

“A STUDY ON SATISFACTION OF MSMEs TOWARDS BANK FINANCE: AN ANALYSIS OF FUNDING GAP IN INDIA”

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Abstract

Micro, Small and Medium Enterprises (MSME) play a vibrant role in the development of an economy. They require finance to develop, modernize, diversify and finance their day-to-day business activities. In a current scenario, these are ignored by most banks and financial institutions. Many MSMEs do not hold adequate financial statements and they function in ambiguous forms. In most situations, banks are reluctant to get involved with MSME financing due to credit risk and inadequate financial information. This makes the use of structured credit very challenging for them. The present paper focuses on understanding the current situation of MSMEs and explore the factors causing the finance gap and the satisfaction level of the borrowers towards bank finance. Data is collected using a convenience method of sampling. A structured questionnaire is administered to 97 MSME borrowers from different sectors. Data is analyzed using SPSS. The study reveals that the finance gap is more in Small enterprises and the Asia region has more finance gap than others and the satisfaction of MSME borrowers mainly depend on the behaviour of bank staff, interest rate and formalities involved in availing the loan. The findings of this study are useful for commercial banks to redesign new schemes and strategies to reduce the finance gap of MSMEs.

Keywords: Bank Finance, Finance gap, India, Micro, Small and Medium Enterprises, Satisfaction.

I. INTRODUCTION

Micro, small and medium enterprises are the sub-sectors of the industrial sector that play a crucial role in industrial and economic development. MSMEs are perceived to be a growth driver of an economy. They make a significant contribution to the socio-economic infrastructure of both developing and developed countries in transition from a command to market economies. Availability of finance has been highlighted as a major factor in the growth and success of MSMEs. India has 42.50 million registered & unregistered MSMEs and constitutes twenty-five per cent of the country's gross manufacturing units. This sector produces over 6000 products, accounts for 45% of the overall production output of India, 40% of total exports and it constitutes about 16% of bank lending. The cycle of economic liberalization and market reforms has opened up huge possibilities for entry to larger markets and greater & deeper connection to bigger businesses as India's MSMEs have become increasingly competitive at home and internationally. In India, MSMEs are expanding at an outstanding pace and are expected to be one of the primary drivers of an indigenous economy" said Praveen Bhadada, Manager Business Expansion, and Zinnov. Presently, about 1.5 million MSMEs export their products outside India which marks the rapid development of this sector. There is a rise of 6.83 per cent in the Indian MSME sector at a compound annual growth rate (CAGR).

The major sources of funds for MSMEs are Specialized banks for MSMEs, Government, Leasing companies, Venture capitalists, Private financial institutions e.g Banks and finance companies.

MSMEs rely on internal funds and bank financing for the acquisition of property, development, purchase of machinery and working capital etc. though banks can meet the requirements of the industry to some extent but not sufficient enough to lift them causing a finance gap.

Finance gap = Total financial demand - Total financial supply

This finance gap is because of the following factors

Demand side factors	Supply side factors
Poor bookkeeping Default on the previous loan Lack of assets to mortgage Information Asymmetry	High-interest rate Bureaucratic loan procedure Less beneficial schemes High cost of financing Long approval period Long disbursement period Mindset of bankers Small repayment period Improper collateral valuation

II. LITERATURE REVIEW

Javed G Hussain et al. (2019) discussed the issues involved in SME financing in China and UK, researchers used primary data and based on the analysis it is found that in china SME owners depend mainly on financial support from their family and less on financial institutions whereas in the UK Owners depend mainly on financial institutions for their finance and they are less dependent in their savings. The study concludes that financial infrastructure should be strengthened in these two countries to reduce the finance gap. Maumita Choudhury & Chandana Goswami (2019) examined the issues associated with institutional lending to MSMEs, extensive literature reviews were done for the period from 2005 to 2016. Major factors influencing MSME lending are competition among the banks to increase the borrowers, legal framework by government, credit policies being followed by banks, lack of information about SME borrowers, firm characteristics and firm size. Mr Abhijeet Biswas et al. (2018) attempts to identify the various factors influencing the finance gap in the MSME sector, Study is mainly based on primary data and it finds that Information asymmetry between the borrower and lender should be minimized to reduce the finance gap. Touheda Yasmin Chowdhury et al. (2018) examined the problems faced by women entrepreneurs regarding credit from commercial banks. The researcher collected data from women entrepreneurs of Sylhet city of Bangladesh and used exploratory factor analysis for data analysis. The study concludes women entrepreneurs are reluctant to approach banks for credit because of high-interest rates, hidden costs, terms and conditions, collateral and relationship with the banker. Purnima Rao et al. (2017) highlights the real-time difficulties experienced by SME owners. The Convergent interviewing technique is used to study the factors and find the most important factors causing the finance gap are procedure complexity of lending institutions, information asymmetry, high cost of credit, creditworthiness. There exists a time gap between the processing of application and disbursement of loan and also exists problems concerning collateral requirements. Dr S.S. Jeyaraj & Dr. A. Prakash (2017) explored

