

CHALLENGES IN BANKING FINANCIAL ACCESSIBILITY IN GROWTH AND DEVELOPMENT OF MSME's IN ASSAM

RAJATBHATTACHARJEE¹ ARUNA DEB ROY²

^{1&2}Royal School of Commerce, Royal Group of Institutions, Guwahati.

ABSTRACT

The role of MSME is expanding day by day with expansion of opportunities for growth they not only act as intermediary between the company and the consumers but are also contributing in increasing the employment and income opportunities in the country. As a result of these changes their need for future finance and credit has steeply risen. The banks play a major role in this regard by providing credit to the MSME's. The present study will throw light on the problems faced by the small enterprises as well as the banks in obtaining loan and allocating it and also its recovery. The study is based on primary data which will help to know the role played by banks in enterprises. The future scope of the study can be a comparative study on the role played by various banks in various parts of the country.

Keywords: banks, economy, enterprises, finance, problems.

Introduction

According to the MSMED Act, 2006, micro enterprises are those enterprises whose initial capital investment in Plant and Machinery of Manufacturing Sector is not less than Rs.25 Lakhs and does not exceed 5 crores whereas in the Service Sector the capital investment in the equipment is not less than Rs.10 lakhs and does not exceed Rs.2 crores.

Features –

- a. They are mostly urbanized
- b. They are ancillary to large industries
- c. They produce goods against occasional orders

Small enterprises conduct the merchandising businesses with the objective of selling goods at a profit. They are involved in the process of purchasing finished products from wholesalers or manufacturers and retail them to others for consumption or re-sale.

The role of small enterprises has extended; now they are also the intermediaries between the consumers and manufacturers as they come into direct contact with the consumers. Consequently they have also become an important unit in the process of data collection in marketing research. These small business houses generate self employment and income opportunities and contribute to fast and rapid economic growth in the transitional economy. The provision of credit is being recognized as an important tool for raising the income of small businesses. Similar to that of industries, in the case of the small enterprises also, own funds occupy a key place in the sources of financing. But with its growing importance and fast growing markets, credit financing could not remain distant from this sector.

The banks offer credit facilities to the small enterprises. Most of the assistance rendered by them is in the form of short term credit. The terms and conditions governing their credit flow to the small enterprises differ from bank to bank. The credit facilities can be availed by the small enterprises in the form of loans, overdraft, cash credit etc as the bank may so devise.



Objectives

The objectives of the present study are the following:

- To assess the role of banks in small enterprises.
- To examine the problems of financial accessibility faced by the banks.
- To identify the problems faced by the small enterprises in accessing bank finance.

Research methodology

The present study is a field based work using primary data. Primary data was collected from small retail enterprises as well as from concerned officials of bank branches. The primary data were collected by administering structured questionnaires to the sampled respondents.

A method of multi-stage sampling has been adopted for carrying out the study because of the vast size of the population consisting of the small retail enterprises in the state of Assam. In the first stage, the district, Kamrup (metro) has been selected randomly within the state. Subsequently, the capital city, Guwahati, has been chosen within the selected district in the second stage. Finally, in the third stage, prime areas of the city were taken up for the study on a random basis. The study concentrates on the small retail enterprises and also the commercial banks operating in the city.

The survey was carried out in the prime locations of the city. The units for the study comprises of the small retail enterprises and commercial bank branches operating in Guwahati. Since no official list of the total number of individual traders operating in this market was found, it was not possible to list them. A method of judgement sampling and stratified random sampling was deemed appropriate for selection of the sample units of small business traders, where initial stratification was done on the basis of the various activities of the traders. Out of 10 such groups formed, based on the activities of the traders, 200 units were selected. Also 2 such bank branches viz., Assam GraminVikash Bank (AGVB) and United Bank of India (UBI) were selected randomly which also form the units of the present study.

Limitations

The research study is confined only to the prime areas of Guwahati city; as such it is not representative of the whole of Guwahati city. The study is based on only 200 samples and inferences derived there from may not be a true representation of the universe which is pertinent for the present study. Due to cost and time constraints also the study could not be undertaken in a massive manner.

