

A Report on
Issues and Challenges in
Financing MSME in Pune, Maharashtra

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Disclaimer

The opinions expressed within the content are solely the authors' emanating from the responses to surveys, interviews, focus group discussions and personal observations and do not necessarily reflect the opinions and beliefs of the organization to which they are affiliated.

The bankers /entrepreneurs/ intermediaries have expressed their views based on their own experiences. The case studies given are from the field itself and as per request of the stakeholders' real names are not included.

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Executive Summary

“You can’t connect the dots looking forward; You can only connect them looking backwards. So, you have to trust that the dots will somehow connect in your future. You have to trust in something—your gut, destiny, life, karma, whatever. This approach has never let me down, and it has made all the difference in my life” Steve Jobs

Micro, Small and Medium enterprises are growth drivers for our economy. They contribute through innovations, investments, growth and employment. Bank finance will continue to be crucial for MSME sector. Governments, Banks, financial institutions, intermediaries have been trying to boost MSMEs growth. There are good numbers of schemes for MSMEs but still we are yet to achieve the expected results considering our potential. The study has identified the problems in financing MSMEs in Maharashtra with specific reference to Pune. Apparently, all the stakeholders have been contributing for MSMEs development but why expected growth in MSMEs is still not taking place? This question has not been previously studied in depth. We studied this question in detail. Through our study we found that over the years the appraisal methods have undergone revisions, but those were suitable for domestic scenario now the industry has to compete internationally with existing appraisal methods the financial assistance available to MSMEs is not giving the expected support to compete with global counterparts. All stake holders have been contributing for the forward and backward linkages but still there are lot of innovations that can be done to boost MSME growth and our real potential can be met.

Chapter 1 elucidates on the reasons for MSMEs commanding a focused attention for developmental initiatives. This segment is vulnerable to facing financial difficulties during its life cycle compared to large corporates. It is making a sizeable contribution to employment and exports, and its potential to contribute more is also recognized. Banks and other lending institutions are trying to adopt an appropriate system of timely and adequate credit delivery to borrowers in this segment.

Chapter 2 provides a snapshot of the role of MSME in the Indian and global economy and their role and significance in Maharashtra and Pune. It goes on to quantify its contribution to important growth parameters for an economy viz. GDP (Gross Domestic Product),

employment and exports both globally and in India. It is interesting to study Pune as an emerging destination for investment by MSMEs as there is a conducive environment for businesses to flourish. The largest number of MSMEs is in Konkan (including Mumbai) which is 37% of the total MSMEs in Maharashtra. And Pune has the second largest share of MSME at 27%. Pune has topped in Maharashtra in terms of investment in SEZs(Special Economic Zones). It states that world over definition of MSMEs is based on three main criteria viz. number of employees, assets, and turnover or sales.

Chapter 3 gives a brief on the relevant recent past studies on issues and challenges in financing MSMEs. In the recent past many studies were published on the impact of COVID on MSMEs in general and specific to sectors, issues and challenges in financing MSMEs taking into consideration the challenges faced by both lenders and borrowers individually and collectively but with a limited scope.

Chapter 4 enumerates on the research methodology used for the study. This study meets its objectives through analysis of six research questions. The first research question was **“What is the lending scenario with regard to MSMEs by Financial Institutions in Maharashtra”**? To analyze this question information from SLBC (State Level Bankers Committee), Maharashtra website was taken and two hypothesis were developed and a regression analysis was conducted to arrive at the results. The two-hypothesis constructed were:

H1: More number of Branches leads to a greater number of MSME accounts.

H2: More number of MSME accounts would lead to more credit.

The second research question was **“What are the issues and challenges faced by banks and financial institutions in financing MSMEs”**? To analyze this, questionnaire was designed to elicit responses through focus group discussion, interviews and using online google forms. Stratified convenient sampling technique was used. 500 responses were elicited from branches of Public Sector Banks (PSBs), Private Sector Banks (PVBs), Cooperative banks and NBFCs (Non-Banking Finance Companies) in Pune district, Aurangabad, Sangli, Nasik, Ahmednagar, Nagpur, Kolhapur and Satara.

The third research question was **“What are the issues and challenges faced by MSME**

borrowers in availing assistance from lending Institutions? To analyse this, questionnaire was designed to elicit responses from MSME borrowers through focus group discussion, interviews and using online google forms. Here again stratified convenience sampling was used and responses were elicited from entrepreneurs who are categorized into micro, small and medium enterprises. Around 500 responses were recorded for analysis from borrowers in Pune district, Aurangabad, Sangli, Nasik, Ahmednagar, Nagpur, Kolhapur and Satara.

The fourth research question was **“What are the issues and challenges faced by the MSME borrowers from the perspective of Consultants?** To analyze this question, questionnaire was designed to elicit responses from CA (Chartered Accountants), and other Consultants who were helping MSMEs in preparing loan proposals and giving guidance for all other facets of their business. Here again convenient sampling was used. 50 responses were recorded for the analysis from borrowers in Pune district, Aurangabad, Sangli, Nasik, Ahmednagar, Nagpur, Kolhapur and Satara.

The fifth research question was **“How are lending Institutions appraising the MSME loan proposals for sanctioning loan / refinance/ restructuring?** To find answers to this question case method was used i.e., cases (loan proposals) were collected from branches of lending institutions from Pune and all, over Maharashtra pertaining to different businesses. The collected cases were of defence unit, energy unit, flour and food unit, machine manufacturers unit, intellect systems unit, dairy unit, specialized structural engineering unit, textiles unit, sugar manufacturing unit, ceramics unit, pharmaceuticals unit, educational institute, winery unit, beauty parlor unit, petrol pump unit, agro tourism unit paint manufacturing unit and construction company. These cases are presented in a concise manner in the report followed by thorough analysis of major setbacks of the case and conclude with observations which have been converted to recommendations.

The sixth research question was **“Which are the prevailing global practices with regard to MSME financing? “.** To analyse this question existing literature available on online platforms and information gathered through extensive discussions with the stakeholders has resulted in earmarking certain countries whose strategies/policies can be studied and replicated in India. Those countries are Bangladesh, Canada, European Union, and Hong Kong.

The seventh research question was “**By studying the issues and challenges faced by lenders to MSME and borrowers under MSME, can a credit delivery model be designed that can be replicated to other states?**”. To design this model, the actual issues faced by borrowers and lenders was collected through this study.

Chapter 5 analyses total lending to MSME in Pune and in Maharashtra. Pune district had the highest registrations of micro enterprises, which are 3.9 per cent of the total registrations till December 2020. Since March 2016 achievements under the Annual credit plan for Pune was lowest for the year March 2020 at 85% and March 2021 at 73% respectively. The period of (01.04.2021 to 31.12.2021) was considered crucial as vaccination drive for COVID 19 was in full swing and the economy was on the recovery track but was severely devastated due to the second wave. During this period granular tails of amounts disbursed reveal that in Micro segment, PSBs (Public Sector Banks) have a market share of 54% as against 43% by PVBs (Private Sector Banks). In the Small category, PSBs have 38% as against 62% by PVBs and the gap widens towards Medium, where PSBs have a 26% share as against 74% of PVBs. Interestingly, as regards, Khadi & Village, PSBs have a 43% share as against 54% for PVBs – identical to the Micro category first mentioned in these paragraphs. In the others category (as given in the data provided by SLBC (State Level Bankers Committee), PSBs are totally dominant with 99%. Going further into the lending styles, PSBs credit disbursement portfolio ratios to Micro-Small-Medium are 49:34:17, PVBs ratio is 23:40:37 and, in the case of SFBs, it is 90:6:4. This underscores the lending style of PVBs in favour of small and medium category.

Granular details of Accounts (number of borrowers - beneficiaries), PSBs have 39% of market share as against 46% of PVBs and 15% by SFBs. In Micro, PSBs have a 42% share as compared to 40% of PVBs. The share of PSBs in Small reduces to 28% for PSBs against 71% for PVBs and further widens in Medium from 7% for PSBs to 93% for PVBs. The credit disbursement portfolio ratios (excluding Khadi and Others) to Micro-Small-Medium: in respect of PSB, is 80:9:1, and in respect of PVBs is 65:20:15, whereas in the case of SFBs it is 99:1:0. This further underscores the fact that the lending style of PSBs is comparatively more skewed towards Micro, whereas in the case of PVBs, it is more skewed towards Small and Medium.

Descriptive and Inferential statistical analysis tool utilized on the data of MSME disbursal of loans both district wise and Bank wise (under Maharashtra) for the year 2020-21 shows that maximum amount of correlation is between: -

Total branch and number of accounts (0.7793)

Total branch and Total amount under MSME accounts (0.7836)

Total number of account and Total amount under MSME accounts (0.9410)

Two hypothesis were developed and a regression analysis was conducted to arrive at the results. The two hypothesis constructed were:

H1: More number of Branches leads to a greater number of MSME accounts.

H2: More number of MSME accounts would lead to more credit.

First model which was for testing for H1 showed that total number of branches is a significant factor which leads to increase in total number of accounts (p value < 0.05) thus rejecting null hypothesis (Total branches is insignificant).

Further test for heteroscedasticity is done (Het test) to satisfy the regression assumptions and to be able to trust the results, the residuals should have a constant variance. As the p-value is less than 0.05 the null hypothesis is ignored thus stating that there is presence if heteroscedasticity in the data.

Second model which is testing for H2 shows that Number of accounts under MSME sector is highly significant to determine the Amount of credit under MSME sector. (p- value < 0.05), rejecting the null hypothesis.

Heteroscedasticity test for same interprets the presence of non-constant variance as p-value < 0.05

Chapter 6- analyses the responses collated from 500 accounts of MSME borrowers which was given by branch managers of banks/ financial institutions and from MCCIA (Maharatta Chambers of Commerce, Industries and Agriculture) regarding the challenges faced while lending to MSME borrowers. The information was collected through survey with the help of questionnaires, focus group discussion and interviews. The information was broadly collected under three heads:

- (a) Efforts taken by the branch in reaching out to MSMEs.
- (b) Status of MSMEs (in terms of sector, volume, NPA, interest rate, type of loan) loans advanced.
- (c) Areas where change/improvement is required.

A snapshot of findings is given as under:

1. It has been found that most of the banks are having minimum one dedicated MSME vertical and each zone is having minimum one SME city Centre (Centralized Processing Centre) where all MSME proposals above Rs.10 Lacs are processed.
2. Most of the respondents have cited lack of industry data, financial statements or record keeping, standard estimation of operating cycle, regular customer base regarding MSME business as the major challenges in financing MSME.
3. Average time taken to assess the proposal for loans to MSME is still around 2 weeks and 59-minute appraisal is yet to be accomplished.
4. Lending Institutions increase risk premium by charging an effective interest rate of over 16% and also insisting on additional security if the MSME business is not generating positive EBITDA (Earnings Before Interest Tax Depreciation Amortization).
5. The NPA rates have spiked across the MSME segment.

Out of the responses received 50% have 35 to 45% accounts under SMA 0 (Special Mention Accounts), 60% have 16 to 25% accounts in SMA1 and 50% have 20% accounts in SMA 2 and the segments which contributed to it were highest from auto components (30%) business followed by agro-industries (25%) and micro units (20%).

6. 80% of the respondents have disbursed MUDRA LOANS up to 10 lakhs.
7. Risk mitigation has been largely done through collaterals followed by higher equity contributions and loan covenants.

8. Moveable assets as collateral are also gaining traction due to its acceptability by lending organizations.
9. Around 14% of MSME loan portfolio is under restructuring and the major cause is due to delay in payment from large corporates followed by muted demand for their product and services.
10. The lenders find it difficult to assess the net income of the MSME business as there is no proper segregation of business and personal assets, the payables and receivables are not recorded properly, there are no standard days for receivables and payables, there is difficulty in verifying the prices of raw materials.
11. Lenders are providing up to Rs.2 crore collateral free loans under the CGTMSE scheme only on demand by the borrowers, who are aware of the scheme which shows the insensitivity of the stakeholder.
12. According to lenders the challenges faced by the borrowers are that they find the annual guarantee fee for the CGTMSE Scheme high, their market knowledge is limited which affects the salability of their product and services, banks interest rate and charges are on the higher side, there is delay in the sanctioning of loans, restructuring and rehabilitation support is not adequately provided by the banks.

Suggestions

1. Generally, MSMEs are not comfortable in bringing more capital due to the fear that if they bring fresh capital, their cases will be taken up under Scrutiny by Income Tax Authorities and they will have to face unnecessary enquiries from Income Tax Authorities. For arriving at the net income of the borrowers, along with capital, unsecured loans which are subordinated should be considered (of course with a condition that these loans will not be withdrawn during the tenor of the loan).
2. Main problems faced by MSME units are meeting the current ratios and TOL/TNW (Total outside Liability/Tangible Net Worth) and often they are forced to bring capital or unsecured loans for meeting promoters' equity. Due to this, MSMEs resort to borrowings in the form of unsecured loans from various NBFCs at the very higher rate of interests. Majority of them give ECS instructions to the debit of

their operating Cash Credit /Overdraft account for EMI repayments. Indirectly even these unsecured loans are also funded by Working Capital bankers only. Majority of MSMEs are of the view that they are not given need-based finance at an appropriate time. Delays in taking decisions for sanction/review of limits are the other problems faced by MSME. Steep increase in the cost of electricity charges, not getting refund of GST paid by them on exports are major complaints given by MSMEs. Earlier banks were giving loans against export incentives receivables. Like that bank may grant loans against GST refund receivables (especially for Export oriented units where the refunds are delayed between 3 to 5 months) in the form of demand loans at soft interest rates with an understanding that the GST refunds received are used for liquidating these loans.

3. Basic parameters given for restructuring are not prepared based on the problems faced by MSMEs. For Example, Kamath Committee recommendations announced by RBI in the year 2020 for restructuring are meant mainly for large scale industries but are not applicable for MSMEs. A separate set of guidelines need to be prepared for restructuring MSMEs.
4. Often smaller units are forced to give deposits for taking factory premises; electricity deposits etc., at present the maximum amount lent under the MUDRA scheme is Rs.10 lacs. Hence, many MSMEs find it difficult to purchase machines, pay premises deposits, electricity deposit apart from ear marking funds for working capital. Hence, apart from Rs.10 lacs ceiling on fund-based limits, certain portion of non-fund-based limit in the form of bank guarantees should be given. The electricity companies should be instructed to obtain bank guarantees instead of deposit amounts. In this way, MSMEs availing MUDRA loans will have more funds on hand. While paying premium on Mudra loans, banks may pay premium on both funded and non-fund based limits so that the risk is covered by insurance.

Chapter 7 studies the survey responses collated from 500 MSME borrowers and 50 Consultants/Intermediaries (who help MSME businesses in preparing credit proposals and suggesting best practices in business) which was through survey with the help of questionnaires, focus group discussion and interviews.

The information was broadly collected under three heads:

- (a) Business details of the borrower
- (b) Ease of availing finance from banks and other financial institutions.
- (c) Challenges faced and expectations of the borrower from the lending institution.

The responses received were majorly from entrepreneurs classified as micro enterprises (55%), followed by small scale enterprises (37%) and medium enterprises (8%) out of which private limited company was 50%, sole proprietorship (30%) and partnership were (20%). The sector distribution of responses was (41%) from manufacturing business followed by (37%) from services and (22%) from both.

50 Consultants who participated in the study majorly were Chartered Accountants and Bankers who are delivering services as Consultants. The businesses covered in the study were retail sale of electronic products, manufacturing of various types of cables, electronic and electro-mechanical assemblies, electronic controllers, pharma and medical, marketing of pharma products, manufacturing of medical devices, biotech, ventilators, food and beverages, distilled water, food Products, engineering precision components, orbital welding machines, plastic injection moulded products, plastic parts for automotive and white good industry, solar project works, etc.

A snapshot of findings is given as under:

1. The two major issues faced by the businesses were: running short of cash frequently and delayed payments from the customers followed by low / declining margin, stiff competition and low marketing efforts.
2. Raw material cost was the major contributor to operating cost of the enterprises followed by labour and electricity and taxes. Other issues that were affecting their business were –shortage and retaining of manpower,
3. Most of the businesses got suppliers credit of around 30 days while the receivables period extended to customers were between 30 to 60 days and the cash conversion cycle was between 60 to 90 days.
4. 27% of the MSME businesses had long term contracts with their suppliers which extended to more than three years.

5. 80% of the businesses were registered on Udyam portal and the 20% who were not registered were due to lack of confidence in its benefits.
6. 46% of businesses did not have succession planning.
7. Most of the businesses (83%) are seeking credit facilities from the financial institution which is near to their business establishment. Few who are not availing credit facilities is majorly due to business hours of the lending institution which is not comfortable for the borrower.
8. The preferred source of funding is from banks compared to money lenders majorly due to low interest rates charged, various schemes available to meet the needs, legal and lenient recovery measures, less processing charges, huge amount can be availed as loan, safety and transparency in the process.
9. Most of the businesses are having maximum requirement of cash credit/ working capital and overdraft facility followed by secured business loans and bills discounting facility. On a standalone basis availing credit from a bank is not without hassles. The businesses require strong financials, there is an elaborate internal process for appraisal which is not clearly and timely put across to the borrowers, there is lack of coordination between the banks as same information is to be provided every time to all the banks, borrowers are called for discussion number of times.

Suggestions

1. There should be a relaxed yard stick on submission of collateral securities.

Banks take collateral securities for mitigating lending risk, but the percentage of collateral cover should be reduced to say 40% of the loan value instead of 80 to 100% expected by the bankers. In order ascertain the performance of units, banks should incorporate a condition in the sanction letter about mandatory submission of GSTR 1, 3B every month/quarter. Month wise monitoring of sales with the projected results should be undertaken. If the branches are under Concurrent Audit, the concurrent auditor should be instructed to compare the turnover in GSTR 1 and 3B with the actual credit summation and identify

diversion of funds if any done by the borrowers. It will function as an early warning signal for identifying potential NPAs. CBS (Core banking Solutions) system used by the bank should give an exceptional reporting to the branch head if any ECS payments are made by the borrowers to any NBFCs. If any payments are made for real estate or stockbrokers, the same should be given in the form of exceptional reporting to identify diversion of funds.

2. Sufficient staff should be provided in the branch, and IT infrastructure should be bettered as there is too much downtime. Banks and financial institutions should understand the nature of business and capture the potential in the business rather than just looking at the documents. If the business prospects are good, it should lend to the MSME, even if some document is not available or the balance sheet shows some loss.
3. MSMEs need proper hand holding. Focus should be on helping MSME and not just a mechanical process of lending.

Main reason for MSME restructuring is, it is rather forced on MSMEs i.e. When MSMEs are unable to pass on increased costs to customers, not getting orders for their products, production line or some of the basic machines becoming obsolete due to change in technology.

Chapter 8 contains another important contribution made by this study. The issues that came into light for the MSME borrowers and the lending institutions after analyzing proposals collected from various lending institutes pertaining to different sectors are as under: A snapshot of the observations made regarding challenges faced by MSME borrowers are as under:

1. Entrepreneur has experience of Production, Service and Management but not of financial literacy.
2. Entrepreneurs have KYC (Know Your Customer) documents, but they do not have documented plan for their business or service.
3. Micro enterprises have less capital and higher expectations. They would like to do the business with public money and, with minimum personal equity and are

particular about financial security.

4. Entrepreneurs want facility of concurrent borrowings and prefer unsecured loans to formal credit products / schemes.
5. Entrepreneurs carry unknown pressure of tax payments.
6. MSMEs are faced with problems such as sub-optimal scale of operation, supply chain inefficiencies being so much engaged in their day-to-day operational issues that they don't have time and resources to acquire various techniques for improvement. They are burdened with problems due to technical obsolescence, increasing domestic and global competition, changes in manufacturing strategies, uncertain market conditions, fund shortage and nonuse of special purpose vehicle.
7. Over dependence of Entrepreneurs on their consultants for the compliance, project report preparation, preparation of loan proposals has led to masking the real picture of the existing business or the new initiative to the lender.
8. CGTMSE Scheme is poorly utilized by the banks and the borrowers.
9. Green field entrepreneurs have first-hand information about the product and services, but they do not have the proper documentation for convincing the bank officials.
10. MSMEs are dependent on few big units for business.
11. Neither is the need of the borrower properly assessed by the lending institute nor is the business model understood.
12. The borrower does not have a financial plan hence stretched receivables adversely affected the cash flows of the business.
13. Promoters were not able to maintain key professionals in the business.
14. Restructuring was considered on the basis of revaluation of the security. Delay in restructuring of a viable unit caused tremendous loss to all the stakeholders.
15. Ground reality of the business of the borrower was not understood. Abrupt reduction of working capital limits leads to failure of the business.
16. Critical review of Schemes initiated for MSME borrowers have not been conducted before their approval.

17. There is a lack of contingency plan for the borrower. Only loan availability is assured but there has been lack of hand holding by the lending Institute.
18. Assessment is done by banks without any proper provision for market risk.
19. Factoring services are utilised by a select group of enterprises because of stringent norms of factoring companies.

Observations made regarding challenges faced by lending Institutions.

1. The borrower is ignorant regarding various Acts.
2. Lack of provision of additional finance to the borrower has led to business failure.
3. Banks need certification from the Chartered Accountants at various stages. The purpose of certification is for compliance purpose which delays the disbursement.
4. There is lack of awareness among borrowers about CIBIL Reports.
5. TEV (Techno Economic Viability) guidelines are conveniently interpreted by various bank officials
6. Sudden declarations about certain sectors in the economy spoil the efforts of all the stake holders.
7. Relationship banking is crucial, but now such relationship with the borrower is viewed with suspicion by the investigating agencies when the loan account is under stress.
8. Certain Government departments insist on the bank guarantees in their prescribed form which are not permissible as per the IBA (Indian Banks' Association) or RBI guidelines.
9. There is lack of expertise for the bank guarantee or letter of credit limit at branch level.
10. The practice of opinion reports of the banks is almost discontinued in the name of competition.
11. There is hardly any sharing of information amongst the consortium members.
12. Multiple banking arrangement is risky for banks and customers.

13. Banks are working with core banking solutions and have been facing serious issues regarding correctness of data entry in respect of basic parameters like
- Activity code
 - Segment
 - Original Value of Investment in plant and machinery, equipment
 - Details of primary security and collateral security
 - Loan disbursement schedule
 - Loan repayment period
 - Contact details, Email ID, Address for communication
 - Credit Guarantee Trust for Micro & Small Enterprises cover flag
 - Amount of loan instalment

In the absence of the data integrity and periodical verification of correctness of the input, it is difficult for the bank to monitor the sector wise exposure norms. As a result, banks are maintaining the margin of safety and restrict finance in those sectors without understanding the business potential of that sector.

14. Committee approach to taking lending decisions is beneficial only to the banks as every committee tries to safeguard banks interest and in the process the borrower is clueless.

Chapter 9 This chapter focusses on International best practices on lending to MSMEs in the following countries.

Bangladesh –The new National SME Policy 2019 of Bangladesh guides SME financing and sets targets for financial institutions which will be monitored through a three tier-monitoring system (Head Office, Branch Office and Banks).

Canada-The Growth Driver Program run by the government-owned Business Development Bank of Canada (BDC) in Canada provides selected companies across all sectors with formal management training, peer-to-peer networking, and other tailored nonfinancial services. It is executed through a small team of experienced advisers

collaborates with firms to assess their needs and identify solutions to their challenges, including planning a multiyear growth outlook and preparing a management plan—as well as providing targeted support for CEOs and leadership teams

European Union-The European Union supports SMEs through various focused programmes. The most important initiatives that will support MSME during the period 2022-2027 will be Single Market Programme, Invest EU and Horizon Europe.

Hong Kong- It is quite interesting to study how this country has progressed by capitalising on digital technology.

Chapter 10 –gives final recommendations for the study.

A snapshot of recommendations is as under:

On loan procedure

Pursuant to the simplified system of lending to the MSME enterprises, banks and financial institutions have devised the loan application forms and check list. Generally, common application form as per the Indian Banks Association format is used for loans up to Rs.2 crores.

It is expected that the terms and conditions regarding margin and security should be provided on the reverse of the application form itself. Similarly, there should be standard loan appraisal forms for new units, enhancement, renewal and review of loans prescribed by the banks and financial institutions. Banks have prescribed the time norms for disposal of MSME applications to ensure all loan applications from all categories of potential customers are disposed of expeditiously. Generally, these time norms are two weeks to four weeks from the date of receipt of the loan application. As per the feedback of the customers, some banks have reduced the time norms for processing by the credit officer in the range of six days to 22 days if all such applications are complete in all respects and accompanied by the required certificates, documents. As per RBI guidelines it is mandatory to acknowledge all applications submitted by MSME borrowers through manual or online mode. For transparency, it is expected that a running serial number is recorded on the application form and as well on the acknowledgement. It is conveniently followed on case-to-case basis. If the borrower insists for the acknowledgement, initially,

it is avoided. In case of compulsion, it is with a disclaimer remark that application is incomplete.

On Margin

The normal margin requirement for the loan is in the range of 10% to 25%. Where subsidy /margin money assistance is available from the Agency, then it should be considered while sanctioning the loans and, no additional margin should be insisted. In reality, it is demanded by the credit officers.

On CGTMSE Scheme

All loans to Medium and Small Enterprises up to Rs.2 crore which are otherwise eligible to be covered under Credit Guarantee Trust for Micro and Small Enterprises have to be sanctioned collateral free due to guarantee cover of CGTMSE. This important provision is known to borrowers and bank officials. There are misconceptions about this scheme. Generally, it is perceived as costly scheme with lot of terms and conditions, so not suitable for the borrowers. Credit officers do get comfort from collateral by the borrower.

Expectation of Good track record of the borrower

Sanctioning authority needs good track record and financials for the credit decision. The criterion for determining the good track record and strong financials is unknown to the entrepreneurs. Their consultants / advisors should take due care to sustain this illiteracy level. Bankers' expectations for good track record are as under;

- Satisfactory conduct of cash credit / working capital account
- Loan instalments and interest have to be serviced regularly
- Timely submission of stock statements, final accounts, review / renewal data
- Continuous profit earning
- Credit rating, Total outside liability to Tangible Net worth ratio, Debt Service coverage ratio at acceptable levels.

Borrowers should submit the stock statements in time. If they have genuine difficulty,

borrowers should approach the bank and get the necessary permission for submission of stock statements at longer intervals. Generally, there is penalty for non-submission of stock statement in time. If the borrower fails to submit the stock statements, then the bank can appoint a chartered accountant for the stock audit. It adds cost to the borrowers. Due to ignorance, it is very difficult for the units to fulfil these expectations. Then, they make up their mind to avail unsecured loans from the private lenders at higher rates.

Working Capital assessment

The working capital requirements of the units shall be assessed on the basis of say, 25% to 37.5% of the projected turnover or on the basis of operating cycle or processing cycle of the unit. In this regard, the entrepreneur has to infuse minimum 7.5% own margin so that, effectively, the unit can get working capital limit of 30% of the projected turnover. Higher of the two limits can be sanctioned. The disbursement on the basis of actual level of operations can be possible.

Loan application form as a major source of information about the entrepreneur.

Loan application contains more than 77 items of information about the entrepreneur and his business.

Loan Appraisal

The loan needs to be appraised according to the check list provided by the bank. All items need to be discussed with the borrowers and guarantors. This exercise is necessary for credit appraisal as per the banks' policy. Liberalised scheme needs to be put into practice wherein the quantum of loan is not linked to the security or collateral offered by the unit. It duly considers the genuine requirements of the unit for carrying on its activity with profit. The application and the appraisal forms should be different to avoid confusion in the minds of the borrower and the lender. Schemes for technically qualified entrepreneurs which provide financial assistance to entrepreneurs for setting up new viable industrial projects should be promoted by the bank.

Provision of Sustenance Money There is provision by some banks to provide financial assistance to the entrepreneurs to maintain themselves during the gestation period of the first year of establishment. This money can be provided by clean term loan and the

amount can be included in the preoperative expenses of the project.

Restructuring or Rehabilitation of sick MSMEs

While identifying and implementing the restructuring package, the credit officer has to observe the unit's operations closely. There is provision of 'holding on operations' which allows MSMEs to draw funds from their working capital account to the extent of their deposits of sale proceeds during the period of holding operation. While restructuring of the loan account 'viability' criteria is important. Credit officer has to work out the operating and cash break even points. Promoters' sacrifice and additional infusion of funds is necessary. The existing prudential norms for restructured accounts make the standard account on restructuring as substandard account which attracts additional provision. The non- performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule. The rehabilitation package consists of restructuring of present dues to the bank and sanction of additional credit facilities as per the need. Such additional finance carries risk of lower asset classification in case it does not qualify for upgradation at the end of the specified period. The restructuring norms should be revised with improved relaxation in asset classification and provisioning for the deserving cases (businesses having potential to generate profits).

