Issues in SME Financing

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Abbreviations

ADEs	Advanced & Developing Economies
ANBC	Adjusted Net Bank Credit
APAR	Annual Performance Assessment Review
BCSBI	Banking Codes and Standard Board of India
BLBC	Block Level Bankers Committee
BPR	Business Processing Reengineering
BSE	Bombay Stock Exchange
CA	Chartered Accountant
CAGR	Compound Annual Growth Rate
CGS	Credit Guarantee Scheme
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CIBIL	Credit Information Bureau (India) Ltd
CIC	Credit Information Companies
CMA	Cost Management Accountant (Erstwhile - Associate Institute of Cost & Works Accountants), (AICWA)
CSR	Corporate Social Responsibility
DER	Debt Equity Ratio
DIC	District Industries Center
DLRC	District Level Review Committee
EDI	Entrepreneurs Development Institutes
EDP	Entrepreneurs Development Programme
EME	Emerging Market Economies
GDP	Gross Domestic Product
IBA	Indian Banks' Association
IBPS	Institute of Banking Personnel Selection
IFRS	International Financial Reporting Standards
IIBF	Indian Institute of Banking & Finance
IIBM	Indian Institute of Bank Management
IIMs	Indian Institute of Management
IITs	Indian Institute of Technology
IOVF	Indian Opportunities Venture Fund
KPIs	Key Performance Indicators
LC/BG	Letter of Credit/Bank Guarantee
LTV	Loan to Value Ratio

MBA	Master of Business Administration
MDPs	Management Development Programmes
MLIs	Member Lending Institutions
MNCs	Multinational Companies
MRM	Market Recession Management
MSMED Act	Micro, Small & Medium Enterprises Development Act
MSMEs	Micro, Small and Medium Enterprises
MSOD	Monthly Statement of Operating Data
NBC	Net Bank Credit
NBFC	Non Banking Financial Companies
NIBM	National Institute of Bank Management
NIM	Net Interest Margin
NITs	National Institute of Technology
NPAs	Non Performing Assets
NSE	National Stock Exchange
PAT	Profit After Tax
PSBs	Public Sector Banks
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RUDSETI	Rural Development & Self Employment Training Institute
SCBs	Scheduled Commercial Banks
SIDBI	Small Industries Development Bank of India
SLBC	State Level Bankers Committee
SMECC	SME Care & Counselling Center
TAT	Turnaround Time
TEV	Techno Economic Viability
TNW	Tangible Net Worth
TOL	Total Outsider Liabilities
UGC	University Grants Commission

Executive Summary

Researcher has undertaken the project in terms of assignment given by IIBF, Mumbai. More focus has been given on primary information from loan providers and finance seekers from banking industry to enhance utility of the results emerged from the study; and to offer workable recommendations based on empirical observations. Each research has its inherent limitations, however, in this study sincere effort has been made to attain objectives of the research without adverse impact of limitations on the overall assessment. Primary data from 257 bankers (PSBs & private banks) and 110 entrepreneurs covering 21 & 15 states respectively across the country have been analyzed. Random sampling used, covers SMEs from manufacturing and service sector. Besides the secondary data from different group of banks around 80 in numbers broadly categorized in 3 groups such as public sector banks, private banks and foreign banks taken into sample from the period of 1999-2000 to 2010-11.

Quite an important issues involved in SME Finance have come across during the analysis made in the study which have direct bearing on financing from bankers' and entrepreneurs' perspectives. Recruitment of right staff for right jobs, their training, posting, mindset and staff accountability have been important issues relating to human capital for which effective succession planning, creation of talent pool, reforming training system of banks which are archaic in present banking environment, are important recommended actions to address these problems. Most of the SMEs being driven as family business and first generation entrepreneurs do not have proper succession planning to take over business which later on ends with family conflicts. They do not have strong capital base and also no adequate collaterals etc., which posed major problems for bankability of their firms. Lengthy and complex paper & processing system of loan appraisal observed impediment for SME sector while this sector considered to be lesser risky, high yielding, faster growing and sustainable for development. Diverting and siphoning off funds found to be prominent factor of default by SMEs in 117 responses which is probably owing to lack of professionalism (71 responses), failure to bring promoters contribution from long term sources (61 responses) and also under finance by the bank (34 responses) leading to excessive private borrowings observed in 166 responses that constitute 38% of total responses of 445. Low technology innovations and inadequate product branding/marketing tie-up are another important non-financial factors of default put together in 124 responses which represent 27% of total responses.

Ineptitude of banks officials having no control over borrower where there was no collateral and lack of knowledge of CGTMSE scheme putting both the reasons together, 131 responses (43%) have observed it an obstacle for successful implementation of the scheme. High guarantee fee and annual service fee are impediments and have increased cost of borrowings. Entrepreneurs have also observed similar views that guarantee and annual service fee payable under the scheme are causing abnormal increase in their cost of borrowings. Indian SMEs do not face much competition from advanced & developing economies (ADEs) and emerging market economies (EMEs), but these firms are facing stiff competition from domestic large sized firms. Innovating the products and services was found to be top most agenda in action plan with 74% responses to leverage over large firms. New delivery channels adopted by SMEs are observed as one more useful tool by 54 respondents during recession. The whole observation on analysis of reasons responsible for default indicates that technology and innovations in product or process have emerged as two most successful ways of managing uneven phase in business as experienced by majority of entrepreneurs in this survey. Government procuring policy regarding buying at least 20% of annual purchase from SMEs is not being followed in its letter and spirit as expressed by 71% of total responses. They pointed out that Government/public sector enterprises are not procuring their products. Acceleration in sales with a growth rate of more than 25% observed in most of the firms, is a testimony of possessing higher growth appetite by this sector. It is also observed from the responses that SME is a sector of entrepreneurship having high dreams which believes in ambitious projections because a good number of firms have projected 25% higher growth than actual achieved in all selected parameters of business. At industry level, it is surprisingly noticed that about 5% SMEs are only covered by institutional funding and approximately 95% of units still require to be brought into banking fold. The credit acceleration in the sector had significantly noticed absolute growth but proportion of MSE credit in net bank credit has been more or less at same level of 14% which was way back in year 2000 despite widening the coverage of the MSE sector. This analysis has indicated that real growth in finance to MSE sector is not adequate in light of significant contribution of the sector in economy such as employment, manufacturing and export of the country. Low share of MSE credit does not only hamper equitable growth of economy but also fails the banks to fulfil their social commitment to the growing society. Y-o-Y growth during review period is showing uneven trend, however, it was observed 19.94% in year 2009, grew by 41.44% in year 2010 and the growth rate was declined to 32.08% in year 2011. The abnormal acceleration in year 2010 might be occurred owing to inclusion of retail trade in service sector and therefore, normal growth was observed in year 2011. The abnormal increase was also observed in number of accounts from 48.51 lacs in 2008-09 to 85.05 lacs accounts in year 2010 registering growth of 75.32%. Since retail trade loan limit up to Rs. 20 lacs allowed in service sector, there are normally huge in number, the quantum of accounts jumped abnormally contributing the said growth.

The growth rate in amount and in accounts might be imbalanced owing to the reasons that banks have enhanced credit to their existing clients to increase their outstanding amount but not targeting the new entrepreneurs into their fold. This type of lending does not only disregard the spirit of mandatory lending norms to the sector but also attracts high concentration risks. Banks in India are mandated to register at least 20% YoY growth in credit to Micro & Small Enterprises and 10% annual growth in number of micro enterprises accounts which is now recommended to grow at least by 15% in number of account every year. It is observed that 92.77% SME beneficiaries have no finance, 5.18% avail finance from institutional sources and 2.05% through non-institutional sources. This is an indicator for the banks that they need to focus on SMEs to achieve national agenda of financial inclusion because exclusion over 92% of SME units is indeed a matter of concern in the history of independence for over 64 years and about 43 years of banks nationalization in our country. Also the study validated the observation that SMEs are undoubtedly like big bazar group to be tapped by formal credit delivery channel because 93% of SMEs still rely on self finance. So this sector will help to realize theme of inclusive growth of 12th Plan. The Government and policy makers have introduced policy incentives which signify concern and importance of the sector in economy. These policy measures are key drivers of SME finance. Some of the important measures which have direct impact on financing to SMEs are: lesser provision norms on standard category of advances to SME as compared to other loans, collateral free loans up to Rs. One crore secured by CGTMSE guarantee, allocation of Zero risk weight to SME loans guaranteed by CGTMSE for capital adequacy requirement, simplified computation of working capital limit to SME units, India Opportunities Venture Fund (IOVF) for Rs. 5000 Crores set up with SIDBI for enhancing equity to the sector, launching of two SME Exchanges, reinforcement of public procurement Policy to buy from SMEs, increasing turnover limit to Rs.100 lacs (from Rs.60 lacs) which are exempted from compulsory tax audit, capital gain tax exemption on sale of residential property if sales consideration is used for subscription in equity of a manufacturing SME company for purchase of plant & machinery.

The study offers important recommendations based on the empirical observations from analysis of primary and secondary data. Some of them are presented herein in the report -

(1) The covenant of *"one size fits to all"* does not make much sense in competitive environment and, therefore, there is need to differentiate finance officer and general banking officers in terms of their service conditions, postings, grooming, attitude, promotions, creativity and many more. Else there is equal amount of risks which involves in driving the vehicle on busy roads by the person who does not know driving. Banks management should create credit drivers to pick up SME finance.

(2) Training colleges of individual banks to be upgraded as centers of excellence and should be responsible for continuing learning efforts across the organization. Training is also essential to branch managers and their field officers for change in mindset away from perceived risk in financing SMEs. The necessary help, if required may be taken from management institutes of banking industry such as IIBF, NIBM, IIBM, IBPS or consultancy firm of national/international repute, to work out programme design for attitude transformation of humanware.

(3) Head/Principal of training colleges should not be below than the rank of General Manager and possess experience of teaching line with research aptitude. Performance management and evaluation system of faculty should be on the pattern of UGC guidelines giving more focus on developing case study of high repute, carry out in-house research, qualifying knowledge & skill test to continue posting of faculty in training system instead assured tenure of 3-5 years in system. Mentoring of staff and incubating entrepreneurs should be performing indicators of faculty based on the pattern of academic research guidance rules applicable in education world.

(4) Training Colleges of banks should be given target to reserve at least 15% of their annual programmes for EDPs which can be under aegis of Corporate Social Responsibility (CSR) in banking.

(5) Staff accountability norms framed decades before in a protective environment of sellers' market in banking are now outdated. These should be reviewed in light of highly competitive and transparent environment of banking. Staff accountability in finance should be viewed on broader perspectives considering track of service conduct in organization with a provision of tolerance limits in total credit decisions taken in a particular period.

(6) Lengthy processing system of SME proposals should be made simpler. This will avoid wastage of man-hours and duplicity of information asked from applicants. Simplified application cum sanction form should be introduced across the industry for loan up to Rs. 2 Crs to SMEs with check list of documents to be submitted and loan agreements to be executed by applicants. It should be uploaded on website of banks and on line tracking system of applications be introduced.

(7) A model project cost & overall viability report of various industries in cluster to be developed with the help of a committee comprising representative from major banks of the district/clusters to obviate need of any experts or consultants for making TEV study in individual cases. Such reports should be used by banks and entrepreneurs without engaging any consultants in preparation of TEV study report which would save both cost and time and loan would be cost effective for SMEs.

(8) Technology backwardness and lack of innovation have been causes of failure of SMEs because promoters do not have fund for technology upgradation. Banks should, therefore, mandatorily consider loan for capex investment in technology upgradation and innovation of SMEs which may be called 'Capacity Building or Mezzanine Finance' to SMEs. Banks should also think beyond finance by extending financial support or sponsorship of chair with Technology or Management Institutes such as IIBF, IBPS, NIBM, IIBM, IITs, NITs, IIMs etc for undertaking research on technological upgradation of SMEs in our country. Government may make amendment in Finance Act to allow double deduction of such grant from tax point of view.

(9) Both eligible loan limit and guarantee coverage under the scheme should be increased from existing ceiling of Rs.100 lacs & Rs.62.50 lacs respectively to Rs.150 lacs and eligible loan limit for coverage and guarantee claim should have 2-Tier rates viz. 85% of default amount up to loan of Rs.10 lacs and floor rate of 75% of default amount for loan limit over Rs. 10 lacs with maximum cap of Rs.100 lacs. The proposed increase is justified in the light of hike proposed in ceiling of investment in plant and machineries and equipments & instruments for defining the entrepreneurs as Micro and Small Enterprises as per recommendation of high level committee constituted by RBI on priority sector lending and owing to upward change in cost . Also to subsidize the cost of guarantee under the scheme as suggested by its users, it is recommended that instead waiver or reducing guarantee cost, the tax liability of SME borrower should be reduced to the extent of expenses of guarantee and annual service fee paid under the scheme.

(10) Huge amount of expenses are to be incurred towards market making movement and such type of expenses are of capital nature which should be amortized in due course of time. It is felt that costs involved in marketing like appointment of marketing personnel, advertisement of products on print & electronic media, expanding network through agents or representative at up-country centers etc, are not considered by bankers while appraising loan application. Investment for market development activities illustrated herein the report should be considered permissible cost of project for finance at par with capex in plant & machinery, else

assessment of loan limit without marketing arrangement would be *ab initio* incomplete. Government & policymakers may consider this proposal to make capital provision of marketing for SMEs in budgetary allocation to the sector.

(11) Government procuring policy regarding buying at least 20% of annual purchase from SMEs has been put in place but not being adhered to in its letter and spirit by big giants. Since MSEs do not have expertise/skills for approaching to the large corporate, DIC or Directors, MSME establishments at regional level should own responsibility of providing details of products of these MSEs to the Government/PSU buyers reinforcing mandatory guidelines and also verifying their compliance from time to time. Also Banks should mark lien in total working capital limit as sub-limit reserved for purchasing from SMEs while sanctioning credit facilities to large corporates. These both items should be a standing agenda of discussion at various forums like BLBC/DLRC/SLBC where almost all stakeholders of SME sector participate.

(12) SME chambers or associations should collaborate with banks' training institutes, business schools and management institutes to organize workshops & training programmes for their members on basic accountancy, information technology, cash flow, various financial products for SMEs. Such awareness campaigns will help the entrepreneurs for easy access to bank credit because borrowers who provide informative financial statements with a strong financial condition as reflected in terms of financial ratios, will expedite credit process and ensure timely & adequate credit supply.

The 12th Five Year Plan has a logical strategy for SME sector. Innovation is the *sine quo non* for ambitious growth of the sector. SMEs need such financial product which covers life cycle of their firms. Banking sector has therefore, huge opportunities of viable business from SMEs because this sector stands as strong pillar of inclusive growth in an economy. Banks now have challenge to customize their products to meet innovative needs of SMEs at competitive rates for the sector to grow. It is witnessed from the findings of study that growth rate of SME sector has always been much higher than the overall credit growth of banking industry that coins the phrase *"…Small is mighty, profitable & good for sustainability …"*

The recommendations emerged in the study are expected to have significant impact on financing issues to SME sector which do not have enough access to credit. It is hoped that these recommendations are within policy frameworks in our country and would contribute as a lesson for fellow bankers as well as SMEs to understand business of each other in interest of promoting the SME sector. Also the findings are open for further survey & research by scholars in academia.

CHAPTER-1

Introduction

SME is a growth engine of economy for any nation across the world. The importance of this sector in India as compared to corporate giants with respect to its contribution towards Indian economy can be best understood that they contribute 8% in Gross Domestic Product (GDP), 45% of manufactured output, 40% of exports, manufacture over 6000 products and provide employment to around 60 million person through 26 million enterprises as per latest 4th all India census of MSMEs. Recognizing the significant contribution of this sector in economic growth and also in employment generation in our country, Government of India has taken good number of initiatives to develop the sector such as erstwhile definition of 'Small Scale Industries' was enlarged by increasing investment ceiling in plants & machineries from Rs. One crore and trading activities have taken in the ambit of MSMEs by enactment of Micro, Small & Medium Enterprises Development (MSMED) Act from 2nd October 2006. Also the Act recognizes the term 'Enterprises' instead of 'Industry' to include service in MSME segment. MSME sector is the second largest employment provider in our country and it is good vehicle to achieve inclusive and distributed growth. This study has undertaken to ascertain various issues relating to SME finance from banks taking the published statistics and primary data into account, to examine the reasons why banks shy away from lending to the sector and what are possible remedies to enhance accessibility of SMEs to bank finance. Methodology, objectives and hypothesis of study is described in separate chapters of the report

MSME - A vehicle of inclusive growth of Economy

Indian economy is dominated by a vibrant set of enterprises, which are prestigiously known as Micro, Small and Medium Enterprises (MSMEs) for their scale of operations. Only 1.5 million MSMEs are in registered segment while the remaining 24.5 million that constitute 94% of the units are in unregistered segment. The role of MSMEs in economic and social development of country is widely acknowledged. They are nurseries for entrepreneurship, often driven by individual creativity and innovation, and make significant contribution to country's GDP, manufacturing output, exports and employment generation. The labour-capital ratio in MSMEs is much higher than in larger industries. Moreover, MSMEs are better dispersed and are important for achieving the national objective of growth with equity and inclusion. MSMEs are broadly classified into two sector i.e. manufacturing and services. The units engaged in manufacturing or producing and providing or rendering of services has been defined as micro, small & medium under MSMED Act on basis of original investment in plant & machinery and equipment as under –

Enterprises	Manufacturing	Service
Micro Enterprises	Up to Rs. 25.00 lacs	Up to Rs. 10.00 lacs
Small Enterprises	Above Rs. 25.00 lacs to Rs. 500.00 lacs	Above Rs. 10.00 lacs to Rs. 200.00 lacs
Medium Enterprises	Above Rs. 500.00 lacs to Rs.1000.00 lacs	Above Rs. 200.00 lacs to Rs. 500.00 lacs

In order to expand the scope of micro and small enterprise (MSEs), the threshold of investment in plant & machinery and equipment for MSEs is recommended to enhance from the above limit to Rs. 50 lacs & Rs. 800 lacs for manufacturing MSEs and Rs. 20 lacs & Rs. 300 lacs for MSE under services respectively by Nair Committee in its report dated 21st February 2012.

Looking to the significance of SME sector, it is estimated that if India wishes to have growth rate of 8-10% for the next couple of decades, it needs a strong SME sector, without which it would be difficult to realize. Today there are about 30 million MSMEs in the country and this sector has shown an average growth of 18% over the last five years. In this backdrop, MSME is considered to be fast growing sector of economy. The sector is gaining more importance to realize theme of 12th Five Year Plan (2012-2017) approach paper *"faster, sustainable & more inclusive growth*". So, this sector offers opportunities of entrepreneurship to younger generation, new areas of MDPs for management institutes, business prospects to lending institutions, issues to regulators & policy makers and areas of research to scholars for making the sector more vibrant and faster.