Institutional finance

Institutional finance may be defined as financial accommodation of short, medium or long term nature, obtainable from conventional lending institutions such as commercial and co-operative banks on the one hand and special financing agencies such as various financial corporations and governmental institutions on the other. Institutional finance plays a very important role in stimulating industrial development of an under developed country. It is only with the nationalization of major commercial banks the small business has been recognized as one of the priority sectors for bank finance. Before that, the usual sources of credit available to small enterprises were the indigenous bankers, moneylenders and friends and relatives. These non-institutional agencies give loans at relatively higher rate of interest. To discourage these non-institutional sources, a number of institutions have been created by the authority. However, this study focuses on the banks only in this regard.

Although there are many banks operating in Guwahati but they are not left separate from the problems of credit delivery and its repayment. On the other hand the small business enterprises are also facing problems while applying and utilizing the bank credit facilities.

Analysis and results

Role of banks in credit contribution

Small enterprises are capable of financing themselves with their own funds as well as through loaned funds while already existing ones can always utilize their profits to such cause. The following table shows the sources of funds of the sample units as per the survey on 200 such traders running their units in Guwahati.

TABLE 1: DISTRIBUTION OF SOURCES OF FINANCE

Sources	No. of units	Percentage (%)
Plough back of profits	175	87.5%
Own	120	60%
Friends and relatives	95	47.5%
Banks	85	42.5%

Source: Field survey

Indigenous bankers and money lenders are important sources of supply of working capital to small business. A considerable number of owners of small enterprises are dependent on internal resources. Only around 90% (47.5+42.5) of the total sample is having recourse to external funds for their needs with only 42.5% of the total units using the credit facilities provided by the banks. Roughly 47.5% of the traders borrow funds from friends and relatives while the role of money lenders and mahajans is found to be insignificant.

Problems of borrowing

Views of small enterprises owners in approaching the commercial banks

42.5% of the selected sample units take the aid of bank credit as reflected in Table 1, while nearly 57.5% of the sample units do not. A survey was made on the 115 sample units (57.5% of 200) in order to throw some light as to their reasons for not approaching the banks for financial aid. These sample units have cited some problems that are presented below in the table.

TABLE 2: PROBLEMS FACED BY SMALL ENTERPRISES IN APPROACHING BANKS FOR CREDIT FACILITIES

Causes	No. of units	Percentage
1. Lack of confidence	35	30.43%
2. Invasion of private information	65	56.52%
3. Attitude of bankers	57	49.56%
4. High interest rate	95	82.60%
5. Lack of appropriate security	55	47.82%
6. Time consuming	75	65.21%
7. Lack of reference	50	43.47%
8. Lack of interest	18	15.65%

Source: Self- Field Study

It is observed that the security that is asked by the banks creates problems for nearly 47.82% units of the sample. Thus 55 units cited the lack of appropriate security as a constraint for borrowing. Lack of reference has also been a problem for nearly 50% of the sample units. But regarding procedural difficulties, many of the sample units mentioned that difficulties are experienced from the initial stages and as such they do not prefer bank credit. For example, they cited ‘information’ that are asked

by the financiers are too much, for which qualified auditors are needed to be engaged. Again, they feel that the banks try to invade private information of the business and so they do not opt for bank credit as secrecy is very important for small business traders, or in fact in every business. Again delay in sanctioning and disbursement of credit is one of the common problems. Banks take a very long time to process the credit facility. Due to the lengthy and time consuming procedure, they do not get finance at right time, which causes loss to them. As such 65.21% did not resort to banks. 30.43% of the small traders showed lack of confidence in applying to the banks for use of credit facilities. 15.65% of the traders reported that the banks did not show any enthusiasm towards their small business. Moreover 49.56% complained against the unfavourable attitude of the bank staff towards the small business traders which posed a difficulty to them in approaching the banks for use of credit facilities. They also reported that in some cases they have to make repeated requests to banks for a single loan. According to 82.60% of the selected traders the rate of interest charged by the bankers is also very high.

It can be imagined from the above analysis that securing credit from commercial banks is not a problem free task for the traders.

Around 42.5% of the sample units, as shown in Table 1, took recourse to financial aids provided by the commercial banks in the form of various credit facilities. They also cited some problems in obtaining such credit which are reflected in the following table.