The standard accounts classified as NPA and non-performing assets retained in the same category on restructuring should be upgraded only when all the outstanding credit facilities of the unit perform satisfactorily during the specified period. Loan restructuring is a process in which borrowers facing financial distress renegotiate and modify the terms of the loan with the lender to avoid default. It helps to maintain continuity in servicing the debt and gives borrowers a certain degree of flexibility to restore financial stability.

About Entrepreneurship

Financial planning for entrepreneur is important to establish the financial goals of the unit. Banks are doing feasibility study without financial plan. Banks and entrepreneur work on projected balance sheet for further 3 to 5 years. They assume that business will be successful. After commencement of actual production or service entrepreneurs realise

the success can be illusive. Creation of business plan along with financial plan is real feasibility study of what it takes to be successful.

Conversion of Deposits to other financial products

The factual position is that with the emergence of cross-selling now banks are trying to convert their deposits into other financial products to earn profit out of commission. Banks deposits are being converted to other financial products which is eroding away the deposit corpus leading to reduction in lendable resources of the banks. For instance, if a bank has deposits worth Rs.20,000 crores and if Rs.10,000 crores is converted into other financial products it reduces the deposit base which also helps banks to improve their CD ratio (Credit Deposit Ratio) without any loan disbursement.

This trend will restrict the lending capacity of the banks in due course of time and the victims will be MSMEs. MSMEs will at some point encounter difficulties repaying their monthly instalments due to investment in such products. The growth of deposits in banking system can boost the capacity to use these deposits for the production and services. The trust of the depositors in the prudence and viability of the local banking system and strong regulatory system to ensure safety of deposits is a must. At the same time, the banks should tap the opportunities to increase their deposits to increase their capacity to lend.

SHG for MSME

Self-Help Groups are currently for individuals, and they are widely successful. This model can be replicated for MSMEs from unorganized sector to support their non- schematic financial needs. It will also ensure timely and adequate financial assistance to the entrepreneur at reasonable rate.

No Recognition of achievements of officers serving MSMEs.

At present, there are no incentives, recognition or motivation for business achievement in MSMEs. Whereas there are incentives for cross selling. Banks should recognize the achievement by officers in MSMEs

Relationship banking is necessary – MSMEs are not comfortable with the present compartmentalization of their loan processing. They need handholding at several times.

They need guidance and support. This requires trust and relationship. Single point contact is necessary for fulfillment of their banking requirements.

Special purpose vehicles (SPV)– There is a need to provide facility of SPVs to make MSMEs competitive in the global market

Open term loan facility- This facility enables the customer to identify, purchase machinery of choice as per the requirement. Within overall term loan limit customer can purchase machinery, equipments in suitable stage safety and restrict finance in those sectors without understanding the business potential of that sector.

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CHAPTER 1

INTRODUCTION

In 1973, German-born British economist, E. F. Schumacher published his work which was a collection of Essays titled “Small Is Beautiful: A Study of Economics as If People Mattered”. The title "Small Is Beautiful" came from a principle espoused by Schumacher's teacher Leopold Kohr (1909–1994), advancing small, appropriate technologies, policies, and politics as a superior alternative to the mainstream ethos of "bigger is better".

Taking forward the title “Small is beautiful” to the current status of MSME (Micro Small and Medium Enterprises) sector and “bigger is better” to the future is what is envisaged as the long-term objective of MSMEs. And to meet this long-term objective this journey from small to bigger can be covered by understanding and meeting one of the most important aspects i.e., finance which is the lifeline of this sector.

MSMEs have made a substantial contribution to the growth of Indian economy. As per the Annual Report of MSME- 2020-21, its contribution to GVA (Gross Value Add) has grown from 31.80 % in 2015-16 to 33.50 in 2018-19. Understanding its vulnerability to facing financial difficulties during its life cycle compared to large corporates and its potential to make sizeable contribution to employment and exports, banks and other lending institutions are trying to adopt an appropriate system of timely and adequate credit delivery to borrowers in this segment. Credit flow to the MSME segment for the last five years is given below:

Table 1.1							
Gross Bank Credit Outstanding for MSMEs (March 2016-September 2021)							
<i>(Rs in Crores)</i>							
	<i>Mar-16</i>	<i>Mar-17</i>	<i>Mar-18</i>	<i>Mar-19</i>	<i>Mar-20</i>	<i>Mar-21</i>	<i>Sep-21</i>
Micro and Small Industries	371,500	369,700	4,18,225	4,39,811	4,37,658	4,72,529	5,41,554
Medium			1,25,960	1,23,843	1,12,367	1,87,599	2,06,151
<i>Source:</i> Report on Trends and Progress of Banking in India: Dec 21, 2017, Dec 28, 2018, Dec 24, 2019, Dec 29, 2020, Dec 28, 2021.							

The data reveals that the sector received much higher credit flows which was mainly due to the Emergency Credit Line Guarantee Scheme and other interventions for MSME initiated by the Government of India (GOI) since May 2020 to provide credit guarantee to MSMEs up to 3 lakh crores. From Mar-19 to Mar-20 a fall in the credit flow by -0.5 is seen. While credit flows from banks have never actually taken a serious hit at the same time there has not been substantial increase also other than due to interventions. But credit flow in isolation is not an indicator for anything. To make meaningful interpretations, an assessment of how much credit is required by the MSME segment, which are the businesses flourishing in a particular area/region/state and the type of funding required to cater their credit needs, an assessment of the current appraisal methods. Apart from other sectors two-thirds of MSMEs (67 per cent) in India were temporarily shut down for three months or more in FY21 and over half of all MSMEs saw a decline of over 25 per cent in revenues, as per a survey of 1,029 enterprises by Small Industries Development Bank of India (SIDBI) September 2021. Hence the huge task in front of the Government and the Reserve Bank of India (RBI) was to revive the MSMEs. Accordingly, comprehensive revival packages were announced and implemented to help small borrowers tide over their losses, feedback from the existing borrowers, opinion from consultants, on these parameters, the gap that is created needs to be assessed. Hence an estimation of credit gap and the reasons for these needs to be assessed.

A major setback to individuals, societies, businesses and the world at large was the COVID 19 pandemic, which we are still battling, definitely under control majorly due to timely lockdowns and the vaccination campaign.

Given this background this study earmarks Pune in particular and Maharashtra in general for the study. An attempt is made to estimate and understand the issues and challenges in financing MSMEs. It is learnt lenders are risk averse, they are keen to reduce NPA, that small borrowers lack credit history and formal records, their businesses use old technology, they have no access to marketing expertise, so on so forth. The study examines these perceptions.

CHAPTER 2

MSMEs AND THEIR SIGNIFICANCE: GLOBAL & DOMESTIC

2.1 Role of MSME in Maharashtra

MSMEs contribution to employment generation, encouraging entrepreneurship, benefits under ECLGS scheme, growth under Make-In-India campaign

Maharashtra is one of the most urbanized and second most industrialized state in India. Being an Economic hub of the nation, it is the largest contributor in terms of GDP. The state has emerged as a home for IT, electronics, BFSI, and business outsourcing industries. In the last few decades, it has seen significant growth in terms of the number of Industrial clusters and infrastructural projects. It is connected to major areas and stands as an attractive destination for investors due to its technological & Infrastructural advancement, availability of manpower, and ample natural resources (Economic Survey of Maharashtra,2020-21)

The state has around 47.78 lakh MSMEs out of which 47.60 lakh are micro enterprises and 17,000 are small enterprises. The total employment among its small businesses is 90.77 lakh out of 11 crore people employed with the sector across India as per Annual Report of MSME 2020-21. Also known as country's economic powerhouse Maharashtra, has the fourth-highest concentration of small businesses in the country with an 8 per cent share of India's 6.3 crore MSME base.

The Economic Survey of Maharashtra 2020-21, states that out of Rs.2.48 lakh crore targeted credit disbursement to small businesses in FY21, Rs.90,000 crore was disbursed to 8.85 lakh businesses up to September 2021 Under the Package Scheme of Incentives by the state government to encourage the setting up of new industries in the industrially less developed areas, Rs.473 crore was disbursed to MSMEs up to November -21 up from Rs.258 crore in FY20. Under the Pradhan Mantri Mudra Yojana, which offers

up to Rs.10 lakh loan to non-corporate and non-farm small and micro enterprises, Rs. 27,398 crore loan was disbursed to Rs.47.7 lakh accounts in FY20¹.

Maharashtra has been the biggest beneficiary of the Emergency Credit Line Guarantee Scheme (ECLGS) to offer loans to Covid-hit small businesses and other enterprises in the state. ECLGS had benefitted the MSMEs as they could pay the pending GST and other dues.

MSMEs pose a vast opportunity for the people in Maharashtra to get employment, especially those from marginalized and backward regions. Specialized clusters in the state like Rice & Dal Mills, handicrafts, Paithani Sarees, Gems & Jewelry, auto components, Oil Mills, Agricultural Implements, engineering equipment, Diesel engines, etc. employ thousands and lacs of workers, labourers, and artisans and provide them the means of earning their livelihood. This allows people to live with dignity and helps in eliminating social problems like begging, theft, etc. root causes of which are unemployment and poverty (Katyal and Xaviour 2015).

The growth of the MSME sector encourages local people to take up Entrepreneurship in Tier 2/3 cities and in small towns and villages. They are instrumental in nurturing the local talent and preventing brain drain (Katyal and Xaviour 2015).

Under the Make-in-India campaign, the role of MSMEs and startups have become increasingly instrumental in achieving its objectives. The state government launched 'The Maharashtra State Innovative startup policy' in 2018, aimed to establish a robust Startup ecosystem in the state. The policy provides institutional support, simplification of regulations, seed funding & incubation support, etc. to drive economic growth by strengthening businesses. In 'states startup ranking list' 2019, Maharashtra has achieved the "Leader" ranking (Maharashtra Report 2019).

2.2 Emergence of Pune as the preferred destination for MSME in Maharashtra

The Pune division comprises of five districts viz. Pune, Satara, Solapur, Sangli and Kolhapur and is home to some major industries and business houses. Pune district has

¹ Soni Sandeep (2021) "Maharashtra: How MSMEs in India's economic hub are left Covid-ravaged even as they stare at worst phase now" available at <https://www.financialexpress.com/industry/sme/msme-eodb-maharashtra-how-msmes-in-indias-economic-hub-are-left-covid-ravaged-even-as-they-stare-at-worst-phase-now/2232235/> accessed on December 28th ,2021.

emerged as the most preferred destination for investment due to the ecosystem that has developed over the years. In terms of employment generation, of the 17.67 lakh Udyog Aadhar generated for the MSME units, 4.04 lakh are in Pune and of the 91.01 lakh jobs generated, Pune has cornered 23.59 jobs. Similarly, of the Rs.2,38,543 crores total investments brought in by the MSME units, Pune has cornered Rs. 69,866 crores. Pune has again topped in the state in terms of investments in Special Economic Zone (SEZ)s. Maharashtra has 37 SEZs of which 20 are in Pune and of the total Rs.58,531 crores of investment that has happened in these areas, Rs.32,415² crores are from Pune.

Maharashtra state has 37 SEZs of which 20 are in Pune and of the total Rs. 58,531 crores of investment that has happened in these areas, Rs. 32,415 crores are from Pune. In a period of four years between 2015 and 2019 a total of 14,90,202 Udyog Aadhar were issued to MSMEs in the state, of which 3.36 lakh were generated in the Pune region, which includes Pune, Satara, Sangli, Kolhapur and Solapur districts.

A detailed analysis of Lending operations of Banks to all sectors in general and to MSME in particular in the State of Maharashtra is presented in Chapter 5.

2.3 Role of MSME in India

To meet the aspiration of India to become a \$5 trillion economy by 2024, MSMEs have a very vital role to play. Why is the MSME segment earmarked with this herculean task? The reason being its stupendous contribution to the growth of Indian economy. To specify, the MSME sector contributes in a significant way to the growth of the Indian economy with a vast network of about 6.3 crore enterprises producing more than 8,000 products and a share of around 30% in nominal GDP.

Classification of MSME in India

The new classification has come into effect from 1st July 2020. The earlier criterion of classification of MSMEs under MSMED Act, 2006 was based on investment in plant and machinery / equipment. It was different for manufacturing and services units. It was also very low in terms of financial limits. Since then, the economy has undergone significant

² Biswas Parthasarathi (2021) "Pune tops in terms of employment generation, investment in MSMEs" <https://indianexpress.com/article/cities/pune/pune-tops-in-terms-of-employment-generation-investment-in-msmes-7230454/> accessed on December 15th, 2021.

changes. Therefore, a revision in MSME criteria of classification was announced in the Aatma-nirbhar Bharat package on 13th May 2020. This has been done in order to be realistic with time and to establish an objective system of classification and to provide ease of doing business.³ A new composite criteria of classification for manufacturing and service units has been notified on 26.06.2020, with guidelines regarding composite criteria to facilitate the present and prospective and potential entrepreneurs which is mentioned below in Table No.2.1.

Table 2.1			
Revised Classification of MSME applicable w.e.f. 1st July 2020			
Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover; not more than Rs. 5 crores	Investment in Plant and Machinery or Equipment: Not more than Rs. 10 crore and Annual Turnover; not more than Rs. 50 crores	Investment in Plant and Machinery or Equipment: Not more than Rs. 50 crore and Annual Turnover; not more than Rs. 250 crores
<i>Source: Ministry of Micro Small and Medium Enterprises</i>			

Contribution of MSME to GVA (Gross Value Add) and GDP (Gross Domestic Product)

The MSME sector in India has an enormous economic, social and environmental impact. This has been significantly contributing to the expansion of entrepreneurial initiatives through business innovations. To elaborate, MSMEs are widening their presence across sectors of the economy, producing a diverse range of products and services to meet demands of domestic as well as global markets. As per the data given in the Annual report of MSME 2020-21, the contribution of MSME sector in the Country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices from 2012-13 to 2018-19 is as below:

³ "ITC, UNCTAD, WTO launch Global Trade Helpdesk" available at https://www.wto.org/english/news_e/news17_e/bus_11dec17_e.htm accessed on December 23rd, 2021.

Table 2.2
Share of Gross Value Add (GVA)⁴ and Gross Domestic Product (GDP)⁵ of MSMEs in India
(Figures in Rs. Crores adjusted for FISIM ⁶at current prices)

<i>Year</i>	<i>Total MSME GVA</i>	<i>Growth%</i>	<i>Total GVA</i>	<i>Share of MSME in GVA (%)</i>	<i>All India GDP</i>	<i>Share of MSME-in All India GDP (in %)</i>
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source: Annual Report MSME-2020-21

MSMEs contribution to exports

MSMEs have been the growth accelerators of the Indian economy with a vast network of about 6.3 crore enterprises. In the last decade, the sector has made a significant contribution of more than 40 per cent towards exports and over 30 per cent to the GDP while creating employment for more than 11 crore people, which in terms of volume stands only next to agricultural sector. In terms of exports, they are an integral part of the supply chain and contribute about 40% of the overall exports. The MSMEs need to explore and work towards becoming a part of Global Value Chains (GVCs) and find new opportunities to

⁴ Gross Value Added (GVA): It may be noted that estimates of GVA had been prepared at factor cost in the earlier series (base year 2004-05), while these are being prepared at basic prices in the new series (2011-12), GVA estimated by production approach: (GVA=Output- Material Inputs) and GVA estimated by income approach: (GVA= Compensation of Employees+ Operating Surplus + CFC)

⁵ Gross Domestic Product (GDP): GDP is derived by adding taxes on products, net of subsidies on products, to GVA at basic prices

⁶ FISIM stands for Financial Intermediation Services Indirectly Measured. In the system of National Accounts, it is an estimate of the value of the services provided by financial intermediaries, such as banks, for which no explicit charges are made; instead, these services are paid for as part of the margin between rates applied to savers and borrowers. The supposition is that savers would receive a lower interest and borrowers pay a higher interest rate if all financial services had explicit charges.

integrate themselves with the GVC as exporters and as suppliers to large exporting firms.

To facilitate the growth of the MSMEs, the Indian government introduced the Merchandise Exports from India Scheme (MEIS), as an incentive programme for the export of goods manufactured or produced in India, in the Foreign Trade Policy (FTP) for 2015-2020. MSMEs participating in exports are rewarded in duty credit scrips. Further, MEIS replaced other export incentive schemes by the Government like the Focus Market Scheme (FMS), Focus Product Scheme (FPS), Vishesh Krishi Gramin Udyog Yojana (VKGUY), Market Linked Focus Product Scheme (MLFPS) and an agro-Infrastructure incentive scheme.

Below Table 2.3 shows that the share of MSME exports has increased from 43% in 2012-13 to 49% in 2017-18.

Table 2.3			
Share of MSME exports in total exports (Amount in USD Million)			
<i>Year</i>	<i>Total Exports</i>	<i>Exports by MSME</i>	<i>Share of MSME Exports *(%)</i>
2012-13	300400	127992	43
2013-14	314415	133313	42
2014-15	310352	138896	45
2015-16	262291	130768	50
2016-17	275852	137068	50
2017-18	303376	147390	49
2018-19	-	-	48.10

*Decimal points rounded off.

Source: Report of the Expert Committee on Micro, Small and Medium Enterprises, RBI, 2019

MSMEs Contribution to Employment

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16 the MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 0.07 lakh in Non-captive Electricity Generation and Transmission, 387.18 lakh in Trade and 362.82 lakh in Other Services) in the rural and the urban areas across the country⁷ as mentioned in Table No.2.4. Table no.2.5 shows the distribution of enterprises in rural and urban areas.

Table 2.4 Estimated Employment in the MSME Sector (Activity Wise)				
Broad Activity Category	Employment (in Lakhs)			Share %
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	186.56	173.86	360.41	32
Electricity*	0.06	0.02	0.07	0
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.569	362.22	33
All	497.78	612.10	1109.89	100

*Source: Annual Report MSME 2020-21. *Non captive electricity and generation.*

⁷ MSME Annual Report (2021) available at <https://msme.gov.in/sites/default/files/MSME-ANNUAL-REPORT-ENGLISH%202020-21.pdf> accessed on December 23rd, 2021.

Table 2.5
Distribution of employment by type of Enterprises in Rural and Urban Areas
(Numbers in lakh)

<i>Sector</i>	<i>Micro</i>	<i>Small</i>	<i>Medium</i>	<i>Total</i>	<i>Share (%)</i>
Rural	489.30	7.88	0.60	497.78	45
Urban	586.88	24.06	1.16	612.10	55
All	1076.19	31.95	1.75	1109.89	100

Source: Annual Report MSME 2020-21.

Initiatives in India to foster MSME Growth

Despite the MSME sector emerging as a significant contributor to the growth of Indian economy, it still has to cross many hurdles and challenges. The major challenges include physical infrastructure bottlenecks, absence of formalization, inertia to technology adoption, capacity building, backward and forward linkages, lack of access to credit and risk capital, and the perennial problem of delayed payments, among others⁸.

Few recent developments are mentioned below:

- a. Trade Receivables Discounting System (TReDS) 2014:** TReDS is an electronic platform where receivables of MSMEs drawn against buyers (large corporates, PSUs, Government departments) are financed through multiple financiers at competitive rates. This is done through an auction-based mechanism. To widen the scope of TReDS and to incentivize more players to be part of this platform, banks' exposure through this platform were brought under priority sector lending in 2016. In 2018, the Government made it mandatory for all companies with a turnover greater than Rs.500 crores to register with TReDS.
- b. App-based Invoice Financing-** The mechanism is complementary to the TReDS platform and would further alleviate the problem of delayed payments.
- c. Udyam registration-** Based on composite criteria of classification of MSMEs, this Ministry has replaced the erstwhile process of filing of Udyog Aadhar

⁸ Das Shaktikanta (2020) "Micro, Small and Medium Enterprises: Challenges and Way Forward " https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=18879 accessed on December 28th ,2022

Memorandum, by 'Udyam' registration on a portal developed by this Ministry. The existing and the prospective entrepreneurs are required to file their 'Udyam' registration online on the portal <https://udyamregistration.gov.in>

d. Framework for Revival and Rehabilitation of MSMEs

A simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs, the Ministry of Micro, Small and Medium Enterprises, Government of India, vide its Gazette Notification dated May 29, 2015, notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'. Further, guidelines to the banks have also been issued by the Reserve Bank of India wherein banks have created mechanism for finalising corrective action plan for revival & rehabilitation of MSMEs.

e. MSME Data Bank

All MSMEs are required to furnish information relating to their enterprises online to the Central Government in the data bank maintained by it at www.msmedatabank.in. This data bank will enable Ministry of MSME to streamline and monitor the schemes and pass on the benefits directly to MSMEs.

f. Direct Benefit Transfer in the bank account of MSME

The welfare and subsidy schemes of the Government of India (GOI) have been brought under a single platform, i.e., the Direct Benefit Transfer (DBT), to reform the delivery system, ensure faster flow of funds, target beneficiaries, avoid duplication and reduce frauds.

g. Grievance Monitoring

The Ministry attends to all the grievances on Centralized Public Grievance Redress and Monitoring System (CPGRAMS). The Ministry has started an MSME internet grievance monitoring system (e-SAMADHAN) to track and monitor other grievances and suggestions received in the Ministry.

h. MSME SAMADHAAN: To Address Delayed Payment to MSEs

The portal gives information about individual CPSEs/Central Ministries, State Governments etc. and other buyers regarding the payments pending with them in respect of the MSMEs. The Central Ministries/State Governments have been provided with user- ID and password to login and monitor the delayed payment cases in respect of organizations under their authority. The said portal also facilitates MSEs to file their delayed payments related complaints online.

i. MSME Sambandh

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 MSMEs.

j. MSME SAMPARK

This portal is a digital platform wherein jobseekers (i.e., passed out trainees /students of MSME Technology Centres) and recruiters can register themselves for mutually beneficial interaction.

k. Champions Portal

This portal is an ICT based technology system for making the smaller units big by helping and handholding them. The portal is not only helping MSMEs in the present situation, but also providing guidance to grab the new business opportunities. A network of control rooms is created in a Hub & Spoke Model where hub is situated in the office of Ministry of MSME, New Delhi while the spokes are located in the States in various offices and institutions of Ministry. Central Control Room in New Delhi and 68 State level control rooms are created which have been providing every possible support on a local level to MSMEs in the areas including finance, market access, technology up-gradation, skill development etc.

I. Special measure under ATMANIRBHAR BHARAT ABHIYAAN

In order to further strengthen the MSME the government of India made two announcements under the Atma-nirbhar Bharat Package. The first was that the government will offer Rs.3 lakh crores to MSMEs as a collateral free or unsecured loan with an annual turnover of Rs.100 crores or an outstanding loan of Rs.25 crores. The loan shall have a tenure of 4 years with a moratorium period of 12 months. And the second one was to provide Rs. 20,000 crore Subordinate Debt for Stressed MSMEs:

2.4 Role of MSME in the Global Economy

MSME Day

To accolade the “power of the small”, to recognize the contribution of Micro, Small and Medium Enterprises (MSMEs) to sustainable development and global economy, and also to encourage collaborative ideas to facilitate the business push, the United Nations commemorates ‘27th June’ as World Micro, Small and Medium Enterprises (MSMEs) Day from the year 2017 onwards. This dedication is well earned due to the pivotal role the MSME plays in the global economy. Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing one. SMEs account for most businesses the worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to further estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs.⁹All these statistics will have deeper meaning if we understand the definition of an MSME used in different countries.

⁹ World Bank (2015) “Small and Medium Enterprises (SMEs) Finance Improving SMEs’ access to finance and finding innovative solutions to unlock sources of capital” available at <https://www.worldbank.org/en/topic/sme/finance> accessed on 1st October 2021.

MSME definition in Global Economy

“Jobs, growth and investment will only return to Europe if we create the right regulatory environment and promote a climate of entrepreneurship and job creation. We must not stifle innovation and competitiveness with too prescriptive and too detailed regulations, particularly when it comes to small and medium-sized enterprises (SMEs). Further, SMEs are the backbone of our economy, creating more than 85 % of jobs in Europe and, we have to free them from burdensome regulation.” Jean- Claude Juncker, President of the European Commission.¹⁰ This statement holds true not only for Europe but also the world at large. MSME is defined in different countries based on different parameters such as turnover, type of service, number of employees, fixed assets, specific investment in plant and machinery etc. For example, Malaysia considers manufacturing firms to be SMEs if they have fewer than 200 workers or revenue of less than RM50 million (about \$12 million). In some countries, the definition differs according to the sub sectors under MSME. The People’s Republic of China has 15 sector definitions, Japan has 4, and Singapore has 1. Thus, Government agencies within the same country may use different definitions. While the concerned ministry in a country may use one definition, the national statistics office may follow another, and a priority lending policy may adopt yet another. This makes it difficult to discuss MSMEs across countries due to the lack of a standardized definition. Below table gives a brief description of criteria used by countries to define the MSME. It also states brief details of acts/policies under which MSMEs are defined in different countries and measures to promote their growth.

Global trends in categorizing MSMEs.

The below Table No.2.6 gives a brief description of criteria used by select countries in defining MSME.

¹⁰ “User Guide to the SME definition: European Commission” available at <https://ec.europa.eu/docsroom/documents/42921>, Accessed on 3rd October 2021

Table 2.6
Parameters used by select countries to classify MSMEs

<i>Country</i>	<i>Category</i>	<i>Employee</i>	<i>Asset</i>	<i>Turnover/ Sales</i>	<i>Capital</i>	<i>By sector</i>	<i>others</i>	<i>Legal basis</i>	<i>Act/law/Policy</i>
Australia	Micro, small and medium-sized firm	√		√					Australian Bureau of Statistics
Bangladesh	cottage, micro, small and medium-sized firms	√	√			√			National Industrial Policy 2016
Brazil	Micro, small and medium-sized firm	√		√					SEMPE, the Under-Secretariat for Micro and Small Enterprises (Ministry of Economy - ME), Status of Micro Enterprises.
China	Small and Medium enterprises	√	√	√					SME Promotion Law of China, 2003
European Union	medium, small, micro-sized firms	√	√	√					European Commission Recommendations, May 6, 2003
India	medium, small, micro-sized firms		√			√			MSMED ACT 2006
	medium, small, micro-sized firms		√	√					Revised definition of MSME 2020

Japan	Small and Medium Enterprises	√							SME Agency under the Ministry of Economy Trade and Industry (METI)
Mexico	Small and medium enterprises called PyMEs	√				√			Mexican Chamber of Economy
Malaysia	Micro, small and medium-sized firm	√		√					Small and Medium Enterprises Corporation, Malaysia, (SME Corp.Malaysia,2009
Nigeria	Micro, small and medium-sized firm	√	√	√					Bank of Industry's (BOI) Definition for Micro, Small, and Medium-size Enterprises, SMEDAN, National Policy on MSMEs definitions
Nepal	cottage, micro, small and medium-sized firms	√	√	√			√	√	Industrial Enterprises Act 2020
Pakistan	Start-up, small and medium-sized firm			√					National MSME Policy 2020
	Micro, small and medium-sized firm	√	√						Central Bank
	small firm	√		√					Federal Board of Revenue
Sri Lanka	Micro, small and medium-sized firm	√		√					National Policy Framework for SMEDevelopment (2015)

United Kingdom	Micro, small and medium-sized firm	√	√	√					Companies Act,2006
United States	Micro, small and medium-sized firm	√		√					The Small Business Act of July 30, 1953

Source: <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=924>,
<https://www.oecd-ilibrary.org/sites/8153da8d-en/index>,<https://www.adb.org/publications/asia-sme-monitor-2021-country-regional-reviews>
<https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf>
<https://www.eximbankindia.in/Assets/Dynamic/PDF/Publication-Resources/ResearchPapers/OP/20file.pdf>

Insights into MSMEs contribution to global growth parameters

The share of workforce employed by MSMEs, and contribution made to GDP varies greatly over select countries. It ranges from 44% to 54% in case of GDP and from 29% to 84% in respect of contribution to employment.