CHAPTER-2

Objectives, Hypothesis & Limitations

2.1. Objectives

SME is _Gen-Next_ engine of economic development and it is answer to realize 12th Plan with special reference to generate employment and export of the country. Also this sector has huge potential of banks' finance for sustainable growth, the instant research project "Issues in SME Financing" hence aims –

- To examine & analyze the status of credit flow to SME sector against the set benchmark under SME Policy guidelines
- To identify major issues in SME financing - from credit users (borrower) and loan providers (banks) point of view i.e.
- Why banks' credit is not preferred by entrepreneurs
    - Why SMEs are not bankable
- To analyze responses sought from entrepreneurs and bank officials in regard to the problems being faced and related issues in SME finance and ascertain viability of measures suggested by them to overcome from the constraints.
- To take stock of extant policy frameworks and various provisions for financing to a SMEs (Box-II) and review them in the light of observations of the study.
- To analyze primary and secondary data for observations and to offer recommendations to enhance accessibility of bank finance to SMEs.

2.2. Hypothesis of Study

Research has assumed following hypothesis broadly classified from perspectives of bankers and SMEs which are tabulated below-

Bankers - Why SMEs are not bankable		SMEs - Why banks' credit not preferred	
1	_Small Ticket size_ & high transaction cost	1	Bankers prefer _security obsessed_ lending
2	_First Generation_ entrepreneur - lacking in experience of venturing & fails to bring promoters contribution	2	Lengthy, complex and inflexible _paper works_
3	_Highly risky_ because of either Low or no credit rating, high rate of diversion/siphoning off the funds and lack of collaterals	3	_Lower capitalization_ & high Debt Equity Ratio
4	_Weak & Inadequate_ marketing and globally in-competitive due to lack of product branding	4	_Taking months_ to get credit & no on-line tracking of loan application and many a times insufficient funding by banks

2.3. Limitation of Study

Project work has been carried out on the basis of primary as well as secondary data, which have inherent limitation. While administering the questionnaires, sometime it happens that respondents either hesitate to respond questions or don't get enough time to interact and provide distorted data that fail to draw realistic findings. Poor responses from certain corners of the country as compared to other parts of the nation are also one of constraints. It is also felt that data available with banking industry are not picked up through unique ID of the customers thus multiple reporting of information cannot be avoided at present which is observed in published data used in the study. Probably, use of Aadhaar of UIDAI in banking transaction will provide the solution of multiple reporting i.e. counting one person in 'n' number of heads for various credit facilities he enjoys from banking. However, sincere efforts has been made to attain objectives of the research without adverse impact of limitations on overall assessment of the hypothesis

CHAPTER-3

Methodology & Sampling

3.1. Methodology

SME sector mainly relies on bank finance for funding its operations that involves a good number of financial and non-financial issues. The research carried out under the subject is of analytical nature. The primary data is collected through a structured questionnaire for SME customers and experienced bankers. Random Sampling is adopted. The responses were analyzed with the help of various statistical techniques, such as ratio, percentage and means to obtain results. The methodology adopted to carry out study is described below –

(*a*) Use of primary and secondary data relating to SME finance.

(*b*) Primary data gathered through a structured questionnaire & also personal discussion with executives and managerial staff of various banks and from SME entrepreneurs.

(*c*) Secondary data has been collected from published reports and other data source from various sites such as Reserve Bank of India, SIDBI, GOI and banks in their various committee reports, speeches and periodical reports.

(*d*) Statistical techniques viz. ratio analysis and comparative growth analysis used to draw inference.

Primary information is collected from banks and entrepreneurs across the country by interviewing and interacting with them. Two questionnaires were developed for this purpose. Samples of these questionnaires have been placed in this report as annexure 1 and annexure - 2. Researcher has administered the questionnaire from different part of country and also solicited assistance from his banker colleagues to administer the questionnaire at place where it was not possible to meet the respondents in person. Sample of primary data has wide range covering and senior executives and veteran bankers and also entrepreneurs from both manufacturing and service sector. Information collected from bankers are mainly of qualitative in nature such as –

- Key drivers of SME Finance
- Factors affecting SME Finance - Bankers perspectives
- Proportionate share of SME in total advances, income and NPA
- Causes of defaulting in bank's loans
- Reasons of not picking up credit under collateral free credit guarantee scheme of CGTMSE
- Documentation for SME Finance from banks
- Cost effectiveness of Bank loans
- Initiatives suggested to enhance SME Finance

Questionnaire used to obtain information from SMEs, has three parts viz. First demographic, Second situational and operational issues and Third is on funding pattern involving financing related issues. The important information collected from SMEs include –

- Business drivers and issues in Bank Finance - SMEs perspectives
- Problems before Indian SMEs
- Profitability of SME Firms
- Market Recession Management
- Solvency & coverage ratio of SMEs
- Sources of financing and trend analysis on SME lending
- Growth pattern of SME firms
- General outlook and bankability of SME Firms
- Ways for enhancement of SME Finance

The period of secondary data used in the study is of 11 years from PSBs, private banks and foreign banks which represent banking industry. Thus findings and recommendations based on the empirical observations are universal in nature and applicable to both the bankers and entrepreneurs.

3.2. Study Sample

Sampling is an important part of research methodology. Primary data collected from 257 bankers of public sector banks (PSBs) and private banks covering 21 states and union territories of the country such as Andhra Pradesh, Assam, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamilnadu, Uttarakhand, Uttar Pradesh, West Bengal, Delhi, Chandigarh. Bankers in sample include 63 officers, 73 managers, 80 senior managers and 41 branch managers ranging from junior officer to top executives in banking industry. Two hundred twenty officers in sample have working experience in loan department of various banks and 150 of them had been branch heads which represent 85.60% and 58.37% of sample numbers.

Sample of SMEs is also geographically spread through out the country covering 110 entrepreneurs from 15 states and union territories namley Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Jharkhand, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamilnadu, Uttarakhand, Uttar Pradesh, West Bengal, and Delhi; who are dealing with PSBs and private banks. The sample covers 76 units from manufacturing and 34 units from service sector. Furthermore, it includes micro (19), small (63) and medium (28) enterprises representing 75% units to MSE sector which is on top agenda of central government for equitable growth. Ninety four (94) units are owned by male and sixteen (16) by female in sample of SMEs. These SME firms are being run in form of companies (50), partnership firm (33) and sole proprietorship (27) firms as depicted in figure-3.1.

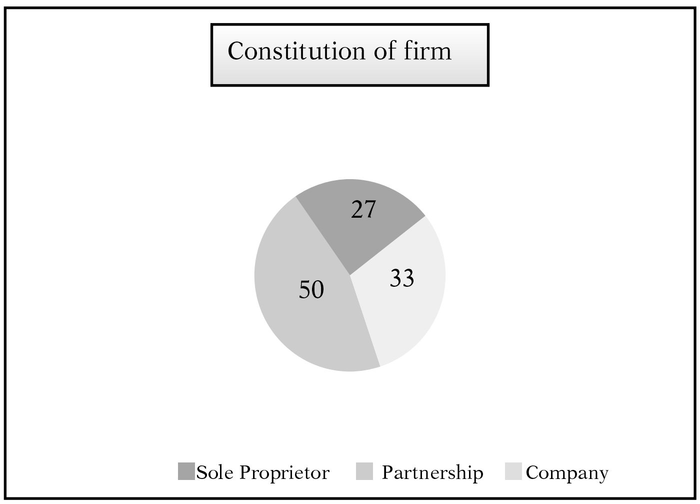

Figure - 3.1

Experience of related business activities and working has been also wider in sample size of the study. Majority of the numbers in sample possessed rich exposure of their respective field which is depicted in the table below –

Bankers - Length of service in banking industry			Entrepreneurs - Firms in existence for period of		
Period in Years	Nos.	%age	Period in Years	Nos.	%age
Up to 3 Years	64	24	Up to 3 Years	22	20
Over 3 Years to 10 Years	31	12	Over 3 Years to 10 Years	40	36
Over 10 Years	162	63	Over 10 Years	48	44
Total	257	100	Total	110	100

There are possibilities that in some of the questions, responses may be more than one, therefore, respondents have option to give more than one option which are relevant to the questions and these responses will be counted two or more in total numbers of responses of a particular question. For example, inspiring factors for a banker to work in loan department may be his rewarding experience in organizational life and also he/she was groomed by his/her bank in credit, therefore, total responses under different items of a question would be observed more than the total bankers and SMEs interviewed in sample. Thus, numbers indicate sum of responses gathered from respondents on particular items of the question set in a questionnaire.

Secondary data from different group of banks are also taken into sample for extant analysis. The latest data on select important parameters such as net bank credit, MSE credit, loans to micro enterprises, reasons of sickness, non performing assets (NPAs) in SME sector for scheduled commercial banks, excluding regional rural banks, from 1999-2000 to 2010-11 have been used for this study. Sample size of secondary data includes Scheduled Commercial Banks which are around 80 in numbers broadly categorized in 3 groups such as public sector banks (PSBs) including IDBI Bank Ltd, private sector banks and Foreign banks which is a large sample to represent banking industry in our country.

CHAPTER-4

SME Finance from Bankers' Perspective

Financing to small and medium enterprises (SMEs) is a subject of great interest for researchers and is an important issue for policy makers around the globe. The current research literature has proven to be quite helpful for understanding the conceptual framework of the markets for providing finance to SMEs in both developed and developing nations. The issues in lending to the SME sector, observed by bankers during meeting and interacting with them, are analyzed in this chapter.

4.1. Human Capital is determinant of growth

Human resource development issues are fundamental in improving credit competitiveness and ability to adjust to the competitive pressures that come with liberalization and globalization. Empirical studies show that human capital is a significant determinant of growth. Credit in banking is considered to be core business with high risk and return for its sustainability. Most of the officials are found scared to work in loan department due to various reasons namely specialized skills of this vertical, staff accountability etc. The analysis of impressions compiled from various bankers reveals that there are good numbers of drivers to encourage bank staff for working in credit which requires special attention by the bank management to enhance credit in general and SME finance in particular. The important observations on behavioural aspects of bankers based on their responses (table - 1) are presented below -

4.1.1 Posting in loan division of bank branches are considered to be unwilling and forcefully by 31 officers (11%). Forty three (15%) officers found in department owing to their grooming in credit by banks while 49 officers (17%) observed to be specialist of credit operations. 14% officers do not considered this posting inspiring as such but it is to be taken as normal course of employment. So, in majority the credit operations in banks are not owned with passion but this is assumed be burden and undesired walk-in walk-out posting awaiting substitution with no effective succession planning.

4.1.2 Working in advance department has been assumed as a rewarding experience by 120 officers representing 43% of total responses, in terms of promotion and overseas posting, but there were no such policy provisions in their respective banks as reported by respondents.

4.1.3 With regard to inspiring factors of taking credit assignment as challenge, the majority of respondents (187 officers) representing 52% responses, have expressed their views to make the posting of loan department rewarding in terms of promotions, placement, overseas assignment, business incentives etc.

4.1.4 Most of the bank officials are scared to lend because of the fear of staff accountability. Ninety responses constituting 25% of responses are in favour to make accountability norms more flexible and lenient, particularly in public sector banks because extant norms are outdated in the light of competitive, vibrant, liberalized and fraud prone environment of banking. There is need to place a policy on staff accountability for non-performing assets by each bank and also accountability to be fixed for delays in concluding disciplinary cases.

4.1.5 The lesser part of bank officials (19%) endorsed that credit sales to SMEs should be made mandatory for all bank officials at all levels as one of KPIs. It will help to improve the situations. Each officer should be allocated target to canvass SME credit because achieving obligatory benchmark of 60% lending to micro enterprises and also to achieve proposed mandatory lending at the rate of 7% of adjusted net bank credit to MSEs in phased manner in 2013-14 as per new framework of priority sector lending guidelines in our country. The achievement of this lending benchmark should not be the only obligatory compliance on part of budgetary functionaries i.e. branch heads but equally for non-budgetary functionaries as per annual performance assessment review (APAR) guidelines introduced in pursuant to Ministry of Finance, Government of India directives to banking industry. This prescription will also enhance participation of rural/semi urban branches in incentives scheme as recommended by a high level committee on HR issues of PSBs.

4.1.6 One hundred ninety seven (197) of 257 officials in sample have been provided basic training on credit by their bank management. However, merely 43 officers were groomed in credit by comprehensive training. It indicates that advances and comprehensive training programme for credit grooming should be organized offering them on the job training as well as class room training. Training systems of banks should perform as "Coaching Schools of Credit (CSC)" to focus on creation of talent pool of officers in critical areas like SME credit and internal certification of training programmes to be introduced to build talent pool. Training colleges of individual banks may be upgraded as centers of excellence with mandate to carry out in-house research which may provide learning support to the management and will be responsible for continuing education efforts. Internal processes in training such as faculty selection, training of faculty, introduction of core faculty in core areas of banking including credit should be improved on the patterns as recommended by a high level committee on "HR Issues of PSBs" constituted by Government of India.

4.2. Bankability of SME Finance

Banks are custodian of public money and finance is their main source of revenue generation. On the other hand, credit creation is money multiplier to ensure adequate money supply for economic growth of the country. The weightage and impact of the issues which have direct bearings on SME finance are, therefore, analyzed on the basis of data obtained from bankers in their responses (Table-2) in the study and also summarized in figure -4.1.

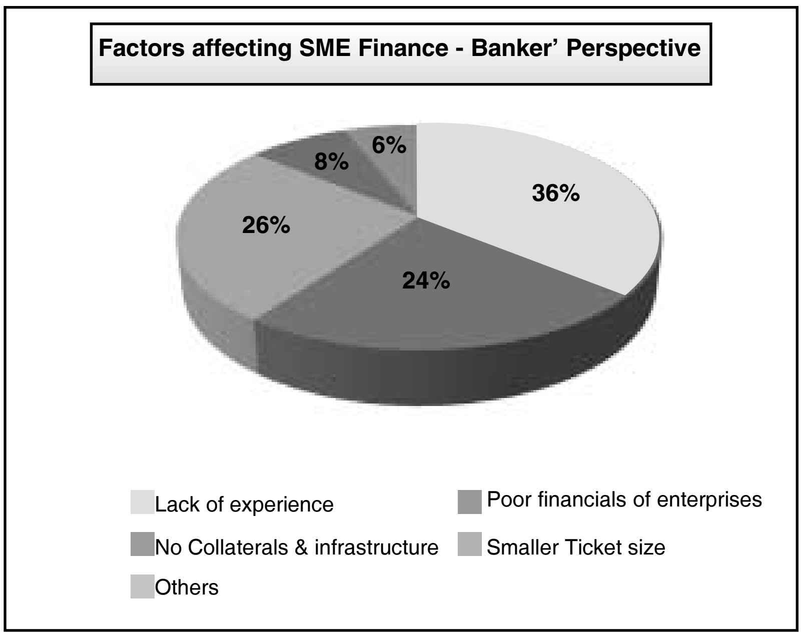

Figure 4.1

4.2.1 Entrepreneurs of first generation with lack of experience, has been revealed as the foremost reasons of poor SME credit by 118 bankers which represent majority of responses, followed by lack of collaterals & infrastructure put together 26% and poor financials of SMEs by 24% respectively. The hypothesis that SME loans are of small ticket size thus carries high transaction cost, is not tenable in all cases because merely 8% respondents found SME loans in smaller and uneconomical ticket size. It indicates that ticket size of MSE loans is reasonable and bankable for the effective management of concentration risk which supports traditional covenant of not putting all eggs in a single basket.

4.2.2 Majority of bankers don't prefer SMEs for want of proper books of account and infusion of own contribution into business by promoters, as responded by 160 officers that constitutes 52% of respondents. This peculiarity, probably has been observed in SMEs because most of them are first generation entrepreneurs who fail to bring their own contribution and also don't know how to record their business transactions in their books. Education campaign on the subject will help to groom/nurture knowledge of entrepreneurs for enhancing bankability of their units in regard to ploughing back of profit in business and implement proper accounting system to tied-over the situation.

4.2.3 Banking with first generation entrepreneur should be considered long life relationship because today's SMEs are large corporate of tomorrow and future MNCs. Therefore, there is a need to have credit linkage with them by credit counselling services in addition to funding their financial requirement. Good credit rating is pre-requisite for bank finance and for better pricing of the loans. Thirty four (34) respondents representing 11% numbers are found of the view that SMEs are not bankable due to their poor rating or no credit rating. It is also one of the integrated factors of poor collateral securities, low promoters margin or improper books of account because of 1st generation of entrepreneur. So, bankers should educate and counsel them to improve their deficiencies on these parameters.

4.2.4 Lengthy processing system of SME loan proposal/ applications reported cause of higher transaction cost and man-hours by 48 respondents which represent 16% of total numbers. Further, while analyzing secondary/published data it comes across that delinquency rate in case of SME is not so high as compared to agriculture and other sector of economy observed in subsequent chapter of the report. However, lengthy processing and wastage of man-hours due to repetitive nature of work flow may be curtailed by leaning operations under Business Processing Reengineering (BPR) initiative by the banks.

4.3 SME contributes more in advances & less in NPAs

The information on proportionate share of SMEs in total advances, income and non-performing advances have been gathered from bankers under four slabs ranging from less than 10% to more than 50%. Eighty nine respondents representing 55% in total numbers of 162 informed in the survey that rate of interest on SME advances as compared to other advances is low; which indicates that lower interest rate is charged on SME advances because this category might be bearing moderate/low risk, thus lesser interest band is loaded over base rate and therefore, more profitable vertical of business for banks. Analytical observations on the share of SMEs in core banking parameters are presented below; statistical results are depicted in table-3 and also figure -4.2.