TABLE 3: PROBLEMS FACED IN OBTAINING CREDIT FROM BANKS

Problems	No. of units	Percentage
1. Formalities	59	69.41
2. Terms and conditions	-	-
3. Rate of interest	40	47.05
4. Mode of repayment	10	11.76
5. Attitude of bankers	70	82.35

Source: Self-Field Study

Most of the owners in this lot were dissatisfied with the bankers. 82.35% of those units making use of bank credit have complained that the attitude of the bankers was not favourable towards the small business enterprises. Rate of interest was considered quite high by 47.05% of them. Around 69.41% thought that the formalities observed by the banks were very rigid. Regarding the terms and conditions of the banks for providing credit, all of them were satisfied. While most of them were satisfied with the mode of repayment to the banks, only 10 units showed dissatisfaction towards the mode of repayment.

Views of commercial banks on financing small enterprises

To get an appropriate picture of the credit problems of small enterprises, it is necessary to collect the views of the commercial banks along with the views of the small enterprises owners. Although commercial banks have a socio-economic obligation to meet the credit requirements of small business units, it seems that they do not have a good relation with small traders in respect of credit.

According to the bankers, they get some difficulties while financing the small enterprises owners due to some risk and cost factors.

Delay in submitting stock statements by the units is one of such problems. As stated by the bank managers, in most of the cases, the small enterprises owners do not keep proper books of accounts. Some do not even appoint an accountant to keep the accounts. Therefore it becomes difficult for the bankers to consider credit against the unreliable statements.

All the bankers informed that attitude of the applicant also forms a major hindrance in granting them credit. The bankers do not get necessary information in the application form. They complained that a large number of applicants who come to the bank for credit, do not have clear knowledge about their proposals and these are not based on systematic assessment. So this takes time of the bankers to study the proposal and thus to take proper decisions. Nearly all the bankers informed that small enterprises do not have clear idea about the quantum of credit required. Another 50% narrated that enquiry of the applicant took a good deal of time before providing credit because the small enterprises lacked providing proper reference. All the bankers were in agreement while mentioning that providing of credit to the small enterprises owners suffered immensely due to lack of inadequate security and proper documents.

Because of all these, the units have to be checked properly before providing loans. All these are the risk factors of the bankers.

Apart from the risk factor there are also the cost factors to be borne by the banks while lending to small trading units. Large number of small loans involves higher servicing cost to bankers. All these problems are presented in the following table.

TABLE 4: PROBLEMS FACED IN LENDING TO SMALL ENTREPRISE ONWERS

Problems	No. of banks	Percentage
1. Lack of proper documents and inadequate security	2	100.00
2. Enquiry of applicant (lack of reference)	1	50.00
3. Attitude of applicant	2	100.00
4. Inconsistency in submitting proper periodic statements	2	100.00
5. Lack of proper knowledge	1	50.00
6. High servicing cost	2	100.00

Source: Self-Field Study

All the bank managers who were interviewed reported that the main problem is the recovery. Overdue of credit was varied. They have pointed out some reasons for such defaulting that are presented in the table.

TABLE 5: CAUSES IDENTIFIED FOR DEFAULT IN PAYMENT

Causes	No. of banks	Percentage
1. Willful defaulter	1	50.00
2. Mismanagement	1	50.00
3. Untimely repayment	2	100.00

Source: Self-Field Study

The most common problem faced by all the bank managers in this regard is the untimely payment by the small enterprises. Although the small enterprises generally repay after their borrowings but it is repaid mostly after the due date. 50% of the bank managers have reported that mismanagement by the small enterprises in running their business have contributed to their default in repayment or late repayment. While, a few bankers commented that the small enterprises intentionally avoided submission of financial statements and also avoided the repayment of their borrowings. Around one-half of the managers interviewed mentioned that willful defaulting was another feature that creates hindrance in their recovery.



The most common problem cited by all the bank managers in respect of repayment of the credit or installments was that most of the small enterprises did not repay their dues in proper time.