<i>Table 2.7</i> Contribution by MSMEs to GDP and Employment: Data of select few countries			
<i>Country</i>	<i>GDP (%)</i>	<i>Employment (%)</i>	<i>Year</i>
Australia	53	68	2021
Germany	54	63	2020
India	30%	45	2020-21
Nigeria	49	84	2020
South Africa	52	29	2020
South Asia	33.9	76.6	2021
South East Asia	40.5	67	2010-2020
UK	51	54	2020
USA	44	48	2020

Source: European Commission, US SBA (Small Business Act,1953), PWC MSME Survey ,2020 South East Asia: Data refer to 2013 (census) for Bangladesh and Sri Lanka, FY2018 (Labor Force Survey 2017–2018) for Pakistan, and FY2020 (Industrial Statistics 2019-2020) for Nepal. The share of MSME employees to total for India is not included.
<https://www.oecd.org/industry/smes/SME-Outlook-2021-Country-profiles.pdf>

Recent Global Initiatives to foster MSME growth-

Today, 95% of firms across the globe are MSMEs, accounting for 60% of the world's total employment. However, MSMEs face a number of obstacles when seeking to participate in international trade. To address these, 88 WTO members signed a statement at the WTO's 11th Ministerial Conference (MC11) in December 2017 and created an Informal Working Group on MSMEs to explore ways in which WTO members could better support MSMEs'

participation in the global trade.¹¹ To elaborate, a database of MSME-related information in Regional Trade Agreements was launched in 2019 and endorsement of a package of six recommendations and declarations aimed at addressing challenges that smaller businesses face when they trade internationally.

The International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and the WTO have an innovative tool to help businesses, particularly smaller firms, benefit from trade. Accessible through a new online hub – HelpMeTrade.org – the Global Trade Helpdesk serves as a one-stop shop for businesses and policymakers to access trade data and practical information on target markets.¹²

¹¹ “Informal Working Group on Micro, Small and Medium-sized Enterprises (MSMEs)” available at https://www.wto.org/english/tratop_e/msmes_e/msmes_e.htm, accessed on January 2nd, 2022.

¹² “ITC, UNCTAD, WTO launch Global Trade Help desk” available at https://www.wto.org/english/news_e/news17_e/bus_11dec17_e.htm accessed on December 23rd, 2021.

CHAPTER 3

REVIEW OF RELEVANT PAST STUDIES

The key constraint for MSME growth is non-availability of adequate and timely credit at cost effective rates, technological obsolescence, access to markets, need for skilled human resources and infrastructural bottlenecks (FICCI in collaboration with Grant Thornton report, "Vision 2020", 2011). The utilization of funds from formal sources mainly banks by the MSME is comparatively less to informal sources, the main reason being inadequacy of collateral, lack of information on funding and latest technology. There is a need for the lending institutions to understand the peculiarities of the lifecycle stage of MSME that leads to different financing requirements (Charan Singh and Kishinchand Poornima Wasdani, 2016).

To understand the issues and challenges in financing MSMEs research studies should take into account the perspectives of both the lender and the borrower (Mugunthan S, AS Pillai, et al, June 2018). The bankers reported that non-availability of financial records relating to income, business transactions and accounts of MSMEs was the major challenge in credit appraisal of MSMEs. Despite extant instructions mandating banks not to accept collateral security in the case of loans up to ₹10 lakh extended to MSE units, there were instances of Rajamani K, Nirmal Raj A, 2019) accepting collateral in such loans by banks. This also indicated that the bankers' preferred collateral-based lending (Narayan and M Sundaramoorthy, 2018).

The loan taken from lending institutions are being utilized properly but it is not helping or directly influencing the formation of capital (Sajijul Islam and Debdas Ganguly, 2019). Research conducted emphasis the need to assess empirically the financial obstacles associated with different stages of MSME Life Cycle in accessing the finance and also its impact on the MSME performance (Rajamani K, Nirmal Raj A, 2019)

It is also noted that financial institutions have limited exposure to this sector as the ticket size of the loan is small and transaction costs are quite high, so this sector is not getting adequate credit, though CGTMSE plays a very important role in providing credit guarantee to MSME loans (Chandrasekhar Mund, august 2020). Research has shown that various external and internal elements need to be addressed in order to determine the

overall success of small enterprises (David & Kovacs, 2020; Madai et al., 2020). As per the survey of 5,000 MSMEs by the All-India Manufacturers Organization, The Hindu reported that 71% of firms are not able to pay salaries to their employees. At present, in India around 25% of firms will face closing if the lockdown goes ahead of 4 weeks, while 43% will face closing if lockdown extends further than 8 weeks (The Hindu, 2020).

The SME industry offers maximum employment opportunities for the local people and helps to increase the quality of life in Bangladesh. But at present, small and medium enterprises of Bangladesh are facing many challenges. These challenges have a huge impact on open innovation (Pervin Tahura, et al.2020)

Significant change has taken place in the technological literacy, business performance, and entrepreneurial competency amidst COVID-19 of entrepreneurs in the MSME segment in Sri Lanka. The level of commitment of the entrepreneurs found to have profoundly improved during COVID 19. Technological literacy among micro and small entrepreneurs needs enormous improvement. Therefore, the policy makers need to focus on developing suitable strategies to improve the technological know-how by the micro and small entrepreneurs (M.G.N. Indika et al 2020)

Despite lot of schemes initiated for the welfare of MSME still they are facing many challenges. The problem of unawareness towards technological advancement can be removed after running effective training and skill development programs. There should be low-cost credit to the MSMEs. The foreign banks are not taking so much interest in sanctioning loan to the MSME sector. The outstanding bank credit is less than 50% of total fixed assets employed in MSMEs while the owners invest their own fund in working capital. The panel of experts must constitute to assess the status and the needs of the MSMEs. The future of MSME sector in India is bright and it will help in the growth of the economy (Sivasree Venkata Hema et al.,2020).

The outbreak of COVID-19 brought misery to all the sectors, including micro, small and medium enterprises (MSMEs). The subsequent lockdown had a negative impact on the business activities of the MSMEs sector and mounted adverse shocks in the form of non-procurement of raw materials, reduced production and supply of final products, and non-availability of employees to work in the process of production. Loss of employment, reduction in revenue generation, declined sales and a cut back in the income of the

working class were some of the worst consequences the community had to bear (Hariharan et al., 2021).

CHAPTER 4

RESEARCH METHODOLOGY

4.1 Research Objectives

Research Question 1

What is the lending scenario with regard to MSMEs by Financial Institutions in Maharashtra?

A detailed analysis of bank wise/ district wise data under credit disbursements and target achievements to various sectors give information regarding the percentage of allocation to various MSME sub sectors which in turn gives an understanding of the various factors leading to that decision. The study also highlights deviations from action plan to actual disbursements and gives reasons and implications of it. This study gains insights into the above-mentioned points of various Financial Institutions.

Research Question 2

What are the issues and challenges faced by banks and financial institutions in financing MSMEs?

Though banks have been lending to MSME segment it's still under-capitalized and in need of capital infusion. For banks the challenge is to reach the MSMEs. There is no lack of intent in the banking sector, but problem lies in converting the intent into actions. The bureaucratic design, the regulatory processes and technical integration have been cited as the barrier since long time. This research work tries to study the deeper issues within the existing appraisal procedures and methods and tries to bring out a more sensitive approach to financing MSMEs.

Research Question 3

What are the issues and challenges faced by MSME borrowers in availing assistance from lending Institutions?

MSMEs are the life blood of Indian economy. Their contribution to GDP and exports is increasing exponentially and they make a good contribution to employment generation

as well. Despite their significance, they are not able to contribute to their full potential. One of the major reasons is their lack of access to funding at a reasonable rate of interest. Their limited knowledge to use advanced technology for their business and proper marketing strategies leads to underperformance which in turn leads to not meeting the estimates and projections of the business. This research work tries to study the inherent limitations of MSME business which acts as a hindrance to accessing formal credit. The study explores the scope of making changes in the policy governing MSMEs to accommodate their requirement.

Research Question 4

What are the issues and challenges faced by the borrowers from the perspective of Consultants?

MSMEs are approaching consultants for meeting their total business requirement from preparing the loan proposal to getting guidance in marketing and finally in selling of their products and services. Some of the MSMEs are well placed and have created an ecosystem for their business to function well. So, consultants are another source of rich information regarding the prospects, issues and challenges faced by MSMEs throughout their business cycle. This study aims to encash on the connect that consultants have with the MSMEs

Research question 5

How are lending Institutions appraising the MSME loan proposals for sanctioning loan / refinance/restructuring and also meet extraordinary situations for instance COVID 19.?

It is very important that prudent credit appraisal is done by the lending institutions. This study with the help of cases/business proposals collected from lending institutions pertaining to different segments under different sectors and from different regions analyses the scope of credit appraisal methods and techniques.

Research Question 6

Which are the prevailing global practices with regard to MSME funding?

MSMEs contribution to Indian economy is sizeable. Understanding best practices prevalent in other countries for MSME business will enrich the knowledge and help implement new strategies.

Research Question 7

By studying the Issues and Challenges faced by lenders to MSME and borrowers under MSME can a model be designed that can be replicated to other states?

Financial Institutions have a bigger role to play compared to MSME borrowers to design a conducive ecosystem for the MSME businesses to thrive. They need to change their outlook from just being a lender to providing end to end solutions to MSMEs

The lending Institutions need to do handholding from the origination of a MSME business to its existence perpetually. A system driven approach this research work aims to build a model that creates a better ecosystem.

4.2 Data Collection and Methodology

For Research Question 1

Data from SLBC (State Level Bankers Committee) website for Maharashtra on Annual Credit Plan (ACP) targets and Annual Credit Plan (ACP) achievements was used for analysis from year 2015- 2021 to see how much credit was targeted to be disbursed and how much was actually achieved for Pune and Maharashtra for 47 institutions which include public sector banks, private sector banks, small finance banks, foreign banks, payments banks and co-operative banks.

Data Analysis: Descriptive statistical analysis and regression analysis was used to draw inferences for the data pertaining to 2020-21 for credit disbursement targets and actual achievements.

Two hypothesis were developed and a regression analysis was conducted to arrive at the results. The two hypothesis constructed were:

H1: More number of Branches leads to a greater number of MSME accounts.

H2: More number of MSME accounts would lead to more credit.

For Research Question 2

Field/Online/Telephonic survey, Focus Group Discussion as per the convenience of the bankers from (Public sector banks, Private sector banks, Co-operative banks and NBFCs) located in Pune, Ahmednagar, Nasik was conducted. This exercise resulted in collection of experiences of bankers in lending to MSME pertaining to 500 accounts. Stratified sampling techniques was used, and adequate representation was done to avoid biases. Access to lead banks of various districts in Maharashtra was sought through lead bank database of SLBC (State Level Bankers' Committee). The network and contacts of researchers was widely used to conduct the survey and the interviews.

(a) **Survey Method:** A structured questionnaire is designed to extract information on:

- The type of MSME business financed
- Operational issues in lending to MSME.
- Issues emanating from the inherent characteristics of MSME
- Expectations from the ministry and government.

(b) **Questionnaire:** Detailed questionnaire was designed to draw out the focus of the lending organization, its concentration or less concentration in sub sectors, its total exposure, types of financing, marketing methods, type of lending, interest rate charged, and operational details.

Data Analysis: Interpretation of the data is presented.

For Research Question 3

Field survey/Online survey/Telephonic survey according to the convenience of the MSME borrower was done on a sample size of 500 borrowers (manufacturing sector, services sector, medium, small and micro enterprises) Data on the MSME borrowers was taken from Maratha Chamber of Commerce Industries and Agriculture (MCCIA) directory and also banks and financial institutions. In addition to this the target audience was also interviewed, information was also collected through informal communication. FGD (Focus Group Discussion) was also conducted.

(a) **Survey Method:** A structured questionnaire was designed to extract information on:

- Business detail and operating cycle of the business
- Documentation procedural challenges faced in applying for loans.
- Most preferred mode of financing
- Other challenges faced by borrowers.
- Expectations from the government.

(b) **Questionnaire:** Detailed questionnaire is designed to draw out the issues and challenges faced by the MSME borrowers pertaining to KYC (Know Your Customer), lending norms of the banks, higher interest rate, lack of information regarding the schemes etc.

Data Analysis: Interpretation of the data is presented.

For Research Question 4

Field survey/Online survey/Telephonic survey according to the convenience of the Consultants was done on a sample of 50. In addition to this the target audience was also interviewed, information was also collected through informal communication. FGD (Focus Group Discussion) was also conducted. Chartered Accountants (CA) and CAs running their own consultancy firms, Business Correspondents were the target group for the study.

(a) **Survey Method:** A structured questionnaire was designed to extract information on issues and challenges faced by MSME borrowers and feedback on rules and assessment parameters were sought from them.

(b) **Questionnaire:** Detailed questionnaire is designed to draw out the issues and challenges faced by the MSME borrowers pertaining to KYC (Know Your Customer), norms of the banks, higher interest rate, lending methods etc.

Data Analysis: Interpretation of the data is presented

For Research Question 5

18 Case studies from different sectors which are dominant in Pune and Maharashtra have been developed. The cases were taken from lending institutions, disguising the identity of the company and inferences have been drawn, observations made on the appraisal, disbursement, refinance and restructuring decisions.

For Research Question 6

Information was collected from available literature from the websites of the financial institutions and other literature by authentic organizations on Bangladesh, Canada, European Union and Turkey focusing on innovative ways used by these countries to cater to different aspects of MSME business.

For Research Question 7

The model has taken shape from the information derived through the findings of the study.

CHAPTER 5

ANALYSIS OF TOTAL LENDING TO MSME IN PUNE AND MAHARASHTRA (2015-2021)

This study was focused on issues and challenges in financing MSMEs in Pune and Maharashtra hence an overview of the entire Maharashtra State's contribution in MSME segment and an in-depth analysis of MSMEs contribution in Pune from the year 2015 is studied. The reason for choosing from the year 2015 onwards is because the year was characterized by long pending financial sector reforms. The reforms mainly comprised of the Indradhanush - aimed to improve governance in public sector banks, proposed the formation of Bank Board Bureau for top level appointments and announced Rs.70,000 crore capital infusion in public sector bank over four years. Two new banks, viz. IDFC Bank and Bandhan Bank started operation during the second half of the year 2015. 21 new niche bank licenses were issued. Eleven new banks were licensed to start operations as payments banks. Ten new small finance bank licenses were also granted. SDR (Strategic Debt Restructuring) was also introduced. Very specific to MSME sector in 2015 September, Udyog Aadhar online filing system replaced the filing of Entrepreneurs Memorandum Part- II / (EM-II) which was subsequent to the implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 with effect from October 2006. Amidst these reforms it was thought to be interesting and fruitful to study the performance of the MSME segment.

Growth of MSME

MSME has shown consistent growth in terms of number of EM-II filed 2007-08 with the District Industries Centres across the country was 1.73 lakh which increased to 1.93, 2.13, 2.38, 2.82, 3.23, 3.63 and 4.25 lakh during 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 & 2014-15 respectively. A constant growth rate was displayed by MSME at around 11% every year till 2010-11. The highest growth in recent time was recorded during 2011-12 (18.45%) whereas during year 2012-13 and 2013-14 growth rate was around 14% and 12%, respectively. But it jumped to 17% in 2014-15. However, in 2015 i.e., from April-September 2015 shown impressive growth of 18.74% (year-on-year growth) (Annual Report MSME, 2015-16).

Trend in growth of MSME in Maharashtra according to The State/UT wise details of EM-II filed with the Commissionerates/ Directorates of Industries during 2007-08 to 2014-15

Table 5.1 No. of EM-II Filed in Maharashtra 2007 to 2015								
<i>State</i>	<i>No. of EM-II Filed</i>							
<i>Maharashtra</i>	<i>2007-2008</i>	<i>2008-2009</i>	<i>2009-2010</i>	<i>2010-2011</i>	<i>2011-2012</i>	<i>2012-2013</i>	<i>2013-2014</i>	<i>2014-2015</i>
	10244	11682	11896	14496	15606	16136	19826	36992
Year on year increase	-	14.03%	1.83%	21.8%	7.66%	3.4%	22.8%	86.5%
<i>Source: MSME Annual Report 2020-21</i>								

It is seen from the above table that there was a sizeable increase in filing from 2008-09, 2010-11, to 2013-14 and the maximum increase was posted in 2014-15 to the tune of 86.5%.

Maharashtra State Achievement under ACP (Annual Credit Plan) for MSME Rs. In lakhs (2014-15 to 2020-21).

The analysis is based on data available on SLBC website under ACP (Annual Credit Plan). Below is an analysis of Target and Achievement under Maharashtra State Achievement under ACP (Annual Credit Plan) for MSME Rs.in lakhs (2014-15 to 2020-21). It observed from the below table no.5.1 that from 2014-15 to 2020-21 the share of PSBs (Public Sector Bank) in ACP has declined from 79.5% in 2014-15 to 57.24% in 2020-21. Whereas the share of Private Sector Banks has increased between the same period and in case of Gramin bank though the increase in share is not quite high between 2014- 2020 but there is consistency. Co-operative Banks share in ACP has also declined during the said period.

The SFBs (Small Finance Bank) share has also fairly increased from 2018-19 to 2020-21. Though the maximum share of credit has been taken by PSBs, but the achievement percent of Pvt. Sec Bank is more. The achievement rate of SFBs has been exceptionally good in 2018-19 and 2020-21. Detailed calculation is available in Annexure.I

Table 5.2 Maharashtra State Achievement under ACP (Annual Credit Plan) for MSME (2014-2021)			
<i>Year 2014-15</i>	<i>Target %</i>	<i>Achievement %</i>	<i>Achievement %</i>
share of PSBs in ACP of commercial banks	82.7	69.6	84.3
share of PSBs in total ACP of banks	79.5	69.07	86.88
share of Pvt Sec Banks in ACP of commercial banks	15.7	30.3	193.4
share of Pvt Sec Banks in total ACP of banks	15.07	30.06	199.41
share of Gramin Banks in total ACP of banks	0.54	0.519	95.6
share of Co-op Banks in total ACP of banks	3.34	0.33	10.3
<i>Year 2015-16</i>	<i>Target %</i>	<i>Achievement %</i>	<i>Achievement %</i>
share of PSBs in ACP of commercial banks	74.96	81	109
share of PSBs in total ACP of banks	72.62	80.97	111.5
share of Pvt Sec Banks in ACP of commercial banks	23.61	19	79
share of Pvt Sec Banks in total ACP of banks	22.88	18.55	81.13
share of Gramin Banks in total ACP of banks	1.02	0.34	34.07
share of Co-op Banks in total ACP of banks	2.53	0.084	3.7

<i>Year 2016-17</i>	<i>Target %</i>	<i>Achievement %</i>	<i>Achievement %</i>
share of PSBs in ACP of commercial banks	76.47	77.35	101.14
share of PSBs in total ACP of banks	74.07	77.07	104.04
share of Pvt Sec Banks in ACP of commercial banks	21.43	22.64	105.62
share of Pvt Sec Banks in total ACP of banks	20.76	22.56	108.64
share of Gramin Banks in total ACP of banks	0.678	0.31	46
share of Co-op Banks in total ACP of banks	2.46	0.059	2
<i>Year 2017-18</i>	<i>Target %</i>	<i>Achievement %</i>	<i>Achievement %</i>
share of PSBs in ACP of commercial banks	75.18	70.23	93.42
share of PSBs in total ACP of banks	73.31	69.98	95.45
share of Pvt Sec Banks in ACP of commercial banks	23.37	29.76	127.35
share of Pvt Sec Banks in total ACP of banks	22.79	29.66	130.12
share of Gramin Banks in total ACP of banks	0.52	0.26	51.5
share of Co-op Banks in total ACP of banks	1.95	0.08	4.04
<i>Year 2018-19</i>	<i>Target %</i>	<i>Achievement %</i>	<i>Achievement %</i>
share of PSBs in ACP of commercial banks	77.99	57.43	73.63
share of PSBs in total ACP of banks	76.67	57.15	74.53
share of Pvt Sec Banks in ACP of commercial banks	20.59	41.11	199.64

share of Pvt Sec Banks in total ACP of banks	20.24	40.9	202.07
share of Small Finance banks in total ACP of banks	0.75	1.44	192.39
share of Gramin Banks in total ACP of banks	0.33	0.3	90.2
share of Co-op Banks in total ACP of banks	1.34	0.18	13.4
<i>Year 2019-20</i>	<i>Target %</i>	<i>Achievement %</i>	<i>Achievement %</i>
share of PSBs in ACP of commercial banks	66.75	49.71	74
share of PSBs in total ACP of banks	64.92	49.51	76.26
share of Pvt Sec Banks in ACP of commercial banks	32.03	48.61	151.7
share of Pvt Sec Banks in total ACP of banks	31.15	48.41	155.4
share of Small Finance banks in total ACP of banks	0.49	1.66	340
share of Gramin Banks in total ACP of banks	0.47	0.37	80
share of Co-op Banks in total ACP of banks	2.27	0.036	1.176
<i>Year 2020-21</i>	<i>Target %</i>	<i>Achievement %</i>	<i>Achievement %</i>
share of PSBs in ACP of commercial banks	58.3	51.03	87.53
share of PSBs in total ACP of banks	57.24	50.6	88
share of Pvt Sec Banks in ACP of commercial banks	40.23	47.21	117
share of Pvt Sec Banks in total ACP of banks	39.5	46.8	118.49

share of Small Finance banks in total ACP of banks	1.43	0.66	46.6
share of Gramin Banks in total ACP of banks	0.17	0.59	83.87
share of Co-op Banks in total ACP of banks	0.99	0.26	25.8
<i>Source: SLBC Maharashtra (2014-15 to 2020-21): Authors compilation and analysis</i>			

Share of Pune in total credit of Maharashtra to MSME and Achievement Rate % (2014-15 to 2020-21).

Table below shows that though the % share of Pune has not significantly increased year on year but the achievement rate % has been 100 and more in all the years. Even if allotment of credit does not increase this shows that more than allotted achievement rate has been good.

Table 5.3		
% Share of Pune in total credit of Maharashtra to MSME and Achievement Rate %.		
<i>Year</i>	<i>% Share of Pune in total credit of Maharashtra</i>	<i>% Achievement of Pune in total achievement in Maharashtra</i>
2014-15	13.49	37.5
2015-16	10.15	10.19
2016-17	9.495	11.171
2017-18	7.97	10.9
2018-19	5.32	9.77
2019-20	9.73	9.714
2020-21	10.2	12.08
<i>Source: SLBC Maharashtra (2014-15-2020-21) Authors compilation and analysis.</i>		

Table 5.4
%Share of Total Credit Disbursed and Achievement rate % in Maharashtra for Banks financing MSMEs.

Year	PSBs		PVT Sec Banks		Gramin Bank		Cooperative Bank		Small Finance Bank	
	Target %	Achievement %	Target %	Achievement %	Target %	Achievement %	Target %	Achievement %	Target %	Achievement %
2014-15	79.5	86.88	15.07	199.41	0.54	95.6	3.34	10.3		
2015-16	72.6	111.5	22.875	81.13	1.02	34.07	2.53	3.7		
2016-17	74.07	104.04	20.76	108.64	0.678	46	2.46	2		
2017-18	73.31	95.45	22.79	130.12	0.52	51.5	1.95	4.04		
2018-19	76.67	74.53	20.24	202.07	0.33	90.2	1.34	13.4	0.75	192.39
2019-20	64.92	76.26	31.15	155.4	0.47	80	2.27	1.176	0.49	80
2020-21	57.24	88	39.5	118.49	0.17	83.87	0.99	25.8	1.43	46.6

Source: SLBC Maharashtra (2014-15-2020-21) Authors compilation and analysis

From the table no. 5.4 we can observe that during COVID 19 in terms of target and achievement of Credit for MSME has been higher mainly due to disbursement of Guaranteed Emergency Credit Line schemes by all the banks for combating the challenges faced by the MSMEs due to pandemic. As a part of relief measure Department of financial services introduced the emergency Credit Line Guarantee scheme for (ECLGS) for additional working capital term loans to the eligible borrowers. It helped for survival of MSMEs during this pandemic.

Bank wise MSME - Disbursements under Annual Credit Plan 2020-21 (01.04.2021 to 31.12.2021), SLBC Data Base

The 6 (six) major lender categories are: 12 PSU Banks (PSB), 16 Private Sector Banks (PvSB)s 8 Small Finance Banks (SFB), 1 Foreign Bank Wholly Owned Subsidiaries (FB WOS), 2 Gramin Banks and various Cooperative Banks. The major 5 (five) borrower categories are Micro, Small, Medium, Khadi & Village and Others. The total disbursements were Rs. 170.89 crore across 7.22 lakh accounts (beneficiaries).

Lending Targets are set in amounts. Targets determine the intent to lend to the MSME sector. PSBs and PvSBs with 57% and 40% market share are dominant players. This is followed up by Actual market shares of PSBs with 42% and PvSBs with 56%, indicating that PvSBs have fared better on the ground. This is underscored by the fact that PSBs achieved 51% of sanctioned targets, as against 96% by PvSBs.

Granular details of Amounts disbursed reveal that in Micro, PSBs have a market share of 54% as against 43% by PvSBs. In the Small category, PSBs have 38% as against 61% by PvSBs and the gap widens towards Medium, where PSBs have a 26% share as against 73% of PvSBs. Interestingly, as regards, Khadi & Village, PSBs have a 43% share as against 54% for PvSBs – identical to the Micro category first mentioned in these paragraphs. In the Others category, PSBs are totally dominant with 99%. Going further into the lending styles, PSBs credit disbursement portfolio ratios to Micro-Small-Medium are 39-34-27, PvSBS ratio is 23-40-37 and, in the case of SFBs, it is 90-6-4. This underscores the lending style of PvSBs in favour of Small and Medium.

Granular details of Accounts (number of borrowers - beneficiaries), PSBs have 39% of market share as against 46% of PvSBs and 12% by SFBs. In Micro, PSBs have a 42% share

as compared to 40% of PvSBs. The share of PSBs in Small reduces to 28% for PSBs against 72% for PvSBs and further widens in Medium from 7% for PSBs to 93% for PvSBs. The credit disbursement portfolio ratios (excluding Khadi and Others) to Micro-Small-Medium: in respect of PSB, is 80-9-1, and in respect of PvSBs is 65-20-15, whereas in the case of SFBs it is 99-1-0. This further underscores the fact that the lending style of PSBs is comparatively more skewed towards Micro, whereas in the case of PvSBs, it is more skewed towards Small and Medium.

Analysis of Branch Networks in Maharashtra (01.04.2021 to 31.12.2021), (SLBC, Data Base)

The market for MSME credit may be segmented into four: Rural, Semi-Urban, Urban and Metropolitan. In Rural, the branch dominance is by Cooperatives (45%) followed by PSBs (35%). Being agrarian, these branches may attract Micro businesses. In Urban, PSBs dominate with 49%, followed by PvSBs with 26% and Cooperatives by 12%. This explains the increasing hold by PvSBs in the Small business sector; in Urban, a similar pattern continues with PSBs at 44%, PvSBs at 24% and Cooperatives catching up with 20%. Metro is dominated by PSBs with 56% and PvSBs at 38%. The void left by Cooperatives is taken up by PvSBs.

If seen bank-wise, across Rural-Semi-Urban-Urban-Metro, PSBs have 36% of their branches in Metro, followed by an even balance between Rural (28%) and Semi-Urban (23%). PvSBs have 48% of their branches in Metro areas, followed by 24% in Semi-Urban areas. SFBs are evenly spread with 31% in Urban, 30% in Semi-Urban and 26% in Metros. Cooperatives have 74% of their branches in Rural. Gramin Banks have 60% of their branches in Rural and 29% in Semi-Urban.

It follows from the above that PSBs and PvSBs are the main competitors. Whereas the advantage is tilted towards PSBs in the Micro sector represented by Rural, the position of PvSBs gains strength in the Semi-Urban, Urban and Metro regions where Small and Medium Enterprises are more likely to have a presence. Thus, there is a greater scope for PSBs, SFBs, Gramin and Cooperatives in the balance 31 districts of Maharashtra, i.e., other than Mumbai City, Mumbai Suburbs, Thane, Pune and Nagpur. Opportunities may arise in the foreseeable future with value addition in agriculture, export thrust and improved infrastructure across rural and semi-urban areas, as per the pattern in successive Union Budgets.

While looking at the distribution of MSMEs in the state, it can be seen that Konkan (Including Mumbai) has the highest share at 37% of the total MSMEs in Maharashtra. Pune region comes second with 27%. Nagpur and Amravati region which come under the eastern Vidarbha region have an extremely low share of MSMEs in the total MSMEs. Most of the disbursements are being done in metro cities like Mumbai, Pune and Thane. Districts like Amravati, Buldhana, Nagpur, Washim, are in dire need of credit as these cities have already crossed their annual targets. The targets for these districts are insignificant compared to metro cities but the need here is much more.

PSBs have been slow in progress in achieving target disbursements, only Bank of India has been able to achieve 100%. Small Finance Banks are majorly focusing on Micro Enterprises. Small and Medium enterprises are being neglected by the PSBs as approx. 60%-70% of the total disbursements for small and medium enterprises is being covered by Private Banks.

