

# Role of Banks Providing Credit Facilities to Small and Medium Enterprises - A Study in Alappuzha District

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**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. MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products, services and levels of technology. This study reveals availability of credit from banks to SME's, the role of these banks in improving the SME and the knowledge of the SME's entrepreneurs about these bank credits.

**Key notes:** MSME's Credit Facility, Role of bank.

## 1. INTRODUCTION

Small and Medium Enterprises (SME's) has developed as the most dynamic sector of Indian economy and are the backbone of India. SME sector contributes 45% of the industrial output, 40% of India's total exports, It is expected that around 12 million people in India might join the SME's workforce within the next three years at its present growth rate of 8% a year. SME's contribute to the development of talent, innovation and entrepreneurial spirit in the country. Credit is the most crucial input for promoting the growth of SME's in India. SME's are highly dependent on the finance from banks in the form of loans, though the traditional form of private funds from friends and family are also large sources of finance to SME's in India. Apart from these, some SME's also rely on private money lenders and unorganized financial agencies for their credit requirements and struggle due to their unclear terms and conditions of finance and higher interest rates. In such cases, the progress and profit of the SME's might be reduced due to the heavy financial insufficiency to repay such private loans.

Nowadays, the banks have started taking steps to enable easy funding to SME's due to the Government Regulations. The commercial banks provide credit to the entrepreneurs establishing Micro and Small Enterprises. This proves that there is a significant improvement in the credit flow for SME's. Government of India has also adopted the cluster development approach as an important tool for enhancing the competitiveness and productivity of the micro, small and medium enterprises. SIDCO has been nominated as the implementing Agency for establishing common facility centers in Kerala for this Cluster Development programme (CDP). A total project cost of Rs 53.89 crores has been sanctioned for 18 such projects in Kerala by the Central Government. The state government has granted a sum of Rs 5.76 crores for these projects.

## 2. STATEMENT OF THE PROBLEM

The banks should understand the problems faced by the SME's and modify their terms and condition and strategies in providing credit to SME's. This is possible only when a detailed study and analysis about the views of the people associated with SME's is done. Moreover, the various possible credit facilities offered by these banks for SME's should also be properly understood by the small and medium scale entrepreneurs. Hence, this research is entitled to study, examine and analyse the availability of credit from banks to SME's, the role of these banks in improving the SME and the knowledge of the SME's entrepreneurs about these bank credits in Alappuzha District in Kerala.

## 3. SCOPE OF THE STUDY

The study has been undertaken in Alappuzha district of Kerala. Alappuzha District in Kerala consists of 15 blocks. Since, there are a total of 24857 units of small and medium enterprises in Alappuzha District, the study on the role of banks in small and medium enterprises credit has a large scope to be examined and analysed. Being a district with different types of SME's such as paper based and printing, chemical based industries, forest based industries, plastics and rubber based industries, engineering based industries, food based industries, etc, the study on the role of credit facilities provided by banks through small and medium Enterprises (SME's) will be more suitable to reveal the credit requirements and expectation of the SME's more elaborately and also examine the credit to SME's from various banks and the positive and negative factors of the credit services from banks. The district consists of 75

branches of public sector banks, 44 branches of private sector banks and 189 co-operative banks. With a large number of banks and SME's within the district, the undertaken study has better scope to strength the bond between SME's and banks and analyse the role of banks credits in the upliftment of SME's. Further, the study will be able to suggest possible ways to improve the credit facilities offered by banks to SME's.

#### 4. OBJECTIVES OF THE STUDY

- i. To study the major constraints involved in availing the credit facilities offered by banks to SME's in Alappuzha district.
- ii. To recommend possible suggestions for the modifications of the bank's credit schemes to SME's for their upliftment.

#### 5. OPERATIONAL DEFINITION

- **ENTERPRISES**

With the enactment of the MSMED Act, 2006, which came into force on the 2nd October 2006, the earlier concept of Industries has been changed to 'Enterprises'.

- **SMALL ENTERPRISES**

As per the provision of the said Act where the investment in Plant and Machinery does not exceed Rs 25 lakh are categorised as Micro Enterprises engaged in Manufacture (Rs 10 lakhs in the case of Service), where investment in Plant and Machinery exceed Rs 25 lakhs but does not exceed Rs 5 crores as small Industries engaged in Manufacture (Exceed Rs 10 lakh but does not exceed Rs 2 crores in the case of service).

- **MEDIUM ENTERPRISES**

Where the investment in Plant and Machinery exceeds Rs 5 crores but does not exceed Rs 10 crore as Medium Enterprise engaged in Manufacture (exceed Rs 2 crores but does not exceed Rs 5 crores in the case of service).

