EMI payments, 44%
Customers do not trust bankers for submitting the collaterals, 37.2%
Lack of availability of required documents with most MSMEs, 7.8%
Customers are not aware of Credit/Verification process, 7.8%
Most MSMEs default the repayment, 38.8%
They ask for money that is higher than the eligible limit, 3.1%
Most of them reach out to us just once and do not repeat the business, 3%
They bargain more to get lower interest rate, 1.5%
Total, 1000

The most common problems and challenges faced in giving loans include documentation, EMI repayment and reluctance of owners to submit collateral due to distrust.

Developments and changes in the MSME customers

The bankers were asked about the types of changes they have seen in their MSME customers over the years and in the process of dealing with the banks. The response given by maximum of bankers (95%) is that the customers repeat their relationships with their banks showing their loyalty and showing a relationship which is mutually satisfying to both the banker and the customer. Most bankers (72%) also mentioned happily that their customers are able to expand and grow their business through their loans, indicating that they are able to nurture the customers well. A minority of bankers mentioned quite happily that their customers have now learned to repay their EMIs on time. About a quarter of the bankers reported that their customers treat them as their financial advisor and come to them to take advice about the additional loan option which they should avail at which stage of the life cycle of the business. It is remarkable that the customers have faith in the bankers and seek financial advice from them. This indicates their level of satisfaction with the banks and the bankers.

### Development observed in MSME customers by bankers

- They treat us as Financial Advisor and come to us for a relevant loan option suggestion... 24.1%
- They repeat their relationship with our bank 95%
- They have become perfect in repaying the loan on time 63%
- They grow/expand their business faster through our loans 71.3%
- They come only to us for all their loan requirements 2.3%

**Figure 15: Developments observed in MSME customers**
Customers tend to show loyalty to banks and repeat their relationships with the banks. They can grow their business faster through bank loans. Bankers report that customers gradually learn to pay EMI on time, and they are happy when the customers treat them as advisers for business related issues.

Positives of the loan processing and providing funds

- The statutory bodies such as KVIC and DICs work in tandem with the rural and urban development authorities to make loan available to those who need it. They put out an active dynamic so that the awareness amongst the target audience is high.
- Most of the application and shortlisting (and verification from their end) takes places on the digital platform. Therefore, the process is transparent and easily comprehended by both the parties.
- The final decision to give or not give loan is taken by the bank. They are the money holders therefore the responsibility solely lies with them.
- The statutory bodies are driven by the Government’s commitment to create income for every household specially amongst those who are educated.
- The application process is through an online process – therefore the verification process is digital. The loans are associated with the Aadhar of the owner. This helps the financial institutions map each consumer: enhances credibility (or lack of it)
- At times, the buyers of services or products from the MSMEs tend to delay the payment. The MoMSME lend a helping hand to such enterprises by giving them the right to collect interest on the payments that are delayed from the buyer’s side. The settlement of such disputes must be done in minimum time through conciliation and arbitration.
- MSME loans are for the most part collateral-free – it focuses on the value that the MSME will be bringing to the economy and not his current affordability parameter. It helps to bring about income to the owner and also employment to many.
- Quick online approval and disbursal of the loan amount – on event of all documents being correct the loan disbursal happens very quickly.
- An extended tenure that ranges from 12 months to 60 months:
  - Reduced interest rates.
  - Nominal documents for MSME loan application (this point although highlighted by the Bank, KVIC and DIC officials- is not agreed upon by the MSME owners)
  - Manage your loan easily from the net banking website of your financial provider.
  - Pre-approved offers

Negatives of the loan processing system

- While there are multiple statutory bodies who accept applications for loans – it is only the banks that are gateway to money. Both, in terms of getting the loan and repayment of the loan. The banks feel pressurised to verify the high numbers who ask for loan. Additionally, the applications being digital – it tends to fall short of what is the ask. Instead of a re-evaluation the Banks tend to “shelf” online application terming it as incomplete.
others. Not sure who they are answerable to and what is worse is that no one checks with the MSME if he is even trying to produce anything or if he is trying to sell anything. If he is not paying back there should be a punishment for him also...'

- The bank asks for the MSMEs to have ownerships towards the loan, which seems to be currently missing. There is an active push encouraging the MSMEs to take loans and improve their financial situation. However, there is no accountability that is asked of the MSMEs. Many take it as a trial and error – taking no seriousness towards the repayment. NPA reach out to as much as 30% of the total funds given out as loans.

- Instead of a re-evaluation the Banks tend to “shelf” online application terming it as incomplete.

- The verification process is termed as remote due to its digital / online format. Banks find it hard to trust those who come to them with a request for loan. Many managers say that those who have taken loans through PMEGP through KVIC or DIC portals turn out to be NPA. Specially, with COVID the prevalence of NPA is getting higher. Therefore, the banks tend to only give loans to those who are in some way connected to their banks (whose credit score they can check + those who have in the past paid back earlier EMIs)

- The process entails various independent and statutory bodies who work in tandem but not together. The bank says that no one takes responsibility of ensuring that the money comes back. The banks ask for more than one interface to keep the consumers focussed on the payback regime as well.

Feedback from the MSME’s

Characteristics of MSMEs covered:

40% of the MSMEs were from micro units and 30% each from small and medium units. Majority (70%) were from manufacturing and rest from service units. When the distribution of type of unit is observed, it is seen that large majority of the service units are in micro enterprises category, and the proportion of service units in small and medium enterprises is about 20% only. About 47% of the micro enterprises covered were engaged in providing services, whereas large majority of the small and medium enterprises were products/manufacturing units.

Table 10: Types of MSME units covered

<table>
<thead>
<tr>
<th></th>
<th>MSME</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Medium Enterprise</td>
<td></td>
</tr>
<tr>
<td>Products/Manufacturing</td>
<td>Micro Enterprise</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Small Enterprise</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Products/Manufacturing</td>
<td>241</td>
<td>213</td>
</tr>
<tr>
<td></td>
<td>80.3%</td>
<td>53.3%</td>
</tr>
<tr>
<td>Service</td>
<td>59</td>
<td>187</td>
</tr>
<tr>
<td></td>
<td>19.7%</td>
<td>46.8%</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Overall, about half of the MSMEs belonged to Kolkata, Mumbai, Punjab and Uttar Pradesh.
What is the most important thing you will consider when it comes to select a loan product?

<table>
<thead>
<tr>
<th>Considerations</th>
<th>MSME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Medium Enterprise</td>
</tr>
<tr>
<td>Easier to get</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>3.3%</td>
</tr>
<tr>
<td>Easy Payment Options/Methods</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>14.3%</td>
</tr>
<tr>
<td>Faster to avail/ Turnaround Time</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>10.0%</td>
</tr>
<tr>
<td>Flexible Loan Amount</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>6.0%</td>
</tr>
<tr>
<td>Flexible Loan Tenure/ Duration</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>12.7%</td>
</tr>
<tr>
<td>Lowest Interest Rate</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>29.3%</td>
</tr>
<tr>
<td>No/ Easy Collateral required</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>6.7%</td>
</tr>
<tr>
<td>Others (Please Specify)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>.3%</td>
</tr>
<tr>
<td>Simple Documentation</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>13.7%</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Overall, about half of the MSMEs belonged to Kolkata, Mumbai, Punjab and Uttar Pradesh.
Major consideration for selecting a loan

The most important is lowest interest rate, as mentioned by about a third of the respondents. Less documentation, flexible tenure of loan, and ease of getting it were the other factors mentioned by a minority of MSMEs. Less or no collateral was also mentioned by about a tenth of respondents and faster turn-around time was mentioned by about 7%.

The factors considered by MSMEs while selecting a loan is similar in different types of MSMEs and there is no systematic difference in the response pattern. Low interest rate is the most important factor for micro, small and medium enterprises, followed by simple documentation.

Low interest rates, less documentation, flexible tenure and less collateral were important considerations for selecting a loan.

Time spent in business

The numbers of years that one has spent in the business was enquired and it is seen that about half of the respondents from MSMEs were less than 10 years old. In case of micro enterprises, about 75% were less than 10 years old. About 42% of the units are 11 to 30 years old. A small minority of units are more than 30 years old. In case of medium and small units, majority are between 11 to 30 years old, whereas in case of micro units, majority are less than 10 years old.

Table 12: Time spent by the MSME in business

<table>
<thead>
<tr>
<th>Years</th>
<th>Medium</th>
<th>Micro</th>
<th>Small</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 Years</td>
<td>40%</td>
<td>75%</td>
<td>41.7%</td>
<td>54.6%</td>
</tr>
<tr>
<td>11-20 Years</td>
<td>43%</td>
<td>11%</td>
<td>38%</td>
<td>29.1%</td>
</tr>
<tr>
<td>21-30 Years</td>
<td>10.1%</td>
<td>12.9%</td>
<td>13.9%</td>
<td>12.7%</td>
</tr>
<tr>
<td>31-40 Years</td>
<td>2%</td>
<td>0%</td>
<td>3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>&gt;40 Years</td>
<td>4%</td>
<td>0%</td>
<td>3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
<td>400</td>
<td>300</td>
<td>1000</td>
</tr>
</tbody>
</table>

Awareness about loans available for business

It is seen that most of the MSME entrepreneurs were aware about the major loan products. They mentioned all the popular loans like general business loan, loan against plant and machinery, property loan, gold loan, personal loan, small business loan, cash credit loan and overdraft system. It is seen that generally MSMEs are aware about the loans though how much they know about the loans is to be seen.

Generally, MSMEs are aware about a large variety of loans.

Source of awareness about the loans

A wide variety of sources were mentioned by the MSMEs which includes the major mass media such as TV, radio, newspapers, SMS in phone, telemarketing calls from the company, social media posts such as in Facebook and Instagram, etc. Posters and writings in the
banks were also mentioned. Hoardings and banners were also mentioned by many. Word of mouth sources and discussion with friends were also mentioned as good sources. Company representatives, dealers, sales agents, etc., were other sources. People also mentioned e-mails from companies and advertisements in Facebook and other social media.

The sources of awareness about the loans includes the mass media, small group media, social media, direct approach from company and telemarketing, messages and e-mails, etc.

**How the loan helped the MSMEs**

MSME owners were asked that the loans which they had taken or the ones their friends had taken, how this loan helped them in their business. Different types of responses were obtained. Most reported that they used the loan to expand their business. Many were specific that the cash helped them to procure goods or raw materials in bulk quantities at a less rate and they were able to sell it and make a good profit when compared to the less interest rate they paid for the loans. Many mentioned about the plant and machinery which gave them the scope to establish the business and then profits. Many mentioned the subsidy which they received through scheme loans and this amount helped them a lot. Overall, people found the loan very useful for their business.

Those who took loans availed subsidy, expanded their business, procured products and raw materials at lower rates, were able to start a manufacturing unit, and were benefitted in many ways.