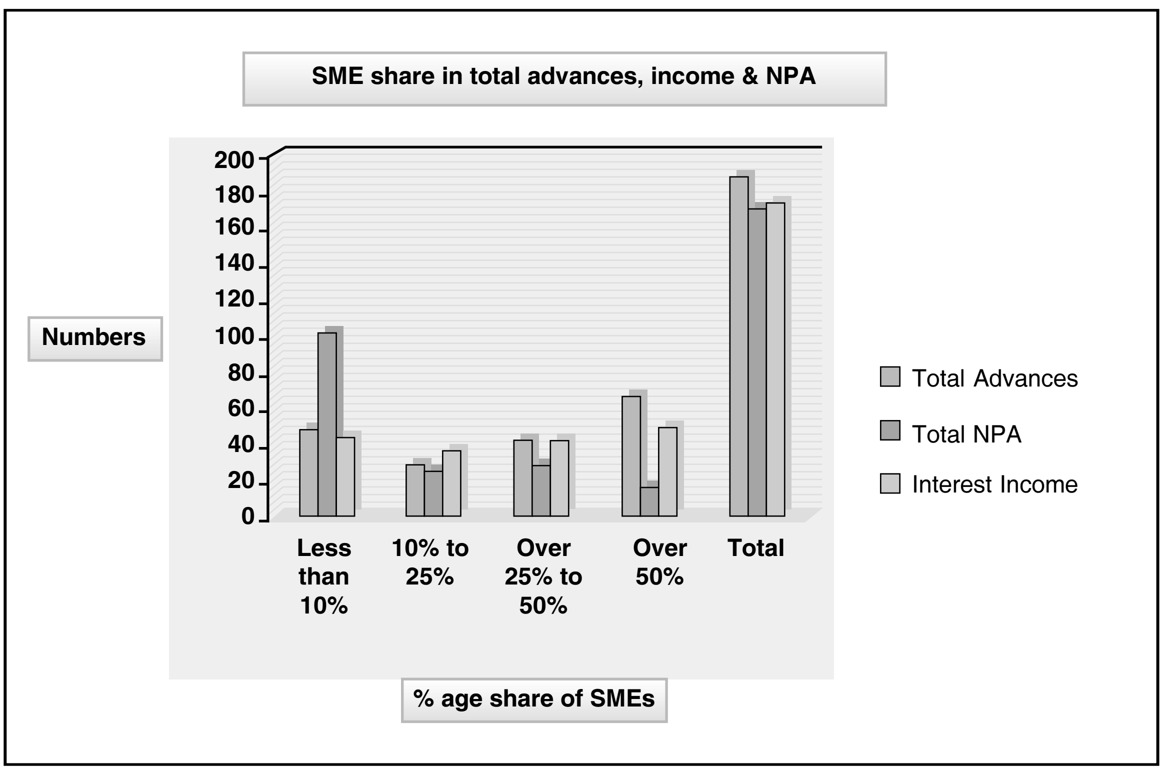

Figure - 4.2

4.3.1 Share of SME credit in total advances is over 25% in 110 cases representing 59% responses, of which it is reported by 67 respondents that SME advance contributes over 50% in their branch loan portfolio. The analysis indicates ample scope of improvement in about 64% cases to attain SME contribution at 50% because total interest income is reported over 50% in total interest income from SME by 50 respondents representing 29% of total numbers.

4.3.2 While analyzing NPA proportionate of SMEs in total advances, it is observed that percent share of non performing SME advances in total advances of 102 respondent branches was less than 10% which represents 60% of total numbers. This indicates that 90% contribution in NPA of these branches is from other segment of business such as agriculture, retail loans, wholesale banking & others. This test based on empirical study proves that SME loans are less risky as compared to other advances. It is opposed to the bankers apprehension that lending to SME sector is high risky and, hence, hypothesis from bankers perspective to treat SMEs non bankable on this front is not valid. This test can also be integrated with the findings that rate of interest on SMEs is found lower in 55% cases in survey because SME credit attracts lower risk premium.

4.3.3 The report on Trend & Progress of Banking in India released by RBI for the year 2010-11 reveals that SME sector contributed merely 20.7% in incremental NPAs of domestic banks against the highest of 44% by agriculture, 27.2% by non-priority sector and 8.1% by other priority sector. NPA of MSE during the year 2011 for all domestic SCBs remained more or less same i.e. it was 17.0% in year 2010 which marginally increased to 17.6% in 2011.The statement is also substantiated by an analysis done by RBI in its trend report of banking in India that despite increase in limit of collateral free loans to SME sector from Rs.5 lacs to Rs.10 lacs in May 2010, the NPA ratio of SME sector witnessed a decline in 2010-11 over the previous year. The sector is therefore, more bankable & profitable as compared to other segment of business in banking. Therefore, observation based on primary data that loans to SME sector are more bankable & profitable as compared to other segment of business in banking stands valid and testified.

4.4 Causes of default by SMEs

Reasons of making default by SMEs as compared to large firms are different and responses received from bankers on causes of default by SMEs are depicted in table-4 and observations based on the primary data collected from bank officials are presented below -

4.4.1 Diverting and siphoning off funds found to be prominent factor of default by SMEs in 117 responses which is probably because of lack of professionalism (71 responses), failure to bring promoters contribution from long term sources (61 responses) and also under finance by the banks (34 responses) leading to excessive private borrowings observed in 166 responses that constitute 38% of total responses of 445. The statistical results analyzed in the study are also placed in figure-4.3.

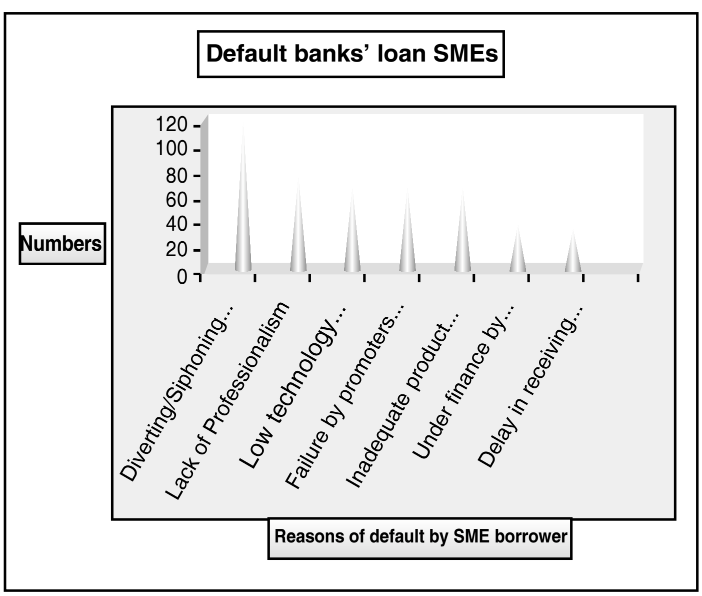

Figure - 4.3

4.4.2 Low technology innovations and inadequate product branding/marketing tie-up are observed important non-financial factors of default put together in 124 responses which represent 27% of total responses.

4.4.3 Sixty one responses representing 14% of total responses were of the view that project and business fails for want of infusing desired funds by promoters. Merely thirty (30) respondents expressed their opinion that borrowers make default due to delay in receiving payment from big corporate.

4.5. Less security or no collateral with SMEs

Collateral is one of traditional tools to mitigate default risk in credit. As observed in preceding part of the analysis that most of the SMEs are of first generation entrepreneurs thus they don't have collateral to seek loans from banks which remained one of reasons for poor credit to them. In view of this observation and background of significant contribution in GDP by SMEs; Government of India introduced a noble scheme to collateralize SME loans by extending guarantee cover to member lending institutes (MLIs) up to loan of Rs.100 lacs. The scheme is known as a Credit Guarantee Scheme of Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) which is briefly described in Box -1. Since collateral has been one of issues in SME Finance; researcher has obtained first hand feedback from bankers about implementation of the collateral free loan under CGTMSE scheme. The responses on factors affecting lending under the scheme and measure to improve finance under CGTMSE are presented (Table - 5) and analyzed as follows-

4.5.1 Ineptitude of banks officials about no control over borrower without collateral and lack of knowledge of CGTMSE scheme putting both the reasons together, 131 responses (43%) have observed an obstacle in picking up credit under scheme. This observation is equally substantiated by majority numbers of 136 representing 46% of total responses who suggested that awareness campaign about the scheme to be launched for bankers and borrowers. Therefore, training institutes, EDIs, RUDSETI etc. should disseminate knowledge about the scheme among its users to take fullest benefit of the noble scheme.

4.5.2 Higher amount of one time guarantee fee and annual service fee are observed another impediment owing to increase in cost of borrowings as expressed by 90 respondents (32%). Less amount of guarantee cover is also reported by 22 officers as one more reason which affect lending under CGTMSE. While seeking views of respondents on measures to improve finance under CGTMSE; 68 officials constituting 23% have suggested enhancing guarantee cover from existing cap of Rs.100 lacs to Rs.150 lacs. They also suggested to have guarantee claim at floor rate of 85% for loan up to Rs.10 lacs and 75% of default amount for loan limit over Rs.10 lacs with a maximum cap of Rs.100 lacs in light of proposed increase in investment ceiling of plant and machineries and equipments & instruments for Micro and Small Enterprises as per recommendation of high level committee constituted by RBI on priority sector lending. 57 bankers representing 19% of total numbers have opined that guarantee and annual service fee be waived for loan limit up to Rs.50 lacs or payment of guarantee and annual service fee be reduced from tax obligation of SME firms to subsidise the cost burden of guarantee cover under CGTMSE.

4.5.3 A scheme of Presidential Nation award is suggested by 24 respondents for those member lending institutions who are star performer in SME finance under CGTMSE on the line of existing nation award for outstanding performance under MSME finance; which will make the scheme more lucrative and successful.

4.5.4 While gathering responses from SMEs, the similar feedback has been given by 97 entrepreneurs on the subject. The fact was revealed that this scheme is known to 69 respondents who represent majority part with 71% respondents participated in the survey, while in 22% cases it was not known to them and in 4% responses it is reported that guarantee and annual service fee payable under the scheme was causing abnormal increase in cost of borrowings to the beneficiaries. Thus above proposed suggestion by bankers and borrowers should be taken into account by policy makers for successful implementation of the scheme.

4.6. Lengthy and inflexible documentation

Papers and documentation are pre-requisite for entertaining request of any borrower in support of formal evidence of business transactions. Paper formalities for taking loans from public sector banks are generally treated more cumbersome. However, an analysis has been done in this regard, comparing SME requirements to agriculture, retail loans and whole sale banking or corporate banking. The compiled results are depicted in table - 6 and observations of analysis are as under:

4.6.1 Formalities and processing of SME loan proposals have been found lengthy, complex and inflexible by over 70% bankers as compared to the processing of agriculture and retail loans vide opinion shared by 146 respondents on agriculture & 156 responses on retail loans. However, the paper requirement and processing is observed simpler by majority of respondents constituting 79% compared to corporate credit. Banks should, therefore, develop customized module of processing and documentation to make process simpler because technology and MIS for SMEs is not so sophisticated as found in case of corporate credit owing to cost aspects involved in MIS. In most of the cases fee of loan arranger to pass through complex process for SMEs is also found costlier and many a times services of loan arranger is not available for this target group.

4.6.2 The complexity in processing of SME loan proposals is also evident from 264 responses (table-7) made by banks officials who have suggested that format of loan appraisal should be standardized and made simple (117 responses). There should be one common loan agreement for SME loans (109 responses) and products to cater financial needs of SMEs should be tailor-made (38 responses) as against prevailing processing system and products offering for SMEs sector.

4.7. Ways of making finance simpler & cost effective for SMEs

The ways suggested by experienced bankers in study to make SME finance cost effective and simple are presented in table-7 & table-8, and observations based on the statistical results are as under-

4.7.1 Finance alone would not be enough for capacity building of SMEs, because many non-financial issues are equally important for development of SMEs. Setting up SME Care & Counselling Centre (SMECC) to provide counseling on schemes launched by government and implemented by banks for SMEs, availability of market for their products, usage of e-business in branding & disseminating product information to end-users, technical know-how, basic need of paper formalities and filling up forms for seeking finance from banks. Seventy six bankers constituting 22% of total numbers have observed that this kind of institutional support will help to reduce turnaround time for availing finance from banks.

4.7.2 Commitment code for Micro and Small Enterprises (MSE Code) of BCSBI has developed a simple, standardized and easy to understand loan application forms accompanied by check list to both Micro and Small Enterprises in 2009 which was circulated by Indian Banks' Association (IBA). This form is now in practice for all the borrowers irrespective of the loan amount. The standardization of loan application form has made information submission partly easy for SMEs but many of banks are still asking more information other than the checklist due to complex format and system of processing the loan applications applicable in their banks. In this background, 236 bank officials have suggested for standardization and simple format of ***loan appraisal*** by bank branches and also to introduce one common loan agreement for SMEs on the pattern of loan application form introduced by MSE code in 2009. The common loan agreement will economize cost of stamp duty to be borne by SMEs and also reduce time in executing loan documents.

4.7.3 Good credit history of entrepreneurs with credit information companies (CIC) is recommended to be an important suggestion enabling them bankable because now a day this is pre-requisite for lending institute to refer CIBIL or other CIC to know creditability of borrower. One hundred fourteen (114) respondents constituting 29% of responses supported the suggestion. Bankers should make the best use of credit history available with CICs while processing the proposals by interpreting and correlating the information in credit report to carry out behavior appraisal of beneficiary. SMEs should be fully aware of their obligatory duties to keep their credit history high before approaching to any bank for finance.

4.7.4 Lack of proper books of account and failure to bring contribution by promoters have been observed as important causes of affecting SME Finance by 160 bank officials constituting 52% respondents (table-2). Both the reasons put together also impact retained earnings and thereby equity base of the entrepreneurs. It is therefore, suggested by 74 respondents representing 19% of responses that borrowers should plough back the profit into business instead of its withdrawal by other means to avoid profit tax which makes poor financials of the firms.

4.7.5 Fifty percent of respondents are of the opinion that SMEs would be acceptable to banks if they furnish information to banks for compliance (76 respondents), and if they improve product brand & marketing tie-up

(68 responses) and technology innovation and use of e-banking for cost effectiveness (53 officers).

4.7.6 Bankers have suggested policy measures to make bank finance cost effective such as 106 bank officials are in favour to give due rebate for making timely payment of loans, 97 respondents were found of the opinion to have interest subvention policy for all SMEs beneficiaries on line with agriculture loans, 79 officials constituting 25% of responses suggested rationalization of file charges being levied from SMEs. Further to make SME loans cost effective and easy access to bank finance, customized project report and TEV study report prepared by government authorities at district level should be used by lending institutes as suggested in forty four responses given by the bank officials. These policy frameworks will not only help for cost effectiveness but also reduce TAT and there will be quick disposal of loan applications.

CHAPTER-5

SME Finance from SMEs Perspective

SMEs are facing problems which are quite unique in nature such as access to capital, technology, skill, market, awareness etc. Among all the problems, access to adequate and timely credit at a reasonable cost is the most critical problems for SMEs. The major reasons for this has been the high risk perception among bankers about the sector and the high transaction costs for loan appraisal. Low equity capital is also a genuine problem. At present, there is almost negligible flow of equity capital to the sector, despite the fact that overall capital inflows have witnessed significant increase in the recent years. Absence of equity capital may pose a serious challenge to the development of knowledge-based industries, particularly those which have sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge. These problems of common nature have been discussed from banker's perspective in Chapter - 4 of the study, however, the major bottlenecks impeding the growth of the sector in general and SME finance in particular, are briefly discussed in this chapter from entrepreneurs' point of view on the basis of primary information collected from SMEs.

5.1 In-competitiveness of SMEs

SMEs have a bunch of problems owing to highly heterogeneous sector in terms of the size of the enterprises, variety of products and services offered and levels of technology employed. The problems before Indian SMEs as informed by the entrepreneurs during interview, could be broadly grouped into the following three categories, based on different sets of constraints faced and requirements of policy interventions such as (a) Finance & accounting (b) Market linkage & technology and (c) Capacity building for competitive advantages. The responses on these problems are depicted in Table - 9 and analyzed below in the study.

5.1.1 Results of responses received from SMEs indicates that problems relating to challenges of capacity building for competitive advantages are top among all three categories of problems categorized above with highest score of 124 responses constituting 44% responses. It can be observed from the results that Indian SMEs do not face much competition from advanced & developing economies (ADEs) and emerging market economies (EMEs) but facing stiff competition from domestic large sized firms. Problem of non-availability of skilled & managerial man powers has been observed by 29 SMEs.

5.1.2 Finance and accounting is next impediment in growth of SMEs with its key elements of higher cost of production & labour (70 responses), not an easy access to bank finance including non-availability of finance for job works (25 respondents), and improper book keeping & accounting.

5.1.3 Product branding, market for products and lack of technology are major constraints for market linkage of SME firms as responded by 49 SMEs representing 17% of total numbers.

The analysis of above common problem has witnessed that there is a pressure on SME sector to reduce costs to withstand the domestic as well as international competition in globalised regime. Cluster culture of working offers significant scope for cost reduction and may lead to capacity building for competitive advantages to SMEs therefore, it appears to be most viable solution for SME firms.

5.2 Business Drivers & Issues in Bank Finance

Despite numerous problems before SMEs, there are peculiar drivers and background of setting up business by these first generation entrepreneurs. Finance being root of major problems, important issues usually encountered by SMEs is compiled in the results depicted in Table-10 and analyzed as under -

5.2.1 It is observed that majority of entrepreneurs had started their business after gaining adequate experience of the activity such as 52 respondents found to have their family business, 36 persons promoted their business activities having gained working experience at elsewhere, 22 SMEs had carried out market survey on viability of their business before commencement and 20 entrepreneurs were inspired from similar business of their friends & relatives which all put together constitutes eighty six percent of total responses. It is therefore, evident that SMEs exercise due care before setting up the business as observed and also depicted in figure -5.1; but family business being the key drivers in majority of SMEs; they are run with traditional approach comparatively less techno innovation and without succession planning which are either closed or divided on death or disputes among key members of family. So, proper succession planning and technology upgradation and innovation along with market survey are essential to make ***SMEs an on-going concern***.