In Aurangabad, Amravati, Nashik and Nagpur regions, the share of PSBs and Co-operative Banks is higher. PSBs should focus more on these regions. The co-operative banks should also increase their share in these regions as they have a substantial presence here. The low target achieving districts have not been able to facilitate banking for a type of MSME. For e.g., Hingoli, which is the lowest performing district has 0 accounts for both Small and Medium Enterprises. Same with Beed which has 0 accounts for Small, Medium and Micro enterprises.

Descriptive Statistical Analysis and Interpretation

Interpretation –

- A total of 47 banks have been taken under consideration for Descriptive statistical analysis which includes public sector banks, private sector banks, small finance banks, foreign banks, payments banks and co-operative banks.
- As for number of branches, data shows mean number of branches to be nearly 625 in numbers with standard deviation of 1291.6, lowest being 17 and highest at 7501.
- Total number of accounts under MSME sector with respective to each bank tell a different story. Average number of accounts under MSME sector is approximately

30560 with very high standard deviation of 65472.08 showing that there is a very wide gap here. The same can be interpreted as minimum number of accounts is 0 to a maximum number being 332756.

- Total amount under MSME sector respective to each particular banks shows maximum Standard deviation to Rs.1762623 with average being at amount Rs. 726097.5
- Credit to Deposit ratio shows somewhat balanced figure with least standard deviation of 57.57 and average being at 105.19.
- Further normality tests are done to determine if the data set is well-modeled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed.
- Correlation matrix is used to depict the correlation between all the possible pairs of values in a table.
- It shows that max amount of correlation is between: -
Total branch and number of accounts (0.7793)
Total branch and Total amount under MSME accounts (0.7836)
Total number of account and Total amount under MSME accounts (0.9410)

Inferential Statistics and Interpretation

- Inferential statistical analysis lets us evaluate a hypothesis depending on a sample data from which we can extract inferences by applying probabilities and make generalizations about the whole data, and also can make conclusions with respect to future outcomes beyond the data available.
- It allows you to draw conclusions based on extrapolations and is in that way fundamentally different from descriptive statistics that merely summarize the data that has actually been measured.
- Note that the inferential statistics usually suggest but cannot absolutely prove an explanation or cause-and-effect relationship. Inferential comes from the word infer. To infer is to conclude or judge from premises or evidence and not to prove.

- We followed with Regression analysis on Stata as it is a reliable method of identifying which variables have impact on the topic of interest. The process of performing a regression allows us to confidently determine which factors matter most, which factors can be ignored, and how these factors influence each other.

Hypothesis –

- Based on correlation matrix following two hypotheses are taken under consideration –

H1: More number of Branches leads to a greater number of accounts

H2: More number of accounts would lead to more credit

Interpretation –

- First two models interpret the linear relationship between the variable without taking into consideration the factor of heteroscedasticity.
- Testing for First hypotheses we have taken Dependent variable as number of accounts (Noofacc) and independent variable to be Total number of branches (totalbrs).
- Testing for Second hypotheses we have taken Dependent variable as Total amount under MSME sector with respective bank (Amt) and independent variable to be Total number of accounts in that respective bank (Noofacc).
- First model which is testing for H1 shows that Total number of branches is a significant factor which leads to increase in total number of accounts (p value < 0.05) thus rejecting null hypothesis (Totalbrs is insignificant)
- Further test for heteroscedasticity is done (Het test) is done as to satisfy the regression assumptions and be able to trust the results, the residuals should have a constant variance. As the p-value is less than 0.05 we can ignore the null hypothesis thus stating that there is presence if heteroscedasticity in the data.
- Second model which is testing for H2 shows that Number of accounts under MSME sector is highly significant to determine the Amount under MSME sector. (p-value < 0.05), rejecting the null hypothesis.

- Heteroscedasticity test for same interprets the presence of non-constant variance as $p\text{-value} < 0.05$.
- Next two models assess the respective hypothesis H1 and H2 but this time it uses log transformed data to remove heteroscedasticity.
- Heteroscedasticity test confirms that there is constant variance among data of both models (model 3 and model 4).

CHAPTER 6

ANALYSIS OF RESPONSES BY LENDING INSTITUTIONS ON ISSUES IN FINANCING MSME

This chapter analyses the responses collated from 500 accounts of MSME borrowers from Pune district, Aurangabad, Sangli, Nasik, Ahmednagar, Nagpur, Kolhapur and Satara which was given by branch managers of banks and financial institutions regarding the challenges faced while lending to MSME borrowers. The information was collected through survey with the help of questionnaires, focus group discussion and interviews. The information was broadly collected under three heads:

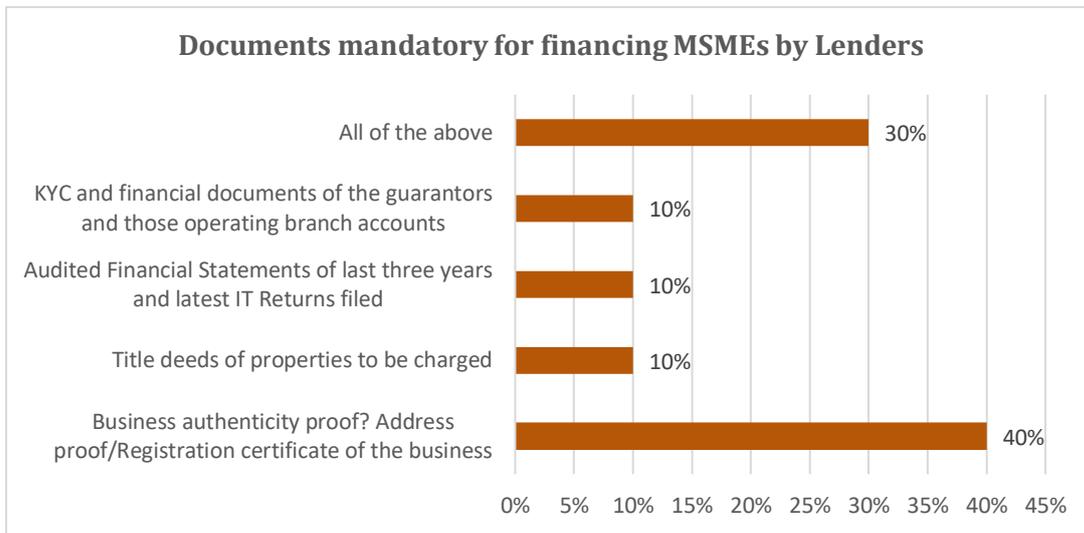
- (a)* Efforts taken by the branch in reaching out to MSMEs
- (b)* Current status of MSMEs (in terms of sector, volume, NPA (Non-Performing Assets), interest rate, type of loan) loans advanced.
- (c)* Areas where change/improvement is required.

KYC Documents, Entity Documents and Financial Statements

As seen in Figure 6.1 it is found that the most important and mandatory document considered by financial institutions as mandatory for lending is the business authenticity proof and audited financial statements for three years. And in actuality most of the MSME businesses are not having audited financial statements as shown in Figure 6.2. The second most important challenge faced while financing is difficulty in approving project estimates due to lack of industry data.

Figure 6.1

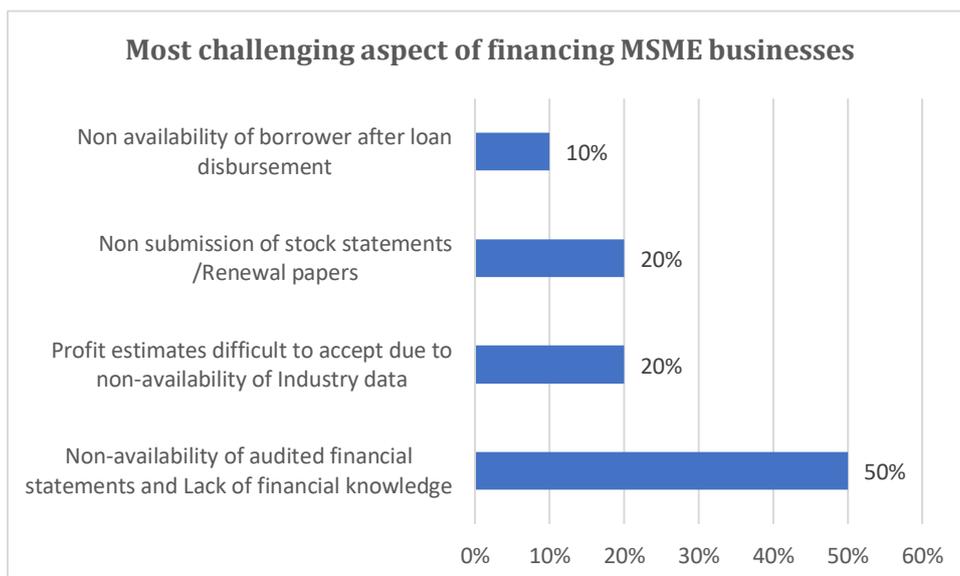
Documents mandatory for financing MSME by Financial Institutions



Source: Survey data (August 2021-March 2022)

Figure 6.2

Most Challenging aspect of financing MSME



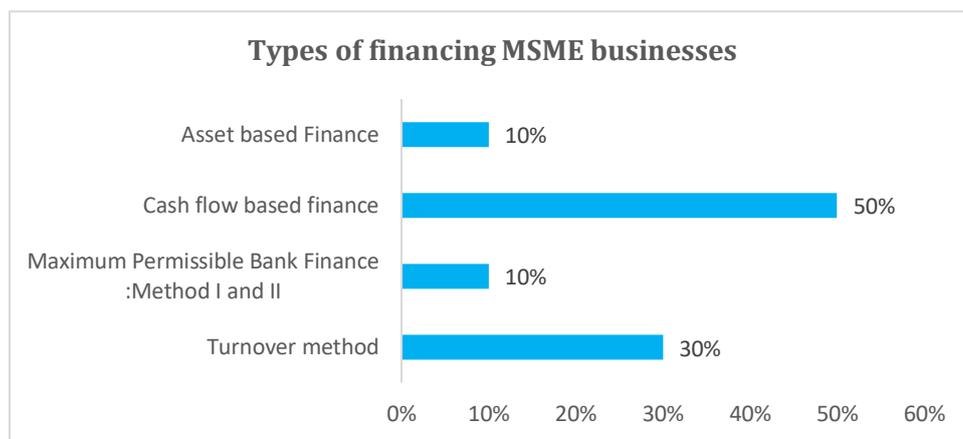
Source: Survey data (August 2021-March 2022)

Type of Funds required and the time taken to sanction the loans

It is observed that most of the MSME businesses are financed on the basis of cash flow and the second most popular type of lending is asset based finance as shown in Figure 6.3. And the average time taken for processing a proposal is minimum two weeks as explicit in Figure 6.4

Figure 6.3

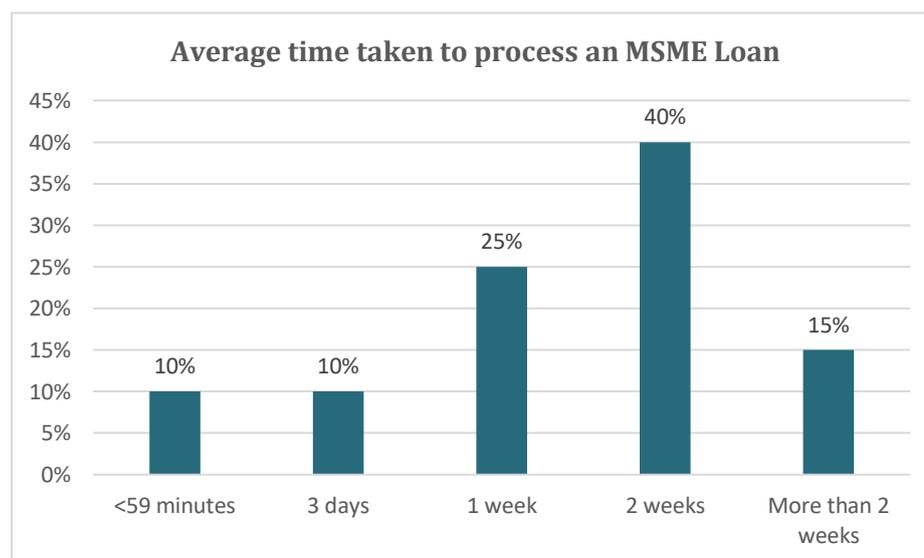
Type of Financing for MSMEs



Source: Survey data (August 2021-March 2022)

Figure 6.4

Average time taken to process an MSME loan



Source: Survey data (August 2021-March 2022)

Risk mitigating techniques and recovery measures

Most of the financial institutions are charging an effective interest rate of over 16% if MSME business is not generating enough EBITDA (Earnings before Interest Tax Depreciation and Amortization) as shown in Table 6.1. Another risk mitigation technique made use of, is of NPA recognition time being extended to 180 days¹³ as shown in Table 6.2. Requirement of collateral, higher equity contribution by the borrower and the requirement of the guarantor is resorted to by lending institutions as can be seen from Table 6.3. To further mitigate risk, banks are also considering moveable assets as collateral as shown in Figure 6.5. If sufficient collateral is not there few lending institutions charge higher rate of interest. But many of the lenders look into other potential parameters of the business which gives them confidence about the success of the business, hence reducing risk. For instance, the other reasons for neither charging higher rate of interest nor collateral is if they have confidence in the core activity. Lending institutions also offer loans with very low collateral as per their existing schemes as mentioned in Table 6.4. If the loan instalment is due or nearing due date or past the due date the lender since it values, the customer's goodwill in the market it prefers to send only reminders orally and in writing as mentioned in Table 6.5.

Lenders have limited their risk by giving loans up to Rs.2 crores which is permitted under CGTMSE Scheme. Smaller loans up to Rs.25 lakhs are also given as mentioned in Table 6.6. Most of the borrowers are able to bring margin money as represented in Table 6.7. Most of the lenders would approach Lok Adalat/Civil Court/DRT/or take action under SARFAESI as a recovery measure and in genuine cases would go for compromise or recovery as mentioned in Table 6.8.

¹³ On March 27,2020 the RBI had permitted lending institutions (LIs) to grant a moratorium of three months on payment of dues falling between March 1 and May 31, 2020.

Table 6.1 Risk mitigation through increase in risk premium	
<i>Does the bank increase risk premium by charging effective interest rate of over 16% and also insisting on additional security if MSME business is not generating positive EBITDA?</i>	
30%	No
70%	Yes

Source: Survey data (August 2021-March 2022).

Table 6.2 Implementation of NPA recognition time of MSME to 180 days	
<i>Has the branch implemented the NPA recognition time of MSME to 180 days?</i>	
Yes	80%
No	20%

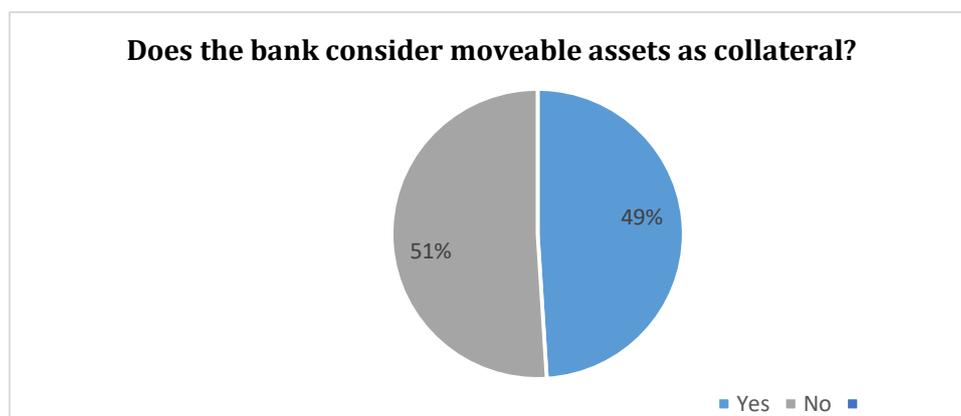
Source: Survey data (August 2021-March 2022)

Table 6.3 Risk mitigating techniques used by the lender during appraisal of MSME project	
<i>Particulars</i>	<i>Response</i>
Higher equity contribution by the prospective borrowers.	40%
Requirement of collateral	20%
Requirement of guarantor/s	20%
Loan covenants/ Seeking guarantee cover under CGTMSE/CGFMU/Personal Guarantee	10%
Estimated higher DSCR	10%

Source: Survey data (August 2021-March 2022)

Figure 6.5

Acceptance of Moveable asset as collateral



Source: Survey data (August 2021-March 2022)

Table 6.4 Reasons for lack of Collateral from MSME borrowers not substituted by higher interest rate	
<i>Particulars</i>	<i>Response</i>
Other financial parameters are considered	20%
Other schemes are suggested which require less of collateral	20%
Depends on assessment of risk	20%
If core activity is convincing, then lack of collateral is not a barrier	40%

Source: Survey data (August 2021-March 2022)

Table 6.5 Mode of sending reminder to MSME Borrower	
<i>Particulars</i>	<i>Response</i>
Sending reminder- orally and in writing	70%
Sending notice through a lawyer	20%

Source: Survey data (August 2021-March 2022)

Table 6.6 Limit for extending collateral free loans	
<i>Particulars</i>	<i>Response</i>
Up to Rs.10 lakhs	46%
Up to Rs.25 lakhs	54%

Source: Survey data (August 2021-March 2022)

Table 6.7 MSMEs ability to bring margin money	
<i>Are MSME borrowers able to bring margin money?</i>	
<i>Particulars</i>	<i>Response</i>
Yes	80%
No	20%

Source: Survey data (August 2021-March 2022)

Table 6.8 Recovery measure for MSME Loans	
<i>Particulars</i>	<i>Response</i>
Approaching Lok Adalat/Civil Court/Action under SARFAESI	50%
In genuine cases going for compromise/write off	50%

Source: Survey data (August 2021-March 2022)

Focussed lending to MSME

It is evident from Table 6.9 that majority of lending Institutes have a focussed dedicated MSME vertical, and their maximum share of lending is to Auto components cluster followed by electronic goods and engineering goods cluster as shown in Table 6.10. Maximum lending is focussed towards manufacturing sector which is 70% as shown in Table 6.11. 60% of the branches have counselling centre as well as shown in Table No.6.12.

Table 6.9 Focus and Importance of MSME to Lending Institutions	
<i>Focus and Importance of MSME to Lending Institutions</i>	
<i>Particulars</i>	<i>Response</i>
Dedicated MSME vertical	50%
Scouting for projects	30%
Using intermediaries like Business Correspondents and Consultants	20%

Source: Survey data (August 2021-March 2022)

Table 6.10 Important MSME clusters for Lenders	
<i>Important MSME clusters for Lenders</i>	<i>Response</i>
Focus on MSME Cluster (Auto Components)	40%
Focus on MSME Cluster (Electronic Goods)	15%
Focus on MSME Cluster (Food Products)	10%
Focus on MSME Cluster (Engineering Cluster)	35%

Source: Survey data (August 2021-March 2022)

Table 6.11 Sector wise Focus of Financial Institutions for lending to MSME Business	
<i>Sector wise Focus of Financial Institutions for lending to MSME Business</i>	
<i>Sector</i>	<i>Response</i>
Manufacturing	70%
Services	20%
Retail and Wholesale trade	10%

Source: Survey data (August 2021-March 2022)

Table 6.12 Branch acting as Counselling Centre	
<i>Branch acting as Counselling Centre</i>	
Yes	60%
no	40%

Source: Survey data (August 2021-March 2022)

Challenges in assessing business details of the MSME borrower

It has been found to be very difficult to assess the success of MSME business as there is no proper maintenance of records and the next most important task which is difficult is to estimate the operating cycle of the business. Projections regarding performance is difficult to accept as industry data is not available. Other parameters which become important are as displayed on Table 6.13. Net income of the MSME business is difficult to be estimated as the businesses record the amount of goods bought but receivables are not recorded promptly. MSME businessmen also combine business assets with personal assets. Few other challenges are also mentioned in Table 6.14

Table 6.13 Challenges faced in assessing the success of the MSME business	
<i>Statement</i>	<i>Responses</i>
No proper maintenance of records, lack of transparency in accounts	40%
No standard estimation of operating cycle, no regular customer base and lack of proper product positioning.	30%
Difficult to approve projected demand due to lack of industry related data	20%
Non-availability of the borrower for discussion	10%

Source: Survey data (August 2021-March 2022)

Table 6.14 Challenges in assessing the net income of MSME	
<i>Challenges in assessing the net income of MSME</i>	<i>Responses</i>
As enterprises record only the amount of goods bought, difficult to verify the prices of materials	10%
the amount of money received & issued and the number of receivables and debts, is not recorded properly	40%
Entrepreneurs combine business assets with personal assets.	30%
Lack of regular audit of accounts	10%
All of the above	10%

Source: Survey data (August 2021-March 2022)

MSME Loans under SMA (Special Mention Accounts) and Restructuring

Before a loan account of an MSME borrower turns into an NPA (Non-Performing Asset) bank/branch will identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) viz. SMA0, SMA1 and SMA2. As per Table 6.15, 40% of financial institutions have accounts under SMA 0 to the tune of 16 to 25%. Under SMA 1 60% of financial institutions have 16 to 25% mentioned in Table 6.16 and in SMA 2. 40% of financial institutions have 16 to 20% mentioned in Table 6.17. The segments under MSME which have maximum NPA are auto components followed by agro based industries and micro units as shown in Table 6.18. Maximum lending institutes have NPA in Mudra Loans in the slab of 0 to 10 crores given in Table 6.19. The percentage of loans that are under restructuring for lenders is between 10 to 20% is 50% as reflected in Table 6.20. Major reason cited for restructuring of loans is delayed payment by the big corporate clients given in Table 6.21. 15 to 20% is the provisioning done by lenders for restructuring.

Table 6.15 Percentage of MSME Loan under SMA (Special Mention Accounts) 0	
<i>Percentage of MSME Loan under SMA (Special Mention Accounts)</i>	<i>Responses</i>
0 to 20%	20%
16 to 20%	40%
26% to 35%	10%
35% to 45%	30%

Source: Survey data (August 2021-March 2022)

Table 6.16 Percentage of MSME Loan under SMA (Special Mention Accounts) 1	
<i>Percentage of MSME Loan under SMA (Special Mention Accounts) 1</i>	<i>Responses</i>
5% to 15%	50%
16% to 25%	60%
26% to 35%	15%
35% to 45%	5%

Source: Survey data (August 2021-March 2022)

Table 6.17 Percentage of MSME Loan under SMA (Special Mention Accounts) 2	
<i>Percentage of MSME Loan under SMA (Special Mention Accounts) 2</i>	<i>Responses</i>
0% to 5%	2%
11% to 15%	20%
16% to 20%	50%
21% to 25%	20%
25% to 30%	8%

Source: Survey data (August 2021-March 2022)

Table 6.18 Segments of MSME having maximum NPA	
<i>Segment of MSME having maximum NPA</i>	<i>Responses</i>
Agro based industries	25%
auto components	30%
Manufacturing	5%
Micro units	20%
Mining	5%
Trading	15%

Source: Survey data (August 2021-March 2022)

Table 6.19 Percentage of NPA within MUDRA loans	
<i>Percentage of NPA in Mudra Loan</i>	<i>Responses</i>
0 to 10 Crores	80%
10 Crores to 20 Crores	6%
20 Crores to 40 Crores	5%
4Crores to 60 Crores	5
60 Crores to 80 Lakhs	4%

Source: Survey data (August 2021-March 2022)

Table 6.20 Percentage of MSME Loans under restructuring	
<i>Percentage of MSME Loans under restructuring</i>	<i>Responses</i>
>10%	20%
10% to 20%	50%
20 to 50%	20%
Above 50%	10%

Source: Survey data (August 2021-March 2022)

Table 6.21 Reasons for Restructuring of Loans	
<i>Reasons for Restructuring of Loans</i>	<i>Responses</i>
Delayed payment from big corporate clients	50%
Muted demand Low accessibility to markets, high prices, cannot beat competition	20%
COVID 19	20%
All the above	10%

Source: Survey data (August 2021-March 2022)

Issues faced by MSME Borrowers as per Lenders

It is evident from the Table 6.22 below that lack of business knowledge on part of the borrowers is the major reason for the collapse of MSME business. Borrowers are also of the opinion that annual guarantee fee of CGTMSE scheme is on the higher side and due to the cash nature of the business recording is not done which in turn creates problems with the lenders.

Table 6.22 Grievances expressed by MSME Borrowers as per Lenders	
<i>Particulars</i>	<i>Responses</i>
Annual guarantee fee of CGTMSE scheme is on the higher side	30%
Non-availability of recorded transactions as it is mostly cash based, Lack of proper knowledge leading to business failure.	10%
Not aware of credit schemes and special financial privileges given by banks, Interest rate and bank charges are high.	20%
Delay in loan sanction, not organising customer meets, no grievance redressal, Loan Restructuring/ Rehabilitation support not provided	10%
All of the above	30%

Source: Survey data (August 2021-March 2022)

Few more suggestions that were recorded are as under:

As MSMEs are highly sensitive to economic environment and usually operate in risky markets. Hence, 83% of the lenders have said that accessing credit needs to be done professionally, followed by 71% who say that there should be careful selection of borrower and 44% say by working out the credit package by being customer friendly can help better understand MSMEs requirement. Analytics should guide lending decisions. Pool of credit officers needs to be created who understand MSME requirement and more and more specialised MSME branches needs to be created. Financial discipline should be inculcated among the MSME borrowers. Customer meetings should be held regularly.

Suggestions pertaining to changes in Policy recommended by the Lenders.

- Simplified process and less documentation if property as collateral is offered by the MSME borrower.
- Online appraisal system for loans up to Rs.1 crore as well as common training for all processing officers
- Lenders should have access to GST returns filed data of MSME businesses.
- MSMEs tend to hide their actual profit/ loss. They should be incentivised by reducing their burden of income tax. Also, as incentive is given in the form of depreciation, incentive may be considered for number of employees and wage payment. On doing so, the financial statements may be transparent, and appraisal process may improve.
- More uses of technology should be encouraged by lenders in maintaining books of accounts and while processing the credit proposal hence no manual intervention in assessment, limit assessment should be done through filed GST returns
- Industry databases should provide district wise granular level data and timely updation is the need of the hour.
- there has to be separate teams assigned to take care of existing business and scouting for new projects under MSME at lending organisations.

- Delegation of work should happen in the branches and collateral should not be insisted upon if all important ratios are within banks acceptable level.
- More focus on audited financials and due diligence instead of how projections are made
- Loan forms to be simplified and there should be an integration with government IT platforms and other sites for getting real time data.
- Training to be imparted to operating staff hence resulting in reduction of length of appraisal process.
- Asking key questions and judging the mentality/attitude of the MSMEs borrowers and their passion and commitment towards their business will be a better indicator than looking for non-existent financial documents.

Detailed suggestions are available in Chapter 11 which is titled as “Recommendations”.

CHAPTER 7

ANALYSIS OF RESPONSES BY MSME BORROWERS AND MSME CONSULTANTS ON CHALLENGES FACED WHILE AVAILING CREDIT AND HELP AVAIL CREDIT FROM FINANCIAL INSTITUTIONS.

This chapter studies the survey responses collated from 500 MSME borrowers and 50 Consultants/Intermediaries (who help MSME businesses in preparing credit proposals and suggesting best practices in business) from Pune district, Aurangabad, Sangli, Nasik, Ahmednagar, Nagpur, Kolhapur and Satara with the help of questionnaires, focus group discussion and interviews.

The information was broadly collected under three heads:

- (a) Business details of the borrower
- (b) Ease of availing finance from banks and other financial institutions.
- (c) Challenges faced and expectations of the borrower from the lending institution.