**Approach of MSMEs towards banks and loans**

What course of action the MSMEs take when they want a loan from the bank was discussed with them? People can find about the different loans, and they can also discuss the thing with the banks. Most MSMEs reported that they know about the different loans but still they discuss it with the banks. About a quarter reported that they know about the loans, and they tell the bank what sort of loan they want. However, about 29% of MSMEs mentioned that they are not aware about the different loans and thus they discuss it with the banks. While the knowledge levels of different sizes of MSME units seem similar, a higher proportion of small enterprises reported that they do not know about the loans and hence discuss it with the banks.
Table 13: Knowledge about loans and discussion with banks

<table>
<thead>
<tr>
<th>Particulars</th>
<th>MSME</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Medium Enterprise</td>
<td>Micro Enterprise</td>
</tr>
<tr>
<td>When you apply for loans for your business, which of the following you do?</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>2.3%</td>
<td>2.0%</td>
<td>.0%</td>
</tr>
<tr>
<td>I know about the details of different loans. Hence, I tell them what I want</td>
<td>83</td>
<td>113</td>
</tr>
<tr>
<td>27.7%</td>
<td>28.3%</td>
<td>17.7%</td>
</tr>
<tr>
<td>I know about the details of different loans. However, I ask the bank for their suggestion</td>
<td>125</td>
<td>183</td>
</tr>
<tr>
<td>41.7%</td>
<td>45.8%</td>
<td>45.7%</td>
</tr>
<tr>
<td>I'm not aware of the details of different loans much. Hence, I ask the bank for their suggestion</td>
<td>85</td>
<td>96</td>
</tr>
<tr>
<td>28.3%</td>
<td>24.0%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
<td>400</td>
</tr>
<tr>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Majority know about the loans but yet wish to discuss it with banks, whereas about 30% do not know and want to discuss before taking decision.

Positives of the loan processing and getting of loan

“When I graduated and started looking for jobs then I realised that my education is not sufficient. It was a big disappointment. I felt depressed that like my forefathers I will also have to live in poverty... but an NGO used to come to my village at that time. They told me that one can take loan to set up an enterprise. Prime Minister’s office gives loans to those who want to set up business. It was a very big thing for me. They also gave me technical training. That also will help me.”

-gives wings to ideas of the youth

Negatives of loan processing and getting of loan

“We are not educated. Our understanding of English is not there. Hindi also we don’t understand too much so, we have to keep asking the Bank to guide us. They only tell us rules that are beneficial to them”.

There is awareness that loans are available to the MSMEs but there is no one window where the MSMEs can go to ask. The Government has created and made available to them yet there is a layer of technology and tough language that comes as a barrier between them.

“I needed to buy a machine as a big order had come from a reputed car brand. I needed to make 1 lakh nuts and bolts of a certain size. I had a machine, but I needed one more machine, so I asked for loan. But they made me keep visiting them again and again”.
Time for availing a loan is slow and tend to take long (Sometimes the time taken drives the MSME to take business loans or even personal loans – for which they are willing to pay higher rate of interest, just to get loan process done faster.

"The loan process is complicated for us. We know we are going to get loans and we are eligible for it. But go round in circles. Only those who are educated with good CAs get loans. It's for those who are aware ...”

The digital process alienates the MSME as there is no way for them to ‘back check’ validity of the ask – some even doubt the intention of the bank, as to whether they really want to give loans to them

“We are from the village. The bhaiya from the NGO comes- and helps us. So, till the time he is there he can check on the website. Even we know how to go to the website but then when we go, we can't find anything. Our literacy is not till that legal level.”

Impact of antiquated regulatory practices that require small businesses to acquire licenses, insurance, and certifications, etc. Due to such regulations, MSMEs are prevented from sourcing financing on time.

“We got good help from the bank person ... he got our subsidy also.”

**Challenges faced by MSMEs in approaching banks**

We found out through the Qualitative discussions some of the difficulties when interacting with the banks and getting access to the loan process. They were

a. Difficulty in understanding the language that was written in the portal
b. Access to documents that were asked for from the bank
c. Repeated visits to the bank
d. No source of information about the process
e. No “ask me” or enquiry desk / number or customer care number where the novice can go to ask
f. No update from the bank regarding if they are getting paid or not.

When we listed them out and output it through the Quantitative process, we found that language comprehension was the most important problem that was faced by MSME when interacting with the bank. Multiple visits to the bank were the least important problem.

"If we want our work to be done, we will have to keep visiting. That is thru for everything we want done. So it's not really a problem I feel”.

There were two BIG expectations from being a registered Udyam or MSME enterprise

1. Get easy and affordable loans.
2. Get Government projects / orders = bigger profits.
First generation MSME entrepreneur profile

The qualitative research covered a number of MSME owners and discussion with them provided insights into the problems and priorities of their business. To better understand their needs and stories, the full story of a businessman is presented here as a case study. This provides insights into his perceptions and experiences as a businessman and the problems faced by him in running his business.

Mr Agarwal a first generation entrepreneur. Soon after his graduation he set up a motor spare part manufacturing unit. This is his dream project. His initial working capital came from his father who had given him a large amount from his PF. His friends told him that registering as an MSME will give him information about his privileges of being a small manufacturing start up. It will also help him to get loans. He also had expectations of growing a better network and learnt from his associates by becoming part of a larger forum. For a first generation entrepreneur, there is little that he knew or could know from his immediate family and friends.

One day he got a larger order from a leading car manufacturer. He was supposed to make an extremely large quantity of a certain spare part. It was a big day for Mr Agarwal. A dream comes true. To meet his order requirements, he needed to expand his organisation need of the hour was to buy 2 specialised machines, have a wider factory floor and employ at least 2 experts and 8 skilled labourers.

He needed money, about ₹77 lakhs. He needed it within a week. The banks advised him to take a personal loan. It was fastest with minimum documentation. He was paying an expensive rate of interest. The bank was happy as they earned a good profit as they charged a higher rate of interest on personal loans compared to MSME loans.

Learning

1. Most MSME first time owners have knowledge about the kind of loans they can avail. However, the banks dissuade them from taking MSME loans and push them towards faster but more expensive loans. Most MSME loan provisions that had been provided by GOI and RBI do not make business sense to the Banks. They feel insecure giving a loan with no collateral. An urban MSME consumer finds KVIC and DIC process taking too much of time. He has the knowledge about other banks who are willing to give him loans but looks for collateral from him. The banks make the MSMEs run around to the extent that the owner gets tired “the delivery date was coming near so, I had to do something fast. And the MSME loan department was taking so much time that I felt its ok- the business profit is more important than lesser rate of interest. We need a good name in the market ...”

2. The banks do not have any triggers or target to “sell” MSME loans therefore, not a go to option for the banks when the MSME asks for loan. It is ironical, as banks and NBFCs outdo each other to woo the growing segment. All the offerings are engineered to be attractive but not necessarily beneficial to the segment.

We are a business unit. We also have targets. MSME is a Government scheme where they are trying to promote a sector? Which is good but not for us".
3. The banks have two parallel systems designed to attract the MSMEs a) the business loan that fine fits the MSME need b) the Government subsidy driven/development loans for the MSME. While the first one is talked about and advertised. The second type that can become the lifeline of the Indian economic development is short changed.

4. Banks that should have been advisors and supporters of the segment and its growth story.

5. The Unit of MSME/Udyam’s responsibility must start with registration. Its currently termed as a wall that gives information in a complicated manner (Language is English which is not understood by all, the terminology used is not commonplace, there is no regional language option) MSMEs look for financial advises. However, there is no window or “help” desk where such queries can be answered. The portal needs to be a hand holder not just a registrar of identity.

On a macro lens of understanding we found that the banks do not play the advisor’s role to the MSME sector (As a matter of fact there is a strong “caution” with respect to bank interaction) Chartered Accountant is the closest advisor to the segment. In this context, it is to be understood that the MSME segment has people who have limited finance knowledge. Their knowledge of finance is need-based. Need for money for purchase, expenses, bill payments, wages, expansion, etc. This leads to their need of loans. Loan needs is a combination of low rate of interest + faster disbursal time.

**Priorities of the MSMEs:**

There were two elements that kept both these MSME segments together in this age of recession and limited business.

1. Planning to stay afloat and expand.
2. Keeping the client/market supplied with their product/services so that the relationships can be maintained (as most of them have dried up)

The only way that can be done is to take loans as most MSMEs are running in loses with the market crashing the second time consecutively in a span of two years.

MSME loans are provided by various Government and private infrastructures that aid MSMEs in various areas. MSME loans can be seen of some specific types, such as development schemes, type-specific schemes (especially for rural areas), certification schemes, or minority specific schemes (for SC-STs and rural employment programmes).

**Private finance**

It is also imperative that the private sector comes into the foray of giving safe and secure loan to the MSME segment. While the Government has created well planned financial providing structures, yet it is not possible to meet the volumes that the ever-increasing segment is putting forward. Lending Kart Group in India is a direct financier providing working capital loans to small businesses using big data and proprietary scoring models to assess creditworthiness.
**Micro versus medium enterprises**

In our study the hypothesis is that medium enterprises would be the most comfortable about loan and micro being the least comfortable. Reason being the medium enterprises have a larger support system in terms of legal advice, financial understanding, and perhaps better personal finance situation that they bring to the table.

The micro enterprises on the other hand are limited by finance availability, understanding and confidence.

**Domination of micro enterprises:** According to the MSME Ministry’s annual report, the MSME sector is dominated by micro-enterprises. India has 6.33 crore MSMEs out of which 6.30 crore (99.4 per cent) are micro enterprises while 3.31 lakh (0.52 per cent) are small and 5,000 (0.007 per cent) are medium enterprises.

- Micro enterprises are those where the investment is the lowest and education of the owners is also the lowest. Presence or absence of GST is also a hindrance in getting loan to this segment of organisation.

- According to data shared by the MSME Minister in the Rajya Sabha, the registered MSME is dominated by micro enterprises at 22.06 lakh (2.2 million) units in 2020 from 18.70 lakh (1.8 million) units in 2019, while small enterprise units went up from 2.41 lakh (0.24 million) units to 2.95 lakh (0.29 million) units. Midsized businesses only increased from 9,403 units to 10,981 units during this period.

**Fig 16: Educational Qualifications of the Entrepreneur**

![Pie chart showing educational qualifications of MSME entrepreneurs: 60.0% VII Pass, 40.0% Graduate, 1.2% Professional Training, 10.0% Post Graduate]
Profile of the micro enterprise entrepreneurs: Out of the 1000 MSME owners interacted we met 400 microenterprise owners. In that we met about 225 who had set up their organisations new and those who have set up about 4 to 7 year old units but have taken loan in the last 1 year.

Education: It was interesting to note that most of the micro enterprise owners / partners were professionally educated. In most cases they needed to drop out of their regular education and learn something that can bring income. Some joined small outfits of extended family where they learnt on jobs and went on to some formal education either about the same or some specialisation e.g.: Worked in Uncles Carpenter shop so learnt hands on, thereafter did a carpentry and interior course (Hettich Poddar Wood Institute)

Education of MSME owner and access to finance: We put before you a study by Mrs. Preetha Thomas, Lecturer, Saintgits College of Applied Sciences, Kottayam, Kerala - where she tried to prove that her Hypothesis.

H0: There is no significant association between qualifications of owner/manager and procurement of MSME financing.

H1: There is a significant association between qualifications of owner/manager and procurement of MSME financing (Ref: JETIR June, 2019 Volume 6 – factor affecting procurement of finance)

Through mathematical understanding she was able to prove that there is significant association between qualifications of owner/manager and procurement of MSME financing. Background of MSME entrepreneur and need for support: This set of entrepreneurs is confident of their skills and believe that success comes to those who work
hard. Yet these are also the set of people who need support. Technical support, financial support and setup support. They shy away from approaching authorities, offices and other formal institutions – as they get overwhelmed.

Their limited education keeps them away from actively participating in the loan structure that has been specially set up for the MSME segment.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Total</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>489.3</td>
<td>7.88</td>
<td>0.6</td>
<td>497.78</td>
<td>45</td>
</tr>
<tr>
<td>Urban</td>
<td>586.88</td>
<td>24.06</td>
<td>1.16</td>
<td>612.1</td>
<td>55</td>
</tr>
<tr>
<td>All</td>
<td>1076.19</td>
<td>31.95</td>
<td>1.75</td>
<td>1109.89</td>
<td>100</td>
</tr>
</tbody>
</table>

In our understanding the micro segment needs to have special focus and additional human/one on one support to bring them out of their inhibitions.