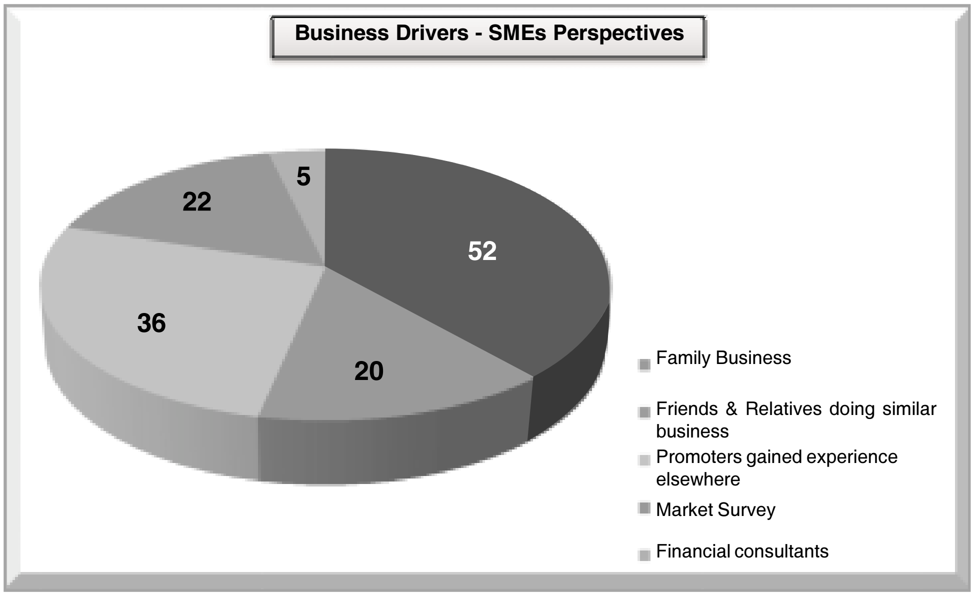

Figure - 5.1

5.2.2 While analyzing the issues in SME Finance, it is observed that rate of interest on SME loans are high and firms don't have collaterals & third party guarantee for taking finance from banks as expressed by sixty (60) respondents constituting 38% and 58 entrepreneurs representing 36% of total numbers respectively. Lower capitalization with high debt equity (DER) and non-compliance of prescribed loan to value (LTV) ratio is reported by 12 respondents which might be owing to inadequate margin or not bringing own contribution by promoters in 19 responses that put together constitutes 19% of total responses. These observations substantiate hypothesis of not preferring loans from banks by SMEs due to security obsessed lending and lower capitalization with high debt equity ratio. But this hypothesis is not tenable in majority of the cases with regards to lower capitalization which is testified from observations as it is found valid only in 7% firms and also supportive observations in subsequent analysis in Para 5.5 of the report.

5.2.3 While seeking feedback on time taken by banks in disposing of loan applications, merely 11 entrepreneurs representing 7% of responses expressed their views that they need fast delivery of loans and don't have time to wait for loans from banks. It reveals that turnaround time (TAT) of granting loans matches with the expectations of 93% respondents, thus banks have improved their delivery channel to meet customers requirement in time barring a very few instances which should also be addressed by them to excel in buyers market. Thus hypothesis of SMEs that bankers taking months to approve loan application has put on reverse mode because banks have now aroused to expectations of their clients.

5.3 Profitability of SME Firms

Profit being sole motive of any business organization, select parameters has taken into sample which has direct bearings on the profitability. These factors are also important for bankers while considering loan applications of the beneficiaries. Responses collected from entrepreneurs are of qualitative in nature to get impressions of the respondents on selected parameters of profitability under four categories such as increase, decrease, unchanged and not applicable. The analysis of parameters is presented in Table-11 and observations based on the analysis are discussed in this part.

5.3.1 Almost all factors of cost such as raw material, labour & staff cost, interest expenses and other operating expenses have increased during last 3 years in majority of SME firms and sales has also improved in 81% firms except in cases of 16% & 3% wherein it was constant and decreased respectively. Further analyses of these factors reveal that change in sales and cost of production is disproportionate because in 55% cases the profit margin either remained unaffected (30%) or reduced (25%). However, profit after tax (PAT) found increased in 63% cases as against increase in profit margin of 45% which means that perhaps 18% units have improved their profit by way of other income through diversification of business including taking up job works. It witnessed that SMEs have flexibility and creativity to quickly adopt the other viable business proposition. Whilst from bankers view-point, the diversification in business to be closely monitored through handholding operations, else there are possibilities of increase in the number of occasions of funds diversion.

5.3.2 Analysis also reveals that SMEs are less impacted from global melt down during the last 3 years 2008-11 because the sales had increased in 81% firms despite world faced the recession. Indian economy overcame from the recessionary phase at the earliest without many problems because SMEs dominated economy normally registers sustainable growth. In 16% cases sales was contained at the same level without adverse impact while only in case of 3% units' sale was reduced. Therefore, SMEs are not only strong target for sustainable growth but these can also swiftly absorb the shocks while economy is under stress.

5.3.3 As regards interest expenses hike observed by 82 respondents' in sample, it is impact of increased rate of interest scenario globally which is suggested to be subsidized for SMEs by introducing interest subvention provisions for all SMEs covered under MSMED Act 2006 so that capacity of this sector could be built to have leverage on global competitive advantages.

5.4 Market Recession Management (MRM)

Boom and recession are the part of economy cycle which keeps repeating on regular intervals. It has been experienced that solutions of one particular financial crisis become birth cause of another subsequent crisis as may be observed from sub-prime mortgage in USA and it was said if the poor people cannot have income for consumption, "let them eat credit". Therefore, measures are examined in the study based on primary information gathered from entrepreneurs on the ways to overcome from the financial crisis faced by the world in last 3 years intending to mitigate recurrence of crisis because of the measures adopted by the firms. Responses have been collected in favour (Yes) or against (No) situations from SMEs on various measures adopted by them to manage recessionary phase successfully in India. Based on the primary information presented in table-12 empirical observations are discussed in the study which have bearings on issues in SME Finance.

5.4.1 An important fact came across from the analysis is that non-financial measures have been most successful to face and manage recessionary phase by SMEs. Innovating the products and services found to be top variant with 74% response in its favor followed by improvement in production process and method, and technology upgradation/installation new machines which are supported by 64 and 62 responses respectively that constitute 73% & 67% of total numbers. New delivery channels adopted by SMEs are observed as more useful tool by 54 respondents during recession. It is an indicator that technology and innovations which may be in product or process emerged as two most successful ways of managing uneven phase in business as experienced by majority of entrepreneurs in instant survey. It is learning lesson for entrepreneurs and a good pointer for policy makers that equal emphasis on technology and innovation should be given for making Indian SMEs globally competitive and strong.

5.4.2 Government procuring policy regarding buying at least 20% of annual purchase from SMEs is not being followed in its letter and spirit as observed by 59 entrepreneurs representing 71% of total responses. They were of the opinion that Government/public sector enterprises are not procuring their products. Since MSEs are small in size of operations and owing to not having expertise/skills for approaching to big giants of Government, DICs or Directors, MSME establishments at regional level should come forward in providing details of products and accessibility of these MSEs to the Government/PSU buyers of their products.

5.4.3 Change in management has not been observed as an effective tool for recession management as 64 respondents constituting 75% of total numbers, not found this in its favour. It signifies that SMEs being first generation and run by family members and, therefore, change in management is not viable solution for SMEs.

5.5 Solvency and Coverage Efficiency

Solvency and coverage ratios are considered as financial shock absorbing indicators in banking parlance. These ratios are also applicable in assessment of banking solvency under new rules framework of Basel - III which shows significance of these parameters across the world for financial institutions. In this background, solvency and coverage efficiency are treated important yardsticks and issues for financing SMEs by banks. Qualitative response on loan to value (LTV) ratio and debt equity ratios (taking unsecured loan as part of liability and also as quasi equity) has been obtained for the purpose of this study from entrepreneurs which are expressed in degree at three scales namely improvement (increase), deterioration (declined) and no impact (unchanged) relating to these ratios which are presented in Table - 13. Important observations based on the analysis are discussed herein.

5.5.1 It has been observed in sixty percent firms that their LTV ratio has either improved (23%) or remained unchanged (27%) and no debt (10%) was raised during last 3 years while in 40% cases the LTV ratio increased as expressed by 92 respondents. This changing trend of LTV reflects that SMEs have adequate room of raising term finance against primary assets in the name of firms, because in 27% cases the coverage ratio found to be constant, 23% firms have repaid their term obligations and their LTV decreased and 10% firms have not availed any debt. Under such circumstances demanding of collateral by banks tends to be ironical because most of the SMEs in sample have adequate leverage on coverage front and they are gradually improving LTV to the acceptable level prescribed by banks. Under such circumstances at times insisting for collaterals which are normally from third parties like friends and relatives may cause undue influence by them in running the business with good governance and also observed in some of the cases reasons of diversion of funds through them. This aspect should be seen in broader prospective by bankers while dealing with SMEs.

5.5.2 Similarly, debt equity ratio indicates that 65% firms in survey sample are ploughing back their profit without impacting their solvency because 34% firms do not reflect any change in their DER, it is further reduced in 25% cases which might be due to repayment of debt and retaining earning in business while 6% firms do not have any debt as expressed by 89 SME firms during interaction with them. Merely 35% firms reported increase in their DER but their equity level was also acceptable to their banks.

Both the above observations substantiate the statement that SMEs are bankable on the front of their solvency and coverage ratio hence this sector should not always be treated poorly leveraged with regards to equity & solvencies barring a few entrepreneurs come across during analysis of responses gathered vide Para 5.2 and the current one. Thus hypothesis of lower capitalization and high debt equity ratio beyond benchmark level of banking industry is not found tenable in majority of the cases. However, there is need to educate bankers and borrowers both to take holistic view of loan requirements of applicants.

5.6 Sources of Finance & their Trend Analysis

Finance gap can be funded by numerous ways apart from bank loans such as retained earnings, friends & relatives, equity funding, trade credit, capital subsidy, private lender, non-banking financial companies, factoring, leasing, hire purchase etc. However, bank finance is considered to be conventional source of funding since ancient period. Government of India had nationalized the banks with a key objective of extending banking to masses in our country. Besides financial inclusion has been top agenda of the government and also for regulators for inclusive growth. Therefore, an attempt has been made in the study to examine various sources of finance available for SMEs and analyze trend of their usage by the SME sector. Responses received from entrepreneurs on the subject have been compiled in Table -14 & 15 which have been used for analytical observations as under -

5.6.1 Bank finance is observed the most preferred source of funding by SMEs with highest score of 94% followed by retained earnings (81%), equity funding (75%), friends & relatives (73%) and trade credit (67%). Other sources such as capital subsidy, private lender, factoring, leasing and NBFC are least preferred source by SMEs in sample. Finance from banks by SMEs is found to be more convenient and accessible probably owning to the fact that banks in the present environment of banking are known ***one stop shop'*** that offers all sort of financial and non-financial services which covers insurance, payment of taxes & utility bills, e-ticketing, fund based & non fund based credit facilities etc. However, to analyze trend of finance being made available by these sources, primary data have been gathered on the extent of finance provided to SMEs by four major sources of funding viz. working capital and term loans from banks, trade credit and private borrowings. Responses collected from SMEs are grouped in six categories such as extent of finance less than 50%, 50% to 74%, 75% to 99%, 100%, finance rejected by banks and loan sanctioned but refused by borrower due to high cost of loans. The data are presented in Table -15 and observations based on empirical experience are presented below.

5.6.2 It is observed that rejection rate of firms' request for working capital and term loan by banks was negligible as it was found only in one case but not providing adequate funding by banks have been a matter of concern. Hundred percent requirements were met only in 66% and 63% cases in working capital and term loan respectively. It shows that good amount of firms are compelled to bridge deficit from other sources including private borrowing which was not only costlier but also causing funds diversion.

5.6.3 It is surprisingly and incidentally revealed that among 36 SMEs who availed trade credit, 34 are remainder respondents who could not get 100% working capital finance from banks. It was also expressed by respondents that availment of trade credit found to be in-competitive in offerings from suppliers including higher prices and delayed supply of raw material that affects raw material cost and at times non-fulfilment of delivery commitment to end users and in turn SMEs failed in capacity building for competitive advantages.

5.6.4 Refusals of sanctioned credit by SMEs are observed higher in 12 cases representing 13% of total numbers in term loans as compared to working capital owing to high cost of loans from banks. Higher cost of funds to beneficiaries is also observed as major cause of refusal in case of trade credit (22% refusals) and private borrowings (33% respondents) which substantiate the inference drawn in the preceding analysis that these are hindrances in capacity building for competitive advantages. It has come across in some cases that this was owning to charging same rate of interest on working capital and on term loans based on credit rating of the client despite the facts that term loan bears lesser transaction cost with nil chances of non-availament of sanctioned limit. It is, therefore, suggested to levy different rate of interest on working capital and term loan if pricing are linked with a common credit rating of borrower for all credit facilities. This will reduce refusal rate and cases of non-availment of sanctioned credit facilities of bank branches.

5.7 Terms and conditions of Bank Finance

Loans to needy person are granted on set norms which are famously known as credit covenants or principles of lending to mitigate inherent risks in finance business. Banking industry is also not an exception and, therefore, all types of loans and advances are considered on certain terms and conditions which ensures optimum quantum of finance through method of lending, fixation of repayment period based on cash flow of the firms, pricing of loans to charge risk premium, collaterals to mitigate default risks. Entrepreneurs' were interacted on these parameters to know the degree of improvement, deterioration and no impact in recent past. Results of the responses are summarized in Table-16 and analysis is presented herein the study.

5.7.1 Seventy nine (79) firms have reported hike in interest rate on their loans which is mainly because of economic scene of rising trend in interest rates in banking and this cannot be treated as a unit specific increase. However, in seven percent units it is decreased indicating the improvement in their credit rating which may be considered a rewarding impact on their loan pricing. Further, the constant rate of interest in 18 percent cases shows that these units are availing loans at fixed rate option, which may be considered a tool of hedging risk by borrower in increasing trend of interest rates. Taking the findings into account, it is suggested for bankers that they should have some viable products in their range which are priced at fixed rate option because it is a tool with banks to hedge and freeze their net interest margin (NIM) while interest rates have started declining on advances because aligning deposits rates with the changes scenario takes time owing to option of fixed interest rate on deposits. From borrower's point of view, it is beneficial for managing interest burden when rates are increasing in the economy.

5.7.2 Seventy two SMEs constituting 71% of total numbers have reported increase in their limit to meet their enhancing financial requirements.Which might be due to the reason of increase in processing, documentation and other costs. It is observed that 83% SMEs have fulfilled their repayment obligation because there was no change in the repayment period and rather it was reduced in 14% cases due to improved cash flow. Repayment period was increased in 17% cases owing to global melt down and market recession; therefore, SME finance witnesses comparatively lesser rate of default and higher shock absorbing capacity in the economy.

5.7.3 Collateral requirement enhanced in forty firms constituting 40% of numbers as against enhancement of loan limits in 71% cases in sample survey. It leads to the conclusion that SMEs are fairly coveraged and require less collateral for their financial needs.

5.8 SME - A sector of higher growth

SME is known for its contribution in all round growth of an economy such as employment generation is continuously increasing, exports and production also showing increasing path for this sector. While at micro level, feedback was obtained from entrepreneurs on their average growth rate in turnover and profit during last three years. The upfront results from response collected and depicted in Table - 17 witnessed that there are negligible units in sample which have shown no growth. Analysis of the responses is carried out on the basis of primary data of growth rate registered in last three years and now projected for subsequent year herein the report.

5.8.1 Eighty nine (89) percent SME firms grew with 3 years average rate of 10% & above and over 92% firms projected to grow with more than 10% in sales volume in subsequent years. Further more, 52 firms accelerated in sales with a growth rate of more than 25% which is indeed testimony of possessing higher growth appetite by this sector. It is also observed from the responses that SME is a sector of high entrepreneurship dreaming & it believes in ambitious projections because in a number of firms projections were found higher by more than 25% as compared to the actual growth rate in all selected parameters of business.

5.8.2 Analysis signifies that SMEs are moving towards higher profitability as number of firms projected in growth range of over 25% increased from 27 to 41 in profit before tax. This reinforce the statement that SMEs finance might be smaller in their ticket size but these would be showing profitable business for sustainable growth in future for banking industry because there are good number of units having potential of high growth as around 37-39% firms have projected over 25% hike in profit. There is big group of over 60% firms which will grow with a rate of more than 25% in years to come. Thus, it is bankers bonanza as these firms will be requiring more finance to achieve their ambitious projections.

5.9 SME Sector - Bankable with Positive Outlook

Finance business involves numerous issues at macro and micro level. Researcher has taken both kinds of issues into account in completing this study which includes economic outlook, firms' business, owned capital, credit history of firms with credit information companies, willingness of banks & suppliers to provide credits and propensity of investors for making equity/ debt investment in SME firms. To avoid complexity in data, qualitative information has collected from entrepreneurs to examine impact namely increase/ improvement, decrease/deterioration & unchanged on the selected factors which are depicted in Table-18. Observations based on the analysis are discussed in the report as under-

5.9.1 Economic and business outlook at both macro and micro level for majority of firms have improved in recent past. Environment has been in favour for SME financing because sales, profitability & business and capital either increased or maintained as reported by 98 firms constituting 94% of total response barring deterioration observed merely in six cases. It signifies that bankability of finance to SME sector has been improved and it is a viable business for banks owing to positive outlook of the sector.

5.9.2 Credit history awareness is observed in 102 firms representing 98% of total respondents because deterioration in credit records with CIBIL was found only in two SME firms. The analysis evident enhanced accessibility of banking services to SMEs as these firms have good track of credit history with credit information companies which is pre-requisite to consider financial needs in the present framework of regulation. Hence, SME sector has now become bankable.

5.9.3 Situational analysis further reveals that 82 enterprises representing 79% of total numbers, have found bankers willing to provide loan to SMEs. However, in 21% cases bankers' attitude observed was indifferent to help the SME firms. Therefore, there is a need for transforming attitude and development of skills of field level bank officials to analyze finance need of SMEs in the light of improved outlook of economy and business for the sector.

5.9.4 Trade credit is though one of the available sources of funding financing need of SMEs, yet it is not much preferred by entrepreneurs owing to reasons described in the preceding analysis. It can be observed that improvement is reported by 56% respondents as compared to 79% in case of bankers' willingness. Further improvement in propensity of investors has been reported by 35 firms constituting 47% of responses for equity/debt investment in SME constituents but respondents in sample have not expressed their encouraging feedback for this source at present, which might be owing to the unawareness of the market or uneconomical size of operations of sample firms in the study. However, at macro level opening the capital market for SMEs reported big opportunities because government has launched two dedicated stock exchanges in India for SME sector. There is a need to create awareness of these stock exchanges to SME firms to build the capacity for competitive advantages by making capital base of Indian SMEs broader and stronger.

5.10 Ways of enhancing SME Finance

The ultimate goal of any researcher remains to find out workable solution to encounter the problems observed in the process and system. Keeping this objective in mind opinion was sought from entrepreneurs to enhance accessibility of bank finance to the sector. The ways suggested by respondents are summarized in Table-19 and have been analyzed and considered to offer viable recommendations in the study. However, the issues are open for researchers to undertake further study on their viability in market. The observations are presented herein the report.