and reviewed the attitude of the borrowers regarding the lending services of BDFCL. Analysis of the data collected from the borrowers reveals that the majority of the borrowers have a moderate level of satisfaction towards the services provided by banks. Ayeni-Agbaje et al. (2015) evaluates the contribution of the banking sector in SME development and outlines there exists a positive correlation between loans granted by banks and the development of SMEs and suggests that schemes and guidelines of commercial banks should be more flexible towards SMEs. Isaac Quaye et al. (2014) examined the ways to bridge the finance gap in Ghana. The purpose was to find the ways, microfinance institutions assist in bridging the SME finance gap. Outcomes of the study recommend that MFIs should build long term and sustainable business relations and improve their service delivery channels towards SMEs. Md. Taslim Uddin (2014) highlights SME financing policies in Bangladesh and identified the present situation of SMEs in Bangladesh. The study concludes the government should persist in the effort to improve infrastructure, legal and policy framework regarding SME financing. Shamshubaridah Ramle and Verma Verma (2013) evaluate the financing of SMEs in Malaysia. Many times the finance gap was overlooked because analysing the gap only from the demand side and outcomes of this study help to understand the factors that shaped the financing gap from the supply side too. Amitesh Kapoor (2012) analyzed the present financing strategies used by SMEs. Data was collected from SMEs belong to hotels, retail shops, retail stores etc. From the analysis it is found there are various financing options for SMEs. Despite government initiatives, they are unable to access these funds. SMEs raise funds from informal sources as it is an easy and flexible option.

III. OBJECTIVES & METHODS

1. To understand the present situation of MSMEs in India.
2. To study the factors influencing the financing Gap of MSMEs.
3. To study the satisfaction level of the MSME borrower towards commercial Banks.

The present paper adopted a descriptive research design. Primary data was collected from 97 MSME enterprises from different industries in Bangalore and secondary data was collected from the MSME Annual Reports published by the Ministry of MSME, SIDBI Annual Reports, Annual reports of RBI, Commercial banks. Data is analyzed using SPSS and a conclusion is drawn based on this.

IV. RESULTS AND DISCUSSIONS

Present MSME situation in India

MSME sector is the growth engine in sustaining and accelerating the competitiveness of an economy by contributing significantly to every aspect of economic development.

- Number of MSMEs in India: There exist 42.50 million registered & unregistered units.
- MSMEs & Employment: Employing 106 million, 40% of India's working population.
- Products and MSMEs: MSME sector produces more than 6000 products.
- GDP and MSMEs: Contributes around 6.11% of the manufacturing GDP and 24.63% of Service sector GDP.
- MSME and total output: 45% of the total Indian manufacturing output.
- MSME and Exports: 40% of the total exports are from this sector.

- Bank Lending: Accounts for 16% of bank lending.
- Growth Rate: SME's are growing at an average growth rate of over 10%.
- Brazil, China and Nigeria contribute 67% of the total number of SMEs in the world. China has the maximum number of SMEs compared to other developing countries.

Table 1 State-wise distribution of enterprises in India

Sl. No.	State	Number of MSMEs (in lakh)	Share (in %)
1	Uttar Pradesh	89.99	14
2	West Bengal	88.67	14
3	Tamil Nadu	49.48	08
4	Maharashtra	47.78	08
5	Karnataka	38.34	06
6	Bihar	34.46	05
7	Andhra Pradesh	33.87	05
8	Gujarat	33.16	05
9	Rajasthan	26.87	04
10	Madhya Pradesh	26.74	04
11	Total of above ten States	469.36	74
12	Other State/UTs	164.52	26
13	All	633.88	100

(Source: Ministry of MSME annual report 2017-18)

Table 2 Marketshare of banks and financial institutions in MSME Lending

Year	Public sector banks	Private sector banks	NBFC's	Others
2016	59.4	26.3	8.4	6
2017	55.8	28.1	9.6	6.4
2018	50.7	29.9	11.3	8

(Source: Center for Monitoring Indian economy)

Finance gap of MSMEs

MSME financing gap is a scenario where an enterprise is unable to borrow finance for its growth due to the reluctance of banks and financial intermediaries to provide credit to this sector. They expect credit for development, restructuring, diversification, long-term survival and working capital. They are completely different in their structure and function than large companies. Banks see MSMEs as problematic borrowers and thus typically refrain from lending SMEs with long-term funds. This disparity is defined as the funding gap between the amount of the loan needed and the amount of loan received. To close this funding gap, MSMEs are depending on informal sources of finance. Informal loans are provided at high-interest rates that are exploitable. This funding gap has a detrimental effect on their output because it reduces their production capacity, profitability and opportunities for future growth.