Table 14: Segmentation of MSME’s we reached

The rural and urban micro enterprise sector accounts for 97% of the entire MSME segment. They are ignorant and therefore can be exploited through high interest loan providers.

The large number of micro enterprises exists and is trying to survive/flourish in the competitive world of MSME. They are feared as being insecure people to give loans to – which is largely due to their financial backdrop.

They must be focussed upon – this will help the larger financial structure to tailor make products and services that are relevant to them.

Grievance platform for MSME owners: Do the MSMEs have relevant grievance platform? Is it adequate to address the diverse grievances of the MSME entrepreneurs?

Given that India has over 6.33 crore MSMEs, 25,520 grievances mean 0.04% rate of grievance. Of the 25.13 lakhs MSMEs registered in year 2020 the rate of grievance is still 0.1%, which is a rather low rate of grievance. So, does it imply that MSMEs do not have anything to complaint about or are they restricted in lodging grievances? It would be interesting to find out what are the problems being faced by the MSMEs that they are not able to articulate. This research tried to focus on the problem areas of the MSMEs in a large way. It is interesting to note that out of the 2540 units of discussions we held with the MSMEs about 2247 units had listed grievances (88.4%). It is worth discussing the grievances and what are the solutions that are being sought.

Attitude of banks towards micro enterprises: The banks and the financial institutions keep away from the micro enterprises which are termed insecure. There are number of financial and non-financial constraints plaguing the MSME sector. However, financial exclusion of the microenterprises is the most critical one. Access to capital for MSMEs is indeed severely constrained which has been recognised even by the Prime Minister Taskforce on MSME. However, this constraint is particularly acute for the microenterprises.
Large credit gap: MSMEs play a pivotal role in our economy. From time to time, Government and Reserve Bank of India (RBI) have implemented several policies to improve the flow of credit to the MSME sector. Whether we talk about priority sector lending or collateral free loans, the bitter reality is that, still it is a cumbersome process for MSMEs to avail credit facilities from the banks or other financial institutions. Today, there is a total finance requirement of ₹32.5 trillion by the MSME sector in India but out of this; Government is hardly able to meet the demand of ₹12 trillion. There is still a finance gap of approximately ₹20 trillion for the MSME sector. The gap is huge for the government to fill.

Lack of Balance sheet: Banks also face several problems at their end while granting loans to the MSME sector. As most of the MSMEs work in the unorganised sector, so they do not maintain any proper accounts or balance sheets. Without the presence of proper balance sheet banks find it difficult to lend credit to micro enterprises.

Problem of start-up: Banks do not have that much of trust on newly setup enterprises or the start-ups. They consider their projects risky and fear NPAs while granting credit to start ups. So, the banks generally lend only the prescribed amount to this sector as mentioned under priority sector lending obligations.

Lack of collateral security: Another major problem that MSMEs face in accessing credit from banks is absence of collateral security. Banks generally require collateral security for MSME lending, and it becomes a big hurdle for MSMEs in securing credit from banks.

Credit history: The budding entrepreneurs are unable to avail credit from banks because of the absence of credit history.

MSMEs also face the problem of incompetent management. The owner/manager generally does not have all the skills required to manage a firm efficiently. Non availability of skilled manpower is another major issue that hinders the growth of MSME sector.

Marketing of products: Apart from this, MSMEs face several other problems such as problem of marketing their products. Once the product is ready, it becomes imperative for the owner/manager to sell it in the market. Generally, MSMEs are unable to make use of proper intermediaries for the marketing of their products.

To sum it up, it can be concluded that MSMEs face several obstacles and hindrances in accessing finance from the banks and other financial institutions. Though a lot of efforts have already been made by the Government to make the flow of credit easy to this sector but still a lot of work needs to be done to meet the actual finance requirements of the MSME sector.

(Source: Compiled from MSME Annual Report (2012) Table-2 Overall Finance Gap in MSME Sector Source: Compiled from MSME Census, RBI Reports, SIDBI Reports, IFC Intellecap Analysis, Figure-1 (Overall Finance Gap in MSME Sector (In ₹Trillion) Total Finance Demand 32.5 Entrepreneur’s Contribution 4.6 Potential Finance Demand 27.9)

Needs of the micro, small and medium enterprises vary: They say, the success of the pudding is in its eating. While the Govt. has done a great deal to set up various programmes and schemes, it is important for these schemes to address the important needs of the MSME
consumers to create the desired output. The needs of the 3 segments might be similar but the financial and technical capacity is different between the micro, small and medium enterprises. Simple things like language understanding or ease of comprehension also varies.

**Some other problems of MSME sector**

Loans and credits received needs to be channelised to gain maximum benefit. Training must be imparted in the other departments of MSME where the pressure is being felt.

**Lack of credit from banks** - The MSMEs are presently facing the problems of credit from the banks. The banks are not providing the adequate amount of loan to the MSMEs. The loan providing process of the banks is exceptionally long and formalistic. The owners of the MSMEs must produce different types of documents to prove their worthiness. The banks are providing on an average 50% total capital employed in fixed assets. The cost of credit is also high. (International Journal of Interdisciplinary and Multidisciplinary Studies (IJIMS), 2014, Vol. 1, No.5, 60 - 68. 64 2)

**Competition from multinational companies**–

1. In present era of globalisation, the MSMEs are facing the great competition from the international manufacturing companies who are producing quality goods at cheapest price. Therefore, it is exceedingly difficult to compete with the multinational companies.

2. Poor infrastructure - Though MSMEs are developing rapidly, their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.

3. Unavailability of raw material and other inputs. Most MSMEs require raw material, skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.

4. Lack of advanced technology - The owners of MSMEs are not aware of advanced technologies of production. Their methodology of production is outdated. The owners are using older method in the field of fabricated metal and textile.

5. Lack of distribution or marketing channels. The MSMEs are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than that of the multinational companies. The ineffective advertisements and poor marketing channels lead to extremely poor sales.

**Govt. of India relief package for MSME:** The Govt. of India COVID schemes are trying to help the MSME segment a great deal – so that the NPA numbers do not increase. This closing down or bad debt syndrome can severely affect the entire economy of the country. Every scheme will make sense when the MSMEs are able to maximise on its benefits.

- In April 2021, the Non-Banking Finance Companies (NBFCs) requested the Reserve Bank of India to extend the one-time restructuring scheme of MSME advances till March 31, 2022, as these players are unable to revive their businesses.

- In March 2021, the Ministry of MSME, through the Development Commissioner (DC-MSME) implemented the Technology Centre Systems Programme (TCSP) to establish 15 new Technology Centres (TC). The centres provide assistance to the industry,
predominantly MSMEs, in General Engineering, Automotive, Fragrance & Flavour and ESDM sectors

• In March 2021, the Finance Ministry allowed private retirement funds to invest up to 5% in Category I & II AIFs regulated by SEBI; this will help widen the fundraising options for MSMEs and expand the domestic pool of capital.

  1. Category - I AIFs consists of infrastructure, venture capital, angel and social venture funds.

  2. Category -II AIFs covers funds where at least 51% of the size can be invested in either infrastructure, SMEs, venture capital or social welfare entities.

• In March 2021, MSME support and development organisation, National Small Industries Corporation (NSIC) announced that they will assist MSMEs working with the Agricultural and Processed Food Products Export Development Authority (APEDA) across multiple areas.

• The NSIC, through a MoU with APEDA, will help its MSME members in exploring the export potential of their agricultural and processed foods products. Additionally, APEDA members will get access to NSIC schemes, which would help them to address issues pertaining to technology adoption, skills, product quality, and market access.

• The relationship will also support promotion of green & sustainable manufacturing technology for MSME clusters, enabling units to switch to sustainable and green production processes and products.

• In February 2021, Indian Bank signed a Memorandum of Understanding (MOU) with the Society for Innovation and Development (SID), a project of the Indian Institute of Science, to provide exclusive credit to start-ups and MSMEs.

• In February 2021, the Small Industries Development Bank of India (SIDBI), a financial institution dedicated to the promotion, financing, and development of micro, small, and medium enterprises (MSMEs), signed an agreement with the Government of Andhra Pradesh to help expand the state’s MSME ecosystem.
Chapter 6
Conclusion

MSMEs contribute abundantly to the economy of the country and generate vast employment at a comparatively moderate cost. Hence the Govt. of the country is engaged in promoting the MSMEs through diverse means. Several support services are critical to the emergence and growth of MSMEs which have been institutionalised and due to large scale promotion of the convenience and benefits of starting a MSME unit, many units have come up recently. Funds, critical to the initiation and growth of business, are being targeted on such units and release of funds to the units have been made smooth and easy. A huge unmet need for credit still exists in the MSME sector. Due to the positive environment created for starting MSME units, many enterprises came up, and as it happened, the number of units failing too. This put the financial institutions under stress and large sums had to be spent by the Govt. to adjust or write off the losses of these financial institutions. The arrival of COVID and corresponding lockdowns pushed the ailing MSMEs over the brink and due to non-repayment of dues to the banks, MSMEs added rapidly to the NPA list. A package of relief measures had to be announced by the Govt. to address the crisis. With both the MSMEs and the financial institutions under strain, a dip stick study was envisaged to look closely into the associated issues and to generate recommendations for addressing the bank-MSME gap.

The study was commissioned by the National Institute of Micro, Small and Medium Enterprises (ni-msme). The overall objective of the research was to assess the effect of the financing provisions existing for the setting up and operations of MSMEs in the country and to generate recommendations for more robust financing mechanisms for successful operation of the MSMEs in turn understanding the MSME loans impact on financial institutions due to NPA. The study looked closely into the financing practice and priorities of the banks, and the experiences and priorities of the MSMEs in using the finance and repaying it to the banks. The sample of the study covered a total of 5000 respondents, drawn from the banks, MSMEs, statutory bodies (DIC, KVIC, etc.) and opinion leaders. Both quantitative survey techniques and qualitative interviews were used to collect requisite information. Secondary literature was also explored to enrich the findings from primary enquiries. Based on the findings of the study collated from all sources, following conclusions are drawn:

- Being the fund seekers and being less educated, most micro unit owners are in an inferior position while dealing with the banks and are unable to negotiate the best terms and conditions for the loans availed by them.
- Most entrepreneurs have some knowledge about the loan products, but they finalise a package in discussion with the bankers.
- Cumbersome documentation, verification of documents and business premises, insistence on collaterals and guarantees, inadequate financing, are few problems experienced by the MSMEs.
- The second generation MSMEs are more matured, effective, and confident in their dealings.
- The statutory bodies work along with banks to provide loans to MSMEs.
• The loan application process is online, but banks prefer face to face interaction and verification before disbursing funds.

• Low interest rates, less documentation, flexible tenure and less collateral are important considerations for selecting a loan on the part of a MSME unit.

• Generally, MSMEs are aware about a large variety of loans. The sources of awareness about the loans includes the mass media, small group media, social media, direct approach from company executives and telemarketing, messages, e mails, etc.

• The MSMEs received much help from the banks. Those who took loans availed subsidy, expanded their business, procured products and raw materials at lower rates, were able to start a manufacturing unit, and were benefitted in many ways.

• The MSME loans helped many jobless youths to become entrepreneurs, and, in the process, they also received free training and guidance also. However, most MSMEs found it difficult to cut through the procedures and priorities of the banks and had to follow the directions and conditions of the banks who gave loans on terms which are beneficial to them.