Business Details of the Borrower

In the study respondents from Micro enterprises were maximum which was

55%. Most of the organisation were registered as Private Limited Company (48%) and 40% were from the manufacturing sector as shown in Table 7.1

Table 7.1 Classification, type of Business Organisation and sector of the MSME Borrower					
<i>Classification</i>	<i>Responses</i>	<i>Type of Business Organisation</i>	<i>Responses</i>	<i>Sector</i>	<i>Responses</i>
Micro	55%	Private Limited Company	48%	Manufacturing	40%
Small Scale Enterprises	37%	Sole Proprietorship	30%	Services	38%
Medium	8%	Partnership	22%	Both	22%

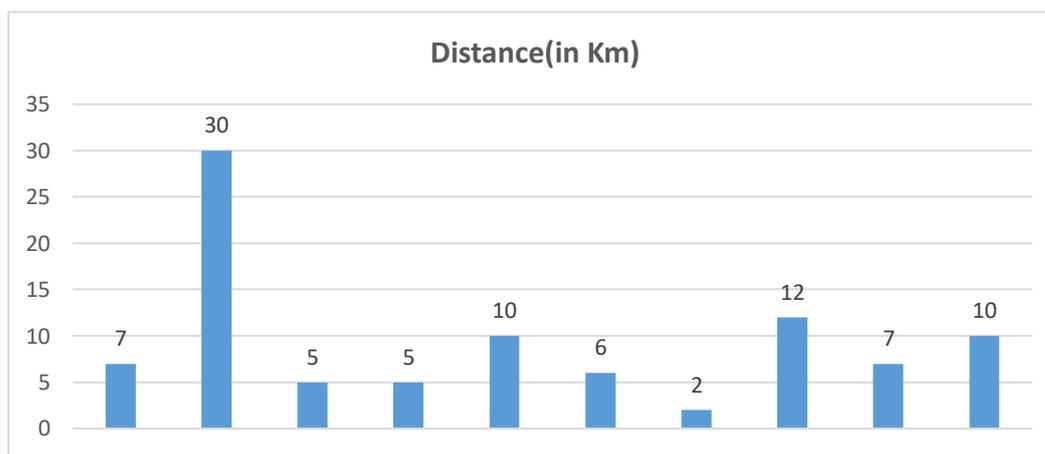
Source: Survey Data (August 2021-March 2022)

Access to Banking Facilities and Preference for a Financial Institution

To assess and fulfil the needs of the MSME borrowers the lending institutions need to have sufficient number of branches near the borrower's business. 70% of the borrowers have mentioned that there is financial institution near their business premises. The 30% who are facing difficulty have mentioned that for few of them the branches are as far as 30kms which is mentioned in Figure 7.1. On the basis of interest rate charged these MSME borrowers prefer availing loan from public sector banks, and they are very much influenced by the recommendations given by family and friends in choosing a financial institution as mentioned in Table .7.2 and & 7.3 respectively.

Figure 7.1

Distance of a financial institution from borrowers business venue



Source: Survey Data (August 2021-March 2022)

Table 7.2	
Preference for a Financial Institution on the basis of interest rate charged	
<i>Sector</i>	<i>Responses</i>
Public Sector Banks	42%
Private Sector Banks	38%
Cooperative Banks	13%
Others	7%

Source: Survey Data (August 2021-March 2022)

<i>Table 7.3</i> Category influencing the decision of the borrower for selecting a financial institution	
<i>Category</i>	<i>Responses</i>
Family/Friends	37%
Social Media	8%
Bank Staff	17%
General Awareness	24%
Past Experience	14%

Source: Survey Data (August 2021-March 2022)

Ease of availing finance from banks and other financial institutions

MSME borrowers are inclined towards banks and other financial institutions because of lower interest charged by them followed by no harassment during recovery as shown in Table 7.4 The reasons given for selecting a financial institution over money lenders is also the same as shown in Table 7.5

<i>Table 7.4</i> Criteria for selecting a financial institution for loan	
<i>Criteria</i>	<i>Responses</i>
Lower interest rate	63%
No Harassment in Loan recovery	20%
Scope to enlarge business since there is no limit for loan sanction	17%

Source: Survey Data (August 2021-March 2022)

Table 7.5
Reasons for choosing Banks/Financial Institutions over money lenders

<i>Reasons for choosing Banks/Financial Institutions over money lenders</i>	<i>Responses</i>
Professional Agency	1%
Technology and speed	3%
Faster processing, Doorstep service	5%
Processing fee is low	5%
Numerous deposit and credit schemes and services for business needs	3%
No harassment in loan recovery	10%
Scope to enlarge business since there is no limit for loan sanction	10%
Lower interest rate	63%

Source: Survey Data (August 2021-March 2022)

Challenges faced and expectations of the MSME borrower from the lending institution.

MSME Borrowers gave some very practical reasons for not availing loans from financial institutions among them the criteria that got maximum weightage of 40% was non availability of securities and title deeds of the property to offer as security and another reason that got competing weightage was financial institutions close off for the day early in the evening which is not at all conducive to businessmen for whom closing off the work in a day at 9:00pm or later is routine as mentioned in the Table 7.6. The interest rate charged for MSME loans for some borrowers was as high as 16% as shown in Figure 7.2.

Specific issues faced by MSME borrowers while getting their loan processed was the process itself was lengthy followed by requirement of a large number of documents, lack of coordination among banks and few others as detailed in Table 7.8 Financial Institutions also aid the borrower giving information required to sanction loan which comprise of 22% of the responses. (46%) of the respondents say that there is no co-operation by the

lenders as the loan officers are too hard pressed for time. The responses are reflected in Table 7.9.

Table 7.6 Reasons for Non- preference for a financial institution	
<i>Reasons for Non- preference for a financial institution</i>	<i>Response</i>
Non availability of securities/title deeds of the property to offer as security	40%
Delay in loan sanction from the financial institution	20%
Financial Institutions do not open after office hours on the borrower/on holidays	40%

Source: Survey Data (August 2021-March 2022)

**Figure 7.2
Rate of interest charged for an MSME Loan**



Source: Survey Data (August 2021-March 2022)

Table 7.7 Specific credit terms under which the loans were granted?		
<i>Type of credit</i>	<i>responses</i>	<i>Terms and conditions</i>
Secured loans	68.10%	Hypothecation on Current Assets, Collateral Assets, Collateral Security, Pledge of Book debtors, Stocks and against Machinery.
Unsecured loans	31.9%	(2% higher interest rate) - Credit (CC) Account, Personal Guarantee.

Source: Survey Data (August 2021-March 2022)

Table 7.8
Issues faced by MSME borrowers during the loan process

<i>Issues faced by MSME borrowers during the loan process</i>	<i>Responses</i>
Too much information called for	30%
Called for discussion several times	20%
No coordination between banks, same information to be provided to all banks.	25%
Difficulty in providing collateral/ producing a Guarantor	20%
Lengthy processing time	34.0%
Higher services fees'	11.0%
Difficulty in meeting documentation requirement.	15%

Source: Survey Data (August 2021-March 2022)

Table 7.9
Assistance provided by financial Institutions

<i>Assistance provided by Financial Institutions</i>	<i>Responses</i>
On schemes available for MSMEs	8%
Assistance in preparing Project proposal	3%
Information needed for loan sanction	22%
Marketing assistance	8%
Documents needed to create a charge	11%
Supportive	2%
The officer is too busy most of the time due to work pressure and staff shortage	46%

Source: Survey Data (August 2021-March 2022)

Expectations of the MSME Borrowers from the Financial Institutions

MSME Borrowers expect a lot of hand holding by the lending institutions in helping them realise their potential. They expect loans at a reduced rate of interest and also which is

collateral free. Lower service charges and quick processing will help them in getting timely funds. Other important expectations can be seen in the Table 7.10. MSME borrowers also need reminders for payment of EMI prior so that they can make necessary arrangements. Lucid explanation of schemes is very important to attract borrowers towards it. The schemes which are popular among MSME borrowers are Guaranteed Emergency Line of Credit (GECL), Chief Minister Employment Generation Programme (CMEGP), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Covid Loan, Small Road Transport Operator Loans (SRTO).

And finally, what they require is restructuring to be considered on event of failure of the business as explained in Table 7.11. 71% of the borrowers are registered on TReDS platform as they were suffering from receivables getting stuck. As mentioned in Table 7.12 the reason why MSMEs majorly finds it difficult to furnish financial statements is because they are always so engrossed and focussed on generating and carrying on business activities. As mentioned in Table 7.13 50% of the MSME Borrowers only got information to meet their immediate query when they approached for loans. 32% of the respondents received best possible debt financing alternative suggested by lenders. 18% of the respondents were of the view that they could even discuss and negotiate on interest rate with their lenders.

Table 7.10 Expectations of the MSME borrower on availing loan	
<i>Expectations of the MSME borrower on availing loan</i>	<i>Responses</i>
Increase the tenure of a loan well suited to cash flows	5%
Reduced interest rate	50%
No collateral	30%
Quick processing, Hassle free dealing, Lower service charge	15%

Source: Survey Data (August 2021-March 2022)

Table 7.11
Assistance from Lending Institutions for MSME Borrowers

<i>Assistance from Lending Institutions for MSME Borrowers</i>	<i>Responses</i>
Reminders to be sent in Advance to borrow regarding EMI payments.	20%
Stock SME goods to display at the branches	3%
Explain schemes in simple terms	60%
KYC at home using handheld devices (E -KYC)	10%
Restructuring to be considered when the project fails	7%

Source: Survey Data (August 2021-March 2022)

Table 7.12
Problems faced by MSME Borrowers in furnishing Audited/Provisional Financial statements

<i>Problems faced by MSME Borrowers in furnishing Audited/Provisional Financial statements</i>	<i>Responses</i>
Yes, as there is no format used in the business	25%
Projections and estimates are difficult to make	20%
As focus is on operational activities rather than preparing financial reports	40%
Too costly to engage a full time/ part time Accountant	10%
Our audited balance sheet is not suitable for availing It shows losses. It becomes our drawback.	6%
Not having any issue	4%

Source: Survey Data (August 2021-March 2022)

Table 7.13
Suggesting Best alternative to MSME Borrowers by Lending Institutes

<i>Suggesting Best alternative to MSME Borrowers by Lending Institutes</i>	<i>Responses</i>
Yes, Bank/FI suggested the best possible debt financing among the various schemes	32%
Bank/FI suggested the best possible scheme/s and also discussed the interest rates	18%
No, Bank/FI helped us with only what we asked for	50%

Source: Survey Data (August 2021-March 2022)

Rejection of loans to MSME Borrowers and Impact of COVID 19 on loan sanctioning

Most of the loan proposals of MSME borrowers were rejected due to lack of collateral as stated by 50% of the respondents. Further reasons attributed to rejection were lack of business records followed by lack of understanding of loan covenants and other reasons as mentioned in Table 7.14. While responding to challenges faced during COVID 19 MSME borrowers expressed that first all pending dues from government was cleared and then fresh disbursements were done. 30% of respondents said that they did not receive any special consideration from the banks. These reasons can be seen in Table 7.15

Table 7.14
Reasons for rejection of loan to MSME borrowers

<i>Reasons for rejection of loan to MSME borrowers</i>	<i>Responses</i>
Lack of collateral	50%
Lack of business records	28%
Lack of understanding of loan covenants	10%
Non convincing projections/estimates of the business	5%
Public sector banks have least interest in providing loan	2%
Bank wanted to force their requirements which was not agreed upon by the borrower.	5%

Source: Survey Data (August 2021-March 2022)

Table 7.15
Challenges faced during COVID 19 in availing loan from lending institutions

<i>Challenges faced during COVID 19 in availing loan from lending institutions</i>	<i>Responses</i>
All government dues were cleared first then disbursement was done	40%
Banks did not consider COVID impact of business as they were not aware of ground reality which in turn made borrowers submit more documents and more security.	30%
No, banks were very cooperative	10%
Did not require any special assistance	20%

Source: Survey Data (August 2021-March 2022)

In response to the question to offer suggestions to strengthen the relationship between Lending Institutions and MSME customers, borrowers replied that lending institutions should have sufficient staff at each branch, and IT infrastructure should be made better as there is too much downtime. Lenders need to understand the nature of business to see the potential in the business. Rather than, just looking at the documents if the business prospects are good, they should lend to the MSME, even if some documents are not immediately available or the balance sheet shows some loss. Another suggestion that was made was regarding simplification of closing of loan. Suggestions like quarterly meetings with officials and visits of officials to MSME work premises to be encouraged at least once in a year. There needs to be active involvement of the bank in financial matters, they should also arrange training for the borrowers. The hassle-free loan process in minimum time and educating the borrower on schemes are the three immediate essentials.

CHAPTER 8

ANALYSIS OF APPRAISAL METHODS USED BY LENDING INSTITUTIONS THROUGH CASE STUDIES: BRIEFCASE, OBSERVATIONS

Case Study 1: Defence related Unit

Overview of the Business

A first-class mechanical engineer purchased an industrial plot at Pune through Maharashtra Industrial Development Corporation (MIDC) and started the manufacturing unit with lot of efforts and with his own capital. After six months' operations got financial assistance of Rs.10 lakh in the form of Cash Credit. Gradually, this limit was enhanced to Rs.180 lakh by the 9th year from its establishment. It used to manufacture steel plant equipments, import substitution mechanical assemblies, precision machined components.

On the 10th year, the unit requested for project finance of Rs.239 lakh against the confirmed work order. Unfortunately, one of the defence orders worth Rs.6 crore was cancelled by the department due to non-adherence of timelines and invoked the Bank Guarantee. The unit requested the concerned authorities to reconsider their decision as the specific job needed more time to develop. While the concerned authorities telephonically agreed and assured to the unit, the Branch Manager stated that he would like to issue a letter containing revised instructions about cancellation of the earlier instructions of remittance of bank guarantee amount. Despite this, the branch manager made the payment of security deposit by creating an overdraft to the government authorities. As a result, the cheques for the payment of salary were bounced considering inadequate balance in the account. The unit's working capital limit could not be renewed at the existing level of Rs.180 lakh and it got reduced to Rs.130 lakh in March as a part of the review process of the bank. Further, the request for project finance of Rs.239 lakh against the confirmed work order also remained unattended by the bank. The cash credit account of the unit remained irregular by the security deposit amount paid by the bank to the government authorities. Therefore, the unit requested the Branch Manager for granting additional overdraft limit on usual terms and conditions of the bank so that it can continue its manufacturing process without any financial stress and repay the bank

loan amount in the near future. The Bank Manager did not consider this request on the ground that he did not have such financial power and might lose his job if the request considered. Then, the unit approached the higher authorities of the Bank with a request of sanctioning financial assistance for executing the confirmed work order and allow it to generate the income for regularising the account.

The bank authorities also rejected the request with delay, stating that they do not consider such proposals. In this manner, the unit approached various authorities for help / intervention, but it could not get any support. The mortgage of Rs.250 lakh property for the existing loan of Rs.180 lakh remained with the bank. And the bank refused to restore the cash credit and did not consider the additional project finance for the confirmed work order of Rs.239 lakh. As a last resort, the unit requested for allowing at least 10% additional limit of the reduced working capital limit of Rs.120 lakh, but there was no response from the bank. At the same time, the bank continued to dishonour the salary cheques of the unit which created unrest in the unit. Ultimately, the unit had to open a current account with the other bank for its survival.

Along with this, the Labour office and Provident Fund office, initiated their punitive actions against the unit for non-compliance of the wage related guidelines. The financial problems of the unit got compounded and, therefore, it once again requested the bank officials to restructure their loan account and grant additional finance for completing the confirmed work order received from the defence authorities.

Bank officials did not consider the request of restructuring the loan account instead asked the unit to regularise by repaying the entire loan amount. The unit approached the controlling authorities of the bank branch, but it could not get any positive response. Bank also threatened to take the physical possession of the unit and its collateral security to recover their dues.

Lastly, the unit approached the Reserve Bank of India for intervention, but there was no relief. The unit approached even the Prime Minister office and there was no response. Afterwards, the unit requested to allow operations in the account and go in for Techno Economic Viability (TEV) study. The bank officials asked the unit to deposit of 20% of the project cost for the TEV study as an additional contribution by the unit. The interesting

fact was that the unit was not in a position to deposit 20% of the project cost of around Rs.26 lakh.

After two years, the authorised officer of the bank visited the unit and expressed dissatisfaction about reduced stock level\ and lower operations despite knowing the factual position. Next day, the authorised officer of the bank issued the demand notice under section 13(2) of SARFAESI Act 2002. Next month, the bank issued the demand notice through its advocate.

The joint meeting with the bank officials took place with positive indications of helping the unit. But a period of almost 11 months was elapsed and there was no support or action from the bank.

Next year, the authorised officer took physical possession of stock which led to closure of the production activities of the unit which resulted in non-fulfilment of its business commitments of the unit. In due course, the unit somehow paid the principle loan outstanding amount in anticipation of some support from the bank for releasing the property for restarting the operations. The authorised officer issued the auction notice for recovery of the balance amount. The directors of the unit lodged a complaint with the top management of the bank for such unilateral action by the authorised officer. The unit again approached the authorised officer to defer the auction process to save it from the crisis, but, instead of cooperation, the authorised officer humiliated the directors of the unit. Consequently, some of the directors went into depression. Though the bank introduced a scheme of subordinate debt for stressed MSMEs, but it could not get any support under this scheme. Thus, instead of extending the support, the bank has debited the loan account for suit filing charges, valuation charges, inspection charges, maintenance charges, insurance premium, police protection, recovery agency fees, security guard charges which amounts to more than the irregularity amount.

Observations - Rules are rigid; every organisation only works without application of mind or understanding the ground level reality. The operating staffs have forgotten the spirit behind the rules. The unit has been running for decades and has an excellent track record of timely repayment, end use of the funds is assured. When it faced the financial crunch, the bank could not get any support. In general, banks only rely on actual performance during the financial year and not the business potential of the unit. The said unit has all intentions to continue business activity and earn profit to pay the bank over dues. But they are only interested in hardcore recovery and do not want to implement the RBI guidelines for rehabilitation of MSMEs. They want only their amount back from the stressed MSMEs without any possible support, mere abrupt reduction of working capital limits.

Bank in the case has communicated that it was not capable of technical study, for stock verification external stock auditor is necessary. The unit with the excellent track record and business potential, faced the financial crunch for which no timely response. Bank could initiate actions under provisions of the insolvency and Bankruptcy Code 2016 which could be supportive for this unit but preferred the SARFAESI actions.

Case Study 2: Energy Sector Unit (ESU)

Overview of the Business

This is a corporate entity incorporated under the provisions of 'The Companies Act, 1956. This company has 8 patents, and they provide special technical products and services to large companies. It recommended loan applications for Demand Cash Credit, Medium Term Loan, Bank Guaranties.

Loan application recommended by ESU was considered favorably by the bank which processed the loan application within reasonable time and issued a letter of Arrangement to the company, which has been happily accepted by the borrowers. Director of the company signed the said letter of arrangement on behalf of Borrower Company as director and also as Personal Guarantor along with his spouse.

Authorized signatories duly signed Agreement of Hypothecation of Goods and Assets for Rs.15 crores. They also signed the Consent letter for themselves and the borrower Company and have agreed for disclosure of their name as defaulters in case of Defaults.

Later on, the company directors signed Supplemental Agreement for Loan for Overall Limit CA-1 for enhancement from Rs.15 crores to Rs.22 crores. Bank also granted Individual Limits within the Overall Limit of Rs.22 Cr.

After one year, the borrower company approached the Bank for enhancement of facilities from Rs.22 crores to Rs.63.99 crores. After few months, the borrower company again requested the bank for enhancement of the limits from Rs.63.99 crores to 68.50 crores. Considering the situation, the bank enhanced the limit as per the request and completed the loan formalities. Next year, the company again requested for enhancement in the limit from Rs.68.50 crores to Rs.111crores. Bank enhanced the limit as per this request and completed the formalities. After 10 months, the borrower company requested for further enhancement of credit limit from Rs.111crores to Rs.121crores. The borrower company again approached Applicant Bank for renewal of credit facilities. The operations were smooth for two years. After two years, invocation of bank guarantee by one of the vendors took place. The Branch Head asked the borrower company to regularize the account, but it could not regularize the bank guarantee limit and the bank refused to renew the cash credit limits of the borrower company. The company requested the bank to restructure the loan account on the basis of adequate valuation of collateral and confirmed orders, but the bank officials preferred the option of recovery without renewing the limits. They initiated the SARFAESI actions and filed civil suit in the Debt Recovery Tribunal. Some vendors also initiated insolvency proceedings. In such situation, the unit had suffered financially.

Observation: The unit with export potential deserves the restructuring of credit facilities and, it could not get restructure and discretion utilized in different direction by the Bank official.

Case Study 3. Dairy unit

Overview of the Business

This Group of Companies is promoted by a high net-worth customer and, his family members were banking with a bank. The business of Milk & Milk Products was at a steady level. They were enjoying excellent relationship with the bank and their suppliers. In one meeting, they got introduced to a financial consultant which turned into friendship. They decided to expand their production capacity and business and, accordingly, made discreet enquiries with various agencies and visited large milk producing companies & short listed the machinery. Major portion of machinery was procured from unorganised sector for which no proper receipts available. The bank official expressed inability to consider and disburse the loan amount for the same. After discussion with the senior bank officials and consultant, the borrower sought permission for term loan from the private finance companies and got working capital from the bank. The borrower completed expansion plan with the help of the existing bank and the private finance company.

The operations of the Company were profitable till next year with Net Profit of Rs.17.49 crores. However, in the subsequent year, net profit fell down to the level of Rs.13.26 crores. The company faced severe liquidity crunch and viability of the operations came under stress on account of the following major reasons.

1. Unsustainable interest burden on account of heavy debts taken for expansion plan and penal interest due to irregularity in all the group accounts.
2. Adverse market conditions which led to purchase of milk at higher prices and inability to pass on the increase to big customers like Britannia, Mother Dairy etc.
3. Gradual erosion in current assets and, therefore, non-availability of working capital.
4. Continuous servicing of the interest and debt left the company with no scope to build margins and current asset levels to increase the turnover.

Observation: This company became sick due to costly expansion and did not have the experience of private finance. Bank should have supported the good customer by avoiding the expansion plan with the help of private finance.

Case Study 4. Winery unit

Overview of the Business

Young businessman attended a seminar on winery. He had huge agricultural land and suitable climate for grapes. He was also enjoying excellent relationship with the bank, farmers, key government officials and State Government. He formed a wine producing company and, successfully, executed Memorandum of Understanding (MOU) with premium international wine brands. He motivated his close friends who also formed wine production companies. The borrower prepared a nice project report with the help of the consultant and got the bank loan. First three years were excellent for their business. Suddenly, the international company reduced the purchase price as per the market rate clause of MOU and, therefore, dairy units were in trouble due to financial crunch.

Observation: In the case, the bank assessed the loan proposal without any provision for the market risk.

Case Study 5: Agro Tourism Unit

Overview of the Business

The concept of wine was new. Many visitors including foreigners started visiting the wine production units and wanted to have accommodation near winery to enjoy wine with nature. Considering the future tourism potential, the young architect purchased an agricultural land with beautiful natural background. He approached the bank for financial assistance, for creating attractive accommodation facilities there. Since it was agricultural land, all permissions for the constructions and commercial use were not possible for the entrepreneur in the short span of time. Therefore, the banks expressed inability to sanction the loan without necessary permissions from the local authorities. He

approached a private finance company which provided the financial assistance. The unit started operations and got a good response during the first two years. During the Corona period, there were no visitors. The unit faced financial crunch, so it approached the finance company which did not consider the request of additional financial support. Due to very high interest rates and no support from his private finance company, the unit was in trouble.

Observation: There are lot of options for loans available in the market. MSMEs have to choose the proper product and the right financiers

Case Study 6: Petrol Pump Unit

Overview of the Business

One of reputed private petroleum companies came out with a scheme to set up of petrol pump for the rural / semi urban youth who have a piece of land at convenient places. The petroleum company offered the guarantee for the bank loan. The scheme of petrol pump loan was approved by many banks. Good numbers of petrol pumps were set up under this scheme. After couple of years, the petrol pump experienced the poor supply due to technical issues which led to financial crunch. The loan accounts become non-performing. The petroleum company kept their promise, paid the entire loan outstanding and, in turn, becomes an owner.

Observation: Attractive Scheme on paper is not really viable. Borrowers and banks have to take a critical review of such schemes before their approval.

Case Study 7. Beauty Parlour Unit

Overview of the Business

A young lady acquired international certifications of beautician, gained experience and started a small beauty parlour at the prime location with the help of financial assistance of the bank. Slowly and steadily, she expanded her business and infrastructure in three

consecutive years with the financial assistance of the bank as per requirements. In the year 2019, she started a certificate course with affiliation of recognized institutes for which she got a very good response. She created additional infrastructure again with the financial assistance of the bank. From 2020 onwards, due to restrictions on beauty parlours and educational institutions as per the protocol of pandemic the activity stopped. The bank provided her the financial support by way of a special package, but that was not sufficient. All the loan accounts become irregular due to financial crunch.

Observation: Despite good efforts and relations with the Bank and the borrower, the unit suffered financial crunch due to pandemic. There should be financial plan for

Case Study 8: Flour and Food Unit

Overview of the Business

A young entrepreneur, from a middle-class family, started a flour and food unit in a rented premise. He approached banks and financial institutions for the loan. Since he did not have past experience, the entrepreneur could not get response from any bank. His consultant arranged for loan from a private finance company. The unit got a good response from customers for initial 6 months. Then, rent of the premise was increased by the landlord. The young entrepreneur could not also get the receivables in time. The loan account became irregular and, the unit suffered financial crunch for which there was no solution with him.

Observation: Loan availability is assured, but the unit cannot be successful without proper guidance.

Case Study 9: Industrial service Unit

Overview of the business

An experienced Engineer, after 20 years of service, decided to start his industrial service unit with savings and in own premises. The business picked up very well. He got further business of servicing of heavy machineries from different companies along with an offer of bank loan. He purchased necessary high-tech machines and tools for this business with bank loan. Again, he got a big order of servicing of infrastructure machinery for which the entrepreneur availed of the additional loan from the bank. He entered into an agreement for servicing the machinery with the infrastructure company and received 10% of the total amount in advance. The unit recruited the technical staff for this additional work, made an arrangement for food, accommodation and transport for his staff at the new site. It started the work, but, suddenly, the supply of required mechanical parts stopped. There was no alternate producer or supplier of these parts. There was also uncertainty about the supply which hampered the servicing work. The unit had to refund the advance received and suffered the loss on account of additional cost for this order.

Observation: For service industry, the supply chain management is crucial. The unit suffered financial crunch due to his ignorance of Contract Act.

Case Study 10. Intellect Systems Unit

Overview of the Business

Young engineer, from a reputed family, got job in Product Development department of a multinational company. He gained experience and realized that he should introduce these high-tech home automation products in our country. He discussed this business plan with his family and close friends. They liked his idea and decided to start production of these products in their own unit. They approached a bank for financial assistance. The bank asked them to prepare a project report. While preparing the project report, they got the news that a similar unit was already being set up in the nearby state. It shifted their focus towards timelines set for the project. They approached the bank with project report and requested for quick processing of their loan proposal. The branch manager

asked them about the loan quantum. But they indicated that the quantum of finance is flexible and the same needed on urgent basis. As a special case, the branch manager recommended the loan proposal. And the regional loan committee sanctioned the loan on the basis of projected financials and unit started functioning. For first six months, the unit incurred heavy expenses for marketing of the product. Thereafter, the unit got one order which was successful. Again, the same builder gave them a big order for which they needed additional loan from the bank. Considering uncertainty in transactions with the builder, the bank avoided to consider the request. They could not get finance on reasonable interest rates from the other banks/institutions. They could not complete the order. Afterwards, they could not get any further orders for their product and, the unit had to stop its production due to losses.

Observation: Starting with a small loan, it is generally okay, but there should be provision for additional loan. In business, unintended consequences are taking place on account of non-acceptance of the confirmed order after marketing of the product.

Case Study 11. Education Institute

Overview of the Business

A rich business family decided to diversify their business. Considering the market trend, they decided to start an International School and Institutes for professional Management and Technical courses. They started the school and institutes with lot of marketing. First two years, they got an overwhelming response from parents and students. Promoters expanded their infrastructure with the financial assistance of bank. The responses from students continued. After five years, one citizen filed a public interest litigation (PIL) and, thus, problems started. From the next education year, there was reduction in admissions which continued, the unit suffered financially. They approached the bank for restructuring of the loan on the basis of revision in valuation of their infrastructure. But the bank refused to restructure the loan.

Observation: Restructuring is not possible simply on the basis of revaluation of security. Viability of the unit is important.

Case Study12. Medicine Manufacturing Unit

Overview of the Business

The case is about a pharmaceutical company which manufactures Ampoules and vials, and the company has financial arrangements from multiple banks. Financial assistance availed is in the form of Cash credit, term loans and demand cash credit.

The company was sanctioned two term loans of Rs.16.5 Cr & Rs.3.5Cr on for setting up a plant at MIDC. It had entered into a turnkey agreement with one company at Mumbai for supply and installation of machinery. Accordingly, the disbursement was made directly by the bank to the vendor appointed by the consultant. But the MIDC permission for construction was not accorded in time, which delayed the construction of building. Due to delay in construction, the machinery was not supplied. When the construction was at the final stage, the turnkey consultant demanded additional payment towards escalation in the cost of machinery. After three years, the promoters approached the bank for restructuring of credit facilities and to revise the date of commencement commercial operations (DCCO). The promoters were expected to bring in additional funds for the escalated cost of the machinery, which was agreed during the restructuring process. The promoters had informed that they were in process of selling an industrial Plot. The funds required for the project were to be brought in through this sale. The TEV study was also conducted wherein the project was found to be technically viable and economically feasible.

As per the restructuring package, the DCCO was revised as per the request. However, the promoters failed to honour their commitment of the installation of machinery and starting the commercial production by the scheduled date.