5.10.1 The management science considers attitude as a key determinant of complete success which makes an organization the happening one. The similar impression has been observed from the responses given by respondents. Fifty three entrepreneurs (constituting highest percentile of 23 among measures suggested by respondents) were of the view that SME sector has positive outlook on majority of the issues involved in bank finance, however, there is a need of handholding sessions to be undertaken by bank officials. Their counseling is warranted for not only financial issues but also in non-financial matters as discussed in the report. To realize the expectations of end-users of credit, management of banks should review skill development and role transformation module of training for field staff. The necessary help, if required may be taken from management institutes in banking industry such as IIBF, NIBM, IIBM, IBPS or consultancy firm of national/international repute to work out programme design for attitude transformation of humanware.

5.10.2 Awareness was found lacking about government programmes being implemented through banks for development of SME sector. Forty five respondents representing 19% of numbers informed that awareness campaign for both bankers SMEs should be run including submission of papers and filling up application under various schemes to avail its full benefits.

5.10.3 Similarly, many ways have been suggested by respondents to make bank finance cost effective, giving due importance to person behind project while appraising the application, timely disposal and bringing transparency in processing system of loan application by providing on-line tracking to applicants. The researcher come across the incidence wherein some banks have moved to implement the suggested measures such as Bank of Baroda has introduced "Protrack" in-house system of tracking loan application at all levels from its entry point at SME Loan Factories (the dedicated cell of processing SME loan applications) to disposal stage. Under this system higher authorities have access to the system and can ascertain nature of information being asked by operating units from applicants and turnaround time is worked out by the system itself. However, access to such system should also be given to applicants for tracking its disposal. It is suggested to examine the viability of measures as recommended by entrepreneurs from the angle of policy framework.

CHAPTER-6

SME Finance - An Industry Analysis

Loans to Micro & Small Enterprises (MSEs) are reckoned as part of priority sector lending having target of 40% for scheduled commercial banks in India. It is surprisingly noticed that about 5% MSMEs have been covered by institutional funding given and approximately 95% of units remains to be brought into banking fold. The present study has analyzed credit flow to this sector and important observations relating to SME financing are presented in the report.

6.1 MSE Finance by PSBs - A decade analysis (2000-2011)

6.1.1 Percent share of MSE credit declined: Pre-enactment of MSMED Act (2000-2007)

The wonderful growth in absolute term had been registered in credit to MSE sector by Public Sector Banks during last decade indicates that this sector has huge business potential for banks. Credit to MSEs has increased over 8 times from Rs.46045 Crores in 2000 to Rs.369430 Crores (Table-20) in 2011 but percent share of MSE credit to net bank credit (NBC) has consecutively declined from 14.60% in 2000 to 7.80% in 2007.

6.1.2 Scope of SME enhance : Post MSMED Act era 2008-2011

There was sharp increase in percent share of MSE credit to net bank credit from 7.80% in 2007 to 11.10% in year 2008 with marginal hike to 11.30% in year 2009. This higher growth during the above review period had mainly happened owing to change in the definition of MSEs as per the provisions of MSMED Act. The investment limit of small (manufacturing) unit was raised from Rs.1.00 crore to Rs.5 crore and small (services) was added to the sector with an investment in equipments & instruments up to Rs. 200 lacs. Also the coverage of service enterprises were broadened by taking tertiary sector into MSE sector such as small road and water transport operators, small business, professional and self employed and all other service enterprises as per definition provided under the Act. Further this ratio accelerated to 13.10% in 2010 that might be because of regulatory change of taking retail trade into service sector. The advances to this sector further increased to 14.81% in the year 2011. The credit acceleration in the sector had significantly noticed in absolute growth but proportion of MSE credit in net bank credit has been more or less at same level of 14% which was way back in year 2000 despite widening the coverage of the MSE sector. It reveals that real growth in finance to MSE sector is not adequate in the light of significant contribution of the sector in economy such as employment, manufacturing and export of the country. Low share of MSE credit does not only hamper equitable growth of economy but also fails the banks to fulfil their social commitment to the growing society. Banks should therefore, come out with a strategy to improve the percent share of MSE credit to their net bank credit which is stagnant between 13-14% since a long period.

6.2 Finance to Micro Enterprises : 5 Years analysis (2007-2011)

The latest 4th all India Census of MSME sector has revealed that of the total working enterprises, 95.05% belong to micro enterprises, 4.74% to small enterprises and balance 0.21% are medium enterprises. Also it is observed that 45.38% enterprises are operating in rural areas. Though MSE sector, micro in particular, is of great importance in respect to generating employment and contributing inclusive growth of the economy, this segment of industry is deeply credit constrained. Analysis of finance to Micro Enterprises by banking industry revealed some of the important findings mentioned below.

6.2.1 Prescribed share of credit not provided to Micro Enterprises

Recognizing the proportion of micro enterprises at 95.05% and MSE put together 99.79% in total working MSMEs, their share in bank credit is really ironical because micro gets merely 5-6% place in net credit of domestic banks which is very negligible though it is showing consecutive growth from 2.86% share in 2007 to 6.54% in year 2011. As regard the mandatory lending prescription to micro within MSEs credit is concerned, the micro enterprises should have at least 50% outstanding share in banks' total MSE credit as on 31st March, 2011 which was 46.87% (Table-20). Furthermore it was observed that their share was declined from previous year (2010) level of 48.19% and public sector banks had not yet given their legitimate proportion of 54% which was way back in year 2000. Due to this fact MSE borrowers believe that the lenders are not doing enough as only about 5% of MSEs are covered by institutional finance. There is a need that lenders should introspect themselves against their claim that banks are doing enough for the sector in providing them finance. Also the empirical observations substantiate the recommendation of Nair Committee which prescribed sub-target of 7% of net bank credit for lending to micro enterprises to be achieved in stages latest by 2013-14 and banks have miles to go for achieving 60% of MSE advance to Micro enterprises by 2012-13; thus this sector has business opportunities and potential.

6. 2.2 Over 50% banks have less than 7% finance to Micro Enterprises

Bank-wise position of finance to micro enterprise is also not encouraging. So, banks have to draw a road map for achieving the mandatory lending to this sector because 45% domestic SCBs (Table-21) have achieved minimum recommended credit to the extent of 7% and 25 scheduled commercial banks (PSBs-14, Private banks-11) were behind the level of 7%. It is surprisingly observed that 13 domestic banks had their finance level below 4% to this sector and they need to come out with special measures to fall in line with the achievers for avoiding any penalty provisions to be imposed by policy makers.

6.2.3 Sector gets lesser credit under proposed norms of 7% lending to Micro Enterprises

Reserve Bank of India (RBI) had placed the report of Nair Committee on priority sector lending on 21st February, 2012 on its website and has sought views/ comments on the report from public. The present study of credit flow to micro enterprises reveals that 7% of net bank credit for domestic SCBs worked out Rs. 211894 crores (Table -21) in March 2011 while the proportionate share of lending to micro enterprises as per mandatory credit norms to the sector at 60% of MSEs should be Rs.274528 Crores (Table-22) in March 2011 which arises the conflicts between two types of mandatory norms of lending to micro enterprises. This comparison of both the norms taking together indicates that proposed recommendation of Nair Committee for micro enterprises lending at least 7% of net bank credit needs to be integrated with extant guidelines of 60% share of micro enterprises within MSEs lending which is higher as per the above analysis. If it is the case, the proposed recommendation of 7% should be somewhat between 9-10% of net bank credit, provided the committee intends to improve the proportionate share of micro enterprises from the present level which is already more than 7% under extant norms of 60% MSE credit to be given to micro enterprise segment. The policy makers may take call on the issue before final version of priority sector lending mandate for micro enterprises credit by banks in India.

6.3 MSE sector: Key to faster & sustainable growth

6.3.1 Absolute credit surged by 124% (CAGR -31%)

Bank finance is considered to be primary route of funding to MSMEs as a public policy objective to provide timely and adequate credit to the sector. It has also witnessed that over the years there is significant increase in credit extended to this sector by banks. Outstanding credit to the sector by all scheduled commercial banks (SCBs) had surged by 124% from Rs.213539 crores in year 2008 to Rs. 478527 crores in year 2011 (Table-22).

6.3.2 Enhancement of existing limits contributed higher growth - Target fresh credit

Y-o-Y growth during review period is showing uneven trend, however, it was 19.94% in year 2009 which further grew by 41.44% in year 2010 and the growth rate was declined to 32.08% in year 2011. The abnormal acceleration in year 2010 might be occurred owing to the inclusion of retail trade in service sector and thereafter, normal growth was observed in year 2011. This observation is also validated with an abnormal increase in number of accounts from 48.51 lacs in 2008 & 2009 to 85.05 lacs account in year 2010 registering growth of 75.32%. Since retail trade loan limit upto Rs.20 lacs were allowed to include in service sector which are normally huge in number, the quantum of accounts jumped abnormally.

Outstanding number of borrower accounts of all banks grew by 9.37% during the year 2011 as against the mandatory growth rate of 10% which is now going to be enhanced to 15% as per Nair Committee recommendations. The growth rate in amount and in accounts might be imbalanced owing to the reasons that banks have enhanced credit to their existing clients to increase their outstanding amount but they are not targeting the new entrepreneurs into their fold. This type of lending is not only causing non-adherence of mandatory lending norms to the sector, but also attracts high concentration risks. It does not support equitable and inclusive growth of economy. Banks must equally target credit expansion in new accounts.

6.3.3 Sector responds faster - Annual growth rate higher than industry rate

Banks in India are mandated to register at least 20% YoY growth in credit to Micro & Small enterprises and 10% annual growth in number of micro enterprises accounts which is now recommended to grow at least by 15% in terms of number of account every year. Public sector banks have registered higher growth rate as compared to the stipulated norms of 20% (Table-22) such as 26.64 % in 2009, 44.36 % in 2010 and 33.70% in 2011. The growth rate of private sector banks was negative (-0.54%) in year 2009 which further geared up to 38.94% in year 2010 and then declined to 35.93% in year 2011 which shows compliance of lending norms in terms of growth rate. However, foreign banks grew their advances by 16.62% & 17.07% in year 2009 & 2010 respectively but had negative growth (-0.78%) in year 2011 which require corrective measures by foreign banks to adhere to the norms for growth of credit to MSE sector.

6.4 MSMEs - Big Bazar for financial inclusion

To recognize the importance of MSME sector from financial inclusion and earning point of view, following findings have been derived by making a pragmatic analysis to grab earning opportunities from the sector.

6.4.1 93% Financial Exclusion - Key to 12th Plan theme of inclusive growth

It is observed that 92.77% MSME beneficiaries have no finance, 5.18% avail finance from institutional sources and 2.05% through non-institutional sources. It is an indicator for the banks that they need to focus on SMEs to achieve national agenda of financial inclusion because exclusion over 92% of MSME units is indeed a matter of concern in the history of independence for over 64 years and about 43 years of banks nationalization in our country. Also the study validates the observation that MSMEs are undoubtedly like *big bazar* group to be tapped by formal credit delivery channel because 93% of MSMEs still rely on self finance. So this sector will be key to realize theme of inclusive growth of 12th Plan.

6.4.2 Enhance data integrity

There is one astonishing observation which indicates that MSEs avails bank loans in 48.51 lacs accounts in year 2008 & 2009 from all SCBs (Table -22) out of total MSME units 261.01 lacs which constitute 18.59%. While only 5 percent MSEs are covered by institutional finance as per latest 4th census of MSME and also notified in a good number of speeches by RBI and its various reports recently released including Nair Committee. This observation leads to the conclusion that number of accounts are not picked up through unique customer ID allocated by banks to their clients and so duplicity in figures. Banks require streamlining MIS for reliability and consistency in data for analysis which may facilitate in drawing right policy measure by the regulators and also enhance data efficiency.

6.4.3 MSE sector grows higher than overall advances of industry

The analysis made in this report reveals that MSE sector is most sustainable and emerging segment of business for banking industry. While comparing the credit growth rate of domestic SCBs for the last three years, this statement has been validated by observing highest growth rate in Micro enterprises as compared to overall increase in net bank credit. Micro enterprises advances grew by 29.41%, 48.33% & 32.69% as against the increase in net bank credit by 22.97%, 21.10% & 19.03% in year 2009, 2010 and 2011 respectively (Table-24). Also the acceleration rate of credit in MSEs is by & large higher than the growth rate in net bank credit during review period. Thus, this sector contributes more to the overall increase in advances and this sector is a viable proposition for banking industry to maintain sustainable growth in its business.

CHAPTER - 7

Drivers of SME Finance - An Industry Review

SMEs across the world are gaining priority for policy makers and regulators who see the sector as key to solving the challenges of improving competitiveness, raising incomes, inclusive growth and generating employment. It is also observed that SME is one of the fast growing sectors of economy and it has huge potential for banks. This sector has contributed less in incremental NPA and delinquency rate reportedly has declined during last year 2011 despite doubling the collateral free lending limit. Also the growth rate of credit in this sector is much higher than the overall credit acceleration rate in net bank credit of banks in India. Furthermore, the realization of 12th Plan theme is largely relying on the growth of MSME sector. Government of India is making all possible efforts for giving boost to the sector including financial and non-financial measures. Based on the stock analysis of extant policy guidelines; the following measures have been considered strong drivers for advocating MSME credit to derive the conclusion that financing to this sector by banks is indeed not a choice but it is a chance to grab this business for sustainable growth of banking in India.

7.1 Institutional Policy & Government incentives for Enhancing viability of SME Finance

The dedicated organizational set up and also other special measures announced by the government for SMEs has leveraged the banks to enhance viability of SME finance. A few of them are cited in the paper—

7.1.1 Institutional advantages to Banks

(*a*) Banks have set up *dedicated processing cell*, SME Loan Factory & SME Loan Hub with a pool of specialized skills of SME credit. They have also set up regional SME care centre giving different nomenclature by the banks to facilitate SMEs for quick redressed of their grievances. Banks should, therefore, make best use of this capital investment in hardware and humanware of specialized delivery channels to create yielding portfolio of SME loan books.

(*b*) Banks' *exposure limits* is much higher than any other private financers to cater financial needs of big amount

(*c*) Banks are *one stop shop* i.e. loan syndication, advisory services, insurance, working capital, LC/BG and many more are offered by banks.

(*d*) Wide *branch networks* and vested huge lending powers of various functionaries at branch levels for SMEs. Banks have mandate to identify and open more SME branches to cater financing need of the sector.

(*e*) Banks to achieve *mandatory lending* to SME for inclusive growth such as 20% YoY growth in credit to Micro & Small enterprises, 60% of MSE advance to Micro enterprises by 2012-13 and now 7% of NBC by 2013-14 as recommended by Nair Committee, 10% annual growth in number of micro enterprises accounts which is now proposed to grow at least by 15% in number of accounts. *Adoption* of at least one MSE cluster by each lead bank of a district.

7.1.2 Policy incentives for MSME finance by banks

(*a*) Prescribed *provisioning requirement* for 'standard advances' under SME advances is merely 0.25% as against 1.00% in case of real estate and 0.40% for other advances, which is a reward for banks to make lower provision towards buffer capital on SME advances

(*b*) Collateral free loans up to Rs. One crore are secured by CGTMSE guarantee which is *highly liquid* at par with cash security as compared to any other collateral in loan accounts

(*c*) *Allocation of zero risk weight* to SME loans guaranteed by CGTMSE for capital adequacy requirement

(*d*) *Simplified computation* of working capital limit for MSE units on basis of minimum 20% of their estimated annual turnover up to the limit of Rs.500 lacs.

(*e*) Union Government has schemes of felicitating Best Bank awards in recognition of contribution made by banks for promoting SME sector that builds *Corporate Brand* which is invaluable and add new feathers to the business of winner banks

7.2.3 Government enhances capacity building for competitive advantages to SMEs

(*a*) *Indian Opportunities Venture Fund* (IOVF) for Rs. 5000 crores with SIDBI has been set up for enhancing equity to the sector as per budget (2012-13) announcement.

(*b*) *Two SME Exchanges* have started operations which provide greater access to finance

(*c*) *Public Procurement Policy* introduced with a provision that every Central Ministry/Department/ PSU shall set an annual goal for procurement from MSE sector at the beginning of every financial year. Objective is to achieve an overall procurement goal of minimum 20% of total annual purchases of products or services produced or rendered by MSEs.

(*d*) *Limit of turnover* for compulsory tax audit of account has been raised to Rs.100 lacs (from Rs.60 lacs) in the recent budget of 2012-13

(*e*) *Capital gain tax* is exempted on sale of residential property if sales consideration is used for subscription in equity of a manufacturing SME company for purchase of plant & machinery.

(*f*) *National Manufacturing Policy* has aim to increase share of manufacturing in GDP to 25% and creating 100 Mn new jobs by 2022 and to achieve this target, SME growth is considered to be an answer.

The review of above extant measure is witnessing the Government concerns to provide level playing field to banks for improving SME finance. These are therefore, considered key drivers of enhancing credit access to SME sector.

CHAPTER-8

Recommendations

SME sector is perceived as a profitable endeavor for banking business despite significant differences in lending practices, business models, drivers and obstacles in SME finance. Numerous issues relating to SME finance have been analyzed in the study based on first hand impressions of entrepreneurs and banks officials and also observations have made by using industry level statistics on selected data. The following measures are recommended from bankers' as well as entrepreneurs' perspective based on the empirical observations of the study which probably would help bankers in making their SME loan book strong for sustainable development of banking industry and inclusive growth of Indian economy.

8.1 Leadership & Talent Management - For uninterrupted Credit Supply

Human capital is the key driver of finance in banking. It is a sort of special breed of capital which needs skills to handle loan proposals of entrepreneurs who have dream projects and thus involves behavioral appraisal of promoters and financial viability of ambitious project to be undertaken by firms. The covenant of "***one size fits to all***" does not make much sense in the present competitive environment. Therefore, there is a need to differentiate finance officer and general banking officers in terms of their service conditions, postings, grooming, attitude, promotions, creativity and many more. Keeping these points into mind and based on empirical observations of the study; following recommendations have emerged to promote credit talent in banks—

8.1.1 Around 55% manpower in banking is getting superannuation in the running decade and industry will be driven by new generation employees. It will maintain a proper balancing of experienced bankers and young specialized officers. Banks should recruit officers who are professionally qualified such as CA, CMA, MBA etc. and provide them exposure of working in loan department under mentoring of senior experienced officials as a matter of succession planning. Besides *recruitment of specialized officers, talent inside the banks* should be identified and groomed because promoting the people without grooming would not help much to solve gap of leadership in banking. It has been observed that banks have 'promotable' staff but do not have 'deployable' among promotable officials. This process of creating credit talent pool in banking will not only bridge gap of field functionaries in credit operations but it will also address issue of leadership in PSBs because in the next 5-6 years 80% of General Managers, 65% of Deputy General Manager, 58% of Assistant General Manager and 44% Chief Managers would be superannuating in senior or top management scale in the banking industry.