• Driven by the sudden need for more funds to fulfil big orders, they resort to easy and quick loans with higher interest rates and heavy collaterals but with quicker disbursal of funds.

• In the process of pursuing a loan they do not get feedback regarding the status of their loan. There is a need for a grievance platform and one which can provide feedback on their loan application.

• MSMEs also feel the need for a single window arrangement when they run around banks and statutory bodies for availing the scheme loans with attractive subsidies.

The banks are part of a larger development forum which has the interest of the MSMEs in mind and they are handed down broad targets for MSME advances. Such advances are insured by the Govt. to a large extent but despite the involvement of statutory agencies in the MSME selection and loan process, the onus of a successful loan with assured regular repayments lies on the bank officer and he risks disciplinary action and other punitive actions in case of default or when a loan turns NPA. Therefore, in their own interest they insist on maximum securities and collaterals, despite of the directions towards collateral-free loans for the MSMEs. They try their best to negotiate a loan with higher interest and stringent conditions in the interests of the bank. Even though they are supposed to carry out field verification of the loan applicant, their workload does not allow them enough time to carry out such field visits. Even in case of an impending NPA, banks do not indulge in providing support to the unit but insist on EMI payment at any cost. However, there are few good officers in the entire system who promote the idea of entrepreneurship and help entrepreneurs to start-up. Govt. may identify them from the successful entrepreneurs and give them award, so that the entire eco system can become friendlier for micro enterprises. It must be made mandatory for all the bankers to make them relaxed and make them mandatorily attend few soft skills courses during their tenure in one post.

Banks do not have confidence on the micro units and are reluctant to lend to them but are bound by policies towards priority sector lending. Banks do not have confidence on a
new entrepreneur having a new idea rather they prefer an established entrepreneur or an old customer for disbursing loan. Within MSME, they are disinclined to fund services sector and always prefer the manufacturing sector as there is the scope of having the plant and machinery and the stocks as collaterals. While negotiating with any MSME, the focus of the MSME is on less collateral and high cash credit loan, whereas the bank always insists on higher term loan on plant and machinery and less amount of cash credit. Despite the collaterals pledged to the bank by the MSME, the bank still insists on additional collaterals if the MSME wants a bank guarantee for additional procurement. Even in such an environment, the MSMEs have used the loans productively and have been able to pay back the loans and have secured additional funds for further expansion and growth of their units. Yet bankers report that they face challenges in dealing with the MSMEs; they do not have proper documents, they want a higher amount than they are eligible for, they never pay EMIs on time, and they are always reluctant to submit collaterals. Despite the challenges, bankers report positive development among the MSMEs. Banks report that their customers tend to show loyalty to banks and repeat their relationships with the banks. They can grow their business faster through bank loans. Bankers report that customers gradually learn to pay EMI on time, and they feel very happy when the customers treat them as advisers for business related issues.

Based on the reports of the banks as well as the MSMEs, certain suggestions are made to create a positive environment of trust and growth wherein both parties can put in their best and generate returns for each other and for the economy.

• There should be more active participation of the statutory agencies along with the banks while negotiating the loan for the MSMEs. The three parties should meet and have a transparent discussion and negotiation.

• There should be a help desk or a customer information system for the MSMEs while they have applied for the loan which should show the status of their application. There should be a grievance portal with time bound response system which can also act as one window solutions for MSMEs.

• After loan sanction and operation of the unit, there should be a MIS system, backed by a monthly visit and reporting of the status of the unit. There should be report of whether each component of the project is performing satisfactorily or not. Such progress reports for each unit should be shared online with the local statutory agencies also. This will enable to pre-empt any problem in the project and any default of payment.

• Each MSME unit must be linked to a technical support system where they get advice on technology, production and marketing. This will enable them to perform in a scientific manner and take rational business decisions. In case of market fluctuations, MSME should be advised on the appropriate course of action.

• In case of any default of payment and before NPA, the bank and the statutory agencies should come together for field verification and should provide support to enable them to revive their business and to check the authenticity of the NPA claim.

• “Once an entrepreneur, always an entrepreneur”. Govt. must send those lists of NPAs to the different training agencies to identify the potentials and upgrade their skills because in this segment some people are genuinely talented and know where they committed
mistakes knowingly and unknowingly. Some failed because of external issues. There must be some approach to harness these potential entrepreneurs and give them chance to succeed.

Interventions suggested.

- Champions to upgrade as one window solution for MSME entrepreneur
- SLBC must be part of Champions.
- Soft-skills training to MSMEs as well as Bankers
- Special attention to failed entrepreneur

Additional Details asked by DC-MSME on Draft Report Presentation

Regional Rural Banks (RRBs), Urban Cooperative Banks (UVBs), RCBs

Scope of RRB is limited to agriculture finance, small sector loans, handicrafts and other small sector loans, whereas scope of commercial banks is wide, and it not only provides agriculture finance but also housing loan, car finance, letter of credit, credit to big companies and for many activities.

These banks are also differentiated from each other by ownership; while rural banks are privately owned and managed. Cooperative banks are organised/owned by cooperatives or federation of cooperatives.

A sponsor bank in relation to a RRB is a bank by which such a RRB is sponsored. It is duty of a sponsor bank to aid and assist the RRB sponsored by it. A sponsor bank provides such managerial (staff) and financial assistance during the first 5 years of its functioning.

Lending by RRBs

The mandate of RRBs for lending determined by RBI by issuing Master Directions regarding the scope of priority sector lending and the target of the RRBs regarding priority sector lending.

The categories under priority sector are as follows:

- Agriculture
- Micro, Small and Medium Enterprises (MSMEs)
- Education
- Housing
- Social infrastructure
- Renewable energy
- Others

RRBs will have a target of 75 per cent of their outstanding advances for priority sector lending and sub-sector targets are:
Table 15: RRBs will have a target their outstanding advances for priority sector and sub-sector lending

<table>
<thead>
<tr>
<th>Categories</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total priority sector</td>
<td>75 per cent of total outstanding*</td>
</tr>
<tr>
<td>Agriculture</td>
<td>18 per cent of total outstanding</td>
</tr>
<tr>
<td>Small and marginal farmers</td>
<td>8 percent of total outstanding</td>
</tr>
<tr>
<td>Micro enterprises</td>
<td>7.5 per cent of total outstanding</td>
</tr>
<tr>
<td>Weaker sections</td>
<td>15 per cent of total outstanding</td>
</tr>
</tbody>
</table>

However, lending to medium enterprises, social infrastructure and renewable energy shall be reckoned for priority sector achievement only up to 15 per cent of total outstanding.

**Master guideline March 2021:** As per master guidelines for priority sector lending by banks, priority sector lending norms have been revised by RBI again in May 2021. The guidelines for RRBs are:

**RRBs:** 75 per cent of ANBC or CEOBE whichever is higher. However, lending to medium enterprises, social infrastructure and renewable energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC.

To incentivise credit flow to specific segments and credit-deficit geographies (districts with low credit penetration) or where per capita lending is less than ₹6,000, 125% weightage will be given, and 90% weightage will be given where per capita lending is more than ₹25,000/-.

**Status of RRBs:** As on March 31, 2020, there were 45 RRBs functioning in 685 districts of 26 states and three Union Territories (UTs). These RRBs were sponsored by 15 commercial banks and operating through a network of 21,850 branches. The data on RRBs, published by NABARD, is based on the data uploaded by the RRBs in the Ensure portal.

RRBs as a group reported net loss of rs.2,206 crore in the fiscal year ended March 31, 2020, as against rs.652-crore net loss in financial year 2018-19, according to data published by NABARD. Gross non-performing assets as a percentage of gross loans outstanding of RRBs marginally declined to 10.4 per cent as on March 31, 2020, from 10.8 per cent as on March 31, 2019, the data showed.

Total business of RRBs stood at rs.7.77 lakh crore as on March 31, 2020. Deposits and advances of RRBs are increased by 10.2 per cent & 9.5 per cent respectively during the FY 2019-20. Gross outstanding loans stood at rs.2.98 lakh crore as against rs.2.80 lakh crore in financial year 2018-19. Priority sector loans constituted 90.6 per cent or rs.2.70 lakh crore of the gross loans outstanding of RRBs as on March 31, 2020. Share of agriculture and MSME sectors in total loan outstanding stood at 70 per cent and 12 per cent, respectively, the data showed.
Reserve Bank of India (RBI) defined ‘Non-Performing Asset’ (NPA) as a credit facility in respect of which the interest and/or instalment of principal has remained ‘past due’ for a specified period.

Centre is in talks with RBI and other stakeholders to consider the possibility of easing the norms for NPAs, or bad loans, by extending the classification period to at least 120 days. At present, a loan account turns into an NPA if it is not serviced for 90 days.

NPA is calculated by dividing NPA by total loans. Multiply by 100 to get the NPA percentage. NPAs expressed as a percentage of total advances.

**Managing or resolving NPA**

**Ways to manage NPAs:** Banks use various settlement schemes. They use alternative dispute resolution mechanisms for faster settlement of dues.

Banks need to create a 25% provision of the total outstanding in their books wherein 15% is made for the total outstanding and additional 10% for the portion for which there is no underlying guarantee. Since NPA affects the performance of the bank, they use certain mechanisms for settling the NPAs. They can go to Lok Adalats or Debt Recovery Tribunal or take recourse of the Insolvency and Bankruptcy Code (IBC) or the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act. They take the help of the Asset Reconstruction Companies (ARC), which are in the business of buying bad loans from banks. ARC, or a Bad Bank, is a specialised financial institution that buys the NPAs or bad assets from banks and financial institutions and cleans up their balance sheets.

**Total NPA and NPA due to MSME**

RBI's Financial Stability Report (FSR) of December 2020 has stated that banks’ Gross Non-Performing Assets (GNPAs) may rise sharply to 13.5% by September 2021. Some of the high NPA risk sectors identified by majority of respondent bankers in the current round of survey include tourism and hospitality, MSME, aviation and restaurants. Thus, MSME is considered by the bankers as risk sector.

MSME Pulse is quarterly comprehensive report published jointly by SIDBI and CIBIL. The report aims to provide the credit industry with trends and insights about MSMEs for making information-oriented business decisions.

According to Pulse June 2021, NPA in the MSMEs grew in the March quarter to 12.6% against 12% at the end of the preceding December quarter. The increase in stress was observed across the MSME segments.

According to the report, the total on-balance sheet commercial lending exposure in India stood at Rs 74.36 lakh crore in March 2021, while the MSME segment’s credit exposure was Rs 20.21 lakh crore. The credit exposure for micro enterprises was ₹5.16 lakh crores, for small enterprises it was ₹7.15 lakh crores, and for medium it was ₹6.88 lakh crores.
Govt. efforts to control NPA in MSMEs

Last year’s nationwide lockdown severely impacted small businesses, as they struggled with job loss and liquidity crunch. Thereafter, the government announced a slew of measures for MSMEs, including a ~3 trillion government-backed loan scheme. The Emergency Credit Line Guarantee Scheme was recently extended up to June 30 or until disbursement of ~3 trillion is complete.

This was followed by Resolution Framework II, according to which, individuals and businesses can opt for loan restructuring option for up to Rs 25 crore dues.

Accordingly, loans worth Rs 9.5 lakh crore were disbursed to MSMEs during the pandemic-hit financial year 21 as against Rs 6.8 lakh crore in financial year 20. The jump in credit led to stability in the overall NPAs level when compared to the last year.