Only two ampoule filling machines were found to be installed and no commercial production was observed. Remaining machinery was yet to be delivered and installed at the project site. Other two groups of companies which have now been classified as NPA are also facing the liquidity crunch in the past 3 years. The cash flows of these companies are badly affected due to stretched receivables.

Their existing bank expressed its inability to provide them more finance. The promoters approached the other non-banking financial Companies which provided the additional loan on certain terms and conditions. But even this arrangement could not resolve the issue of cash crunch and infusion of additional funds in the project in time. Thus, the promoters failed to retain key professionals in the company.

Factual position - The company was supported by way of sanction of additional term loan and rescheduling of term loan on two occasions. The DCCO was also extended twice. However, the promoters failed to begin any commercial production.

Observation: Lack of financial plan and realisation of receivables is serious issue

Case Study 13. Ceramics unit

Overview of the Business

The business in the case manufactures Porcelain Insulators. The financial arrangement is Multiple banking for the business. Financial assistance availed were Cash credit, term loans and demand cash credit

A young entrepreneur from Ultra High Net worth family attended the entrepreneurship development training programme of Maharashtra Government. He got motivation from the Maharashtra government officials and decided to start his own manufacturing unit of ceramic products. He did not have technical education but had technical skills due to his passion. He precisely understood the potential for the porcelain insulators in the market. State electricity boards and Railways had huge requirement of the electrical insulators. There was a good demand in the overseas market also. His vision was to create a mega project for manufacturing of electrical porcelain insulators for Indigenous and foreign market. The company got the required quality certifications for its products. But it had to struggle at every stage of product development. It had good relationship with their bank. As a result, it could get the financial assistance from the bank. The bank sanctioned and disbursed them various loans:

Cash credit of Rs.10 crore, enhanced from original cash credit of Rs.3 crore

Term loan for plant and building – Rs.28.30 crore

Second term loan for machinery – Rs.6.70 crore

Third term loan for machinery - Rs.10.62 crore

Fourth term loan for machinery – Rs.6.30 crore

The unit could successfully develop the product and submitted it to various agencies and departments for testing purpose. These departments took substantial time for their testing. Consequently, the unit faced the financial crunch. It again approached the bank for the financial assistance which restructured the loans and granted funded interest term loan of Rs.11.75 crore and working capital term loan of Rs.8.60 crores. Promoters were happy and hoped to earn good profit. Unfortunately, they could not secure orders from the prospective clients because of globalization competition and not being able to sell at matching price. The unit again started working on cost reduction for which it wanted financial assistance. It approached the bank which expressed its inability to provide the financial assistance. As a result, the unit had to stop the production.

Observation: Understanding of the business model and the real need of finance by the entrepreneur and by the bank officer is crucial. Some units do face such situations.

Case Study 14. Sugar manufacturing Unit

Overview of the Business

This was established as a limited company (unlisted) by its Chairman & Managing Director and other promoters/directors. The Company had purchased an asset of a co-operative sugar factory, - having a crushing capacity of 2500 TCD (Tons of Cane Per Day) in auction from Maharashtra State Co-Operative Bank Ltd, Mumbai. It was financed under consortium arrangement and started its commercial production from the next sugar crushing season. However, the Company could not achieve estimated revenues in the absence of release order from the Ministry of Food & Supply for sell of its finished produce. In the first year, it could not run the operations on profitable lines in the

subsequent years as well. The Company had increased its capacity from existing 2500 TCD to 3000 TCD in the next year. The continuous operating losses and paucity of funds led to delay in providing advances to Harvest & Transport (H&T) contractors. In turn, the operations of the company were stopped due to non-servicing of debt. Thus, the account of the unit was classified as NPA. The Company suffered substantial losses for want of the release order from Ministry of Food and Supply for sale of its finished produce. Multiple litigations/claims against the promoters and their properties started.

Hon'ble High court Mumbai appointed provisional liquidator for the company. The company approached the consortium for additional financial assistance on the basis of new valuation of the mortgaged property. Some consortium members expressed inability to provide additional financial assistance to the company on the basis of their loan policy.

Observation: Assessment of credit for sugar industry is different. It should be done by experienced credit officers. Similarly, decisions of some members of consortium could cause loss to all.

Case Study 15. Textile Company

Overview of the Business

An experienced engineer and his friends wanted to diversify their business. They participated in one of the international industrial exhibitions in Europe and were impressed by modern textile machinery. The team decided to start a high-tech textile unit. They had excellent relationship with their banks. They submitted the proposal for loan of Rs.40 crore which was timely sanctioned by the bank consortium. They set up the textile unit with all imported machines to produce combed cotton yarn and fabrics. Initially, they got confirmed orders from European countries, Russia, Hong Kong and others. Later, there was a need for expansion. They availed of financial assistance from consortium for expansion which took almost one year. Meanwhile, a couple of textile units were set up in the vicinity. Due to economic reasons, there were less exports which affected their market share. The unit could not achieve the budgeted production, sales and profit which led their loan accounts becoming irregular.

They identified local purchasers and approached the consortium for restructuring of the loan accounts. Some of the consortium members declined on the basis of their policy of guidelines. Thus, the Company had to stop the production.

Learning – Restructuring of a viable unit is beneficial to all. If it is not done timely, it causes financial loss to all the stakeholders.

Case Study 16 Specialised Structural Engineering Unit

Overview of the Business

IIT student completed his civil engineering graduation. He secured the placement in one of the international construction company as a structural engineer. He got an opportunity to prepare structural designs for the large projects in various countries. He got good number of contracts for large and global projects. After couple of years, he was able to set the benchmark and tenders started with special mention of this benchmark. During this process the unit needed financial assistance which was initially given by the consortium banks. In one consortium meeting the banks decided for not to enhance their exposure and allowed unit to have financial assistance from other banks without diluting the existing security. The unit availed the loan from couple of banks outside the consortium. Things were progressing. Suddenly, one agency invoked the bank guarantee for non-adherence of timelines. It was delay of 4 weeks. The unit tried to request the agency but could not succeed and all the lenders viewed it seriously. Unit had to close the

Learning – Invocation of bank guarantee is a warning signal. It should be viewed seriously on the basis of factual position by all the concerned parties. Such actions may be necessary for discipline, but it should be judiciously used considering the larger interest of all the stakeholders. Such actions cause substantial loss to all the stakeholders. Banks should make certain provisions for genuine financial assistance in such cases.

operations.

Case Study 17: Construction Company

Overview of the Business

The business is a partnership firm incorporated in the year 2012 and engaged in real estate and construction activities. It planned for the residential project of two towers costing Rs.26 cr. The company contributed Rs.10 crores, received 6 crores as an advance from the potential customer. They availed the financial assistance of Rs.10 Cr. from the bank in the year 2019 for this project. Due to pandemic, they faced the financial stress. They got additional financial assistance of Rs.2crores in the form of Guaranteed Emergency Credit Line (GECL) in the year 2020. They also got Funded Interest Term loan of Rs.50 lakh due to COVID. This helped them to meet their operational liabilities. They got extension for project completion from the RERA. Cost of construction increased. With several difficulties project reached in final stage.

The sale of the project was badly hampered during the COVID pandemic for almost 10 months. It adversely affected the cash flow of the company. Meanwhile, the key person behind this project become COVID positive and expired after long treatment in March 2021. It created challenges for the partners, the buyers and bank.

This has been the impact of COVID on Construction Company.

Observations – The existing bank schemes do not have provisions for emergency financial assistance in eligible MSME cases. The financial planning for MSME units is necessary to protect the interest of entrepreneur and Bank.

Case Study 18: Paint manufacturing company

Overview of the Business

There more than 250 small paint manufacturing companies in Pune and Maharashtra. They have their own customer segment due to affordable price of paints. They had the advantage of relaxation in excise duty. There was no excise duty for the paints

manufactured by the small paint manufacturing companies whose annual turnover used to be less than Rs.1 crore. During COVID period this concession in excise duty has been withdrawn by the Government and it affected their cost. Due to COVID cost of the raw material substantially increased. Uncertainty in transportation adversely affected their supply chain. The cost of raw material constitutes around 50% cost of paint. Now, they have to compete with the market leaders for which they don't have financial strength for the product range and affordable price for paints. These units are facing financial stress

Observations – There is good demand for the paints in the market. The big paint units do not have products for the lower income group at affordable price. One policy decision created the unintended consequences for small paint manufacturing companies. Now they have only option of closure or do the job work for big companies with minimum margin which is really challenging. For lower income group only one option is there to purchase the paint products at higher prices.

and challenge of survival.

Observations on the basis of feedback received from the industry

- 1. Arranging finance:** This is the biggest problem for MSMEs. Access to credit is critical enabler for growth and development of enterprises. The MSME market is influenced by market failures and imperfections in credit delivery model. Most of the MSMEs are either unserved or underserved by the banks. There is a sizeable credit gap. Most of the NBFCs or private finance companies are using this opportunity for higher earnings. And high cost of loan is adversely affecting the business growth and sustainability.

Thus, finding a suitable bank is challenge for the MSMEs and, at the same time, identifying MSME customers is a major task for the banks. All the banks and financial institutions have good products and provide information of the same on their websites. However, there is no traditional and digital marketing of these schemes. As a result, prospective entrepreneurs face the challenge of identifying the bank for their business. Banks do not have active marketing teams for MSMEs,

so to identify MSME entrepreneur is challenge for the banks. Fintech companies and private finance companies are capturing the customers' information with digital tools and contacting them. They are successfully tapping the potential MSME customers.

2. **Pressure to reduce prices is another economic issue.** Now, there is competition from Chinese manufacturers. They sell their products at cheaper rates which put pressure on local manufacturers to reduce prices of their products. It adversely affects their profitability and viability.
3. **Getting capital to start and grow the business is a big challenge for the entrepreneur:** There are lot of schemes for financing MSMEs. Due to uncertainty in the market, sourcing capital for starting the business is a challenge for the entrepreneurs. Those who have some capacity to start business, have the challenge for growing their business with the same capital base.
4. **Working capital' is not easy for MSMEs and Banks:** Working capital finance is sensitive in nature. It is dependent on various factors. Due to compartmentalisation of credit appraisal process, the personal assessment skills are diminishing. Neither the entrepreneur has skill to calculate it, nor the bank credit officer has time for that. As a result, proper working capital assessment is big challenge for both.
5. **Stringent terms and conditions of finance:** non-performing assets are increasing. To improve the asset quality, banks and regulators have made the stringent terms and conditions for the loans. It has created obstacles for the micro units particularly to avail of finance from the public sector and private sector banks. No bank has declared about it but literally this is a factual position. When we approached a couple of banks for such loans, they orally refused. Similarly, when we asked the reason, they revealed that failure rate is higher in case of micro units. And they require more time and energy for micro loans because the entrepreneurs don't come prepared, and they don't have any security for the loan. CGTMSE scheme is costly for them.

6. **Delayed receivable payments:** Majority MSMEs are facing the problem of delayed payment of receivables for the services rendered or goods supplied by them to PSUs, SMEs and big companies. It is interesting to note that all these companies clearly mention in their purchase order that the payment will be against delivery / services. But in practice, they conveniently ignore it, and a small unit cannot demand the payment towards its receivables. Majority of the units experience the delay of 30 to 60 days and there is severe impact of this delay on their cash flows and profit. And there is no provision in the existing credit policy to provide financial support for this purpose by the banks / financial institutions.

7. **Factoring is the solution, but it is not known to most of the MSMEs and these PSUs, big companies do not support for that:**

There are certain big companies which provide this facility through banks and fintech companies to their vendors. These vendors have this facility which should be made available to all. There should be a common payment policy for the services and goods provided by MSMEs.

8. **Private landlords cripple the business with unfair practices:** Generally, the entrepreneur does not have the capacity to invest in land and building. Therefore, the best alternative is to start business in a rental premise. The private landlords try to encash this opportunity to their advantage. They adopt certain unfair practices such as demanding higher interest free security deposit which enhances the initial investment and, no bank is providing financial assistance for it. Second, unfair practice is manipulation in the rental agreement. For example, mentioning lower amount in rental agreement and getting more amount in cash to avoid tax but provide rent receipt for the lower amount. It adversely affects the cash flow of the MSMEs as they don't get benefit of admissible expenses in their tax assessment, plus they have to provide for unaccounted cash which they also carry the risk of tax evasion. Third one is to keep uncertainty about the rent hike every year and with a shorter notice period for termination of the rent agreement. It adversely affects the budget and cash flow of the unit and, again, it is not eligible for financial assistance from banks.

- 9. Financial statements are necessary for availing of credit facilities from the bank:** MSMEs practically work in an informal manner. It is difficult for them to prepare and maintain proper records for their business. It affects their corporate governance also. Their cash flow is uncertain. So, they have to utilise business funds for personal needs and personal funds for business purpose. Every entrepreneur has personal needs for which there is no consideration during the credit appraisal process. Such practice amounts to diversion of funds which affects their credit worthiness, and they have to pay higher cost for the loan and get inadequate finance from their bank or financial institution. Further, most of the entrepreneurs do not have knowledge, skill and time for the accounting and compliance. They are dependent on the professionals for this purpose who simply do the accounting, preparation of financials and do not provide any advice to the entrepreneur about the simplification of this process. Apart from this, charges of the professionals are dependent on the situation.
- 10. Micro units have to start the business with help of personal savings or contribution from friends and relatives:** Micro units don't get financial assistance from the banks or financial institutes. They don't have knowledge about Credit Guarantee Trust for MSMEs scheme, so they have to start the unit / business with the help of personal savings.
- 11. Access to the right information and right time is crucial:** There is an urgent need to set up agency and infrastructure to bring the entrepreneurs together and provide capacity development and training for best global practices, insights and options for access to finance at reasonable price. They should provide the support to the banks with proper information about credit worthiness of MSMEs for loans.
- 12. Current account closure and reopening issue:** MSME units avail financial assistance from one bank and maintain current account with other banks as per the convenience. Most of the banks do not provide online facility for government transactions. There are issues about the branch network of their bank in the designated business area. Some banks have an issue of cash transactions. At the same time, most of the current accounts have been misused for fund diversion purpose. To have the discipline directions came from the regulators to close such

current accounts. It was good a move for the banks, but it is tuff for the MSMEs because it affected the cash inflow and outflow. Many units faced the cash crunch.

13. **Impact of COVID on MSMEs:** Travel restrictions and lockdown measures have impacted the supply chain. It leads to shortage of raw material for the production. The pandemic exposed the labour markets to vulnerability as the units halt the production, they have to reduce the working hours and the operating staff. Further, non-payment of daily wages and other contractual benefits led to loss of skilled labours. Emotional and psychological strain due to the pandemic affected the innovation and efficiency. Movement and work disruptions adversely affected the production and services. It interrupted the value chain of transportation, aviation, education, dental treatment, hospitality, automobile, tourism, sports, fitness centres, beauty parlours and other sectors. These factors impacted the liquidity and profitability of the units.

Revenue shortfall due to lower demand becomes a constraint to operations and execution of short and medium strategies. It affected the cash flow and enhanced the risk of credit default. Government and banks provided financial support to combat this challenge. But they cannot provide an assurance that these units will thrive in the long run.

13. **Beyond financial assistance** – Threats to MSMEs are threats to our economy, citizens and country. MSMEs need crucial support for advisory, transformation, capacity building, net working to tackle their challenges and achievement of business goals. Access to finance remains the main constraint for MSMEs. Financial sector has to respond to an improved enabling environment.
15. **Deficiencies in financial infrastructure** – Credit information systems, payment systems, secured transactions, insolvency time frame are also crucial. Leasing and factoring need to be developed by all the stakeholders. Improvement in access to finance is a must. Comprehensive analysis of market failure on regular basis to identify and define the issues to be addressed, is necessary. The nodal agency should provide suggestions / recommendations for the intervention of financial regulators or Government. Regular analysis to determine whether the credit policy or regulations is relevant in its current form and what could be done for

better results. Also, MSMEs face the problems of opacity and information asymmetry. Due to this, they are unable to create credit history for them which prevent their access to the finance at reasonable cost. There is a need to have one common digital application to include their business performance. Recording Security interest charge by the lending institutions is taking place for immovable assets on Central Registry of Securitisation Asset reconstruction and Security Interest CERSAI site. Similar website should be utilised for recording the security interest charge by the lending institutions for movable assets. Presently, the lending institutions are creating the security interest in form of pledge, hypothecation, lien, and charge through formal documents. The registration on CERSAI portal is low. This charge is not known to other lending institutions. Recording of security interest over movable assets will facilitate credit decision.

The other requirements include financial institution's capacity and behaviour – Relationship lending is important, MSME Financing gap needs to be quantified. Definitions of various parameters for MSME finance need to be harmonized. Micro units are contributors to the total employment generation, but they are not organised. Their contribution to productivity and growth is not clear. Lastly, the potential obstacles - constrained access to finance

CHAPTER 9

INTERNATIONAL BEST PRACTICES

Economies are successful if both the large and small businesses are provided equal importance and opportunities to grow. This study observes that many countries have adopted proactive policy framework and innovative strategies to drive growth in MSME sector. This sector was severely impacted by COVID 19 globally. As Professor Luca Landoli, from University of Naples Federico II, and President of the International Council for Small Business, argues, “Events don’t drive optimism or pessimism. I think it’s the other way round. Trust and optimism in the future are essential for SMEs to develop.”

A few countries strategies are quoted as under.

Bangladesh- Presently more than 13 million Micro, Small and Medium Enterprises (MSMEs) are registered in Bangladesh. The new SME policy of 2019 is a very forward-looking policy for the development of SME in Bangladesh. Its implementation period has been set from July 2019 to June 2024. The strategies under the policy are well structured into time bound action plans. The strategies have been categorised as:

- Short term (implementable in 1 year).
- Medium-term (enforceable in 2-3 years) and
- Long-term (4-5 years inclusive).¹⁴

Few strategies they have earmarked caters to the complete requirement of SME to grow and contribute to the development of the economy. A matrix of time bound action plan is created which has the following

- Improve business environment and institutional framework
- Increase the scope of SME sector to get institutional funding

¹⁴ SME Policy (2019) Ministry of Industries, Government of People’ s Republic of Bangladesh available at http://bscic.portal.gov.bd/sites/default/files/files/bscic.portal.gov.bd/page/7a956433_c02e_483d_9c17_db194d9f4a23/2020-01-01-19-01-8029ba8887b407ce0836783a9424a605.pdf. Accessed on 23rd Jan 2022

- Increase competitiveness capabilities in SMEs and help SME products to enter into the market
- Development and expansion of SME Clusters Business Network
- Increase the use of technologies
- Expansion of women entrepreneur development programs and special services
- Extension of educational development and training programs for entrepreneurs
- Establish SMEs forward and backward linkages with large industries and introduce standards and quality of SMEs products.
- Develop capacity of SMEs in establishing environmentally friendly industries and industrial waste management.

Details of this new SME Policy can be accessed on the government portal of Bangladesh.

Canada

The government of Canada acknowledging the contribution of SME to Canada's economy and in trade, it has given SMEs significance in its FTAs (Free Trade Agreement) by including provisions to address the specific interests, needs and unique challenges that SMEs may face in doing business in foreign markets.

The integration of SME into the FTA is done by applying a two-pronged strategy

- advancing a stand-alone chapter on SMEs
- mainstreaming SME issues by including SME-related provisions throughout the agreements

Canada's previous FTAs have acknowledged the importance of SMEs to the Canadian economy as key suppliers of products and services and as creators of jobs, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (entered into force December 30, 2018) was Canada's first FTA to include a stand-alone chapter on SMEs. Canada has since concluded 2 additional FTAs that include dedicated

SME chapters: the modernized Canada-Israel FTA (entered into force September 1, 2019) and the Canada-United States-Mexico Agreement (CUSMA) (entered into force July 1, 2020).¹⁵

This can be adopted in India as well wherein inclusion of specific provisions for MSME in FTA can provide preferential access to Indian MSME. Another interesting strategy in Canada that is driving MSME growth is the “Growth Driver Program” run by the government-owned Business Development Bank of Canada (BDC) in Canada provides selected companies across all sectors with formal management training, peer-to-peer networking, and other tailored nonfinancial services. It is executed through a small team of highly experienced advisers works with firms to assess their needs and identify solutions to their challenges, including planning a multiyear growth outlook and preparing a management plan—as well as providing targeted support for CEOs and leadership teams

European Union

Small and medium-sized enterprises (SMEs) are deeply woven into the fabric of Europe. They are essential to Europe’s competitiveness and prosperity, as well as economic and technological sovereignty. With the SMEs Strategy for a sustainable and digital Europe, the Commission wants to support and empower SMEs of all sizes and sectors, from innovative tech start-ups to traditional crafts. The statistics which follow is proof enough for understanding the contribution SMEs are making to Europe’s economy.

- 25 million SMEs in Europe
- 2 out of 3 jobs in SMEs
- Contribution to 50% of Europe’s GDP
- 50% of all SMEs undertake innovation activities.

The EU (European Union) supports SMEs in 3 key areas

¹⁵ Government of Canada, Canada.ca ,the official website of Government of Canada available at https://www.international.gc.ca/trade-commerce/sme-pme/sme_chapters-chapitre_consacre_pme.aspx?lang=eng- accessed on February 15th,2022.

- (a) Sustainable and digital transitions
- (b) Doing business freely in the Single Market and beyond, notably by cutting red tape
- (c) Better access to finance.¹⁶

Another important initiative that will support MSME during the period 2022-2027 will be Single Market Programme, Invest EU and Horizon Europe.

The Invest EU Programme supports sustainable investment, innovation and job creation in Europe. It aims to trigger more than €372 billion in additional investment over the period 2021-27. It builds on the successful model of the Investment Plan for Europe, the Juncker Plan. It will bring together, under one roof, the European Fund for Strategic Investments and 13 other EU financial instruments.

The programme consists of the:

The Invest EU Fund aims to mobilise more than €372 billion of public and private investment through an EU budget guarantee of €26.2 billion that backs the investment of implementing partners such as the European Investment Bank (EIB) Group and other financial institutions.

The Invest EU Advisory Hub provides technical support and assistance including capacity building to project developers and entities – private and public - helping with the preparation, development, structuring and implementation of investment projects.

The Invest EU Portal brings together investors and project promoters on a single EU-wide platform, by providing an easily accessible and user-friendly database of investment opportunities available within the EU.¹⁷

Hong Kong

It is quite interesting to learn how Hong Kong's SME emerged victorious even during COVID-19 scenario. A survey in January 2022 conducted by Pay Pal reports that Small-and-Medium-sized Businesses (SMBs) in particular have emerged from this

¹⁶ European Union "Unleashing the full potential of European SMEs available at https://ec.europa.eu/commission/presscorner/detail/en/fs_20_426 "Unleashing the full potential of European SMEs" accessed on February 27th, 2022.

¹⁷ "Invest EU- European Union" available at https://investeu.europa.eu/about-investeu_en "accessed on February 27th,2022.

unprecedented event with a positive story to narrate. Thirty per cent (30%) of SMBs surveyed in the study reported that there was no negative impact on business due to the COVID pandemic. Its pleasantly surprising that one in five (19%) of respondents even reported a positive impact to their business, with almost half (48%) witnessing an upswing in demand, while 43% attracted more online customers and 33% saw an increase of overseas customers outside from Hong Kong. The survey results are proof of their resilience and ability to achieve growth by prioritizing digitalization and cross-border trade.

The strategies adopted were:

1. Understanding the evolution of consumer habits.
2. Strengthening digital presence by building owned ecommerce and social media channels
3. Cross-border trade helps SMBs scale¹⁸

The above-mentioned strategic moves of the countries are mentioned here which are very distinct focussing on different aspects to cater to the requirement of MSMEs which can be implemented in India after mapping our requirements and possibilities.

¹⁸ Hong Kong SMBs harness digital to meet evolving online demands in the new era of commerce, according to PayPal study available at <https://newsroom.apac.paypal-corp.com/Hong-Kong-SMBs-harness-digital-to-meet-evolving-online-demands-in-the-new-era-of-commerce-according-to-PayPal-study> accessed on January 25th ,2022.

CHAPTER 10

A SUGGESTED CREDIT DELIVERY MODEL FOR MSME

MSMEs have emerged as the most vibrant sector of the Indian economy. The keen interest and concern of the Government of India (GOI) and the Reserve Bank of India (RBI) has led to initiatives for development of this sector. MSMEs require a strong ecosystem to guide them through every stage /aspect of their business. A flow chart is designed to help MSME entrepreneurs get credit at the right time and flourish.

1. A mobile application (My Pride) for enrolment as an Entrepreneur, a Budding Genius (who has a brilliant idea but still not conceptualised into an executable business proposition.) or Seeker of the Last Resort. The enrolment number now becomes the initial identity of the applicant.
2. Entrepreneur category is for people who already have an existing business or looking for guidance for launching a product/service or has the proposal ready and is seeking finance. They are then guided by Chambers of Commerce or Industry Associations. These two organisations also have firms empanelled under them to perform as flagship firms. (*Research interviews with hundreds of executives in SMEs by Karl Moore have revealed the importance of linking with Rugman and D' Cruz's concept of flagship firms (Multinationals as Flagship Firms, Alan M. Rugman and Joseph R. D' Cruz, Oxford University Press, 2000)*¹⁹. These organisations can have regular support of experienced bankers which will help banks to customise their financial product as per the requirements. The project gets scrutinised in the incubation centre by the three entities mentioned above. The advantage now here is apart from getting expert advice on the project they also get a flagship firm for whom the entrepreneur can function as an ancillary unit.
3. Budding Genius is directed towards Incubation centre which has a team of experts from education sector, IT sector and Venture Capitalists who study the potentiality of the idea and help give an executable shape. If the idea shapes up into an

¹⁹ "The six types of Canadian SMEs: competing to win in tough times " available at <https://policyoptions.irpp.org/fr/magazines/employment-insurance/the-six-types-of-canadian-smes-competing-to-win-in-tough-times/> Accessed on 3rd March 2022.

executable project, then it goes to the incubation centre and gets an Ok signal from them. If the idea is not executable, then the budding genius is given an option for training which is open for both the categories.

4. Seeker of the Last Resort- They are businesses which are on the verge of collapse. This business can be registered either by the lending authority or the businessman. The project directly goes to the incubation centre where it is scrutinized, and strategy is designed to revive it. The business may also be auctioned within the members who are enrolled in the app.
5. The projects once released from the incubation centre goes to a unified digital application for MSME loans just as the Vidyalaxmi for education loan. There will be reasonable turnaround time for this digital application processing.

The advantage here is that the lenders and the borrowers get an opportunity for right identification with proper interaction. At this stage the project is equipped with all the fundamentals for a fruitful start.
6. Interaction with the credit officer and submission of the application and subsequently documentation and disbursement will happen which will be notified by the lending authority in the status box of the application. The status box will now function as information regarding the ongoing status of the project which will be functioning as “Project in Progress”.
7. A connect with the lending organisation to be done to regularly update on the status of repayment. A blue card appears when the repayment is in SMA 0 tenure, a yellow card appears when it turns to SMA 1 and finally red for SMA 2.
8. Applicant has the responsibility to seek guidance from the team and the team has the duty to monitor.
9. All the above activities are time bound and communication at every stage to the applicant happens through email which will also help create record for audit purpose.
10. Regular audit of these above-mentioned activity is conducted to ensure that the applicant has been guided in the right way.
11. This cycle continues and benefits the MSME borrower completely.

CHAPTER 11

RECOMMENDATIONS

Issues with Entrepreneurs and Suggestions

I Issues:

1. Entrepreneur has personal aspirations attached with his business development
2. Entrepreneur has dream but no preparation for fulfilment of that dream
3. Entrepreneur has experience of Production, Service and Management but not of financial literacy
4. Entrepreneurs have KYC documents, but no documented plan for his business or service
5. Micro companies have poor capital and higher expectation. They would like to do the business with public money and, with minimum personal equity.
6. Entrepreneurs want financial security
7. Entrepreneurs want facility of concurrent borrowings
8. Entrepreneurs prefer unsecured loans to formal credit products / scheme
9. Entrepreneurs are over dependent on their consultants for the compliance, project report preparation, preparation of loan proposals. They simply decide the loan amount and consultants are skilfully preparing the projected balance sheets accordingly
10. Green field entrepreneurs have first-hand information about the product and services, but they do not have the proper documentation for convincing the bank officials
11. Majority units are dependent on couple of big units for business

12. CGTMSE scheme is very good on paper, but poorly utilised by the banks and borrowers
13. Entrepreneurs don't have knowledge about various taxes. They carry unknown pressure of tax payment. They feel that tax return filing is complicated, confusing and opaque. They have to take help of tax preparers. The tax aversion comes from this complex tax assessment process. Now, creative accountants help these people with manipulations to save the taxes. They inflate debtors, deplete the profit, purposely encourage for cash transactions. The entrepreneur becomes happy due to lower taxes. In the process, his financial health gets deteriorated and unable to get financial assistance from the banks.
14. Customers expect that banks should issue bank guarantees without collateral because there is no actual outflow of the funds.
15. Factoring services are utilised by a select group of enterprises because of stringent norms of factoring companies.
16. Banks have several issues such as staff shortage
17. The Committee approach is good for banking staff because they are comfortable and there is no need to extend assurance to the customer. If proposal is sanctioned, they get due credit for it. Similarly, if loan proposal is turned down, then it's the committee decision for which they are not responsible. They try to resubmit the loan proposal to the new committee. This process is bad for the customers because customers do not get comfort or assurance about their loan proposal till they get the committee decision. There are multiple committees with different objectives. Every committee tries to safeguard the bank's interest on paper, and, in the process, customers become clueless. Joint appraisal is necessary to overcome this problem.
18. Banks need certification from the Chartered Accountants at various stages. The purpose of certification is for compliance purpose which delays the disbursement.
19. Lack of awareness about CIBIL Reports.