8.1.2 Banks have to identify, develop & manage talent at all levels. Training colleges of banks should be upgraded as centres of excellence and be made responsible for continuing learning efforts across the organization. Training is also essential for branch managers and their field officers to change their mindset in regard to the perceived risk in financing SMEs. The necessary help, if required may be taken from management institutes of banking industry such as IIBF, NIBM, IIBM, IBPS or consultancy firm of national/ international repute to work out programme design for attitude transformation of humanware. Internal processes in training may be taken up in regard to the faculty selection, development of faculty, filling up at least 50% specialized positions (such as credit, treasury, human resources, marketing etc) through lateral recruitment as core faculty with Ph.D as essential qualification with suitable nomenclature in banking like Research Assistant, Assistant Professor, Associate Professor or Professor; to bring professionalism of international standards in training. Banks may set up specialized training colleges to cater training needs of financing such as "College of Bank Finance (CBF)". Principal of apex training college should not be below the rank of General Manager who has experience of teaching with research aptitude. Performance management and evaluation system of faculty should be on the lines of UGC guidelines giving more focus on developing case study of high repute, carrying out in-house research, qualifying knowledge & skill test to continue faculty in training system instead of assured tenure of 3-5 years in system, mentoring of staff and incubating entrepreneurship in their domain on the pattern of research & academic guidance prevailing in education system.

8.1.3 Bank officials of all categories at branches and administrative offices should be allocated budgetary target of SME finance as Key Performance Indicator under their annual performance evaluation which will enhance their participation in incentive scheme and also it will help in the achievement of mandatory lending target of 60% to Micro enterprises and 7% of ANBC to MSEs. A system of incentives for individual performers in financing to SMEs should be introduced, that could be by way of overseas posting, special mention in performance appraisal, training at prestigious institute in India or abroad. Green channel of promotion may be introduced for star performers in credit with a provision to reserve some posts in promotion policy for this class of officers.

8.1.4 Staff accountability norms framed decades before in a protective environment of sellers' market in banking are now outdated which should be reviewed in the light of highly competitive and transparent environment of banking. Staff accountability in finance should be viewed on broader perspectives considering track of service, conduct in organization with a provision of tolerance limits (say 5%) of total credit decisions taken in a particular period. The tolerance limit may commensurate with region or division specific default rate of loans in industry. Therefore, it is recommended to place a policy on staff accountability for non-performing assets by each bank and also accountability to be fixed for delays in concluding disciplinary cases. It will encourage people to take decisions rather desist from decisions.

8.2 Leaning Operations & Imparting Education

First generation entrepreneurs and family business being unique peculiarity of SMEs; have either no credit rating or poor credit rating for want of its awareness, it is therefore recommended that—

8.2.1 SME sector has positive outlook on majority of the issues involved in bank finance as observed in study. Thus, there is a need of handholding approach to be experienced by both entrepreneurs and bank officials. Their counseling is warranted not only for financial issues but also in non-financial matters discussed in the report. Entrepreneurs should understand that banks are custodian of public money. Therefore, demanding loan at cheap & un-economical price, not using the money for the purpose it was granted etc., are blocking the growth life line of economy in general and banking sector in particular. Banks in consultation with SMEs association at all levels such as Chamber of Commerce, Industry Associations etc. should conduct Entrepreneurs Development Programme (EDP) for incubation and entrepreneurship to set up industries which will realize theme of 12th Plan of generating 30 Mn employments and 25% increase in manufacturing production. Training Colleges of banks should be given target to reserve at least 15% of their annual programmes for EDPs which can be under aegis of Corporate Social Responsibility (CSR) in banking because financial support or donation of any extent cannot be substitute of providing good education and governance as real contribution under CSR especially when knowledge has become power house in the world.

8.2.2 Financing alone will not help SMEs for capacity building to compete & grow. Banks should come forward in providing counseling to entrepreneurs on both finance & non-finance related issues such as benefits of maintaining proper books of account, retaining profit into business instead of evading tax payment, details of credit guarantee scheme - CGTMSE, various determinants of credit rating, benefits of rating the firm from SME rating agencies, usage of e-business in branding & disseminating production information to users, practicing financial discipline in dealing with banks to build their good credit history with credit information companies like CIBIL, and many more. This will enhance efficiency & bankability of SME firms from financing angle and also will build their capacity for competitive advantages because credit rating is one of benchmarking in business world. SME Care & Counseling Centres (SMECC) should be institutionalized by each bank at regional level with mandate to educate beneficiaries on this front and should work like back office outlet. Banks should share credit rating grade with borrowers as a part of loan sanction acceptance so that beneficiaries could know their rating & take necessary steps for its improvement in subsequent years.

8.2.3 Lengthy processing system of SME proposals should be made simpler by avoiding wastage of man-hours and duplicity of information asked from applicants by leaning operations through effective Business Process Reengineering initiatives. Simplified application cum sanction form should be introduced across the industry for loan up to Rs.2 crores to SMEs with check list of documents to be submitted and loan agreements to be executed by applicants. It should be uploaded on website of banks and on line tracking system of applications be introduced. Simplification in processing system for loans to micro & small enterprises is inevitable because existing process has been found complex & lengthy at par with large corporate firms.

8.2.4 Time is money and it is said that *'if one wants more time to take correct decision, in that case a correct decision is also wrong when it is taken too late'*. It has come across in few cases that lack of knowledge bounds a banker to become business diverter & decision shyer. It is thus recommended that credit operations should be driven by a Knowledge Bankers who are found to be "*decision taker, today's believer & tomorrow's beginner".* Some of the banks have already set up dedicated outlet such as central processing cell, SME Loan Factory, SME Loan Hub etc. for catering financial needs of SMEs equipped with skilled manpower of customized credit products & services as part of their business process re-engineering (BPR) to reduce turnaround time; but many more banks still require to take necessary measures of improvement in TAT norms. Adoption of right BPR models helps a bank in identification of wastage which led to more than 50 percent reduction in Turn around Time (TAT) for customers, more than 50 percent reduction in duplication of work, less number of handovers and system inputs, lower chances of error and reduce operating risks which in turn enhance productivity and efficiency in lending operations

8.2.5 As observed in study that to make SME loans cost effective, it is recommended that a model project cost & viability report of various industries in cluster be developed with the help of a committee comprising representative from major banks of the district/clusters to obviate the need of any experts or consultants for making TEV study in individual cases. Such common reports would be mandatory used by banks and entrepreneurs without engaging any consultants in preparation of TEV study report which would save both cost and time and hence loan would be cost effective for SMEs.

8.3 Technology & Innovation

Technology has changed the style of doing business and living the life. Innovation is neither synonymous nor substitute of technology but it is forecasting future taste & demand of users and adopt the change to lead. *Charles Darwin said "It is not the strongest species that survive, nor the most intelligent, but the ones who are most responsive to change."* Therefore, following suggestions are recommended which have bearings on SME Finance

8.3.1 Technology backwardness and lack of innovation have been causes of failure of SMEs. Further the promoters do not have not fund for technology up gradation. Banks should therefore, mandatorily consider loan for capex investment in technology up gradation and innovation of SMEs; otherwise it may lead to diversion of funds from working capital to capital expenditure or increase in private borrowings. This loan for technology upgradation should be subsidized from government fund by way of capital subsidy or interest subvention etc. This finance may be called 'Capacity Building or Mezzanine Finance' to SMEs

8.3.2 Banks should also think beyond finance. They can extend financial support or Sponsorship of Chair with Technology or Management Institutes such as IIBF, IBPS, NIBM, IIBM, IITs, NITs, IIMs etc. for undertaking research on technological up gradation of SMEs in our country. Government may amend the Finance Act to allow double deduction of such grant from tax point of view on the pattern of the relief allowed in current year budget 2012-13 for making investment from sale proceed of residential properties in SME equity .

8.4 Activity Based Credit (ABC) Approach in SME Finance

Security is though one of the credit risk mitigation measures, yet it is not always workable because of non-realization of market value, non-marketable titles deeds. It has been witnessed in recent past that financial institutions who have built their sub-prime loan books had disappeared from the market due to either non-realization of market value or high diminution provisioning. Those who have focused on activity based lending could survive. Since credit requirement of SMEs to the largest extent are small in size which qualify for guarantee under CGTMSE, it is highly liquid security as compared to any other tangible collaterals. It is, therefore, recommended that banks should encourage collateral free & activity oriented lending which are of self liquidating in nature. Building zero risk weight loan books does not charge to the precious capital of banks. Since the Government of India with SIDBI had launched CGTMSE scheme in August 2000 which require modifications as recommended here under based on the empirical observations of its users.

8.4.1 Both eligible loan limit and guarantee coverage should increase from existing ceiling of Rs.100 lacs & Rs.62.50 lacs respectively to Rs.150 lacs. Eligible loan limit for coverage and guarantee claim should have 2-Tier rates viz. 85% of default amount up to loan of Rs.10 lacs and floor rate of 75% of default amount for loan limit over Rs. 10 lacs with a maximum cap of Rs.100 lacs. The proposed increase is justified in light of hike proposed in ceiling of investment in plant and machineries and equipments & instruments for defining the entrepreneurs as Micro and Small enterprises by a high level committee constituted by RBI on priority sector lending.

8.4.2 Majority Bankers and SMEs have raised their voice during the survey to rationalize the cost of guarantee & service fee to borrower under the scheme. Researcher is of the view that CGTMSE is not a charitable institute and subsidizing the default of counter party cost to the trust, therefore, it is recommended that instead of waiver or reducing guarantee cost, the tax liability of SME borrower should be reduced to the extent of expenses of guarantee and annual service fee paid by borrower that will subsidize the cost burden of guarantee cover under CGTMSE.

8.4.3 Even after a quiet long period say after 3-4 years of regular repayment of term loan, SME beneficiaries are not entitled to get guarantee cover of increased limit in working capital or second term loan as per extant guidelines which is otherwise. Trust should review this clause of guarantee and incentivize regular repayment of bank loans. The annual service fee should also be charged on reduced outstanding amount in case of term loan because trust guarantee obligation would be on outstanding amount in such cases.

8.4.4 Presidential Nation award is recommended for those individuals and member lending institutions who are star performer in SME finance under CGTMSE scheme on the lines of existing Nation Award for outstanding performance under MSME finance; which will make the scheme more lucrative and successful.

8.5 Enhancing Profitability & Cost Efficiency of SME Firms

SMEs are treated uncompetitive in market because of high cost of production, low profitability owing to various reasons observed in study such as uneconomical raw material cost, labour cost, power bills etc being small scale of operations. Following suggestions are recommended for competitive advantages to SMEs-

8.5.1 State Governments should have provision of preferential and green channel treatment to SMEs in respect to clearance & approvals to be given for setting up business, providing uninterrupted power supply or back end capital subsidy on loans for purchase of power back up investment like DG sets, provide land & common facilities in industrial estates at acquisition cost for making them competitive with large firms indigenously and globally.

8.5.2 The cluster approach seems to be the answer of variants affecting profitability such as raw material cost, labor cost and other operating cost. SMEs under cluster would have leverage of procuring raw material in bulk from indigenously and internationally, customized labour force for their activities hired at competitive charges locally or from up country places and finally uninterrupted power supply in specialized zone where cluster works. As regards interest expenses hike reported by SME firms in sample, it is impact of increased rate of interest scenario globally which is recommended to be subsidized by introducing a scheme of interest subvention for loans upto Rs.5 lacs to MSEs covered under MSMED Act, 2006 on the pattern of agriculture loan upto Rs. 3 lacs at present. Besides, banks should have 2-tier interest rates for SMEs viz. one for term loan and another for working capital and interest rate on term loans should be lower as compared to working capital because of reasons discussed in the observations part of the report.

8.6 Market Development & Tie-up arrangements

Making development for SMEs products at their own is a difficult task for them owing to lack of product brand and packaging quality. It needs regulatory as well as financial support recommended as under based on empirical observations of the study-

8.6.1 Huge amount of expenses are to be incurred towards market making movement and such type of expenses are of capital nature which should be amortized in due course of time. It is felt that costs involved in marketing like appointment of marketing personnel, advertisement of products on print & electronic media, expanding network through agents or representative at up-country centres etc., are not considered by bankers while appraising loan application. It is therefore, recommended that investment for market development activities illustrated here in the report should be considered as permissible cost of project for finance at par with capex in plant & machinery, else without taking this aspect into account, the assessment of loan limit would be *ab-initio* incomplete. A scheme of clean overdraft for marketing development may be worked out. Market development initiatives would give direct access of SMEs to end-users of their products at price with adequate margin rather selling the products to large corporate at lower price and blocking funds for longer period. Government & policy makers may consider this proposal for making capital provision of marketing for SMEs in budgetary allocation to the sector.

8.6.2 Government procuring policy regarding buying at least 20% of annual purchase from SMEs has been put in place but not being adhered to in its letter and spirit by big giants. Since MSEs do not have expertise/skills for approaching to the large corporate, DIC or Directors, MSME establishments at regional level should own responsibility of providing details of products of these MSEs to the Government/PSU buyers reinforcing mandatory guidelines and also verifying their compliance from time to time. Also banks should mark lien in total working capital limit as sub-limit reserved for purchasing from SMEs while sanctioning credit facilities to large corporates. These both items should be a standing agenda of discussion at various forums like BLBC/DLRC/SLBC where almost all stakeholders of SME sector participate.

8.6.3 Large corporate buyers of SMEs normally delay in settlement of dues towards their bills of goods supplied that adversely affects the recycling of funds and business operations. Government has though strengthened the provisions of "Interest on Delayed Payment" after enactment of MSMED Act; banks are also directed to sanction separate sub-limits within the overall limits sanctioned to the corporate borrowers for meeting payment obligations in respect of purchases from SME sector. The same is also to be certified by practicing Chartered Accountants while completing their audit of large corporate for which the professionals should be meticulous in their certificate and must use all due care, but casual tendency has been observed in its compliance. It is recommended that banks should *obtain bifurcation in total purchase and age of creditors from SMEs in* monthly statement of operating data (MSOD) to ensure that sub-limit reserved for SMEs is judiciously used in compliance of procuring policy and timely payment to SMEs

8.7 Equity Market : New source of SME Finance

SME funding at a point when banks deny or are reluctant, the equity capital is then necessary which is not easy and hence is a genuine problem. There is negligible flow of equity capital into SME sector. The much awaited SME platform of Bombay Stock Exchange (BSE) for SME companies has started its operations from 13th March, 2012. Around half a dozen small and medium companies have given approval to enter the capital market and an equal number of applications are in the pipe line with BSE. Also it is anticipated that around 100 small companies would be listed in the subsequent 18 month. MSME sector expects Rs.2.5 lacs Crores through equity route & Rs.4.7 lacs crores through banks loans during current fiscal as per estimates of MSME ministry. Besides BSE, the National Stock Exchange (NSE) has also launched its exchange for SME called 'Emerge' on the same day i.e. 13th March, 2012.

This beginning has opened the ways for the players to get funds without interest on the basis of their credentials, which was otherwise difficult to get from the banks. Companies with post issue paid up capital of less than Rs. 25 crores are eligible to be listed on the SME platform. This would fetch much lesser fees for merchant bankers, who charge a percentage of the issue size. The mechanics of listing on a stock exchange such as audited balance sheets, being subject to corporate governance norms would address many of the transparency and informational asymmetry constraints that banks face in lending to the SME sector. Besides, equity financing lowers the debt burden leading to lower financing costs and healthier balance sheets of the firms. Also the continuing requirement for adhering to the stock market rules for the issuers lower the on-going information and monitoring costs for the banks. The new opening of alternate market for SME funding would be a challenge before banking industry with a clear mandate to come out with need based SME products at reasonable price offer with lesser paper formalities & documents to retain their business share. Also it is imperative for SMEs to keep them ready for forthcoming challenges from adoption of IFRS in future, which are though exempted for SMEs at present.

8.8 Role of Chambers & Associations

Chambers and associations are representatives of SME sector. There is a need of understanding in each other that banks have obligations to their depositors and other stakeholders to safeguard their interest. SMEs as customers of bank credit have, therefore, certain duties towards banks such as repaying bank loans, maintaining proper books of account, submitting information correctly and more importantly sharing information about financial problems if arise so that they can work together with the banks in resolving them. Also it is in the welfare of SMEs to get them rated from rating agencies, as it could enable them to negotiate with their bankers for interest rate reduction, larger loan size or even obtain faster process of their loan application. They must also be aware that if they default and their credit history is poor, they will find it difficult to access bank finance, as banks have been mandated to pass on all credit history of their clients to CIBIL or any other credit bureaus registered with RBI. SME chambers or associations should collaborate with banks, training institutes, business schools and management institutes to organize workshops & training programmes for their member on basic accountancy, information technology, cash flow, various financial products for SMEs. Such awareness campaigns will help the entrepreneurs for easy access to bank credit because if borrowers have informative financial statements with a strong financial condition as reflected in terms of financial ratios; it will expedite credit process and ensure timely & adequate credit supply.