Points

* Currently loan account turns into an NPA if it is not serviced for 90 days. Proposed to extend the classification period to at least 120 days.
* Banks need to create 25% provision of the total outstanding in their books wherein 15% is made for total outstanding and additional 10% for portion for which there is no underlying guarantee.
* Banks use Lok Adalat or Debt Recovery Tribunal or take recourse of Insolvency and Bankruptcy Code (IBC) or Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act.
* Banks take help of Asset Reconstruction Companies (ARC), which are in the business of buying bad loans from banks.
* Gross Non-Performing Assets (GNPAs) in December 2020 is 12%, March 2021 is 12.6% and may rise to 13.5% by September 2021.
* Some of the high NPA risk sectors identified include tourism and hospitality, MSME, aviation and restaurants.
* March 2021, total on-balance sheet commercial lending exposure in stood at Rs 74.36 lakh crore, while MSME segment’s credit exposure was Rs 20.21 lakh crore - micro enterprises was ₹5.16 lakh crores, small enterprises it was ₹7.15 lakh crores, and for medium it was ₹6.88 lakh crores. – figures mismatch
* Last year Government announced a slew of measures for MSMEs, including a 3 trillion Government backed loan i.e., Emergency Credit Line Guarantee Scheme.
* Individuals and businesses can opt for loan restructuring option for up to Rs 25 crore dues.
* Loans worth Rs 9.5 lakh crore were disbursed to MSMEs during pandemic-hit financial year 2021 as against Rs 6.8 lakh crore in financial year 2020. The jump in credit led to stability in the overall NPAs level when compared to the last year.
Role of Financial Technology Companies in Providing Financial Services To MSME Sector

Financial Technology (Fin-Tech) that applies to any emerging technology that helps consumers or financial institutions deliver financial services in newer, faster ways. It is used to improve and automate the delivery and use of financial services. It is utilised to help enterprises; business owners and consumers better manage their financial operations and processes.

Fin-tech initially applied to the technology employed at the back-end systems of established financial institutions. Then, however, there has been a shift to more consumer-oriented services. Currently includes different sectors and industries such as education, retail banking, fundraising and non-profit, and investment management to name a few. It describes a variety of financial activities, such as money transfers, depositing a cheque with smartphone, bypassing a bank branch to apply for credit, raising money for a business start-up, or managing investments, generally without the assistance of a person.

Fin-tech companies make financial services more accessible to the greater public. These services include traditional financial transactions like saving, investing, and loan processing. It also encompasses revolutionary financial technologies like block chain and crypto currency.

Currently mobile banking is on phones, which helps to do all banking transactions at our fingertips from the comfort of homes or any place. There are financial applications used to calculate EMIs and insurance premium quotes as well.

Fin-Tech start-ups brought a significant change in economy and major changes in making payments. The payment system has changed dramatically. Some Fin-Tech firms are making headlines in the finance industry and reaching out to various markets with their unique financial solutions.

PayPal global financial empire, and biggest, is one of the world’s first Fin-Tech companies. It has 205 million users and 16 million merchant accounts globally. It processes over 1.7 billion payments and is used by over 770,000 websites worldwide.

FINTECHS CATERING TO MSMEs

Fin-Tech has disrupted the traditional lending process and made loans more accessible to the underserved and under banked segments. Banks are usually wary of lending to MSMEs and are more cautious amid Covid-19 times. Small businesses generally face challenges to show collateral and are hence unable to avail credit from these financial institutions. Fin-Tech lenders have proved to be a blessing for MSMEs as the loan process takes place in a digital manner. Financing has become seamless as the paperwork involved is minimal or even zero. There are top Indian digital lenders providing seamless financing to MSMEs. These Fin-Tech platforms offer loans to small businesses in the country.
Some popular Fin-Tech companies that help and support MSME are:

**Lendingkart**: Based at Ahmedabad, Bengaluru, and Mumbai, but work across the country. It is an online financing company offering working capital loans and company loans to small and medium-sized businesses. They provide capital fully online, a fast process with minimal documentation and no collateral necessary. The goal is to make capital funding accessible at their fingertips so that entrepreneurs can concentrate on business instead of thinking about their cash-flow gaps.

**MoneyTap**: Country’s first app-based credit line. It offers small-medium cash loans, fast mobile credit, competitive interest rates, and flexible EMIs. Any person who has a smartphone and a PAN will check qualifying limit in less than 15 minutes using the app. The whole procedure is completely paperless, with the exception of certain important documentation needed to conform with the KYC legislation of the partner bank. The interesting part is interest rates apply only to the amount borrowed and not to accepted cap as a whole. It operates only with regulated financial institutions controlled by RBI, and they also have own NBFC license.

**Instamojo**: It collects fees, creates free online stores, ships goods, get loans, and more to boost business. Micro-entrepreneurs, start-ups, small and medium-sized businesses are using Instamojo to start, market, run and expand instantly, using its suite of services such as payments, free online stores, logistics, credit and finance, and more through mobile and web platforms. It allows personalised business tools to help a business expand on the Internet.

**Razorpay**: It is a payment solution that helps companies with its suite of products to receive, process, and disburse payments. It gives access to all payment modes, including JioMoney, Mobikwik, Airtel Money, Free Charge, Ola Money, and PayZapp, including credit card, debit card, net banking, UPI, and common wallets. Businesses can handle the marketplace, simplify money transactions, receive regular fees, exchange client invoices, and take advantage of working capital loans from a single platform.

**Paytm**: It is authorised by RBI. It has many partners such as Uber, BookMyShow, Foodpanda, MakeMyTrip and many more. Its investors include Softbank, Ant Financial, AGH Holdings, SAIF Partners, Berkshire Hathaway, T Rowe Price, and Discovery Capital. Paytm Insurance is a wholly owned subsidiary of One97 Communications Ltd (OCL) and has a brokerage license from IRDAI.

**Policy Bazaar**: Policybazaar.com is India’s largest insurance aggregator and one of the world’s top Fin-Tech players. The online platform originated as a website for price comparison and a knowledge source to learn about insurance and related programmes. It later grew to become an insurance policy marketplace. The revenue for the organisation is created by the fees paid for the promotion and advertisements of insurance providers on its website.

Another source mentions top 5 Fin-Tech companies for MSMEs and besides Lendingkart, it lists 4 more FinTechs (https://ibsintelligence.com/ibsi-news/5-top-fintech-lending-companies-for-msmes-in-india/). Those are:

**Capital Float**: It is a digital financial services company. The core product is flexible and
timely credit delivered over a seamless mobile experience. It leverages technology to deliver financial products to businesses and individuals across the country. Through its proprietary digital loan underwriting and origination expertise, it has been able to deliver financing solutions to vast sections of the economy traditionally underserved by large financial institutions.

Capital Float is the trade name for CapFloat Financial Services Private Limited, NBFC registered with RBI. The company has raised funding from marquee investors such as Elevation Capital, Sequoia India, LGT Lightstone Aspada, Creation Investments Capital Management LLC, Ribbit Capital and Amazon.

In November, it is reported having financed customer purchases worth ₹4 billion since March 2020 and witnessed a 350% growth in its ‘Buy Now Pay Later’ (BNPL) customer base in a span of 7 months when compared to financial year 2020.

**Clix Capital:** The digital lending NBFC is empowering customers with fast and simple loans for all of their personal and business needs. It offers a full spectrum of financing solutions across 5 business segments which are corporate finance, equipment finance & leasing, SME finance, consumer finance, and housing finance.

It works towards changing the way the lending business works. This is done through the usage of technology to make loans easier and relevant to consumers. The company evaluates loan applications with its digital processes and smart ways.

**SMEcorner:** It is a new age Fin-Tech lender that helps SMEs meet their working capital needs with collateral-free business loans in 24 hours. It is disrupting structural challenges of MSME lending by leveraging proprietary tech and data science that solves the complex SME underwriting problem. The company uses a proprietary online platform that combines machine learning, data science, and artificial intelligence to provide a seamless and fast customer experience.

It has a balance sheet support of 10 billion from partners such as IDFC First Bank, Ambit, Fullerton India, Northern ARC, DMI Finance. The company also has support from lenders such as HDFC Bank, SIDBI, AU Small Finance, U GRO Capital, and InCred, among others. It is backed by Quona Capital, Paragon Partners, ACCION, Triple Jump. The company's portfolio has witnessed a 7% month-on-month growth, since September 2018.

It has a proven principal and platform lending business model at scale along with a focus on risk management and collections. The company has products such as unsecured business loans and loan against property with special products like MSME loans and women entrepreneur loans to meet the needs of working capital and encourage women entrepreneurs.

**U GRO Capital:** It is a business lending Fin-Tech platform. The company is focused on addressing the capital needs of small businesses operating in the select 8 sectors and provides customised loan solutions. These are healthcare, education, chemicals, food processing/FMCG, hospitality, electrical equipment and components, auto components, and light engineering.
The company has raised Rs.9.2 billion of capital from a diversified set of private equity funds such as institutional investors and well-known family offices. It additionally lends to microenterprises which behave as a monolith and act a pseudo 9th sector. The company strives to build a strong SME financing platform based on sectoral understanding supplemented by a fully integrated technology and analytics platform.

It believes that the problem of small businesses can be solved by building deep expertise around core sectors of SMEs coupled with a data-centric, technology-enabled approach. The company uses a unique combination of intelligence and technology using statistical predictive modelling to understand the potential for growth of a business.

**FINTECH SERVICES FOR MSME**

With the inclusion of Fin-Tech, there has been a rapid transformation of the financial sector. There are a lot of advantages that Fin-Tech provides to MSMEs to achieve financial parity and assistance. They are boosting the progress of the MSME sector. Other than the basic banking and financial activities, there are quite a few functions that are provided by Fin-Tech companies.

Enablement of transfer of funds from a multitude of sources and for various reasons. Technology has made the process smooth, streamlined, and secure. This allows for a hassle-free experience.

Helping the MSMEs in finding the requisite sources of investment. It is an important function since most MSMEs are unaware of all the steps that are required to attain an investment. Investors are on the lookout for investment opportunities but are unable to locate the business that may require investment. Fin-Techs with their intuitive tools and predictive algorithms help them fulfil the demand.

Artificial Intelligence or AI has been able to create virtual financial advisors that help the MSMEs on a variety of subjects. From MSME loan to MSME registration as well as CGTMSE or Udyog Aadhar application, these functions help the applicants. There is also technology available that is governed by the investment strategy. They offer a variety of financial services depending on the demand and the need. These AI-enabled services help on the simplest of queries. The primary function is to simplify the entire process of fact-finding.

It is not just limited to MSME loans. Fin-Tech companies help MSME owners in filing their tax returns and filing them too. There is also the specialised skill set required for financial planning. The algorithm of these tools is powerful enough to create financial plans for those who seek.

Fin-Tech services also provide credit ratings. A good credit score is necessary to avail of a loan. Many applicants fail to qualify for MSME loans because of unsatisfactory credit score. There are Fin-Tech services which provide accurate credit score and also advise the incumbent on ways to improve them.

Risk assessment and risk evaluation is another area where Fin-Tech has been able to make a mark. Risk analysis is pertinent for any business house, especially those in the business
of providing loans to MSMEs. Banks and financial institutions employ Fin-Tech’s to create a risk profile of consumers. Based on this risk profile would they be able to provide loans. Risk profiles are also responsible for drawing up the credit profile of an individual. With powerful mathematical models and systems that work at break-neck speed, Fin-Tech can provide an accurate risk profile of consumers in the shortest possible time.

A new area where Fin-Tech has been able to successfully venture is crowd funding, MSMEs benefit a lot from crowd funding.

With the rise of online payments and e-commerce, the usage of wallets seen a steady rise. Fin-Tech not only provides this facility to MSMEs but are also creators of these wallets. Digital currency is the way forward and with Fin-Tech at the helm, MSMEs must become tech-intensive and savvy in the times to come.