#### 6. METHODOLOGY

Survey method of research is adopted for the study. The survey is conducted by means of a question schedule. The researcher visited select small and medium enterprises in Alappuzha District to get the question schedule filled. Before visiting the above select small and medium enterprises, the researcher obtained the list of SME's from The South Indian Coir Mats And Mattings in Alappuzha, and The Alappey Company Limited. The researcher approached every entrepreneur with an introductory letter. The data from the SME's entrepreneurs relating to SME's loans schemes of the banks were collected with the help of interview schedule. The interview schedule was translated into the vernacular language. The SME's entrepreneurs

who understand English were given the questions in English.

Both primary and secondary data are widely used. Secondary data were collected from books, periodicals, magazines, brochures, notices, RBI bulletin, Business line newspapers, District industrial centre news, journals etc. Primary data were collected by means of a question schedule. The researcher met the respondents in person and got the question schedule filled. The filled in question schedules were arranged in such a way to prepare tables.

The present study covered Alappuzha district in Kerala. Alappuzha is one of the 14 districts in the state of Kerala in India. It includes five taluks namely Kuttanad, Cherthala, Chenganoor, Ambalapuzha and Mavelikara.

The data were processed with the help of some statistical tools like percentage analysis, chi- square test and analysis of variance (ANOVA) methods.

#### 7. SAMPLING DESIGN

This study is based on the multi-stage sampling method, it means the sampling units are of different types at different stages. The study area of Alappuzha district includes five taluks namely, kuttanad, cherthala, chengannur, ambalapuzha and mavelikkara.

The researcher has chosen 270 small and 30 medium enterprises out of the above total as samples for the research work. All the sample enterprises were checked whether they have availed SME's credit loans from leading banks of Alappuzha district such as SBI, Canara bank, Indian bank and cooperative banks and only such SME's were taken as samples for the research.

#### 8. LIMITATIONS OF THE STUDY

The proposed study is confined to the following limitations.

- 1) The results of the study are based upon the information given by the respondents.
- 2) The data collected are based on the questionnaire and the results of the study would be varying according to the opinions of individuals.
- 3) The study is confined to the entrepreneurs in alappuzha district only.
- 4) The statistical tools used to analyse the data have their limitations

#### 9. DATA ANALYSIS

**TABLE 1: RANKING THE PROBLEMS FACED BY THE BORROWER WHEN OBTAINING LOANS**

PROBLEMS	TOTAL	AVERAGE MEANS SQUARE	RANK
High rate Interest	16574	55.24	III
High Processing fee	16956	56.52	II
Too much	16246	54.15	IV

paper work			
Lack of transparency of banker	17266	57.55	I
Requirement of Aailed financial statement	15688	52.29	V
Inadequate disbursement of loan	15616	52.05	VI
Cumbersome monitoring and recovery procedures	14430	48.04	VII
Asking for SME Association information report	11542	38.47	X
Collateral requirements	13421	44.73	VIII
Personal guarantee	12878	42.92	IX

Source: Primary data

Table 1 shows that lack of transparency of banker got first rank with a score of 57.55, high processing fee got the second rank with a score of 56.52 and personal guarantee got ninth rank and asking for SME Association information report goes tenth rank with a score of 38.47 respectively.

**TABLE 2: FACTORS MOTIVATED TO BORROW THE LOAN FROM THE BANKS**

FACTORS	TOTAL	MEAN SQUARE	RANK
Low Interest rate	14358	47.86	VIII
Less Formalities	12982	43.27	IX
Loans against SME's	14616	48.72	VI
Instalments of repayment under annuity	17728	59.09	I
Transparency in loan Sanctioning	17222	57.40	II
Repayment period is extended	16554	55.18	III
Banking environment encourages to borrow	15926	53.08	IV
Creation of assets against anticipation of income	14586	48.62	VII
	15492	51.64	V

Government policy			
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Source: Primary data

Table 2 shows that instalment of repayment under annuity got first rank with a score of 59.09, transparency in loan sanctioning got second rank with a score of 57.40, low interest rate goes to the eighth rank with a score of 47.86 and less formalities goes ninth rank with a score of 43.27 respectively.

**TABLE 3: Sources of Knowledge about Business and Educational qualification wise Classification**

Sources	Sum of Square	Degree of freedom	Mean square
Educational qualification	1287.6	3	429.20
Knowledge about business	3613.5	4	903.37
Residual	1606.9	12	133.90
<b>Total</b>	<b>6508.00</b>	<b>19</b>	<b>-</b>

Educational qualification:

$$F = \frac{\text{Larger estimate variance}}{\text{Smaller estimate variance}} = \frac{429.20}{133.90} = 3.20$$

Calculated value	Table value	Level of Significance
3.20	3.49	5%

Source of Knowledge about Business

$$F = \frac{\text{Larger Estimate Variance (903.37)}}{\text{Smaller Estimate Variance (133.90)}} = 6.74$$

Calculated value	Table value	Level of Significance
6.74	3.26	5%

The sample respondents were grouped educational qualification wise in and Anova test was applied on the information found in table 3. As per the calculated value Anova (3.20) is lower than the table value of Anova (3.49) 5 percent level of significance with 3 degree of freedom. The Null hypothesis of no significant differences between educational qualification wise classifications of respondents as far as sources of knowledge about business is accepted. As per the sources of knowledge about business, the calculated value of Anova (6.74) is greater than the table value of Anova (3.26) at 5 percent level of significance with 4 degree of freedom. So, the Null hypothesis of no significant differences among sources of knowledge about business is rejected.