Bank finance plays an important role in the development of any business and the economy as a whole. Both small enterprises and the banks face some difficulties in making the use of bank finance. The small traders mostly feared the leaking out of their private information as the banks required many details before granting credit. The enterprises in Guwahati are also seen to prefer the indigenous bankers more than the banks because the latter involves a time consuming process and they also opined that the interest rates charged by the same are quite high. Only a few were satisfied with the interest rates charged by AGVB.

While the bankers maintained that the time taken in processing of credit was very less, the traders complained it to be a time consuming process. Thus, there exists weak communication between the two which hinders the flow of credit to the small enterprise business. Follow up is a practice which is now exercised by all the banks in order to help the borrowers run their units efficiently and effectively. This practice seems to be improper here.

Recommendations/Suggestions

On the basis of the findings from the study, following suggestions are made so that the difficulties faced by the small business enterprises as well as the banks may be overcome.

As the utilization or flow of credit from the commercial banks is not adequate, it is suggested that the banks should review the formalities and procedures that act as constraints in the flow of finance to the small enterprises owners. As an apex institute, Reserve Bank of India (RBI) should look into the procedural aspect of sanctioning of loans and other aspects which are the frequent complaints of the enterprise owners.

The following suggestions can be preferred to be taken care of immediately. The enterprise owners find it difficult to understand the complicated provisions contained in the application form, these should be made available in a simplified manner, so that the forms can be filled up by them without the help of a middlemen.

Delay in processing of credit application should be minimized or rather the communication between the enterprise owners and the banks must be facilitated through proper follow up. The RBI should take necessary actions for unnecessary delay made by the banks.

Rate of interest at which banks offer credit to the small enterprises should be minimized specifically for the small enterprise owners in Guwahati. At present, different rates are charged by different banks for these units. They should be charged at a nominal rate so that they are drawn to the banks for meeting their credit needs discarding the use of indigenous bankers as source of funds.

The requirement of working capital should be assessed well and adequate finance should be given in proper time, so that the small enterprises are not forced to approach non-institutional sources for their temporary requirements even. But the responsibility of the banks do not end with the release of funds, they should supervise and follow up the activities of the enterprises. Supervision should start from the stage of disbursement of credit, so that funds are not misused or diversified. Regular supervision will also be helpful in maintaining financial discipline of small enterprises. Although the banks have different cadre persons for supervision and follow up, yet sound supervision and follow up system is a must for the benefit of traders as well as the borrowers. There should be a proper inspection manual to prescribe the fruitful methods of supervision, periodicity of inspection etc. and all these should be maintained strictly. It will improve their recovery position in return.

Besides organizing banker-customers meet, if possible, occasionally the banks must maintain personal contacts with the defaulting borrowing units and help them to improve their position.

Emphasis should be given on improvement of attitude of the banker while dealing with the small enterprise owners.



Now-a-days marketing has attained great significance in all fields of human endeavour and as such the finance sector is also no exception. The banks should also practice marketing of their products or credit facilities in order to lure the small enterprises to make use of such facilities provided by them. On the other hand, the enterprise owners should also understand the problem of the banks. They should submit their stock statements and other financial statements, renewal papers etc properly and in time. They should not hesitate to fulfill the requirements of the banks. They should properly maintain the books of accounts and other documents regarding their respective units.

Conclusion

As the concluding remark it can be rightly said that the contribution of the banks in financing the working capital needs of the small enterprises is sparse. There is ample scope of growth and development of small enterprise business. The use of plough back of profits is a progressive sign indicating that the small enterprise business is quite profitable. But the role of banks in enhancing the efficiency of such business also cannot be denied. There exist a number of hindrances which need to be overcome. The attitude and perception, both, on the part of the bank staff and also the enterprises have to be dealt with mainly. Steps need to be taken in order to make use of the schemes so generated by the banks and increase their contribution in the growth of the small business through their active participation by providing finance or credit facilities.

References:

1. Bhole, L. M., Financial institutions and Markets, Structure, Growth and Innovations. The McGraw Hill Companies.
2. Pathak, Bharati V.2011.Third edition. The Indian Financial System, Markets, Institutions and Services. Pearson Education.Delhi.
3. <http://agvbank.co.in/> accessed on 2nd April, 2014.
4. <http://www.unitedbankofindia.com/English/HomePage.aspx> accessed on 14th April, 2014.