**Reasons for Rejecting Loans**

Banker considers several points while deciding on a loan application submitted by MSMEs. Banker looks at both the project as well as the applicant and if any of those two are found wanting, then decides to reject the loan.

**The major reasons are**

**Applicant approach:** Usually the applicant comes with a project report prepared by a Chartered Accountant which shows profit.

**Bankers approach:** Project has to be feasible and should generate enough profit so that the interest and the principal loan amount can be paid back in due time to the bank.

- Bankers undertake their own independent evaluation:
- Whether the applicant has experience in the project.
- Project feasibility after observing the market.
- Whether there is demand for the product which will be produced in the project.
- Price of various items mentioned in the project to see whether those are realistic or not.
- Compare the production cost and the profit margin.
- After inspection of the project site.

**Reasons for rejection**

If there is no demand for the product then they reject, and if there is demand but the cost of production is high and there is not enough profit margins then also, they reject.

**Experience relevant to project**

The project may be good and profitable, but the applicant has no relevant education or experience then they do not consider skilled enough to run the project and decide to reject the project.

In some cases, in bigger projects, the applicant may propose to hire experienced people on payment basis. This is considered as appropriate and the project is sanctioned, but if the
applicant or any proposed employee has no experience in the proposed project then it is rejected.

**Financial background**

The most important factor considered by the banker is the financial position of the applicant and the type of collateral offering. If the collateral is not adequate to cover the loan amount, then application is rejected.

**Precautions by banker**

The banker is highly concerned about loan becoming NPA, and therefore takes maximum precaution to see whether bank will be able to recover money in case the project does not generate profit.

In fact, a banker also said that if the applicant is giving enough collateral to cover the loan amount, then they also do not bother to see the project feasibility and they sanction the project. On the other hand, the project may be highly profitable, and the applicant has vast experience but if adequate collateral security is not being offered then they reject the project. If the project is feasible, then bargain with the applicant to increase the collateral amount or to offer other types of securities. Liquid securities are preferred to other securities as the banker can easily realise money in case of project failure.

**Project details**

The willingness and the capacity of the applicant to deposit the margin money is also considered by the bankers. Some applicants try to inflate the project cost and thus try to adjust the margin money, but this is not taken kindly by the banker and therefore banker prefers to reject the project in such cases. Mostly applicants try to inflate the value of the plant and machinery in the project cost. The banker does independent enquiry and asks the applicant to change the project proposal and to put realistic costs while considering the loan.

**Sincerity**

The sincerity of the applicant is a very important matter and bankers try to assess this by first telling the applicant that they cannot fund the project or by asking applicant to come later. Banker deliberately makes applicant run several times just to see sincerity and perseverance for the project. If applicant has a casual attitude, then banker do not consider applicant a good candidate and rejects application, even if the project is feasible and the candidate is offering good collateral.

**Diversion of funds**

Another serious matter is the diversion of project funds to other heads after the project is approved and the loan is sanctioned. In such cases, they even stop funding even after the loan has been sanctioned. Bankers take this very seriously and due to this reason, the project funding is stopped in the middle. The expenditure of project loan funds must be exactly as per the sanctioned project budget and any diversion is seen as an offence and funding is suspended.
Location of the project

The location of the project is another factor. If the location is such that it is not accessible to vehicles carrying raw materials or finished products, then they do not consider it a sound project. The location may be far away from the city so that the transportation cost is unnecessarily increased, and this is considered as a risk factor.

Land ownership

Bankers give more weightage to a project if it is based on a land which is owned by the applicant or applicant relatives, but they do not give much weightage if it is based on leased land. Sometimes they insist on the landowner (if other than applicant) becoming a guarantor. If the landowner is either the applicant or applicant partner or a guarantor, then they consider the project favourably or else they may reject the project.

MSME and Women: Experience of Women Entrepreneurs

MoMSME has since long recognised that women entrepreneurs need special promotion to engage in business and industry and has accordingly designed and implemented policies and schemes to actively encourage women to start MSME units. The banks have also adopted a similar approach towards women in business and have come up with special schemes and provisions. These schemes and provisions work in different ways:

- Special schemes for women only
- Higher subsidy for women in different schemes
- Special bank branches oriented for women
- Giving preference to women in different schemes and activities

Udyam Sakhi portal: On the eve of International Women’s Day 2018, Ministry of MSME launched Udyam Sakhi, a network for nurturing social entrepreneurship creating business models revolving around low-cost products and services to resolve social inequities. The portal caters needs of around 8 million women who have started or running their own businesses through its platform for entrepreneurship learning tools, incubation facility, training programmes for fundraising, providing mentors, one-on-one investor meet, provide market survey facility and technical assistance. (https://msme.gov.in/women-entrepreneurs)

In MSME schemes, women entrepreneurs are covered under special category and are entitled to 25% and 35% subsidies for the project set up in urban and rural areas, respectively.

For women beneficiaries, own contribution is only 5% of the project cost while for general category it is 10%.

Mahila Udyam Nidhi Scheme or MUN is provided under Small Industries Development Bank of India. Under this scheme, women entrepreneurs can get maximum financial support of up to rs.10 lakh for the purpose of establishing new industrial venture in the small scale sector.
Top 5 Government schemes that have helped budding women entrepreneurs:

- Annapurna scheme
- Bhartiya Mahila Bank business loan
- Mudra Yojana scheme for women
- Orient Mahila Vikas Yojana scheme
- Udyogini scheme

The other schemes include Trade Related Entrepreneurship Assistance and Development (TREAD) scheme, Stree Shakti package for women entrepreneurs, Dena Shakti scheme, Cent Kalyani scheme (of Central Bank of India), etc.

Some banks have women branches in metro cities and other big cities where all the officers are women. These branches cater to male customers also, but these provide a secure and positive environment for women entrepreneurs.

Preference is given by banks and other financial institutions to women for providing loans under schemes. If there are two candidates for one scheme and only one quota is there then preference will be given to women.

- Separate industrial estates are in vogue for women.
- Women entrepreneurs associations are in existence.

In case of self-help groups especially in rural areas women play a dominant role.

**Small Industries Development Bank of India (SIDBI)**

SIDBI formed in 1990 and is under the jurisdiction of Ministry of Finance, headquartered at Lucknow and having its offices all over the country. It is apex institution for financing, promotion, and development of MSMEs. Its aim is to facilitate and strengthen credit flow to MSMEs and address both financial and developmental gaps in the MSME eco-system. Its vision is to emerge as a single window for meeting the financial and developmental needs of the MSME sector to make it strong, vibrant, and globally competitive.

It plays the following roles:

- Indirect lending- Based on multiplier effect/ larger reach in financing the MSME sector and is undertaken through Banks, SFBs, NBFCs, MFIs and New Age Fin-Tech’s.
- Direct lending- Aims to fill the existing credit gaps in the MSME sector and is undertaken through demonstrative and innovative lending products, which can be further scaled up by credit delivery ecosystem.
- Fund of Funds- Boosts entrepreneurship culture by supporting emerging start-ups through the Fund of Funds channel.
- Promotion and development- Promoting entrepreneurship and handholding budding entrepreneurs for holistic development of MSME sector through credit-plus initiatives.
- Facilitator- Playing a facilitator through roles like Nodal Agency for the MSME oriented
Schemes of the Government.

SIDBI stakes are held by the Government of India and twenty-two other institutions/public sector banks/insurance companies owned or controlled by the Central Government.

SIDBI carried out several activities in the MSME space. The activities include introduction of bills discounting of MSME vendors, launching of micro-credit scheme, launching of SIDBI venture capital, introduction of CGTMSE, launching of ISARC, NTREES, PSIG, MUDRA, TReDS, Fin-Tech plus, Industry spotlight, Credit guarantee scheme for micro finance, etc.

Other activities of SIDBI include:

- Providing direct loans under SHWAS, AROG, TWARIT, SLSM 2, for COVID related activities.
- SPEED, SPEED plus, working capital, loans- OEM partnership, etc.
- Initiation of schemes such as Sampark, Samvaad, Suraksha and Sampreshan.
- A number of activities under Swabalamban to kindle entrepreneurship.
- Starting Prayas for small enterprise lending.
- SFCs

SFCs are the state level financial institutions which play a vital role in the growth of small medium enterprises in the concerned states, established under the State Financial Corporations Act, 1951. The main objectives are to provide financial assistance to medium and small enterprises. The major objectives are:

- To establish uniformity in regional enterprises
- To provide incentives to new enterprises.
- To bring efficiency in regional enterprises.
- To develop regional financial resources
- To provide finance to small scale, medium sized and cottage enterprises in the state.

SFC helps in ensuring balanced regional development, higher investment, more employment generation and broad ownership of various enterprises.

SFC provide financial assistance either by way of granting loans or advances or subscribing to debentures of enterprises, or by guaranteeing loans raised by enterprises or by underwriting the stocks, shares, bonds and debentures. The functions include:

- Long term financial assistance
- Guarantee for loans
- Acts as agents of Government
- Underwriting and subscription
- Credit and guarantee for purchases

There are 18 SFCs of which 17 were established under the SFC Act. They have a share capital between ₹5 lakhs to ₹5 crores. It can be increased to ₹10 crores with govt. approval.
A major problem with SFCs is that they are dependent upon the rules and regulations made by the state government. Therefore, all decision of these institutions is dependent on the political environment of the state. Due to this, the loan is not available at the right time for the right person.

**SIDCs/SIICs**

SIDCs/SIICs are state level public sector units established under the 1956 Companies Act. They are state-owned government corporations that engage in the development and promotion of medium and large enterprises. The aim is to develop industrial infrastructure such as industrial parks and industrial estates along with providing financial assistance. They set up industrial projects either in joint sector collaboration with private entrepreneurs or on their own. They also set up such projects as wholly owned subsidiaries. They provide loans to several enterprises in medium and large sectors at an interest rate that ranges from 13.5% to 17% according to the size of the loan. Its major function is to provide infrastructure facilities, arrange raw materials, help in marketing, and undertake civil and electrical works. The objectives include:

- Act as an instrument in expediting industrialisation in the states in which they are present.
- Issue loans, subscriptions of shares, guarantees to various companies belonging to different sectors
- Organise various promotional programmes like entrepreneurial training, project identification, etc.
- Provides financial assistance in the form of loans or subscriptions to debentures and shares, guarantees, etc.
- Procure scarce raw materials from the domestic market and international market and make it available to the needy small-scale enterprises as per their requirements.
- Take up various schemes to provide facilities to various enterprises with efficient marketing assistance.
- Participate in tenders floated by the state government departments.
- Obtain orders and distribute them among various small enterprises
- Make advance payments.
- Helps in solving working capital problems of enterprises.
- The government departments often delay payments when goods are supplied to them by the enterprises. Therefore, to avoid such delays, SIDCs/SIICs discount the bills drawn on government departments. Hence, they ensure that 80% of the bill value is paid to the supplier units.
- Developed websites so that the products manufactured by the enterprises are displayed in the foreign markets. It provides export marketing assistance and helps in procuring export orders.
- Helps small enterprises to take part in the international trade fair so that the products are displayed there.
• Promote enterprises run by women entrepreneurs
• Help in setting up skill development centres where workers are trained in various skills and activities. This is to ensure the supply of skilled labourers to various small enterprises.

There are 28 SIDCs/SIICs in the country. It has been established by state governments of each state. 11 out 28 SIDCs/SIICs function as State Financial Corporations. They are termed as twin functions of IDCs.