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STATISTICAL TABLES

TABLE - 1

Drivers of SME Finance for Bank Staff

Factors for working in credit	Nos	% age	Drivers to inspire working in credit	Nos	% age
Rewarding experience - promotions, overseas posting	120	43	Reward and compensation	114	32
Recruitment as specialist officer	49	17	Promotions, Placement and overseas posting	73	20
Groomed in credit by comprehensive training	43	15	Staff Accountability - flexible/lenient norms	90	25
Force to work as no one like to work in credit department	31	11	Key Performance Indicator under Performance Management System	67	19
Others (it is usual employment)	39	14	Others	13	3
Total	282	100	Total	357	100

TABLE - 2

Factors affecting SME Finance

Reasons of poor SME Credit	Nos	% age	Causes of not preferring SME Credit	Nos	% age
Lack of experience - 1st Generation MSEs	118	36	Lack of proper account & books of transactions	81	26
Poor financials of enterprises	81	24	Failure to bring own contribution into business	79	26
No Collaterals	44	13	Higher delinquency	51	17
Lack of Infrastructure in backward area	43	13	Higher transaction cost & man-hours in processing	48	16
Smaller Ticket size	26	8	Either no credit rating or poor rating of beneficiaries	34	11
Others	19	6	Others	15	5
Total	331	100	Total	308	100

TABLE - 3

SME share in total advances, income & NPA

%age share of SMEs	Total Advances		Total NPA		Interest Income	
	Nos	% age	Nos	% age	Nos	% age
Less than 10%	49	26	102	60	45	26
10% to 25%	29	15	26	15	37	21
Over 25% to 50%	43	23	26	15	42	24
Over 50%	67	36	17	10	50	29
Total	188	100	171	100	174	100

TABLE - 4

Default in banks' loan by SMEs

Reasons of default by SME Borrower	Numbers	Percentile
Diverting/Siphoning off funds	117	26
Lack of professionalism	71	16
Low technology innovations & cost inefficiency	64	14
Failure by promoters to bring their own contribution	61	14
Inadequate product branding & marketing tie-up	60	13
Under finance by banks, hence over private borrowings	34	8
Delay in receiving payments from big corporate	30	7
Others	8	2
Total	445	100

TABLE - 5

Constraints & measures for Collateral free credit to SMEs

Factors affecting CGTMSE Scheme lending			Measures to improve credit under CGTMSE		
Factors	Nos.	%age	Factors	Nos.	%age
Banks have no control over borrower - without collateral	67	23	Awareness campaign for bankers & borrowers	136	46
Knowledge of scheme to bankers	64	22	Enhancement in guarantee cover	68	23
Increase cost of borrowings	90	32	Waiver of guarantee fee/annual service fee and tax incentives for this cost	57	19
Guarantee cover is less	22	8	Presidential National MSME Award to banks	24	8
Others	43	15	Others	12	4
Total	286	100	Total	297	100

TABLE - 6

Documentation for SME Finance from banks

Business Segment	Responses on lengthy, complex & inflexible documentation for SMEs			
	Numbers		Percentile	
	Yes	No	Yes	No
SME vis-à-vis Agriculture	146	54	73	27
SME vis-à-vis Retail Loan	156	51	75	25
SME vis-à-vis Corporate credit & others	42	156	21	79

TABLE -7

Initiatives suggested enhancing SME Finance

Ways to make processing simpler & reduce TAT	Nos	%age	Factors making SMEs Bankable	Nos	%age
Setting up SME Care & Counseling Centre at district level	76	22	Create good credit history with Credit Information Company (CIC)	114	29
Standardized & simple format for loan appraisal	117	34	Equity building by retaining earnings	74	19
Introduce one common loan agreement for SME loans	109	32	Furnishing information & compliance	76	19
Tailor made product for SMEs	38	11	Product brand & marketing tie-up	68	17
Other	3	1	Technology innovation & use of E-banking for cost reduction	53	14
			Others	7	2
Total	343	100	Total	392	100

TABLE -8

Cost Effectiveness of Bank Loans

Ways suggested by Bankers	Numbers	Percentile
Rebate for making timely repayment of loans	106	32
Interest subvention for all MSEs	97	29
Rationalization of processing, inspection, legal & file/documents charges	79	25
Cluster based TEV study & Project report by DIC	44	13
Others	4	1
Total	330	100

TABLE - 9

Problems before Indian SMEs

Types of problems & constraints	Numbers	Percentile
Capacity Building for competitive advantages	***124***	***44***
Stiff completion from domestic firms	75	27
Non availability of skilled/managerial man powers	29	10
Competition from ADEs/EMEs	20	7
Finance & Accounting	***100***	***36***
Cost of Production or labour is high	70	25
Access to Bank Finance	18	6
Firms do not get finance for job works	7	3
Improper Book Keeping & Accounting	5	2
Market Linkage & Technology	***49***	***17***
Product Branding	20	7
Market for Products	14	5

Lack of Technology	15	5
Others	7	3
Total	280	100

TABLE - 10

Business Drivers & Issues in Bank Finance

Driving force to set up business	Nos	%age	Issues in Bank Finance	Nos	%age
Family Business	52	39	High rate of interest	60	38
Promoters gained experience else-where	36	26	Insufficient collateral & guarantee	58	36
Market Survey	22	16	Promoters contribution	19	12
Friends & Relatives doing similar business	20	15	Lower capitalization, high DER, LTV	12	7
Financial consultants suggested to set up this business	5	4	No time to wait - time is money	11	7
Total	135	100	Total	160	100

TABLE - 11

Profitability of SME Firms (Last 3 Yrs)

Selected parameters of Profitability	Factor impacts (Nos. of responses)				
	Total	Increase	Unchanged	Decrease	Not Applicable
Labours & Staff Cost	105	83	20	-	2
	(100)	(79)	(19)	-	(2)
Raw Material Cost	104	87	9	-	8
	(100)	(84)	(9)	-	(7)
Interest Expenses	104	82	16	4	2
	(100)	(79)	(15)	(4)	(2)
Other Operating cost	104	71	27	3	3
	(100)	(68)	(26)	(3)	(3)
Turnover & Sales	101	82	16	3	-
	(100)	(81)	(16)	(3)	-
Profit Margin	102	46	30	26	-
	(100)	(45)	(30)	(25)	-
Profit (PAT)	102	64	24	14	-
	(100)	(63)	(23)	(14)	-

Note - Figures in brackets indicated %age to total responses

TABLE - 12

Market Recession Management - Preceding 3 Years

Measures adopted by SMEs to face recession	Responses		%age of favourable change
	Yes	No	
Product & Service Innovation	67	24	74
Production process & method improved	64	24	73
Technology upgradation or installation new machines	62	30	67
Adopted new ways of selling goods & services	54	34	61
Started supply to Govt/PSU buyers under procurement Policy of Union Govt.	23	56	29
Change in Management	21	64	25

TABLE - 13

Solvency and Coverage Ratio of SMEs

Indicators	Nos. of responses on Factor impacts				
	Total	Increase	Unchanged	Decrease	No debt
Debt to Fixed Assets/Loan to Value Ratio (LTV)	92	37	25	21	9
	(100)	(40)	(27)	(23)	(10)
Debt Equity Ratio (Unsecured loans as liability)	89	31	30	23	5
	(100)	(35)	(34)	(25)	(6)
Debt Equity Ratio (Unsecured loans as Quasi equity)	87	36	27	16	8
	(100)	(42)	(31)	(18)	(9)

Note - Figures in brackets indicated %age to total responses.

TABLE - 14

Source for SMEs Finance

Source of Finance	Total responses	Source Preferred (Nos)	Percentile
Bank Loan	108	101	94
Retained Earnings	101	82	81
Friends & Relatives and sister/group concerns	107	78	73
Equity Funding	95	71	75
Trade Credit	100	67	67
Capital subsidy from Government	99	26	26
Private Money Lenders	98	12	12
NBFCs	91	9	10
Factoring, Leasing, Hire Purchase etc	90	13	14

TABLE - 15

Trend Analysis on SME Finance

Source of finance	Extent of finance granted by lenders						
	Total responses	100%	75%-99%	50%-74%	Less 50% than	Refused (High cost of loan)	Rejected
Working Capital from Banks	101	67	29	1	1	2	1
	(100)	(66)	(29)	(1)	(2)	(2)	(1)
Term Loan from Banks	90	55	19	3	-	12	1
	(100)	(63)	(21)	(3)	-	(13)	(1)
Trade Credit	85	36	17	4	3	19	6
	(100)	(43)	(20)	(5)	(3)	(22)	(7)
Private Borrowings	87	29	11	6	3	29	9
	(100)	(33)	(13)	(7)	(4)	(33)	(10)

TABLE -16

Terms Analysis of SME Finance

Parameters	Increased	Decreased	Unchanged	Total
Interest rate on loans	79	7	20	106
	(75)	(7)	(18)	(100)
Processing, documentation & other costs	55	14	36	105
	(53)	(13)	(34)	(100)
Size of loan limits	72	10	19	101
	(71)	(10)	(19)	(100)
Repayment period	16	13	68	97
	(17)	(14)	(69)	(100)
Collateral requirement	40	18	41	99
	(40)	(18)	(42)	(100)

Note - Figures in brackets indicated %age to total responses

TABLE - 17

Growth pattern of SME Firms

Growth Range (Annual)	Turnover/Sales		Profit before Tax		PAT	
	Actual*	Projected	Actual*	Projected	Actual*	Projected
Over 25%	52	55	27	41	27	39
	(49)	(53)	(26)	(39)	(26)	(37)
10-25%	42	41	51	44	48	39
	(40)	(39)	(49)	(42)	(46)	(37)
Less than 10%	9	7	23	20	24	26
	(8)	(7)	(22)	(19)	(23)	(26)

Growth Range (Annual)	Turnover/Sales		Profit before Tax		PAT	
	Actual*	Projected	Actual*	Projected	Actual*	Projected
No Growth	3	1	4	-	6	1
	(3)	(1)	(3)	-	(5)	-

*Last three years average & Figures in brackets indicated %age to total responses.

TABLE - 18

General outlook for Bankability of SME Firms

Factors affecting SME Finance	Improved	Deteriorated	Unchanged	Total responses
Economic outlook	72	21	11	104
Sales, Profitability & Business of firm	87	6	11	104
Own Capital	87	6	11	104
Credit history of firms like CIBIL	66	2	36	104
Willingness of banks to provide loan	82	14	8	104
Desire of suppliers for Trade Credit	56	19	25	100
Investors propensity for equity/Debt investment	35	8	31	74

TABLE - 19

Ways for enhancement of SME Finance

Measures suggested by SMEs	Number	Percentile
Attitude transformation of banker	53	23
Awareness campaign for bankers & beneficiaries about Govt. Scheme	45	19
Special provision for interest subvention, rebate for regular payment, provisioning	41	18
Allocation of equal time to appraise person & purpose of activity	34	14
Timely disposal	33	14
Transparency in process - on line tracking of loan application	29	12
Total	235	100

TABLE - 20

Credit Flow by PSBs to MSEs from 2000 to 2011

(Rs in Crores)

Year	Net Bank Credit (NBC)	Credit to MSEs	% to NBC	Credit to Micro Enterprises	Credit to Micro Enterprises as % of MSE credit	Y-o-Y Growth (%)
2000	316427	46045	14.60	24742	54.00	-
2001	341291	48400	14.20	26019	53.70	5.11
2002	396954	49743	12.50	27030	54.30	2.77
2003	477899	52988	11.10	26937	50.80	6.52
2004	558849	58278	10.40	30826	52.90	9.98
2005	718722	67634	9.40	34315	50.70	16.05

Year	Net Bank Credit (NBC)	Credit to MSEs	% to NBC	Credit to Micro Enterprises	Credit to Micro Enterprises as % of MSE credit	Y-o-Y Growth(%)
2006	1017614	82492	8.10	33314	40.40	21.97
2007	1314744	102550	7.80	44311	43.21	24.32
2008	1361595	151137	11.10	66702	44.13	47.38
2009	1693876	191408	11.30	83945	43.88	26.65
2010	2109076	276319	13.10	133154	48.19	44.36
2011	2493498	369430	14.81	173156	46.87	33.70

Source: Various RBI Reports on Trend & Progress of Banking, Committees' & Banks' reports

TABLE - 21

Finance by banks to Micro Enterprises (After enactment of MSMED Act)

Year	Micro Enterprises (Rs in Crores)			Adjusted Net Bank Credit (ANBC) - Rs in Crores			%age of Micro loans to ANBC - Rs in Crores		
	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs
2007	44063	3256	47320	1317705	336589	1654294	3.34	0.97	2.86
2008	68937	8830	77767	1364267	343396	1707663	5.05	2.57	4.55
2009	89505	11130	100635	1693437	406543	2099980	5.29	2.74	4.79
2010	133154	16113	149268	2074472	468649	2543121	6.42	3.44	5.87
2011	173156	24911	198068	2493498	533560	3027058	6.94	4.67	6.54
Bank Group wise position of lending to micro enterprises - 31.03.11									
	Below 4% to ANBC						5	8	13
	4% to less than 7%						9	3	12
	7% & above						12	9	21

Source - Reports of various banks, data extracted from Nair Committee Report (February 2012)

TABLE - 22

Credit flow by SCBs to MSE Sector

(A/cs - in Lacs & Amount - in Rs Crores)

Banks	March 2008		March 2009		March 2010		March 2011	
	A/cs	Amount	A/cs	Amount	A/cs	Amount	A/cs	Amount
PSBs	39.67	151138	41.15	191408	72.17	276319	73.98	369430
			3.73%	26.64%	75.38%	44.36%	2.51%	33.70%
Private Sector Banks	8.19	46912	6.78	46656	11.31	64825	17.18	88116
			-17.21%	-0.54%	66.81%	38.94%	51.90%	35.93%
Foreign Banks	0.65	15489	0.58	18064	1.57	21147	1.86	20981
			-10.78%	16.62%	170.69%	17.07%	18.47%	-0.78%
All SCBs	48.51	213539	48.51	256128	85.05	362291	93.02	478527
			No Change	19.94%	75.32%	41.44%	9.37%	32.08%

Source - Data extracted from RBI keynote paper dated 4th February 2012. Figures in %age indicate Y-o-Y growth/decline in outstanding credit

TABLE - 23

Distribution source of finance to MSME sector

Source of finance	Distribution of MSME units			% Distribution		
	Regd	Unregd	Total	Regd	Unregd	Total
No Finance/Self Finance	1362568	22850626	24213194	87.77	93.08	92.77
Finance through Institutional sources	174060	1177212	1351272	11.21	4.80	5.18
Finance through Non-Institutional Sources	15864	520467	536331	1.02	2.12	2.05
Total	1552492	24548305	26100797	100	100	100

Source - Summary Results of 4th All-India Census of MSME

TABLE - 24

Annual Growth in Net Bank Credit vis-à-vis MSE Credit

Year	% YoY growth in Micro Enterprises			% YoY growth in MSEs			% YoY growth in NBC		
	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs
2009	29.84	26.05	29.41	26.64	-0.54	20.20	24.13	18.39	22.97
2010	48.77	44.77	48.33	44.36	38.94	43.30	22.50	15.28	21.10
2011	30.04	54.60	32.69	33.70	35.93	34.12	20.20	13.85	19.03

Source - Data extracted from Nair Committee Report (February 2012) & author computed growth rates

Box - I

Collateral Free Loan Scheme for Micro & Small Enterprises - CGTMSE

SMEs being first generation entrepreneurs in our country for setting up their businesses face challenges in mobilizing capital for their business. This challenge is much more severe for start-up businesses. The challenge comes from the fact that SMEs have limited owned capital available to start a business and sustain it during initial tough years. Coupled with this is the fact that banks and financial institutions ask for collateral before deciding to finance SMEs. The answer to this question lies in a scheme named as CGTMSE (Credit Guarantee Fund Trust for Small and Medium Enterprises).

Government of India has launched the Credit Guarantee Scheme (CGS) on 1st August, 2000. The scheme is intended to provide relief to prospective borrowers by making available credit facilities without the hassles of collateral & 3rd party guarantee. The Credit Guarantee Scheme (CGS) seeks to reassure the member lending institutes (MLIs) that, in the event a covered borrower, who availed collateral free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the member lender. In order to operationalize the scheme, the Government of India set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

The scheme aims to give importance to the activity based credit (ABC) and viability of the project and then extend finance purely on the primary security of firms. The lenders are to get themselves registered under the scheme, not the borrower. Membership is open to all scheduled commercial banks and specified Regional Rural Banks, Financial Institutions, viz., SIDBI, etc. The lenders on entering with an agreement with CGTMSE become Member Lending Institutions (MLIs) of CGTMSE.

Micro and Small Enterprises defined under the provisions of MSMED Act, 2006 are covered under the scheme. An “enterprise” for this purpose means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services.

All credit facilities (both fund as well as non fund based) extended by Member Lenders, to new as well as existing Micro and Small Enterprise, including Service Enterprises, with a maximum credit cap of Rs.100 lacs (Rupees one hundred lacs only) are eligible to be covered provided no collateral or third party guarantee is obtained in the account. The lender should cover the eligible credit facilities as soon as they are sanctioned after seeking on-line approval from the trust. However, retail traders, self help group and educational institutes are not eligible under the scheme even though they are MSE under the provisions of MSMED Act. Following are the features of the scheme:

(*a*) Under the scheme, loans offered to SMEs are collateral free. That means there is no requirement for small enterprises to bring in their own collateral to avail loan.

(*b*) Under the scheme, loan up to Rs.100 lacs with ceiling of guarantee claim of Rs.62.50 lacs

(*c*) Loans can be obtained for working capital requirements, purchase of machines, expansion plans etc.

(*d*) The loan under the scheme is disbursed through MLIs

(*e*) Guarantee fee and annual service fee needs to be paid by the borrower who avails loan under the scheme. Guarantee fee can be up to 1.5 percent of the loan amount and annual service fee can be 0.75 percent. This depends on member lending institutions

(*f*) PAN is required to apply for loan under the scheme

(*g*) Loans up to 100 lakhs can be obtained simultaneously from more than one Member Lending Institution (MLIs).

While the scheme is meant to help SMEs avail collateral free loan, SMEs need to do home work before applying for the loan under the scheme. The key aspects that need to be worked on are preparation of business plans, KYC compliance, and financial statements for existing business. Also important point to remember is that loans have to be repaid by the business hence sustainable performance should be maintained.

The scheme though gradually gaining momentum but it could not get desired success mainly owing to lack of awareness about the scheme with the borrowers & lenders, reluctance to entertain proposals under the scheme and in some cases high cost of guarantee and service fee to borrowers. The study has therefore, made recommendations based on the empirical experience to review existing rules framework for making the scheme more workable and successful.

Box - II

Extant Important Guidelines on flow of Credit to SME sector by banks in India

High Level Committee on Credit to SSI (now MSE) - Kapur Committee— One man High Level Committee headed by Shri S L Kapur (IAS, Retd.), Former Secretary, Government of India, Ministry of Industry made 126 recommendations (accepted 88) covering wide range of areas; of which the following important recommendations:

- Delegation of more powers to branch managers to grant ad hoc limits;
- Simplification of application forms;
- Freedom to banks to decide their own norms for assessment of credit requirements;
- Opening of more specialised SSI branches;
- Enhancement in the limit for composite loans to Rs. 5 lakh.(*since enhanced to Rs.1 crore);*
- Strengthening the recovery mechanism;
- Banks to pay more attention to the backward states;
- Special programmes for training branch managers for appraising small projects;
- Banks to make customers grievance machinery more transparent and simplify the procedures for handling complaints and monitoring thereof.