## 10. FINDINGS

- Lack of transparency of banker got first rank with a score of 57.55
- installment of repayment under annuity got first rank with a score of 59.09

- Value Anova (3.20) is lower than the table value of Anova (3.49) 5 percent level of significance with 3 degree of freedom. The Null hypothesis of no significant differences between educational qualification wise classifications of respondents as far as sources of knowledge about business is accepted.

## **11. SUGGESTION**

The researcher recommends the following suggestions to Reserve Bank of India (RBI), District Industries Centre (DIC), and related institutions for improving the level of awareness of entrepreneurs towards bank credits on SME's and for their upliftment.

- Most of the entrepreneur (86%) are male as per the study. So, encouragement and advertisements have to be given by banks to promote more number of female entrepreneurs also.
- The research finding show that not much youngsters are interested in SME'. To initiate more young SME's entrepreneur's involvement, necessary awareness programmes about SME's and the loan facilities available in banks can be conducted.
- It has been known that 62% of the entrepreneurs do not have any previous experience in their business. Hence, the banks should issue loans to entrepreneurs with previous experiences only and insists previous experience as compulsory for acquiring loans for the better performance of SME's.
- Though most of the entrepreneurs feel that the loan given is not sufficient to run their enterprises, the banks may increase the loan amount offered according to their individual and reasonable requirements.
- As majority of the entrepreneurs have come to know about the bank loan schemes from bank staffs, efforts to increase the awareness by advertisements through different media such as newspapers, television channels, websites etc can be adopted to popularize their loan schemes for SME's.
- Lack of transparency in issuing SME loans by banks has been known. This can be completely avoided by issuing loans as per their skills and priorities in an open to public manner.
- The research shows that the bank evaluator had visited their enterprises very rarely. The banks should take steps to regularize their evaluator visits to monitor their SME loan customers to have a check on their performance.
- Since almost all the entrepreneurs feel that the banks are not offering loans under special schemes for SME's, the banks and the regulatory authority

should make the SME oriented special loan schemes available to them.

- Many entrepreneurs' opinion was that the duration taken for completion of loan application process and the duration taken for disbursing the loans after submission of application form is large. So, the banks should take care that speedy measures for loan application processing as well as disbursement of loans are adopted to provide a hassle free as well as prompt service to the SME's to help them in their time of need.
- As most of the entrepreneurs had told that they did not receive any training to educate them about usage of modern technologies in banking, steps can be taken by banks as well as the District Industrial Centres (DIC's) to provide proper training to entrepreneurs about SME's bank loans and the usage of modern technologies in banking.

## **12. CONCLUSION**

The progress and benefit of Micro, Small and Medium Enterprises both at the National level and State level shows positive trend and yielding good result. Though Alappuzha District has reasonably good infrastructure, natural resources and educated human resource, there are few medium and no large scale industry is available in the district. A large number of tiny and small scale industries exist without bringing in newer methods and techniques. Exports are few. Entrepreneurship, innovative technologies, improved financing and governmental supports are needed to strengthen the existing tiny and small scale industries. Government should also take efforts to propagate the schemes, incentives, and support services available for industries including certain subsidies. Quick finance and easy access to loans or personal loans serve to be the primary critical growth drivers for the growth of Indian MSMEs; this is because most businesses in this sector trigger off their operations with minimum capital. However, the lack of adequate and easy access to business loans has emerged as a major obstacle for their growth. From inefficacy of measures in credit flows (such as credit scoring for SMEs) to information asymmetry faced by banks and financial institutions, there are plentiful challenges that have impacted the contribution and performance of small and medium enterprises in the Indian economy. More than 80% MSME entrepreneurs have to resort to other avenues of financing, such as peer-to-peer lending, to obtain credit assistance. The borrowers in this segment belong to different towns and cities of Alappuzha and desire to obtain convenient credit access to start their showroom, clinic, restaurant, e-commerce business, franchisee, store, or other commercial establishments. They have limited working capital, insufficient collaterals, and inadequate credit scores to bank on. These factors make it all the more difficult for them to avail term loans from financial institutions. So the banks must take initiatives to promote small and medium enterprises. Because .most of

the entrepreneurs are came from middle and low class families.

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