**SFCs vs SIDCs/SIICs**

At the state-level, too, there is a combination of financing agencies and industrial development banks, mainly for the development of medium and small enterprises in respective states, with some emphasis on the industrial development of their backward regions. They are SFCs which are primarily financing agencies. Besides, most individual states have either a SIDC or a SIIC. In 1994-95, there were 18 SFCs and 26 SIDCs/SIICs.

SIDCs/SIICs came on the scene much after the SFCs. They besides providing finance, perform a variety of functions, such as arranging for land, power, roads, licenses for enterprises, sponsoring the establishment of such units, especially in backward areas, etc.

They score over other development banks in that about one-third of their total finance is provided in the form of underwriting/direct subscription assistance and only about two-thirds of it in the form of term loans.

A significant part of this assistance goes to units in the joint sector and the public sector and only the rest to the units in the private sector. The funds are raised from the usual sources, viz., share capital and reserves, borrowings from state governments and banks, bonds and debentures. These institutions also suffer from the problems of defaults, inadequate and inexperienced staff, and organisational deficiencies.

Suggested Simplified Form
(Simple application for financial support)

Compliances
• Applicant’s name with Know Your Customer (KYC) details
• KYC: Aadhar, Permanent Account Number (PAN), photographs (two)

Nature of borrowers
• Self Help Groups
• Sishu
• Kishore
• Tarun
• Prime Minister Employment Generation Programme (PMEGP)

Borrower background
• First and second generation
• SC, ST, BC, Women, Ex-service, Divyangjan
• First and second generation
• Proprietor, partner, cooperative
• Whether experienced/not experienced/or will employ skilled professionals

Nature of business
• Industry
• Service
• Business

Legal requirements
• Goods and Service Tax (GST)
• Udyami registered
• First or second time support
• Appropriate No Objection Certificate (NOC)/ licenses, etc., for the project

Funding
• Financial report columns
  a. (New unit, projected balance sheet and profit and loss)
  b. (Existing unit, last 3 years financial papers and projected figures)
• Banks should not insist on balance sheet and profit and loss details for loans up to ₹2 lakhs.
• Clarity on plot where unit will be set up (own/leased)
• Details of machineries to be purchased
• Own contribution – margin money
• Fund based - term or working capital or both
• Fee based - letter of credit or bank guarantee
• Non-performing assets

Modus operandi
1. The application form needs to be filled on-line
2. Each category form can be created separately
3. Once the applicant comes needs to be completed by the applicant the form
4. Decision taken can be sent to the applicant
5. Bank wise, branch-based information will be available on-line
6. The status of the loan application and at what stage it is to be seen in dash board.
7. No duplication takes place
8. Segregation is easy

Acknowledgements
We are indebted to Development Commissioner, MSME (DC-MSME), Ministry of MSME, Govt. of India and his office for motivating us to conduct this study in an extremely hard time. We are thankful for the help and co-ordination from the Office of DC-MSME and the team to accomplish this research. It was not possible to complete this study unless we would have got the database and authorisation letter to make an entry to different Banks and Government offices. We appreciate the entrepreneurs who had responded to our queries and the Government Officials including the Bankers who allowed us to meet in person or allowed us to talk over phone or through different electronic media. As ni-msme team we also want to appreciate our field team who made speaking and reaching out to 5000 people during the second wave of the Pandemic and Lockdown. They did not let the COVID-19 come in the way of their working. This entire study took place through the Lockdown of second wave where the team put their best efforts to create conversations and discussions to enrich our learnings.
Good Morning/ After Noon/ Evening. We are coming from__________. We are currently conducting a study to understand our Business Loans market in India. I would request you to spare a few minutes of your time to answer my questions. This is purely for survey purpose only. Your opinions are of utmost importance for this study and will be treated as confidential and will not be disclosed. There is no right or wrong answer.

Name of Respondent: _____________________________________________________

Designation of the Respondent: ___________________________________________

Name of the Bank: _________________________________________________________

Choose (Tick) the Type of Bank: □Public Sector Bank    □Private Bank    □NBFC

Branch Location: ___________________________________________________________

Name of the Interviewer: ____________________________________________________

<table>
<thead>
<tr>
<th>CENTER [Single Answer Only]</th>
<th>Code</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delhi</td>
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<td></td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
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<td>3</td>
<td></td>
</tr>
<tr>
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<td></td>
</tr>
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<td>Bhubaneswar</td>
<td>10</td>
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</tr>
<tr>
<td>Uttar Pradesh</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Mumbai</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Nagpur</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>
**Q2**

**READ OUT**
Please tell me the kind of loans available for Entrepreneur (MSME), in your branch? [Multiple Answers Possible]

<table>
<thead>
<tr>
<th>Code</th>
<th>Route</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td></td>
<td>General Business Loan</td>
</tr>
<tr>
<td>02</td>
<td></td>
<td>Loan against machinery/equipment</td>
</tr>
<tr>
<td>03</td>
<td></td>
<td>Loan against property</td>
</tr>
<tr>
<td>04</td>
<td></td>
<td>Balance Transfer</td>
</tr>
<tr>
<td>05</td>
<td></td>
<td>Working capital loan</td>
</tr>
<tr>
<td>06</td>
<td></td>
<td>Channel Finance/Supply chain finance</td>
</tr>
<tr>
<td>07</td>
<td></td>
<td>Personal loan</td>
</tr>
<tr>
<td>08</td>
<td></td>
<td>Gold Loan</td>
</tr>
<tr>
<td>09</td>
<td></td>
<td>Retail Loan (small business loan)</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>Cash Credit Facility and Overdraft Facility</td>
</tr>
<tr>
<td>11</td>
<td></td>
<td>Letter of Credit (LC) Facility and Bank Guarantee</td>
</tr>
<tr>
<td>12</td>
<td></td>
<td>Other (please specify) _____________________________</td>
</tr>
<tr>
<td>13</td>
<td></td>
<td>Other (please specify) _____________________________</td>
</tr>
</tbody>
</table>

**Q3a**

Please tell me which segment of MSME business you provide loans to. [Single Answer Only]

<table>
<thead>
<tr>
<th>Code</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>
### Q3b
Please tell me which type of MSME business that comes for loan mostly/ Maximum. [Single Answer Only]

<table>
<thead>
<tr>
<th>Code</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Micro Enterprises</td>
</tr>
<tr>
<td>2</td>
<td>Small Enterprises</td>
</tr>
<tr>
<td>3</td>
<td>Medium Enterprises</td>
</tr>
</tbody>
</table>

### Q4
The Entrepreneur who come to avail loans, do they have awareness about different type of loans and benefits, or you explain them? [Single Answer Only]

<table>
<thead>
<tr>
<th>Code</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Most of the Entrepreneur are aware about the loan types and benefits</td>
</tr>
<tr>
<td>2</td>
<td>Half of the Entrepreneur are aware about the loan types and benefits</td>
</tr>
<tr>
<td>3</td>
<td>Only a very few of the Entrepreneur are aware about the loan types and benefits</td>
</tr>
</tbody>
</table>

### Q5
READ OUT
Which of the loans is very popular among Entrepreneur (MSME) in your area? I mean, which of the loans you give mostly / maximum times? [Single Answer Only]

<table>
<thead>
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<tr>
<td>11</td>
<td>Letter of Credit (LC) Facility and Bank Guarantee</td>
</tr>
<tr>
<td>12</td>
<td>Other (please specify)</td>
</tr>
<tr>
<td>13</td>
<td>Other (please specify)</td>
</tr>
<tr>
<td>Q6a</td>
<td>Which of the loans is Very Easier to get? [Single Answer Only]</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General Business Loan</th>
<th>01</th>
<th>01</th>
</tr>
</thead>
<tbody>
<tr>
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<td>02</td>
<td>02</td>
</tr>
<tr>
<td>Loan against property</td>
<td>03</td>
<td>03</td>
</tr>
<tr>
<td>Balance Transfer</td>
<td>04</td>
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</tr>
<tr>
<td>Working capital loan</td>
<td>05</td>
<td>05</td>
</tr>
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</tr>
<tr>
<td>Other (please specify)</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q6c</th>
<th>You said that _______________ (MENTION THE LOAN CODED IN Q6b) is “Most Difficult to Get”. Can you please explain the reason for saying so? [Probe in detail and write it down]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q7a</td>
<td>You said that _______________ (MENTION THE LOAN CODED IN Q5) is very popular among Entrepreneur in your area. Please tell me; in what way has it helped MSME? [Probe in detail and write it down]</td>
</tr>
</tbody>
</table>
You said that _______________ (MENTION THE LOAN CODED IN Q5) is very popular among Entrepreneur in your area. Please tell me: what are the benefits to MSME by this loan? [Multiple Answers Possible]

<table>
<thead>
<tr>
<th>Code (146)</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easier to get</td>
<td>1</td>
</tr>
<tr>
<td>Faster to avail</td>
<td>2</td>
</tr>
<tr>
<td>Lowest Interest Rate</td>
<td>3</td>
</tr>
<tr>
<td>Flexible Loan Amount</td>
<td>4</td>
</tr>
<tr>
<td>Flexible Loan Tenure/ Duration</td>
<td>5</td>
</tr>
<tr>
<td>Simple Documentation</td>
<td>6</td>
</tr>
<tr>
<td>No Collateral required</td>
<td>7</td>
</tr>
<tr>
<td>They can avail it through applying Online/ Mobile App. No need to visit our Branch</td>
<td>8</td>
</tr>
<tr>
<td>Digital EMI Payment Option</td>
<td>9</td>
</tr>
<tr>
<td>Others (Please Specify)</td>
<td>10</td>
</tr>
</tbody>
</table>

What kind of developments you have seen in your MSME customers? [Multiple Answers Possible]

<table>
<thead>
<tr>
<th>Code (146)</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>They grow/ expand their business faster through our loans</td>
<td>1</td>
</tr>
<tr>
<td>They have become perfect in repaying the loan on time</td>
<td>2</td>
</tr>
<tr>
<td>They repeat their relationship with our bank</td>
<td>3</td>
</tr>
<tr>
<td>They come only to us for all their loan requirements</td>
<td>4</td>
</tr>
<tr>
<td>They treat us as Financial Advisor and come to us for a relevant loan option suggestion that is correct to the life stage of the business</td>
<td>5</td>
</tr>
<tr>
<td>Others (Please Specify)</td>
<td>6</td>
</tr>
</tbody>
</table>
Q9 | You said that ____________ (MENTION THE LOAN CODED IN Q5) is very popular among Entrepreneur in your area. Please tell me what the future of this loan is. How would it shape up in future?

[Probe in detail and write it down]

Q10 | What are the big challenges/problems in this area when it comes to providing loans to MSMEs?

[Multiple Answers Possible]

<table>
<thead>
<tr>
<th>Code (146)</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty in approaching the MSMEs for business</td>
<td>1</td>
</tr>
<tr>
<td>Difficulty in getting all the required documents at one go during application process</td>
<td>2</td>
</tr>
<tr>
<td>Lack of availability of required documents with most MSMEs</td>
<td>3</td>
</tr>
<tr>
<td>Customers are not aware of Credit/Verification process</td>
<td>4</td>
</tr>
<tr>
<td>Customers do not trust bankers for submitting the collaterals</td>
<td>5</td>
</tr>
<tr>
<td>Most MSMEs default the repayment</td>
<td>6</td>
</tr>
<tr>
<td>Most MSMEs need multiple remainders for EMI payments</td>
<td>7</td>
</tr>
<tr>
<td>They ask for money that is higher than the eligible limit</td>
<td>8</td>
</tr>
<tr>
<td>Most of them reach out to us just once and do not repeat the business</td>
<td>9</td>
</tr>
<tr>
<td>They bargain more to get lower interest rate</td>
<td>10</td>
</tr>
<tr>
<td>Others (Please Specify)</td>
<td>11</td>
</tr>
</tbody>
</table>

Q11 | According to you, how should the banks improve the Loan Products for MSMEs and Loan Giving Process?