20. TEV (Techno Economic Viability) guidelines are conveniently interpreted by various bank officials
21. Sudden declaration about certain sectors in the economy spoil the efforts of all the stake holders
22. Relationship banking is crucial, but now it appears that relationship is with suspicion.
23. Certain government departments insist on the bank guarantees in their prescribed form which are not permissible as per the IBA or RBI guidelines. They want auto renewal of the bank guarantees for indefinite period, whereas the maximum guaranteed tenure can be 10 years from the date of issue. They are reluctant to surrender the bank guarantees to the issuing bank.
24. There is lack of expertise for the bank guarantee or letter of credit limit at branch level. Devolvement of letter of credit and invocation of bank guarantees are treated as adverse features
25. The practice of opinion reports of the banks is almost discontinued in the name of competition which leads to indiscipline in the market and creates risk for the banks.
26. There is hardly any sharing of information amongst the consortium members.
27. Multiple banking arrangement is risky for banks and customers
28. Banks are working with core banking solutions. They can have the data integrity in CBS. Bank branches have been facing serious issues regarding correctness of data entry in respect of basic parameters like
 - Activity code
 - Segment,
 - Original Value of Investment in plant and machinery, equipment
 - Details of primary security and collateral security
 - Loan disbursement schedule

- Loan repayment period
- Contact details, Email ID, Address for communication,
- Credit Guarantee Trust for Micro & Small Enterprises cover flag
- Amount of loan instalment

There are instructions in place for the branch staff, controlling office staff and auditors. But practically, it is not happening, and banks are struggling for purity of the data. It creates an incorrect data base which is of no use. In the absence of the data integrity and periodical verification of correctness of the input, it is difficult for the bank to monitor the sector wise exposure norms. As a result, banks are maintaining the margin of safety and restrict finance in those sectors without understanding the business potential of that sector.

II Financial supermarket:

Due to emergence of globalisation, Indian banks have been trying to become financial supermarket. Indian banks have a strong customer base. Banks and their consultants have the business plan to tap these customers for selling of other financial products to improve the profitability. Banks have migrated their banking business on Core Banking with available data. This data is technically correct and factually incorrect. Now, banks are offering Mutual funds, Equity, Insurance products aggressively to their customers. Cross selling is a good concept adopted by the banks and financial institutions, but poorly implemented because of ignorance. The fact is that every financial product is good but not suitable for every customer. It leads to mis-selling which adversely affects the cash flow of entrepreneurs and other customers.

Let us understand the factual position about loan processing in banks.

III Stages in processing of the loan application include:

- Applicant to fill up the loan application form with all details
- After receipt of the completed application, it gets scrutinised with help of a score sheet and, score calculation takes place

- Loan eligibility of the applicant is ascertained on the basis of various parameters
- Communication to the customer for discussion with relevant documents for verification
- Pre sanction inspection by the credit officer or authorised representative
- Appraisal of loan application
- Documentation
- Disbursement
- Post sanction inspection as per the prescribed periodicity
- Monitoring and follow up of the loan account
- Review / renewal of working capital

IV MSME loan procedures:

Pursuant to the simplified system of lending to the MSME enterprises, banks and financial institutions have devised the loan application forms and check list. Generally, common application form as per the Indian Banks Association format is used for loans up to Rs.2 crore.

It is expected that the terms and conditions regarding margin and security should be provided on the reverse of the application form itself. Similarly, there should be standard loan appraisal forms for new units, enhancement, renewal and review of loans prescribed by the banks and financial institutions. Banks have prescribed the time norms for disposal of MSME applications to ensure all loan applications from all categories of potential customers are disposed of expeditiously. Generally, these time norms are two weeks to four weeks from the date of receipt of the loan application. As per the feedback of the customers, some banks have reduced the time norms for processing by the credit officer in the range of six days to 22 days if all such applications are complete in all respects and accompanied by the required certificates, documents.

As per RBI guidelines it is mandatory to acknowledge all applications submitted by MSME borrowers through manual or online mode. For transparency, it is expected that a running serial number is recorded on the application form and as well on the acknowledgement. It is conveniently, followed on case-to-case basis. If the borrower insists for the acknowledgement, initially, it is avoided. In case of compulsion, it is with a disclaimer remark that application is incomplete.

V Margin

The normal margin requirement for the loan is in the range of 10% to 25%. Where subsidy /margin money assistance is available from the Agency, then it should be considered while sanctioning the loans and, no additional margin should be insisted. In reality, it is demanded by the credit officers.

Another issue is all loans to Medium and Small Enterprises up to Rs.2 crore which are otherwise eligible to be covered under Credit Guarantee Trust for Micro and Small Enterprises have to be sanctioned collateral free due to guarantee cover of CGTMSE. This important provision is known to borrowers and bank officials. During our research, it is revealed that there are misconceptions about this scheme. Generally, it is perceived as costly scheme with lot of terms and conditions, so not suitable for the borrowers. Credit officers do get comfort from collateral by the borrower.

VI Good track record

Sanctioning authority needs good track record and financials for the credit decision. The criterion for determining the good track record and strong financials is unknown to the entrepreneurs. Their consultants / advisors should take due care to sustain this illiteracy level. Bankers' expectations for good track record are as under;

- Satisfactory conduct of cash credit / working capital account
- Loan instalments and interest have to be serviced regularly
- Timely submission of stock statements, final accounts, review / renewal data
- Continuous profit earning

- Credit rating, Total outside liability to Tangible Net worth ratio, Debt Service coverage ratio at acceptable levels.

Borrowers should submit the stock statements in time. If they have genuine difficulty, borrowers should approach the bank and get the necessary permission for submission of stock statements at longer intervals. Generally, there is penalty for non-submission of stock statement in time. If the borrower fails to submit the stock statements, then the bank can appoint a chartered accountant for the stock audit. It adds cost to the borrowers. Due to ignorance, it is very difficult for the units to fulfil these expectations. Then, they make up their mind to avail unsecured loans from the private lenders at higher rates.

VII PARI PASSU CHARGE

As per RBI guidelines, pari passu charge on the fixed assets is required to be given by financial institutions, including state financial institutions to banks as security for the part of their outstanding from sick units representing the principal irregular dues as working capital term loan. However, these financial institutions do not provide it or provide with considerable delay which creates obstacles for the financial requirements of the units.

VIII Working Capital assessment

The working capital requirements of the units shall be assessed on the basis of say, 25% to 37.5% of the projected turnover or on the basis of operating cycle or processing cycle of the unit. In this regard, the entrepreneur has to infuse minimum 7.5% own margin so that, effectively, the unit can get working capital limit of 30% of the projected turnover. Higher of the two limits can be sanctioned. The disbursement on the basis of actual level of operations can be possible.

IX Clean term loan scheme

Normal marketing expenses are built into cost of goods sold as a part of working capital. If the unit needs loan for marketing expenses required at the time of launching a new product, then banks do finance it by way of a clean term loan as a onetime measure.

Composite loan facility is also available for the limits up to Rs.1 crore through a single window. MSME units shall avail of this facility

Stand-by Line of Credit facility is available for the business requirements over and above the sanctioned limits for short duration to overcome problems faced due to genuine mismatches in cash flow. Credit Rating Agency is important for the appraisal of such loans. **General purpose term loan** is also available to meet the unforeseen expenses related to working capital requirements of the unit having an excellent track record. This loan can be utilised for commercial purposes like reducing high-cost debt, research and development, capital expenditure, shoring up of working capital.

X Banks and State level Financial Institutions

Whenever MSE unit is desirous of availing term loan from State level financial institution and working capital from other bank, it is better to have simultaneous appraisal of term loan and working capital.

XI ZED CERTIFICATION

Ministry of Micro, Small and Medium Enterprises introduced the ZED certification scheme with the objective to promote Zero defect amongst MSMEs to constantly upgrade their quality standards, manufacturing process and environmental aspects. It enhances their global competitiveness of MSMEs. They do get financial assistance, guidance and support for acquiring such certification.

XII Loan application form

Loan application form contains several items which include: name of the unit, constitution, registration number, date of incorporation / commencement of business, business address, registered office, administrative office, factory details, background of the entrepreneurs, description of the existing and proposed industrial activity, sources of funds, past performance, monthly turnover of past 12 months, arrears of direct and indirect taxes, provident fund, employees insurance, name of the associate concerns, nature of association and investment amount, nature of activity, turnover and profit during past three years of these units, staff composition with skill set, details of the product / service, capacity, no. of working shifts and days in a month, details of the value of atmosphere, soil and water pollution likely to be created by the unit, measures adopted or proposed for control of pollution, permission for the disposal of effluent from local

authority, applicable civic restrictions, proximity to the source of raw material, market, availability of power, water, labour, transport, premises, type of construction of premises, particulars of machinery, necessity and purpose of the proposed loan, raw materials, standby arrangements for business continuity, quality control arrangements, name of the major customers, potential market, extent of competition and no. of units engaged in similar line in the area, how does unit proposes to meet the competition in price and quality, selling /distribution arrangement, nature and volume of orders, cost of project, means of financing, share of promoters contribution, schedule of implementation, future projections for next five years, projected profitability, projected balance sheets, projected cash flow statements, loan requirements, repayment programme, description of primary and collateral security, full details of guarantors, declaration, audited balance sheets with trading and profit and loss account for the last three years, tax returns and assessment orders. This amounts to information of 77+ items by the entrepreneur for bank loan.

XIII Loan Appraisal

After submission of the application form actual appraisal process starts. The credit officer verifies the particulars of concurrent borrowings, statutory dues, insurance of property, plant & machinery and others, tangible security, third party guarantee, performance analysis. For this, the credit officer has to follow the bank's check list. The main items of this check list are as under:

- Technical and managerial competence to achieve the business goals
- Technical report and its contents
- Details of sale transactions through the bank account
- Mode and percentage of the financial transactions such as cash, digital
- Arrangement for procurement of raw material
- Overdraft in the account for the last one year
- Action plan for repayment of loan and interest
- Stock turnover, quality of receivables, time consumed for realisation of book debts
- Analysis of balance sheet, financial ratios, profit trend
- Preparation of fund flow and CMA (Credit Monitoring Arrangement) data

- Minimum stocking of raw material and days
- Processing time to convert raw material into finished goods
- Stocking period of finished goods
- Normal credit given on sales
- Sundry creditors and credit period
- In case of seasonal industries / services peak season and offseason turnover
- Future plans, basis for substantially higher projections
- Whether unit's business strategy is suitable to achieve its goals
- Prolongs interruptions in last 12 months and reasons for it
- Details of the infrastructure, plant and machinery
- Reasons for financial assistance from multiple banks, financial institution
- Break even analysis
- Pre-sanction inspection

The above details have to be obtained and verified by the credit officer. He has to discuss these items with the borrower and guarantors. This exercise is necessary for credit appraisal as per the banks' policy. In short, the credit officer has to capture all the relevant information in his appraisal report. Banks have adopted the concept of need-based credit facilities for MSMEs. Under this approach, the quantum of loan is not linked to the security or collateral offered by the unit. It duly considers the genuine requirements of the unit for carrying on its activity with profit. It is known as liberalised scheme. Practical issue is the application and appraisal forms are same, so it is confusing for the entrepreneur and the credit officer. Banks do have schemes for technically qualified entrepreneurs which provide financial assistance to technically qualified, trend, experienced entrepreneurs for setting up new viable industrial projects.

XIV Provision of Sustenance money

There is provision by some banks to provide financial assistance to the entrepreneurs to maintain themselves during the gestation period of the first year of establishment. This

money can be provided by clean term loan and the amount can be included in the preoperative expenses of the project.

XV Scoring model for quick decisions

Banks have developed their own credit scoring criteria for timely disposal of the applications. It contains parameters like personal details, age, family size, educational qualifications, experience in the profession / business, income tax returns, insurance policy in one part. Second part contains business parameters like profitability trend, sales trend, age of the business, know how, line of activity, competition, quality of finished goods, quality of receivables, repayment period, financial Ratios, location advantage, availability of resources, utilities, demand for the product. Lastly, third part contains – Security available, value of security

XVI Restructuring or Rehabilitation of sick MSMEs

Basic objective of rehabilitation of a sick unit is to restore its capacity to generate profit. MSMEs become sick for various reasons such as inept market strategy, changes in government policies, increased competition, technological obsolescence, diversion of funds, lack of financial plan, while identifying and implementing the restructuring package, the credit officer has to observe the unit's operations closely. There is provision of 'holding operation' which allows MSMEs to draw funds from their working capital account to the extent of their deposits of sale proceeds during the period of holding operation. While restructuring of the loan account 'viability' criteria is important. Credit officer has to work out the operating and cash break even points. Promoters' sacrifice and additional infusion of funds is necessary. The existing prudential norms for restructured accounts make the standard account on restructuring as substandard account which attracts additional provision. The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

The rehabilitation package consists of restructuring of present dues to the bank and sanction of additional credit facilities as per the need. Such additional finance carries risk

of lower asset classification in case it does not qualify for upgradation at the end of the specified period.

The standard accounts classified as NPA, and non-performing assets retained in the same category on restructuring should be upgraded only when all the outstanding credit facilities of the unit perform satisfactorily during the specified period. Loan restructuring is a process in which borrowers facing financial distress renegotiate and modify the terms of the loan with the lender to avoid default. It helps to maintain continuity in servicing the debt and gives borrowers a certain degree of flexibility to restore financial stability.

Process for restructuring account – The borrower has to submit a request to the bank. In case of MSMEs which are under consortium or multiple banking arrangement, the application for the restructuring has to be submitted to the bank having the maximum exposure. The restructuring package can be worked out with the consent of the bank having the second largest share.

The concerned credit officer scrutinises the requests of restructuring, ensures its eligibility then starts processing. It is expected to complete the restructuring process within a reasonable period of 90 days.

The viability and the rehabilitation of a sick unit would primarily be dependent on its ability to continue to service its repayment obligations including the past restructured debts. In such cases, the eligible unit gets certain financial concessions from the banks and financial institutions.

To provide a simple and quick mechanism to address the stress in MSME accounts which facilitate promotion and development of MSMEs, the RBI has issued operating instructions for a revised framework. TEV study is mandatory for the accounts with higher exposure limits as per the bank's policy. The simplified model for rehabilitation of MSMEs is useful initiative, but the same is not utilised by the MSMEs.

Banks and financial institutions have developed special Schemes and loan products for MSMEs which include professionals, commodity backed warehouse receipt finance, fleet finance, artisan finance, dal mills, cotton ginning mills, cluster specific package, stand up

India scheme, business correspondents, customer service providers, trade and services sector, franchise finance and others.

Role of banks is important for the overall development of economy. Sound banking practices enable banks to mobilise deposits and savings at an attractive interest rate. They can convert these deposits into active capital that generates products and services. Banks are commercial entities answerable to their shareholders and ultimately need to earn profit through net interest margin.

MSMEs will at some point encounter difficulties repaying their monthly instalments. The growth of deposits in banking system can boost the capacity to use these deposits for the production and services. The trust of the depositors in the prudence and viability of the local banking system and strong regulatory system to ensure safety of deposits is must. At the same time, the banks should tap the opportunities to increase their deposits to increase their capacity to lend.

The factual position is that with the emergence of cross-selling now banks are trying to convert their deposits into other financial products to earn profit out of commission. This trend will restrict the lending capacity of the banks in due course of time and the victims will be MSMEs. The large companies have access to international markets for their financial requirements. They get dual benefit in the form of lower interest rates in the global markets and diversification of the funding sources. The corporate credit market in India is attaining maturity. This can be evidenced by the reduction in the corporate credit volume. Further, the entry of Non-Banking Finance Companies (NBFCs) and Fintech companies into the credit space has further eroded the market share of banks.

Even though the share of loans by the banks has shown a declining trend, the banks still provide a major portion of corporate credit needs due to their ability to provide financial assistance relatively transparently and cost effectively. The international trade provides banks with the opportunity to act as key intermediaries in financing international trades and services. Banks extend support to MSMEs to participate in large-scale projects. This service enables capable MSMEs to tap the quality business that otherwise would be too large for them.

XVII About Entrepreneurship

“Entrepreneur is a person who takes on the risks of starting a new business. Many entrepreneurs have technical knowledge with which to produce a saleable product or to design a needed new service.” Barron

Entrepreneurs come from different backgrounds. Someone has experience as an employee, someone is self-employed, and someone has experience of investment. Statistics show that many small business owners earn less than their employees because their work continues even after business hours. If we calculate the number of hours work for their unit, many earn less per hour than their employees. Being an entrepreneur is 24 hours job because apart from working physically they remain working mentally and carry worries. Now the main question is why person would like to be an entrepreneur despite knowing the fact that most of the entrepreneurs fail initially.

Some of the prominent reasons are as under;

- Entrepreneur hates being employee due to threatened job security.
- Person wants to be his own boss with own style and does not like being told what to do.
- Technology and global competition are making people obsolete. They are destroying existing jobs and business.
- The concept of good, secured job and monthly payment for life has become obsolete.
- Being entrepreneur is safer than being an employee
- Formal education continues to train students to be employee. Traditional education punishes students for making mistakes, it means the person who makes minimum mistakes is labelled as the smart person. In reality, the entrepreneur who makes number of mistakes and learns from their mistakes wins because these lessons determine the future of the business.
- Talented persons are specialists or expert in couple of fields. They think from that angle whereas successful entrepreneur thinks like generalist

“The illiterate of the 21st century will not be those who cannot read and write but those who cannot learn, unlearn and relearn.”

Alvin Toffler, Futurist

All things are difficult before they are easy.

- **Financial planning for entrepreneur**

Financial planning for entrepreneur is important to establish the financial goals of the unit. Banks are doing feasibility study without financial plan. Banks and entrepreneur work on projected balance sheet for further 3 to 5 years. They assume that business will be successful. After commencement of actual production or service entrepreneurs realise the success can be illusive. Creation of business plan along with financial plan is real feasibility study of what it takes to be successful.

Monitoring of actual performance vis-à-vis budget in the financial plan is important for entrepreneur and the lenders. Understanding the assumptions behind the projections is important to find out why projections have gone wrong. It provides an opportunity to timely modify the action plan to get the things.

Every business requires money. The monetary requirement is not uniform throughout the year. Forecast financial plan provides information about how much money unit needs and when it needs. It will also indicate where the short fall will occur.

The financial plan will provide the information about what type of finance would be appropriate for the unit. The financial plan also helps for sustainable growth and profit. It saves the entrepreneur and lending institutions to achieve their business goals with due consideration of obstacles in the cash flow.

Most banking credit to MSMEs is available in the form of working capital facilities, medium term loans and non-fund based facilities like letter of credit and bank guarantees. Our banks are not equipped to support long term finance to MSMEs because of the short-

term nature of their deposits, which may create risk of assets-liabilities mismatch. The banks need to review the situation and have the corrective measures for deposit mobilisation.

The present banking system and credit professionals are keen about the risk and safety of banks. They are aware of the nature of the funding ecosystem. With prudent credit analysis and decision practices, credit departments share responsibility of protecting banks' interest at large.

Succession planning is another crucial area for the MSMEs.

XVIII Recommendations

- Self-help group for MSMEs for all time support. It will also ensure timely and adequate financial assistance to the entrepreneur at reasonable rate.
- Every bank and institution have a scheme for MSMEs. There are guidelines by all the stakeholders to their staff. If we review every stakeholder's role individually, there is satisfaction but when we see the consolidated picture, we get the factual position. Integrated approach is necessary.
- Committee approach should be modified
- There should be provision of 20% for contingencies
- Open cash credit limits for new or additional business on the basis of potential.
- Staff accountability needs to be revisited. For NPA accounts, Public Sector banks go in for staff accountability exercise. This exercise evaluates the entire credit process. Identifies lapses and punish the concerned officer accordingly. It lowers the morale of operating officers. Whereas in private sector, it is not so strict. It made them apathetic towards the problems of MSMEs they look at it with rule bound attitude.
- At present, there are no incentives, recognition or motivation for business achievement in MSMEs. Whereas there are incentives for cross selling. Banks should recognize the achievement by officers in MSMEs

- Relationship banking is necessary – MSMEs are not comfortable with the present compartmentalization of their loan processing. They need handholding at several times. They need guidance and support. This requires trust and relationship. Single point contact is necessary for fulfillment of their banking requirements.
- Special purpose vehicles – There is a need to provide facility of SPVs to make them competitive in the global market
- Open term loan facility- Some banks offer this facility to MSMEs. This facility enables the customer to identify, purchase machinery of choice as per the requirement. Within overall term loan limit customer can purchase machinery, equipments in suitable stages.
- The lending process involves various stages. It is lengthy process by different credit professionals. Banks have redesigned their business processes. Different stages of the credit processes are handled by different teams. Sourcing teams simply source the loan proposals. Due diligence is completed by another team. Loan processing is done different team. Recommending officers make recommendations and presentation. Appropriate committee sanctions loan proposal. Communication goes to the applicant for completion of formalities and document execution takes place as per the mutual convenience. Maintenance team opens the loan account. The MSME borrower gets the disbursement after completion of all the stipulated terms and conditions. The entire process takes place in a professional manner. It ensures corporate governance, fulfills RBI norms, loan policy of the bank. Banks have created this for happiness of the Customer. Customers also give rating for their experience. Banks get proud feeling.

The same happy customer becomes unhappy when for every small additional disbursement or amendment; he does not get timely response from the same set of cooperative bank officers.

How does this happen? When customers start reviewing the entire process, they recollect that during the entire loan process they could not get any assurance regarding their loan sanction, terms and conditions of loan sanction and how they have given highest rating for the loan processing? They don't understand to whom

they should approach for their requirement? They become clueless. Again, they have to go through the entire process which is time consuming, and their financial issues become complex.

Another drawback in this process from customers' point of view is faceless processing of their loan application.

- They don't understand who has changed the terms and conditions of the loan proposal?
- Why has such change occurred in his loan proposal?
- Who has done this change in the agreed terms and conditions at the time of loan application?

The customer gets a simple answer that it's a loan committee's decision and the customer can not present before the loan sanction committee as per the Bank's guidelines. The answer is right from the bank's perspective but not right for the customer because customer has been identified by the different team. The preliminary discussion takes place with that team or its relationship manager. Relationship manager gives the confidence that their loan proposal will be processed in due course on usual terms and conditions of the bank with disclaimer that he / she can submit the proposal but does not sanction the loan proposal. At every stage, the customer gets the same reply from concerned official. This uncertainty is stressful for the customer and operating staff. In the process business relationship does not get established. The fact remains after disbursement also. The process is similar with NBFCs or Fintech companies but at least customer need not have to visit their offices for loan processing. All formalities get completed at convenient place and time with the assistance of dedicated relationship manager. All banks and financial institutions need to rethink about the existing service process for MSMEs.

- Banks have a revised its loan sanctioning policy. They have constituted the loan committees for loan sanctioning with a view that the underwriting of the loan will take place in a professional manner with the contribution of experienced, prudent senior officials of the bank. The concept is good, but the process is ineffective. The

committee members hardly get adequate time to go through the loan proposals. The chairman of the committee takes the decision; there is hardly any scope for the committee member to reject the loan proposal. Committee only takes decisions on the basis of loan proposal and recommendations in short period of time. In this process, the borrower does not get rationale behind the decision of the committee.

In every project, documents are necessary for loan processing. The success of any project depends upon the person behind the project. The experienced committee can't have the opportunity to assess the person behind the project. As per the past experience and present trend, they are compelled to modify certain terms and conditions of the loan which gives discomfort to the MSME borrower.

After sanction, the real experience of the borrower starts. While communicating the sanction, the relationship manager informs the customer that customer will have to go for insurance or other financial product from the bank as per the direction of the loan committee. Some learned customers ask to show the committee's remarks to understand or give us sanction letter first then we will respond. They get reply that it is internal document which cannot be shared with the outsiders. Committee has considered your loan proposal due to our efforts now it is up to you to take a call. Your sanction letter is ready which will be handed over to you after your consent. Customer seeks guidance his consultant and get the same reply. With the consent, some portion of the amount gets invested in the financial product with substantial lock in period which reduces the money supply for the operations of the unit.

- There is a need to arrange for periodical financial literacy training programmes for entrepreneurs.
- There is a need to create incubation centre for new entrepreneurs. In this Centre there could be industrial sheds and other infrastructure which can be used by the entrepreneur for three years at concessional rates. There should be a single window clearance for all documents, certification, clearance etc. So that entrepreneur can start the unit in timely manner. Get experience and confidence. Can seek support when it requires. There are many vacant industrial sheds under possession of banks and other agencies which can be utilized for this purpose with minimum efforts.

- Banks should devise the schemes for support of entrepreneurs to overcome their bonafide business failures.

“Innovation distinguishes between leader and a follower. Your time is limited, so don’t waste it living someone else’s life.

Don’t be trapped by dogma-which is living with the results of other people’s thinking. Don’t let the noise of others’ opinions drown out your own inner voice and most important, have the courage to follow your heart and intuition.

I’m convinced that about the half of what separates the successful entrepreneurs from the non-successful ones is pure perseverance.”