Table 3 MSMEs source of finance

Sl. No.	Source	%
1	Formal	12
2	Informal	67

3	Equity	21
Total		100

(Source: IFC data and analysis)

Table 4 Region wise finance gap for the year 2018-19

Sl. No.	Region	% of Gap
1	Asia pacific	40%
2	America	23%
3	Europe	17%
4	Middle east& Africa	14%
5	Russian Federation	06%

(Source: IFC data and analysis)

Table 5 Finance gap based on the size of the enterprise for the year 2018-19

Types of enterprise	Amount (INR in trillions)	Credit gap in %
Micro Enterprise	08	31%
Small Enterprise	16.8	65%
Medium Enterprise	01	4%
Total	25.8	100 %

(Source: IFC data and analysis)

Table 6 Finance gap by nature of the enterprise for the year 2018-19

Types of enterprise	Amount(INR in trillion)	Credit gap in %
Manufacturing Sector	12.8	50 %
Services Sector	13	50 %
Total	25.8	100 %

(Source: IFC data and analysis)

Table 7 Descriptive statistics of the respondents to study the satisfaction level

Age of the Respondents	N	%	Mean	Std. Deviation
18 to 25	26	27%	2.8635	0.9625
26 to 35	29	30%		
36 to 50	32	33%		
50 and Above	10	10%		
Loan taken from				
Canara Bank	31	32%	2.6532	1.3324
Vijaya Bank	18	19%		
Syndicate Bank	21	22%		
Corporation Bank	11	11%		
Bank of India	9	9%		
State Bank of India	7	7%		
Type of Industry				
Manufacturing	52	54%	1.6253	0.6251
Services	45	46%		
Ownership				

Sole proprietorship	29	30%	1.2856	0.3102
Partnership	47	48%		
Cooperative	1	1%		
Private	20	21%		
Public	0	0%		
Number of Years in Business				
2 Years	16	16%	1.9868	1.754
3 - 5 Years	21	22%		
6 - 10 Years	19	20%		
10 Years & Above	41	42%		
TOTAL	97	100%		

(Source:Primarydata)

Table No.7 shows descriptive statistics of the respondents of the present study which shows that 33 percent of the respondents are in the age group of 36 to 50. All the respondents have availed loan from the banks. With a Mean value of 2.65 and SD of 1.33, Canara Bank tops the list with 32 per cent. 54 percent of the respondents are from the manufacturing sector and 46 percent are from the service sector respectively. Maximum respondents availed the loans from banks are Partnership firms i.e., 48 percent. 42% of the loans are availed by firms having experience of more than 10 years. Chi-square test is used to study the level of satisfaction of the borrowers with the variables such as the behaviour of the bank staff, formalities involved in availing a loan, rate of subsidy offered by the banks, rate of interest and the present lending facilities in the bank.

Table 8 Chi-Square test to analyze the satisfaction level of the respondents

Chi-Square Tests (N=97)			
	Value	Df	Asymptotic Significance (2-sided)
Behavior of the bank staff			
Pearson Chi-Square	.672 ^a	1	0.432
Formalities involved in availing loan			
Pearson Chi-Square	1.305 ^a	2	0.298
Rate of subsidy offered by the banks			
Pearson Chi-Square	1. 2.184 ^a	2	0.211
Rate of interest of the banks			
Pearson Chi-Square	.877 ^a	3	0.648
Present lending facilities in the bank			
Pearson Chi-Square	.670 ^a	3	0.744

(Source:Primarydata)

Hypothesis

1. H₀: There is no relationship between the satisfaction of the borrowers and the behaviour of the bank staff.

According to the results obtained from statistical analysis, the p-value is 0.432. As the p-value exceeds 0.05, the null hypothesis is rejected and there exists a relationship between the satisfaction of the borrowers and the behaviour of the bank staff.

2. H0: There is no relationship between the satisfaction of the borrowers and the formalities involved in availing a loan.

Based on the results obtained from statistical analysis p-value is 0.298. As the p-value exceeds 0.05, there exists a relationship between the level of satisfaction and the Behavior of the Bank staff.

3. H0: There is no relationship between the satisfaction of the borrowers and the rate of subsidy offered by banks.

As per the results obtained from statistical analysis, the p-value is 0.211 which is exceeding 0.05, the null hypothesis is rejected. Hence the rate of subsidy offered by the banks determines the satisfaction level of the borrowers.

4. H0: There is no relationship between the satisfaction of the borrowers and the rate of interest by banks.

According to the results obtained from statistical analysis, the p-value is 0.648. As the p-value exceeds 0.05, the null hypothesis is rejected. Hence the rate of interest determines the satisfaction level of the borrowers.