[Probe in detail and write it down]

Thank & Close the Interview
Annexure-2: MSME | Main Questionnaire

Good Morning/ After Noon/ Evening. We are coming from___________. We are currently conducting a study to understand our Business Loans market in India. I would request you to spare a few minutes of your time to answer my questions. This is purely for survey purpose only. Your opinions are of utmost importance for this study and will be treated as confidential and will not be disclosed. There is no right or wrong answer.

Name of Respondent: ________________________________________________________________

Designation of the Respondent: ______________________________________________________

Name of the Company/ MSME:________________________________________________________

Choose (Tick) the Type of MSME:  □Micro Enterprise   □Small Enter         □Medium Enterprise

Choose (Tick) the Nature of Business:      □Products/ Manufacturing                  □Service

Location: _______________________________________________________

Name of the Interviewer: ______________________________________

<table>
<thead>
<tr>
<th>CENTER [Single Answer Only]</th>
<th>Code</th>
<th>Route</th>
</tr>
</thead>
<tbody>
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<td>Bhubaneshwar</td>
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<td></td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Mumbai</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Nagpur</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>
Q2. Please tell me the list of Products or Services you are into.

[Multiple Answers Possible]

<table>
<thead>
<tr>
<th>PRODUCTS</th>
<th>SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

Q3. For how many years you are in this business?

[Multiple Answers Possible]

Mention the Number of Years ________________________________

Q4. Please tell me the kind of loans available for Entrepreneur (MSME)? Tell me all the loans for business that you are aware of.

[Multiple Answers Possible]

<table>
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<td>02</td>
<td>Loan against machinery/ equipment</td>
</tr>
<tr>
<td>03</td>
<td>Loan against property</td>
</tr>
<tr>
<td>04</td>
<td>Balance Transfer</td>
</tr>
<tr>
<td>05</td>
<td>Working capital loan</td>
</tr>
<tr>
<td>06</td>
<td>Channel Finance/Supply chain finance</td>
</tr>
<tr>
<td>07</td>
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<td>08</td>
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</tr>
<tr>
<td>11</td>
<td>Letter of Credit (LC) Facility and Bank Guarantee</td>
</tr>
<tr>
<td>12</td>
<td>Other (please specify)</td>
</tr>
<tr>
<td>13</td>
<td>Other (please specify)</td>
</tr>
</tbody>
</table>
As I read out, please tell me where have you seen/ read/heard about these financial products? [Multiple Answers Possible]

<table>
<thead>
<tr>
<th>INDOOR</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(R1) Television/ TV</td>
<td>01</td>
</tr>
<tr>
<td>(R2) Newspapers</td>
<td>02</td>
</tr>
<tr>
<td>(R3) Magazines</td>
<td>03</td>
</tr>
<tr>
<td>(R4) Radio</td>
<td>04</td>
</tr>
<tr>
<td>(R5) Mobile SMS</td>
<td>05</td>
</tr>
<tr>
<td>(R6) Tele Marketing/ Phone Call from the company</td>
<td>06</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>POINT OF SALES</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(R7) Posters / Danglers (inside branch)</td>
<td>07</td>
</tr>
<tr>
<td>(R8) Sign Boards/ Name Boards (Outside branch)</td>
<td>08</td>
</tr>
<tr>
<td>(R9) Leaflets, Pamphlets, Brochures, Direct Mailers</td>
<td>09</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OUTDOOR</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(R10) Hoardings, Banners &amp; Posters</td>
<td>10</td>
</tr>
<tr>
<td>(R11) Bus Stop/ Railway Station/ etc.</td>
<td>11</td>
</tr>
<tr>
<td>(R12) Bus Panels (Back side of the bus)</td>
<td>12</td>
</tr>
<tr>
<td>(R13) Wall paintings</td>
<td>13</td>
</tr>
<tr>
<td>Cinema / Movie Halls</td>
<td>14</td>
</tr>
<tr>
<td>(R15) Kiosks/ Counters/ stalls</td>
<td>15</td>
</tr>
<tr>
<td>(R16) ATM Centres</td>
<td>16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MIDDLEMEN/ WORD OF MOUTH</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(R17) Heard from colleagues/ friends/ relatives</td>
<td>17</td>
</tr>
<tr>
<td>(R18) Through company representative</td>
<td>18</td>
</tr>
<tr>
<td>(R19) Through Dealers/ Salesmen of Two-Wheeler/ Car/ Tractor/ Consumer Durable/ etc</td>
<td>19</td>
</tr>
<tr>
<td>(R20) Through Mechanics or Spare parts shops of Two-Wheeler/ Car/ Tractor</td>
<td>20</td>
</tr>
<tr>
<td>(R21) Through Brokers/ Agents of financial products (loans, insurance, investments etc.)</td>
<td>21</td>
</tr>
<tr>
<td>(R22) Village Sarpanch/ Head</td>
<td>22</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DIGITAL/ ONLINE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(R23) Internet – Emails</td>
<td>23</td>
</tr>
<tr>
<td>(R24) Internet - Google Search</td>
<td>24</td>
</tr>
<tr>
<td>(R25) Internet - Financial Company Websites</td>
<td>25</td>
</tr>
<tr>
<td>(R26) Internet - Websites like bankbazaar.com</td>
<td>26</td>
</tr>
<tr>
<td>(R27) Internet - Online Ads on other websites not related to finance</td>
<td>27</td>
</tr>
<tr>
<td>(R28) Internet - social media like Facebook, Twitter and LinkedIn</td>
<td>28</td>
</tr>
<tr>
<td>(R29) Mobile Apps – Notifications/ Advertisements on Apps</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Q6a (PAST)</td>
</tr>
<tr>
<td>---</td>
<td>------------</td>
</tr>
<tr>
<td>General Business Loan</td>
<td>01</td>
</tr>
<tr>
<td>Loan against machinery/equipment</td>
<td>02</td>
</tr>
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<td>Loan against property</td>
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</tr>
<tr>
<td>Other (please specify)</td>
<td>13</td>
</tr>
</tbody>
</table>

Q6d  How the loans you had taken did help you in your business?  
[Probe in detail and write it down]
### Q6e

What are the kinds of loans your friends in small businesses have taken?

[Multiple Answers Possible]

<table>
<thead>
<tr>
<th>Code</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>General Business Loan</td>
</tr>
<tr>
<td>02</td>
<td>Loan against machinery/equipment</td>
</tr>
<tr>
<td>03</td>
<td>Loan against property</td>
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<tr>
<td>11</td>
<td>Letter of Credit (LC) Facility and Bank Guarantee</td>
</tr>
<tr>
<td>12</td>
<td>Other (please specify).....</td>
</tr>
</tbody>
</table>

### Q6f

How the loans you had taken did help you in your friends’ businesses?

[Probe in detail and write it down]

### Q7

When you apply for loans for your business, which of the following you do?

[Single Answer Only]

<table>
<thead>
<tr>
<th>Code</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I know about the details of different loans. Hence, I tell them what I want</td>
</tr>
<tr>
<td>2</td>
<td>I know about the details of different loans. However, I ask the bank for their suggestion</td>
</tr>
<tr>
<td>3</td>
<td>I’m not aware of the details of different loans much. Hence, I ask the bank for their suggestion</td>
</tr>
</tbody>
</table>
### Q8

<table>
<thead>
<tr>
<th>What is the most important thing you will consider when it comes to select a loan product? [Single Answer Only]</th>
<th>Code</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easier to get</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Faster to avail/ Turnaround Time</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Lowest Interest Rate</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Flexible Loan Amount</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Flexible Loan Tenure/ Duration</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Simple Documentation</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>No/ Easy Collateral required</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Easy Payment Options/ Methods</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Others (Please Specify)</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

### Q9

**READ OUT. ROTATE THE ORDER OF SECTIONS FOR EVERY RESPONDENT**

As I read out, please tell me which of these problems/challenges you faced while availing the loan? [Multiple Answers Possible]

<table>
<thead>
<tr>
<th>COMPANY EXECUTIVE RELATED</th>
<th>Code</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of ability to listen and understand my financial needs</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Executive’s knowledge about different loans and features was poor</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Not easy to get in touch the executives when required</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Lack of ability to provide clarity on the documentation in the first meeting itself</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Lack of ability to provide clarity on the processes (interest rates, fees and charges, terms and conditions) involved, in the first meeting itself</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Lack of ability to provide clarity on the turnaround time in the first meeting itself</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Issue</td>
<td>Rating</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>No support provided by the executive in completing documentation process</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>No information on the status of my loan application</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Executives were not polite</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>No Clear &amp; Complete explanation of the product features given by the executives</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Executive’s knowledge related to the process of loan foreclosure was poor</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>PRODUCT RELATED</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor range of products offered to suit my varied needs</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>No Flexibility in terms of loan tenure options</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>No Flexibility in terms of loan repayment options</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Loan amount provided was lesser than the amount applied for</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Interest rates were not competitive</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Eligibility criteria for getting loan was not simple</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Terms and conditions are not transparent</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>High Pre-closure charges as compared to other brands</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>APPLICATION, SANCTION AND DISBURSAL RELATED</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficulty in completing the loan application form</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Lack of ability to process the loan with less documents</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>More time taken to complete the application process</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>They don’t accept alternate documents; in case the requested documents are not available</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>More unexpected documents were asked before sanctioning</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>More time taken to complete the Verification/ Credit Check process</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Issue</td>
<td>Code</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td>They did not keep me informed in case of delays in decision on sanctioning my loan</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>More time taken to get the loan sanctioned</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>More time taken to get the loan disbursed from the sanction of the loan</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>More time taken to receive the welcome letter (Letter detailing customer details and company details, Pre EMI schedule and Repayment Schedule)</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Lack of Clarity of information provided in the welcome kit (amount disbursed, EMI details, EMI bounce charges etc.)</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td><strong>BANK BRANCH RELATED</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location of the branch was not convenient</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Overall infrastructure of the branch /office (in terms of spaciousness of the branch/office, ambience, cleanliness etc.) was poor</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Waiting time to meet the branch executive after reaching the branch was higher</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Politeness &amp; courtesy of the branch executive was not good</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>More time taken to resolve my queries / issues</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Accuracy &amp; appropriateness of resolution to my queries / issues was bad</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td><strong>REPAYMENT OF LOAN RELATED</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No Multiple/ Convenient EMI payment methods (viz., ECS, Online, App, Cash, Cheque)</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Delayed paying the EMI due to the company executive delayed depositing my cheque</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Delayed paying the EMI as Bank ECS had a technical issue</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>They should provide flexible in EMI dates, as we have irregular income</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>They should provide EMI Holidays without additional interest, as we have irregular income</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Issue</td>
<td>Page</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td>Lack of politeness &amp; courtesy of the Collection Executive</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>No reminder on the EMI Date</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>Multiple reminders on the EMI payment even before the due date</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>No acknowledgement on receipt of EMI</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>No updates on maintaining account balance were given when EMI date was close by</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>When ECS fails PDC (postdated cheques) is not accepted</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Executives are not approachable in case of any query</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>No update when ECS fails due to technical issues. Had to pay penalty</td>
<td>49</td>
<td></td>
</tr>
</tbody>
</table>

**Thank & Close the Interview**
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- NBFC websites to identify the finer scheme related details.
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