Steve Jobs

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Annexure I				
Maharashtra State Achievement under ACP (Annual Credit Plan) for MSME				
Rs.in lakhs				
	Year 2014-2015	Target	Achievement	% Achievement
Pune		767665	11246	1
Maharashtra (Total)		5689453	30022	1
% Share of Pune in total credit		13.49	37.50	100%
Total (PSB)s		4523341	4574709	101
Total Pvt Sec Banks		857834	1991285	232
Total Commercial Banks		5468146	6565994	120
% Share of PSBs in ACP of commercial banks		82.7	69.6	84.3
% Share of PSBs in total ACP of banks		79.50	69.07	86.88
% Share of Pvt Sec Banks in ACP of commercial banks		15.7	30.3	193.40
% Share of Pvt Sec Banks in total ACP of banks		15.07	30.06	199.41
Total Gramin banks		30918	34377	111
Total Co. Op Banks		190389	22476	12
Total Other Banks		86971	0	0
Total banks		5689453	6622847	116
	Year 2015-2016	Target	Achievement	% Achievement
Pune		786320	1065623	136
Maharashtra (Total)		7739723	10448778	135
Total (PSB)s		5620687	8461321	151
Total Pvt Sec Banks		1770474	1939178	110
Total Commercial Banks		7498270	10400500	139

% Share of PSBs in total ACP of commercial banks		74.959	81	109
% Share of PSBs in total ACP of banks		72.620	80.97	111.50
% Share of Pvt Sec Banks in total ACP of commercial banks		23.61	19	79
% Share of Pvt Sec Banks in total ACP of banks		22.875	18.55	81.13
Total Gramin banks		79606	36539	46
Total Co. Op Banks		196350	8851	5
Total Other Banks		107109	0	0
Total banks		7739723	10448778	135
	<i>Year 2016-2017</i>	<i>Target</i>	<i>Achievement</i>	<i>% Achievement</i>
Pune		1114564	1315397	118
Maharashtra (Total)		11737554	11774793	100
Total (PSB)s		8694656	9074878	104
Total Pvt Sec Banks		2437336	2656410	109
Total Commercial Banks		11368874	11731288	103
% Share of PSBs in total ACP of commercial banks		76.47	77.35	101.14
% Share of PSBs in total ACP of banks		74.07	77.07	104.04
% Share of Pvt Sec Banks in total ACP of commercial banks		21.43	22.64	105.62
% Share of Pvt Sec Banks in total ACP of banks		20.76	22.56	108.64
Total Gramin banks		79606	36539	46
Total Co. Op Banks		289075	6965	2
Total Other Banks		236881	0	0
Total banks		11737554	11774793	100

	<i>Year 2017-2018</i>	<i>Target</i>	<i>Achievement</i>	<i>% Achievement</i>
Pune		1141951	1552813	136
Maharashtra (Total)		14320236	14233815	99
Total (PSB)s		10498660	9961173	95
Total Pvt Sec Banks		3263986	4221773	129
Total Commercial Banks		13964670	14182946	102
% Share of PSBs in total ACP of commercial banks		75.18	70.23	93.42
% Share of PSBs in total ACP of banks		73.31	69.98	95.45
% Share of Pvt Sec Banks in total ACP of commercial banks		23.37	29.76	127.3530
% Share of Pvt Sec Banks in total ACP of banks		22.79	29.66	130.12
Total Gramin banks		75061	38409	51
Total Co. Op Banks		280504	12460	4
Total Other Banks		202024	0	0
Total banks		14320236	14233815	99
	<i>Year 2018-2019</i>	<i>Target</i>	<i>Achievement</i>	<i>% Achievement</i>
Pune		1310665	1974775	151
Maharashtra (Total)		24612832	20193978	82
Total (PSB)s		18872345	11540993	61
Total Pvt Sec Banks		4983601	8262280	166
Total Small Finance Banks		184820	291741	158
Total Commercial Banks		24197986	20095014	83
% Share of PSBs in total ACP of commercial banks		77.99	57.43	73.63
% Share of PSBs in total ACP of banks		76.67	57.15	74.53
% Share of Pvt Sec Banks in total ACP of commercial banks		20.59	41.11	199.64

% Share of Pvt Sec Banks in total ACP of banks		20.24	40.90	202.07
% Share of Small Finance Bank in total ACP of banks		0.75	1.44	192.39
Total Gramin banks		82634	60776	74
Total Co. Op Banks		332212	38188	11
Total Other Banks		157221	0	0
Total banks		24612832	20193978	82
	<i>Year 2019-2020</i>	<i>Target</i>	<i>Achievement</i>	<i>% Achievement</i>
Pune		2290867	1953134	85
Maharashtra (Total)		23537591	20104436	85
Total (PSB)s		15280971	9954130	65
Total Pvt Sec Banks		7332748	9733541	133
Total Small Finance Banks		115511	334051	289
Total Commercial Banks		22890566	20021722	87
% Share of PSBs in total ACP of commercial banks		66.75	49.71	74
% Share of PSBs in total ACP of banks		64.92	49.51	76.26
% Share of Pvt Sec Banks in total ACP of commercial banks		32.03	48.61	151.70
% Share of Pvt Sec Banks in total ACP of banks		31.15	48.41	155.40
% Share of Small Finance Bank in total ACP of banks		0.49	1.66	338.58
Total Gramin banks		110739	75424	68
Total Co. Op Banks		536286	7290	1
Total Other Banks		161337	0	0
Total banks		23537591	20104436	85

	<i>Year 2020-2021</i>	<i>Target</i>	<i>Achievement</i>	<i>% Achievement</i>
Pune		2535071	1857659	73
Maharashtra (Total)		24848903	15375677	62
Total (PSB)s		14224347	7780187	55
Total Pvt Sec Banks		9815987	7197346	73
Total Small Finance Banks		354779	102326	29
Total Commercial Banks		2017	164191	8141
% Share of PSBs in total ACP of commercial banks		24397129	15244051	62
% Share of PSBs in total ACP of banks		58.3	51.03	52
% Share of Pvt Sec Banks in total ACP of commercial banks		57.24	50.6	16
% Share of Pvt Sec Banks in total ACP of banks		40.23	47.21	0
% Share of Small Finance Bank in total ACP of banks		39.5	46.80	62
Total Gramin banks		1.43	0.66	52
Total Co. Op Banks		177037	91182	16
Total Other Banks		247309	40444	0
Total Other Banks		27428	0	62

Annexure II

Questionnaire for Lending Institutions: Challenges faced in Financing MSME Business

Hello! We are conducting a survey to know the issues and challenges faced by lending institutions while lending to MSME's. This is a research work titled "Challenges in Financing MSMEs in Pune and Maharashtra" sponsored by IIBF (Indian Institute of Banking and Finance) We need your kind cooperation in completing this research. This information will not be used anywhere else. Thank you for your time and suggestions in advance

1. Does your Institution have a specific and dedicated MSME vertical?

(a) Yes

(b) No

(c) If yes, share additional information, if any.....

2. Does your staff go scouting for projects for MSMEs?

(a) Yes

(b) No

(c) If No, share information about Intermediation, if any.....

3. Is your branch focusing on credit flow to any particular cluster?

Yes

No

If yes, name the cluster of the following: (Multiple options possible)

(a) Auto components

(b) Pharmaceuticals

(c) Electronic goods

(d) Readymade garments

- (e) Food products
- (f) Fibre glass
- (g) Engineering
- (h) Food Products
- (i) IT Parks
- (j) Any other (Specify).....

4. In which particular clusters does your bank have branches?

- (a) Auto components
- (b) Pharmaceuticals
- (c) Electronic goods
- (d) Readymade garments
- (e) Food products
- (f) Fibre glass
- (g) Engineering
- (h) Food Products
- (i) IT Parks
- (j) All the above

5. What is the branch's strategy/ies to help them in getting a loan?

- (a) Approaching enterprises to understand their credit needs and explain bank products & services
- (b) As and when entrepreneurs approach the branch on their own, counselling is done
- (c) Conducting a wide advertisement in the local social media
- (d) Recruit outside agency such as Business Correspondent to meet MSME borrowers and explain bank credit schemes and services for micro enterprises
- (e) Organizing Customers Meet in the branch annually

Any other (Specify)

6. What is the type of MSME enterprises that are mostly financed by your branch?
 - (a) Micro-
 - (b) Small Scale
 - (c) Medium
 - (d) Retail & Wholesale trade, recently added by the Government for Priority Sector Lending

7. Which activity-based sector that your branch mostly caters to:
 - (a) Manufacturing sector
 - (b) Services sector
 - (c) Retail &
 - (d) Wholesale trade

8. What documents are mandatory for financing MSME by your branch?
 - (a) Business authenticity proof -, Address proof
 - (b) Registration Certificate
 - (c) KYC of those operating bank account
 - (d) Title Deeds of the properties to be charged
 - (e) Audited Financial Statements for three years
 - (f) The latest IT Returns filed/ Assessment order
 - (g) KYC documents and Financial Statements of Guarantors

Any other (Specify)

9. What is/are the most challenging aspect/s of financing SME?
 - (a) Non-fulfillment of KYC norms
 - (b) Non-availability of audited financial statements
 - (c) Project estimates difficult to approve due to lack of industry data
 - (d) Insufficient use of information technology.
 - (e) Non-availability of the borrower after loan disbursement
 - (f) Non-submission of stock statement/ renewal papers

(g) any other (Specify)

10. What type of financing is the MSME eligible for?

(a) Asset based finance

(b) Cash flow-based finance

(c) Maximum Permissible Bank Finance – Method I & II

(d) Turnover method

(e) Ad-hoc sanction

(f) any other (Specify)

11. What is the average time taken to process an MSME loan?

(a) <59 minutes

(b) 1 day

(c) 1-3 days

(d) 1 week

(e) Two weeks

(f) 2-4 weeks.

(g) More than 4 weeks

12. Is the bank increasing risk premium by charging effective interest rate of over 16% and also insisting on additional security if the MSME business is not generating positive EBITDA?

(a) Yes

(b) No

13. Is your cluster branch also acting as Counselling centre for MSME?

(a) Yes

(b) No

14. What is the current size of the MSME business?

.....

15. What percentage of loan is under SMA (Special Mention Accounts)?
- (a) SMA 0.....
 - (b) SMA 1.....
 - (c) SMA 2.....
16. In which segment of MSME is NPA (Non-Performing Assets) maximum?
-
17. What is the size of NPA in Mudra Loans?
-
18. Has the branch implemented the NPA recognition time of MSME to 180 days?
- (a) Yes
 - (b) No
19. What percentage and quantum of loan is under restructuring?
-
20. What percentage of provisioning does your bank make for restructuring the loans?
- (a) 5%
 - (b) 15 to 20%.
21. What are the challenges faced to assess the success of a business unit?
- (a) No proper maintenance of records, lack of transparency in accounts
 - (b) No regular customer base
 - (c) No proper product positioning
 - (d) No standard estimation of operating cycle.
 - (e) Difficult to approve projected demand due to lack of industry related data
 - (f) Non-availability of the borrower for discussion

22. Why does the bank face problems in assessing the net income of MSMEs?
- (a) As enterprises record only the amount of goods bought, the amount of money received & issued and the number of receivables and debts,
 - (b) Entrepreneurs combine business assets with personal assets.
 - (c) Difficult to verify the prices of materials
 - (d) Lack of regular audit of accounts
 - (e) Any other (Specify)
23. What are the 'risk mitigating techniques' used while lending to MSME?
- (a) Higher equity contribution by the prospective borrowers.
 - (b) Requirement of collateral
 - (c) Requirement of guarantor/s
 - (d) Loan covenants
 - (e) Seeking guarantee cover under DICGC Scheme
 - (f) Estimated higher DSCR
 - (g) Any other (Specify).....
24. Does the Bank consider moveable assets as collateral?
- (a) Yes, we consider stocks, shares, Government securities, gold etc.
 - (b) No, we consider immovable properties
25. Are you providing Factoring services for MSME - receivables?
- (a) Yes,
 - (b) No,
26. Why is lending to MSMEs not picking up in Banking?
- (a) low demand
 - (b) heavily dependent on seasonal activities
 - (c) lack of industry related data for comparative purpose
 - (d) lack of proper books of accounts and their audit

- (e) Not possible to offer securities
 - (f) Not having documents to raise bank credit
 - (g) Not aware of bank formalities
 - (h) They need money instantly and, therefore, they prefer money lenders
 - (i) Any other, Specify.
27. Is lack of collateral from MSME borrowers substituted by higher interest rate?
- (a) Yes,
 - (b) No
 - (c) Any other (Specify).....
28. What is the percentage of MSME portfolio under restructuring of loans?
- (a) >50%
 - (b) 20 to 50%
 - (c) 10- 20 %
 - (d) 10 %
 - (e) No restructuring done
29. What are the reasons for restructuring MSMEs?
- (a) delayed payment from big corporate clients
 - (b) muted demand
 - (c) low accessibility to markets
 - (d) high price and hence, we cannot beat competition.
 - (e) COVID 19
 - (f) Any other reason.....
30. What are the complaints generally received from MSME?
- (a) Annual guarantee fee of CGTMSE scheme is on the higher side.
 - (b) Non-availability of recorded transactions as it is mostly cash based.
 - (c) Not aware of credit schemes and special financial privileges given by banks.
 - (d) Lack of proper knowledge leading to business failure.

- (e) Interest rate and bank charges are high
 - (f) Delay in loan sanction
 - (g) Loan Restructuring/ Rehabilitation support not provided
 - (h) Not organizing Customers Meet
 - (i) No Grievance Redressal
 - (j) Any other (Specify)
31. Are MSME borrowers able to bring in the margin money?
- (a) Yes, Sometimes
 - (b) No. that is the major reason for non-sanctioning of a loan
32. What is your average annual growth of credit to MSME?
- (a) >20%
 - (b) 20%
 - (c) 10%
 - (d) <10%
33. What is the limit for extending collateral free loans at your bank?
- (a) Up to Rs.10 lakhs.
 - (b) Up to Rs.25 lakhs
 - (c) Any other please specify.....
34. What are the reasons for MSME not qualifying for restructuring?
- (a) No proper accounts and adherence to regulatory norms.
 - (b) The aggregate exposure, including non-fund based facilities of banks and non-banking financial companies (NBFCs), to a borrower is exceeding Rs. 25 crores.
 - (c) No counselling is done
 - (d) MSMEs are not interested
 - (e) Any other (Specify)

35. Which method of financing is mostly used for MSME borrowers for working capital loans?

- (a) MPBF-1
- (b) MPBF-II
- (c) Turnover method
- (d) Cash flow based method (Delete this Question, refer to Question Number 9)
- (e) Any Other (Specify)

36. What is the maximum tenure of term loan given to MSME borrower?

- (a) 15 years.
- (b) 10 years
- (c) 5-10 years
- (d) 3-5 years
- (e) Any other (Specify)

37. Is your bank registered on TReDS platform?

- (a) Yes
- (b) No
- (c) Any other reason please specify.....

38. Do MSME borrowers come with a good credit score?

- (a) Yes
- (b) No

39. What policy changes would you like to suggest for improving the MSME loan appraisal process

40. How MSME appraisal process can be simplified?

41. How to manage customer experience when the internal rating of MSMEs is not in Investment Grade?

.....

42. How to manage customer experience when loan gets defaulted?

- (a) Sending reminder- orally and in writing
- (b) Sending notice through a lawyer
- (c) Approaching Lok-Adalat/Civil Court/DRT/ Action under SARFAESI
- (d) In genuine cases, go in for compromise/ write off
- (e) Any other

43. How do you cope up with the competition you get from alternate lenders like NBFCs and Fintech?

- (a) Continue as there is no threat from NBFC/Fintech
- (b) Improve service quality
- (c) Suggesting changes in credit schemes to remain competitive
- (d) Counselling the MSMEs by highlighting strength traditional financial institutions
- (e) Any other

44. Do you see the digital forwardness of alternate lenders as a threat for your business?

- (a) Yes- risk is high
- (b) Nothing to worry, we are equally competitive
- (c) Both are needed in a free market – improves competitive spirit
- (d) Any other

45. MSMEs are highly sensitive to economic environment and usually operate in risky markets what major factors you keep in mind while lending a big amount?
- (a) Careful selection of Borrower
 - (b) Assessing credit needs professionally
 - (c) Workout the credit package being customer friendly
 - (d) Counselling on credit related matters
 - (e) Any other.....
46. How do you access the loan application from MSMEs, owing to the fact that they are active in large number of sectors?
- (a) Through a word mouth- existing borrowers pursue new borrowers
 - (b) Wide publicity
 - (c) Organising Customers meet
 - (d) Visiting Industry Department to ascertain new firms registered recently
 - (e) Any other.....
47. Do you face issues to follow established policies and procedures to gain new MSME customers?
- (a) Yes, specify_____ and how you resolve these issues? _____
 - (b) No, occasionally due to stiff competition and in consultation with the higher authorities
 - (c) Follow the leader of the consortium and inform the
48. Have you involved virtual relationship managers to engage with MSMEs?
- (a) Yes, Regularly
 - (b) Yes, Occasionally, the number of managers is too large
 - (c) No, distance is too far, no internet facility
 - (d) Any Other (Specify)

49. How well social media helps you to gain new customers?

- (a) Yes, significantly to approach new and young customers
- (b) Not much helpful for senior customers by age
- (c) Very little response from rural areas due to lack of infrastructure
- (d) Any other

50. How do you rate the use of analytics in your lending decisions?

- (a) Very useful
- (b) Not much, authentic data/information not submitted
- (c) Lack of skill to avail the benefits of analytics
- (d) Any other

51. What are your suggestions to improve the credit dispensation to MSMEs?

Thank you

Annexure III

Questionnaire for MSME Entrepreneur

Questionnaire for entrepreneurs

Questionnaire for entrepreneurs - Hello! We are conducting a survey to know the issues and challenges faced by entrepreneurs while borrowing from Banks and other Financial Institutions. This is a research work titled “Challenges in Financing MSMEs in Pune and Maharashtra” sponsored by IIBF (Indian Institute of Banking and Finance) We need your kind cooperation in completing this research. This information will not be used anywhere else. Thank you for your time and suggestions in advance

1. In terms of the official definition of MSME, what type of classification does your enterprise belong to?

- (a) Micro Enterprise
- (b) Small Scale Enterprise
- (c) Medium Enterprise

2. What is the constitution of your enterprise?

- (a) Sole proprietorship
- (b) Partnership
- (c) Private Limited Company
- (d) Joint venture
- (e) Any other (Specify).....

3. What were average Total Sales in the last three years-i.e.,2020 18-19, 2019-20 and 2020-21?

- (a) Rs. 1 Crore to Rs.50 crores
- (b) Rs.50 Lakhs – Rs. 1 Crore
- (c) Rs. 25 Lakhs –Rs.50 Lakhs
- (d) Less than Rs.25 lakhs

4. What is your business?
 - (a) Manufacturing
 - (b) Services
 - (c) Both
5. Which product/s does your enterprise manufacture?
.....
6. What service/s your enterprise is providing?
.....
7. What is the operating cycle of your business in terms of day/s?
 - (a) Up to 7 days
 - (b) 7-- 15 days
 - (c) 15-30 days.
 - (d) 3- 45 days
 - (e) Above 45 days
8. How many days of credit your enterprise extend to customers?
 - (a) Up to 15 days
 - (b) 16-- 30 days
 - (c) 31- 60 days.
 - (d) 61 - 90days
 - (e) Above 90 days
9. How many days of credit your enterprise receive from suppliers?
 - (a) Up to 15 days
 - (b) 16-- 30 days
 - (c) 31-60 days.
 - (d) 61 days- 90days
 - (e) Above 90 days

10. What is the cash conversion cycle of your enterprise?
- (a) Up to 7 days
 - (b) 7 -- 15 days
 - (c) 60-90 days.
 - (d) 90 – 180 days
 - (e) Above 180 days
11. Is your product/service having seasonal demand?
- (a) Yes
 - (b) No
 - (c) Seasonal, occasionally
12. What is your major source of revenue?
- (a) Main business
 - (b) Other income
 - (c) Both, almost equally
13. What are the most pressing issues faced by your enterprise? Select all applicable options.
- (a) Marketing – stiff competition
 - (b) Low and declining margin
 - (c) Huge overheads
 - (d) Delayed payments by customers
 - (e) Running short of cash more often
 - (f) Lack of credit support from Bank/FI
 - (g) Lack of infrastructure
 - (h) Outdated technology due to lack of investment
 - (i) Any other (Specify).....

14. Which is the item that contributes most to the operating cost?
- (a) Raw material
 - (b) Labour
 - (c) Electricity
 - (d) Overheads
 - (e) Bank interest, charges
 - (f) Duties and Taxes
 - (g) Any other (Specify).....
15. Is your business registered on Udyam portal?
- (a) Yes
 - (b) No
 - (c) If No, state reason/s
16. How many employees are there in your enterprise?
- (a) Up to 10
 - (b) 11-20
 - (c) 21-50
 - (d) 51-100
 - (e) Above 100
17. What is the average age of employees?
- (a) in the production department.....
 - (b) in the administration department.....
18. Do you have the succession planning for your organization?
- (a) Yes, future directors are already working in the organization.
 - (b) No, not yet decided.

19. Are you maintaining the Financial Statements as per IND AS?
- (a) Yes
 - (b) No
20. There is change in the definition of MSME, whether it has benefitted your business?
- (a) Yes
 - (b) No
 - (c) If No, Specify
21. Do you have a regular contract with your suppliers?
- (a) Yes, Up to One year
 - (b) Yes, 1-3 years
 - (c) More than 3 years
 - (d) No
22. In how many shifts your teams work?
- (a) One shift-morning
 - (b) Two shifts –Morning and Afternoon
 - (c) Three shifts – Morning, Afternoon and Evening.
23. Would you like to state any other information about your operational challenges?
-
24. What challenges do you face while collecting your receivables?
-
25. What challenges do you face:
- (a) While availing loan.....
 - (b) While renewing loan.....
 - (c) While enhancing loan.....
 - (d) While getting occasional over drawings

26. How do you review your business performance?

.....

27. How do you fulfill the compliances?

.....

29. Any other information you want to share

Annexure IV

Questionnaire for Intermediaries financing MSMEs

Hello! We are conducting a survey to know the issues and challenges faced by lending institutions while lending to MSME's. This is a research work titled "Challenges in Financing MSMEs in Pune and Maharashtra" is sponsored by IIBF (Indian Institute of Banking and Finance) We need your kind cooperation in completing this research. This information will not be used anywhere else. Thank you for your time and suggestions in advance

1. Why do you help in lending to MSME?
.....
2. How are you able to facilitate MSMEs' financing requirements efficiently?
 - (a) Quick disbursal of funds
 - (b) Flexible interest rates
 - (c) Lenient eligibility criteria
 - (d) All the above
3. What is the interest charged for MSMEs
 - (a) By NBFC..... %
 - (b) Others %
4. What are the security norms for financing MSMEs by Public Sector Banks?
.....
5. What are the security norms for financing MSMEs by Private Sector Banks?
.....
6. What are the security norms for financing MSMEs by NBFCs and Others?
.....
7. What challenges do you face while facilitating MSME loans with the lenders?
.....

8. What is the priority of MSMEs while availing loan? And while enhancement in loan?

.....

10. What is the response of MSMEs on the various digital platforms to apply for loans?

- (a) Satisfactory
- (b) Unsatisfactory- a threat of frauds
- (c) Aware, but no digital infrastructure
- (d) Unaware
- (e) Any other (Specify)

11. Any suggestion for improving the eco-system for MSME finance and business operations?

Questionnaire for MSME Borrowers: Financing by Financial Institutions and Challenges

Hello! We are conducting a survey to know the issues and challenges faced by entrepreneurs in borrowing from Banks and other lending Institutions. This is a research work titled “Challenges in Financing MSMEs in Pune and Maharashtra” sponsored by IIBF (Indian Institute of Banking and Finance) We need your kind cooperation in completing this research. This information will not be used anywhere else. Thank you for your time and suggestions in advance

1. Is there Branch/Office of Bank / Financial institution (FI) close to your organization?

- (a) Yes
- (b) No
- (c) If no what is the distance in kms from the nearest bank or Financial Institution Branch.

2. Do you have credit facilities there from?

(a) Yes

(b) No

3. From which branch / office of Bank/FI are you availing of loan?

.....

4. Please provide details of credit facilities: (Rs. in Lakhs)

<i>Nature of Credit facility</i>	<i>Limit/Loan Sanction</i>	<i>Since how long (Years)</i>
Cash Credit		
Current Account/Overdraft		
Term Loan		
Letter of Credit/Guarantee		
Pre-shipment		
Post- shipment		
Any Other (Specify)		

5. Is there borrowing from other sources also? Please provide details:

(a) Unsecured.....

<i>Nature of Credit facility</i>	<i>Limit/Loan Sanction</i>	<i>Since how long (Years)</i>
Cash Credit		
Current Account/Overdraft		
Term Loan		

Letter of Credit/Guarantee		
Pre-shipment		
Post- shipment		
Any Other (Specify)		

6. Furnish reason/s for taking loan from a Bank/FI? (Multiple options possible)
- (a) Amount required is huge to purchase business premise, machinery, vehicle, or other fixed asset for the business
 - (b) To invest for expansion
 - (c) To diversify the business
 - (d) To purchase another business unit
 - (e) To promote export
 - (f) Any other (Specify)
7. If No, provide reason/s?
- (a) Difficult to comply with KYC norms to open an account
 - (b) Not possible to submit Financial Statements, project Report and other Documents
 - (c) No securities/ Title deeds of the property to offer as security
 - (d) Bank charges are high
 - (e) There is no body to guide us in the branch/office
 - (f) Delay in loan sanction/ Money is not available after office hours/on holidays
 - (g) Any other (Specify)
8. Do you compare lending rates of banks/Financial Institutions with Non-Banking Finance Company (NBFC/FinTech)?
- (a) Yes
 - (b) No

9. How did you come to know about your present Bank/Financial Institution?

- (a) Family/Friends
- (b) Social media
- (c) Bank staff
- (d) General awareness
- (e) Past experience
- (f) Any other (Specify)

10. What is the quantum of loan taken under MUDRA loans?

.....

11. What is the rate of interest charged?

.....

12. What are the specific credit terms under which the loans were granted?

.....

13. Kindly mention under which other schemes have you availed loans from banks/
Financial Institutions.

- (a)
- (b)
- (c)

14. Whom would you prefer for business loan?

- (a) Public Sector Bank
- (b) Private Sector Bank
- (c) NBFC
- (d) Money Lenders
- (e) Friends and Relatives

15. Why do you prefer Bank/FI Money Lender? (Multiple options available)
- (a) Safety and security in dealings
 - (b) Transparency in dealings
 - (c) Lower interest rate
 - (d) No harassment in loan recovery
 - (e) Scope to enlarge business since there is no limit for loan sanction
 - (f) Numerous deposit and credit schemes and services for business needs
 - (g) Any other (Specify)
16. What type of loan/s required for your business? (Multiple options available)
- (a) Unsecured business loan
 - (b) Secured business loan
 - (c) Overdraft facility/ Cash credit/Working capital loan
 - (d) Asset finance, Hire purchase or leasing
 - (e) Bills discounting
 - (f) Finance for Import and Export
 - (g) Non-Fund Based facilities
 - (h) Any Other (Specify)
17. Are you able to receive loan easily/ hassle free?
- (a) Yes
 - (b) No
 - (c) If No, please specify the facts
-
-
18. State your difficulties if any, in the loan process by Bank/FI? (Multiple options available)
- (a) Too much information called for
 - (b) Called for discussion several times

- (c) No coordination between banks, same information to be provided to all banks.
 - (d) Difficulty in providing collateral/ producing a Guarantor
 - (e) Lengthy processing time(delete)
 - (f) Higher services fees'
 - (g) Difficulty in meeting documentation requirement.
 - (h) Any other (Specify)
19. What is your primary source of funding for your business?
- (a) Personal savings
 - (b) Loans from family/friends
 - (c) Non-Banking Finance Company
 - (d) Any other (Specify)
20. Does the Bank /FI volunteer information on
- (a) Schemes available for MSMEs
 - (b) Assistance in preparing Project proposal
 - (c) Information needed for loan sanction
 - (d) Marketing assistance
 - (e) Documents needed to create a charge
 - (f) Any other (Specify)
 - (g) No cooperation on information requirements to get loan.
21. Is the loan repayment schedule satisfactory?
- (a) No, because tenure of the loan is short
 - (b) No, not well suited to cash flows from operations
 - (c) Yes, tenure of the loan is quite comfortable.
22. Did Bank/FI explain the loan procedures and the repayment terms & conditions?
- (a) Yes, when we asked for
 - (b) Yes, Bank/FI voluntarily explained each process
 - (c) No, Bank/FI did not volunteer any information.

23. Did Bank/FI offer alternatives to financing your need?
- (a) Yes, Bank/FI suggested the best possible debt financing among the various schemes
 - (b) Bank/FI suggested the best possible scheme/s and also discussed the interest rates
 - (c) No, Bank/FI helped us with only what we asked for
24. What are your expectations from Bank/FI? (Multiple options available)
- (a) Increase the tenure of a loan well suited to cash flows
 - (b) Reduced interest rate
 - (c) No collateral
 - (d) Quick processing
 - (e) Hassle free dealings
 - (f) Lower service charges
 - (g) Counseling Any other (Specify)_____
25. What type of help you require from Bank/FI when you start operations of your business?
- (a) Reminder to be sent in advance.
 - (b) Stock SME goods to display at the branches (Not clear?)
 - (c) Explain schemes in simple terms
 - (d) KYC at home using handheld devices (E KYC)
 - (e) Restructuring to be considered when the project fail
 - (f) Any Other (Specify)
26. Is your establishment registered under TReDS?
- (a) Yes
 - (b) No
27. Was your loan proposal rejecting any time?
- (a) Yes
 - (b) No

28. If Yes, Because of lack of

- (a) collateral
- (b) business records
- (c) understanding of loan covenants
- (d) convincing projections/estimates of the business.
- (e) Any Other (Specify)

29. Have you faced any problem/s in furnishing audited/ provisional financial statements? (Multiple options available)

- (a) Yes, as there is no format used in the business
- (b) projections and estimates are difficult to make
- (c) As focus is on operational activities rather than preparing financial reports
- (d) Too costly to engage a full time/ part time Accountant
- (e) Any other (Specify)

30. Do you have any future plan for business expansion?

- (a) Yes
- (b) No
- (c) If yes, what do you expect from a bank /FI? _____

31. Offer suggestions to strengthen the relationship between Bank and MSME customers?

.....

32. How much additional financing was availed from banks and other financial institutions during COVID pandemic?

.....

33. How much additional financing was availed from other sources during COVID pandemic?

.....

34. What percentage of your receivables went into NPA?

.....

35. Did you face any new challenge in getting finance during COVID times from financial institutions?
.....
36. What percentage of loans of your business went into NPA during COVID 1in 2019 and 2020?
.....
37. Which type of loan met your immediate requirement during pandemic?
.....
38. What problems did you face during pandemic regarding availing loan from banks?
.....
39. What restructuring advantage did you gain from banks for your existing loans?
.....
40. How useful is credit rating process for your business?
.....
41. What are your expectations from Credit rating agencies?
.....
42. Any other challenge which for your operations
.....
43. Any suggestion to improve eco system for MSMEs
.....
44. How can we motivate youngsters for career in MSME?
.....