5. H0: There is no relationship between the satisfaction of the borrowers and the present lending facilities of the bank.

Based on the results obtained from statistical analysis p-value is 0.744. As the p-value exceeds 0.05, there exists a relationship between satisfaction level and the present lending facilities of the bank. Hence the null hypothesis is rejected.

Analysis infers that the satisfaction of the borrowers depends on the behaviour of the bank staff, formalities involved in availing a loan, rate of subsidy offered by the banks, rate of interest and the present lending facilities in the bank.

Table 9 Correlation analysis of variables determining the attitude of bank Staff towards MSME borrowers

		Understands MSME business	Reliable	Follows up request promptly	Easy to get in touch	Approachable	Shows interest	Treats MSME as valuable customer	Quick reaction to problems
Understands MSME business	Pearson Correlation	1							
Reliable	Pearson Correlation	0.672	1						
Follow up request promptly	Pearson Correlation	0.516	0.638	1					
Easy to get in touch	Pearson Correlation	0.559	0.489	0.653	1				
Approachable	Pearson Correlation	0.324	0.362	0.334	0.605	1			
Shows interest	Pearson Correlation	0.457	0.441	0.439	0.621	0.439	1		

Treats MSME as valuable customer	Pearson Correlation	0.423	0.323	0.572	0.623	0.348	0.48	1	
Quick reaction to problems	Pearson Correlation	0.221	0.514	0.501	0.416	0.414	0.207	0.558	1

(Source:Primarydata)

The table above present'scorrelation analysis to identify the attitude of bank staff towards MSMEs, factors considered are understanding MSME business, reliability, following up of the requests promptly, ease to get in touch, approachable, shows interest, treats MSME as a valuable customer and quick reaction to problems.From the correlation analysis, it is found that all the factors are positively correlated with each other. The factors on reliability and understanding of MSME business is highly positively correlated with 0.67, followed by easy to get in touch with banks and following up of requests promptly with 0.65. The factors quick reactions to problems with showing interest and understanding MSME business are on the lower side with 0.22 and 0.20 respectively.

Table 10Correlation analysis of MSME borrowers on preferring particular bank fortheir finance

		Convenience	Low interest rate	Attitude of the bank staff	Provides adequate credit	Less procedural aspects
Convenience	Pearson Correlation	1				
Low interest rate	Pearson Correlation	0.703	1			
Attitude of the bank staff	Pearson Correlation	0.394	0.177	1		
Provides adequate credit	Pearson Correlation	0.162	0.442	0.204	1	
Less procedural aspects	Pearson Correlation	0.073	0.29	-0.082	0.374	1

(Source:Primarydata)

The result above infers that MSME borrowers prefer the banks with low - interest rates and convenience of availing the loan which is correlated with 0.70. There is a negative correlation between the procedural aspects of the banks and the attitude of the banks providing the loans to the customers.MSME borrowers are approaching a particular bank only because of convenience and low-interest rate.

V. SUMMARY OF FINDINGS

The study finds 67% of the MSMEs depend on the informal source of finance for theirfinancialsupport. In the formal source of finance,Public sector banks have a maximum share in MSME lending followed by private sector banks and NBFCs. There exists a maximum finance gap in small enterprises compared to micro and medium enterprises.Asia Pacific region ranks first in the area wise finance gap.There exists an equal finance gap in both the manufacturing and service sector.The behaviour of the bank staff, formalities of availing a loan, rate of subsidy, rate of interest by banks and the present lending facilities in the bank determinesthe satisfaction of the MSME borrowersThe study infers convenience and rate of interest are the major factors in preferring the bank to avail loans by MSMEs.

VI. SUGGESTIONS

To reduce the finance gap, the bank should change the mindset of top management to extend finance to the MSME sector and train credit officers with suitable courses to deal with MSME businesses. RBI should specify the proper guidelines regarding the collateral requirements. Govt. should develop an alternative source of financial schemes to promote this sector. Satisfaction of the borrowers mainly depends upon the attitude of the bank staff, rate of interest and rate of subsidy by the banks, the commercial banks should take necessary steps to resolve these issues.

VII. CONCLUSION

MSMEs are facing more credit-related problems compared to large businesses. Banks and financial institutions expect transparent information regarding the financial position of the firms to extend credit. The operation of MSMEs in an informal environment leads to information asymmetries between the MSME and the banker. This poses a question mark on the firm's creditworthiness. Many deliberations have been done in other countries to address this issue. But in India, the concept of the finance gap is still not familiar, To reduce the finance gap Government should act as a supportive force for commercial banks rather than acting as a regulator. Commercial banks should be encouraged to open more specialized MSME branches to provide finance and staff should be properly trained to deal with MSME borrowers.

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