Committee to Examine the Adequacy of Institutional Credit to SSI Sector (now MSE) - Nayak Committee— The Committee was constituted by Reserve Bank of India in December 1991 under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor to examine the issues confronting SSIs (now MSE) in the matter of obtaining finance. All the major recommendations of the Committee have been accepted and the banks have been *inter alia* advised to:

- give preference to village industries, tiny industries and other small scale units in that order, while meeting the credit requirements of the small scale sector;
- grant working capital credit limits to SSI (now MSE) units computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is upto Rs. 2 crore [since raised to Rs.5 crore];

- prepare annual credit budget on the 'bottom up' basis to ensure that the legitimate requirements of SSI (now MSE) sector are met in full;
- extend 'Single Window Scheme' of SIDBI to all districts to meet the financial requirements (both working capital and term loan) of SSIs (now MSE);
- ensure that there should not be any delay in sanctioning and disbursal of credit. In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities should be made;
- not to insist on compulsory deposit as a *'quid pro quo'* for sanctioning the credit;
- open specialised SSI (now MSE) bank branches or convert those branches which have a fairly large number of SSI (now MSE) borrowal accounts, into specialised SSI (now MSE) branches;
- identify sick SSI (now MSE) units and take urgent action to put them on nursing programmes;
- standardise loan application forms for SSI (now MSE) borrowers; and
- impart training to staff working at specialised branches to bring about attitudinal change in them.

Working Group on Flow of Credit to SSI (now MSE) Sector (Ganguly Committee)

The group was constituted under the Chairmanship of Dr. A S Ganguly. The Committee made 31 recommendations (8 accepted) covering wide range of areas pertaining to financing of SSI sector, of which important are as under:

- adoption of cluster based approach for financing MSME sector;
- sponsoring specific projects as well as widely publicising successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs;
- sanctioning of higher working capital limits by banks operating in the North East region to SSIs (now MSE), based on their commercial judgment due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system;
- exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs, and
- revision of tenure as also interest rate structure of deposits kept by foreign banks with SIDBI for their shortfall in priority sector lending.

Policy Package for Stepping up Credit to Small and Medium Enterprises on August 10, 2005

The Hon'ble Finance Minister, Government of India had announced on August 10, 2005, a Policy Package for stepping up credit flow to Small and Medium enterprises. Some of the salient features of the policy package are as under:

- Definition of Small and Medium Enterprises (MSMEs)
- Fixing of self targets for financing to MSME sector by banks
- Measures to rationalize the cost of loans to MSME sector
- Measures to increase the outreach of formal credit to the MSME sector
- Cluster based approach for financing MSME sector
- Constitution of Empowered Committees for MSMEs in the Regional Offices of Reserve Bank
- Steps to rationalize the cost of loans to MSME sector by adopting a transparent rating system with cost of credit being linked to the credit rating of enterprise.
- Banks to consider taking advantage of Credit Appraisal & Rating Tool (CART), Risk Assessment Model (RAM) and the comprehensive rating model for risk assessment of MSME proposals, developed by SIDBI for reduction of their transaction costs.
- Banks to consider the ratings of MSE units carried out through reputed credit rating agencies under the Credit Rating Scheme introduced by National Small Industries Corporation.
- Wider dissemination and easy accessibility of the policy guidelines formulated by Boards of banks as well as instructions/guidelines issued by Reserve Bank by displaying them on the respective banks' websites as well as website of SIDBI and also prominently displaying them at the bank branches.

- On the basis of the Policy Package as announced by the Union Finance Minister, some of the major instructions issued by Reserve Bank to all public sector banks were as under:
- Public sector banks were advised to fix their own targets for funding SMEs in order to achieve a minimum 20% on year growth in credit to SMEs. The objective is to double the flow of credit from Rs. 67,600 crore in 2004-05 to Rs. 1,35,200 crore to the SME sector by 2009-10, i.e. within a period of 5 years.
- Public sector banks were advised to follow a transparent rating system with cost of credit being linked to the credit rating of the enterprise.
- All banks may make concerted efforts to provide credit cover on an average to at least 5 new small/medium enterprises at each of their semi urban/urban branches per year.
- The banks may ensure specialized MSME branches in identified clusters/centres with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit.

Banking Codes and Standard Board of India (BCSBI)

The Banking Codes and Standard Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to day operations and in times of financial difficulty. The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and banks will comply with such instructions/directions issued by the RBI from time to time.

Prime Minister's Task Force on Micro, Small and Medium Enterprises

A High Level Task Force was constituted by the Government of India (Chairman: Shri T K A Nair) to consider various issues raised by Micro, Small and Medium Enterprises (MSMEs).The Task Force recommended several measures having a bearing on the functioning of MSMEs, viz., credit, marketing, labour, exit policy, infrastructure/technology/skill development and taxation. The comprehensive recommendations cover measures that need immediate action as well as medium term institutional measures along with legal and regulatory structures and recommendations for North Eastern States and Jammu & Kashmir. Banks are urged to keep in view the recommendations made by the Task Force and take effective steps to increase the flow of credit to the MSE sector, particularly to the micro enterprises.

Working Group to Review the Credit Guarantee Scheme for Micro and Small Enterprises

A Working Group was constituted by the Reserve Bank of India under the Chairmanship of Shri V.K. Sharma, Executive Director, to review the working of the Credit Guarantee Scheme of CGTMSE and suggest measures to enhance its usage and facilitate increased flow of collateral free loans to MSEs. The recommendations of the Working Group included, *inter alia*, mandatory doubling of the limit for collateral free loans to micro and small enterprises (MSEs) sector from Rs. 5 lakh to Rs.10 lakh and enjoining upon the Chief Executive Officers of banks to strongly encourage the branch level functionaries to avail of the CGS cover and making performance in this regard a criterion in the evaluation of their field staff, etc. have been advised to all banks.

QUESTIONNAIRES

Annexure - 1

QUESTIONNAIRE USED FOR MSMEs

Dear Entrepreneur,

I am Dr Ram Jass Yadav, a banker by profession working with Bank of Baroda for about three decades and have been closely associated with activities relating to SME financing. The Indian Institute of Banking & Finance (IIBF), an apex institute in our country which encourages research in the field of banking to address contemporary issues which have an impact on the economy. In this backdrop, IIBF proposes to carry out a nation-wide research for current fiscal 2011-12 on 'Issues in SME Financing' and this research project has been assigned to me. The survey is, therefore, conducted on behalf of the IIBF and it is great pleasure for me to inform that your business has been selected to participate in the survey. Your support in terms of investing invaluable time with us to respond this questionnaire would be GREAT contribution to accomplish the study and to draw useful lessons for the banking industry towards the growth of SME sector in our country.

May I now speak to you or your representative who would be best to provide information on how your enterprise is financed. I assure you that your answers to this survey will be in strict confidence, used for statistical purpose and published in consolidated form.

Name of Your Company/Firm: ....

Name of Banker/s: .... (PSB/Private Bank)

Place..State..Date of Interview...................................

Section I: General Characteristics of Business - Demographic Part

(*1*) Since how long your firm has been in business, what is constitution of your firm and who owns it?

(*a*) Firm is in existence for a period of -

(*1*) Less than 1 Year (*2*) 1 Year - 3 Years (*3*) 3 Years - 5 Years

(*4*) 5 Years - 10 Years (*5*) 10 Years & more

(*b*) Constitution of Firm is -

(1) Sole Proprietor (2) Partnership (3) Limited Liability Partnership

(4) Company (5) Others (Please specify)

(*c*) Firm is owned by -

(1) Male owner/director/CEO (2) Female owner/director/CEO

(2) What inspired you to promote this business?

(1) Family business

(2) Friends/relatives doing similar business

(3) Promoters have gained experience of the activity somewhere else (like working experience, acquired education qualification etc)

(4) Financial consultant suggested to set up the business

(5) Market survey carried out and found it useful/viable to take off

(3) What is the main activity of your firm/company?

(1) Manufacturing (2) Services

(3) Educational Institutes (4) Retail or Wholesale Trade

(4) How much original investment does your company has in plant & machinery or equipment & instruments at present?

1 Up to Rs. 25 lacs	Up to Rs. 10 lacs
2 Up to Rs. 500 lacs	Up to Rs. 200 lacs
3 Up to Rs.1000 lacs	Up to Rs. 500 lacs
4 More than Rs.1000 lacs	More than Rs. 500 lacs

(5) What was annual turnover of your firm in financial year 2011?

(1) Up to Rs.100 lacs

(2) Over Rs.100 lacs - Rs. 500 lacs

(3) Over Rs. 500 lacs - Rs. 5000 lacs

(4) Over Rs. 5000 lacs - Rs.15000 lacs

(5) Over Rs. 15000 lacs - Rs. 50000 lacs

(6) Over Rs. 50000 lacs

Section II: General Information - Situational Part/Operational Issues

(6) What important initiatives, your firm has introduced during last 1-3 years to overcome market recession? Please circle (1) - if your answer is Yes & (2) - if your answer is No.

(1) New management leading the firm _1 or 2__

(2) New or significantly improved product or service to the market_1 or 2____

(3) New or significantly improved production process or method____1 or 2____

(4) New way of selling goods or services_____1 or 2___

(5) Started supply to Government/PSU buyers as per procurement policy introduced by Union Government __1 or 2_

(6) Technology up gradation or installed new machines _1 or 2___

(7) Normally cost and income factors are relevant indicators for profit generation by any business. Will you share whether following factors/indicators of cost & income have affected your business in last 1-3 years? Please circle 1- if indicator increases 2- No Change, 3- Decreased, 4- Not Applicable.

(1) Labour & Staff cost _1 2 3 4_________

(2) Raw Material Cost 1 2 3 4_________

(3) Interest expenses __1 2 3 4__

(4) Other operating Cost__1 2 3 4__

(5) Turnover or Sales___1 2 3 4____

(6) Profit Margin_______1 2 3 4___

(7) Profit (PAT) _______1 2 3 4____

(8) Would you inform the amount of debt compared to fixed assets (LTV) and also debt to equity (TOL/TNW) of your firm during last 1-3 years? Please circle 1- if amount increases 2- No Change, 3- Decreased, 4- Not Applicable if firm has no debt.

(1) Debt to Fixed Assets (Loan to Value i.e. LTV) ratio ___1 2 3 4__

(2) TOL/TNW, taking unsecured loan if any as liability __1 2 3 4__

(3) TOL/TNW, taking unsecured loan if any as quasi equity___1 2 3 4__

(9) What are the most critical problems your firm is facing in doing business? It could be one or more of following items

(1) Cost of Production or labor is high

(2) Skilled or experienced managers are not available in the market

(3) Stiff competition from domestic firms

(4) Competition from developed or advanced economies like China, Japan, US, UK etc

(5) Getting customer/buyers of products i.e. marketing is big problem for our products

(6) Lack of Technology in production

(7) Product branding

(8) Access to bank finance

(9) Proper book keeping and accounting is not available

(10) Job work which is not getting finance & firm does work at very low margin

(11) Others - specify please.

Section III: Financing related issues -Funding Part

(10) Among the various source of financing, would you please inform which of the following sources have been used by your firm? Please circle 1- if a source is used, 2- Not used but you have experience of this source, 3- Did not use because this has never been relevant and useful to your firm as it is cumbersome.

(1) Trade Credit 1 2 3

(2) Other loans from friends & relatives, sister/group concern etc 1 2 3

(3) Bank Loan (Cash credit, overdraft or term loans)__ 1 2 3

(4) Retained earnings_____ 1 2 3

(5) Grants or subsidy from government agency____ 1 2 3

(6) Equity____ 1 2 3

(7) Private Money lenders _____ 1 2 3

(8) NBFC________ 1 2 3

(9) Factoring, leasing, hire purchase etc__ 1 2 3

(11) Could you please share which of the following items, have increased, decreased or had no impact on your firm's need for external financing. Please circle 1- if requirement increased, 2- financial need decreased, and 3- No impact on needs for external financing.

(1) Inventories, Book debt and working capital_____ 1 2 3

(2) Fixed investment & capital expenditure/expansions___ 1 2 3

(3) Merger & Acquisition and corporate restructuring ____ 1 2 3

(12) Would you please describe whether your firm applied for following ways of financing or did not apply? Please circle 1- if you applied for finance, 2- Did not apply owing to rejection possibility, 3- Did not apply as you have sufficient internal funds, and 4- Did not apply due to other reasons.

(1) Bank working capital - cash credit, overdraft, credit line etc 1 2 3 4

(2) Bank Term loan for expansion__ 1 2 3___ 4

(3) Trade credit__ 1 2 3___ 4

(4) Other financing (private lenders, friends/relatives, leasing, factoring etc) 1 2 3___ 4

(13) If your company applied and tried also to negotiate for required finance; did you receive full or in part or nothing? Please circle 1- if you received 100%, 2- Got most of it between 75% -99%, 3- Received only a limited part between 50%-74%, 4- Got less than 50%, 5- You refused because of borrowing cost too high, 6- Rejected.

(1) Bank working capital - cash credit, overdraft, credit line etc 1 2 3 4 5 6

(2) Bank Term loan for expansion__ 1 2 3 4 5 6

(3) Trade credit__ 1 2 3 4 5 6

(4) Other financing (private lenders, friends/relatives, leasing, factoring etc.) 1 2 3 4 5 6

(14) If your company did not apply for finance from banks; could you please describe why it was not applied for? Please circle appropriate reasons –

(1) Did not apply to banks as no one approached to the firm

(2) Did not apply to banks because of their lengthy, complex and inflexible paper work,

(3) Did not apply because banks take months to provide finance,

(4) Banks do not have online tracking of loan application

(5) Did not apply because banks provide insufficient funding

(6) Any others, please specify

(15) If your company applied for finance from banks which was rejected; could you please describe why it was denied? Please circle appropriate reasons –

(1) Firm does not have assets to mortgage other than land & building,

(2) Because of lower capitalization and high debt equity ratio,

(3) Firm does not have collateral, though land & building and internal accruals of the firm are sufficient for financing requirement

(4) Poor book keeping and financials

(16) You know availability of financing depends on various factors, which are in part related to general economic situation, to your company's situation and to lenders' attitudes. Among the following factors, please circle 1- if situation is improved, 2- Deteriorated, and 3- Remained unchanged.

(1) General economic outlook 1 2 3

(2) Your firm specific outlook with respect to sales, profitability or business plan 1 2 3

(3) Firm's own capital 1 2 3

(4) Firm's credit history (CIBIL etc) 1 2 3

(5) Willingness of banks to provide a loan 1 2 3

(6) Willingness of business partners to provide trade credit 1 2 3

(7) Willingness of investors in equity/debt securities issued by your company 1 2 3

(17) Government has been encouraging SME sector in economy and for financing this sector; it has introduced one collateral free loan scheme up to Rs. 100 lacs. Are you aware about the scheme and have you negotiated with banks whom you approached for getting required loan? Please circle 1- if you know CGTMSE scheme, 2- if not known to you, 3- You know but bankers are not aware, 4- Banks know the scheme but not willing to finance under this scheme, 5-You are not willing to take loan under scheme because its guarantee fee & annual service fees are very high

(1) Knowledge of collateral free loans scheme to SME 1 2 3 4 5

(2) Willingness of banks to consider loans under scheme 1 2 3 4 5

(3) Loan not acceptable under scheme to the firm 1 2 3 4 5

(18) Would you please indicate whether terms & conditions of bank financing to firm increased, decreased or remained unchanged. Please circle 1-if it was increased by banks, 2- decreased, 3- remained unchanged for following terms & conditions.

(1) Interest Rate on loans 1 2 3

(2) Processing, documentation & other cost of financing 1 2 3

(3) Size of loan limit 1 2 3

(4) Repayment period of loans 1 2 3

(5) Collateral requirement 1 2 3

(19) What is the loan limit of any kind that your firm has obtained in last 1-3 years? Who provided this loan amount and for what purpose it was provided? Please circle 1- if by Banks, 2-Private money lender, 3-Friends/relatives, 4-NBFC, Hiring, Leasing and 5- if by Government, 6-if loan was for working capital, 7- if it was for capital expenditure/expansion, 8- it was for composite loan for both working capital & capex

(1) No loan availed by firm

(2) Loan taken smaller than Rs. 25 lacs

(3) Loan taken over Rs. 25 lacs - Rs.100 lacs

(4) Loan taken over Rs. 100 lacs - Rs. 500 lacs

(5) Loan taken over Rs. 500 lacs - Rs.1000 lacs

(6) Loan taken over Rs.1000 lacs

(7) Loan provided by 1 2 3 4 5

(8) Loan was provided for 6 7 8

(20) Would you please describe what did you use this loan amount?

(1) Working capital

(2) Land/building/plant & machinery/equipment/vehicle

(3) Research & development or intellectual property

(4) Staff training

(5) Branding of products & firm

(6) Repaying unsecured loans

(7) Acquisition of other business

(8) Other, please specify

(21) Could you please inform how much your firm grows on average per year during last 3 years on following parameters? Please circle 1- over 25%, 2- Less than 25% up to 10%, 3- Less than 10%, 4- No growth.

(1) Turnover/Sales 1 2 3 4

(2) Profit before tax 1 2 3 4

(3) Profit after tax 1 2 3 4

(4) Employment regarding number of employees 1 2 3 4

(5) Capital 1 2 3 4

(22) Considering the turnover of previous years, how much does your firm expect to grow? Please circle 1- over 25%, 2- Less than 25% up to 10%, 3- Less than 10%, 4- No growth, 5-become smaller as turnover expected to decline.

(1) Turnover/Sales 1 2 3 4 5

(2) Profit before tax 1 2 3 4 5

(3) Profit after tax 1 2 3 4 5

(4) Employment regarding number of employees 1 2 3 4 5

(5) Capital 1 2 3 4 5

(23) To realize your growth ambitions, could you tell how much amount of finance you aim to obtain and what type of source would you prefer most? Please circle 1- if loan is preferred from Banks, 2-Private money lender, 3-Friends/relatives, 4-NBFC, Hiring, Leasing and 5- if by Government

(1) No loan will be required by firm

(2) Loan requirement will be smaller than Rs. 25 lacs

(3) Loan requirement will be over Rs. 25 lacs - Rs. 100 lacs

(4) Loan requirement will be over Rs. 100 lacs - Rs. 500 lacs

(5) Loan requirement will be over Rs. 500 lacs - Rs.1000 lacs

(6) Loan requirement will be over Rs.1000 lacs

(7) Loan will be preferred from 1 2 3 4 5

(24) What do you see as the most important limiting factor to get enhanced finance from banks? Please circle the related factors to your company.

(1) Insufficient collateral or guarantee

(2) Interest rates or price too high

(3) Infusing promoters funds in the business

(4) Lower capitalization, high debt equity and loan to assets ratio

(5) We don’t have time to wait for loans from banks & need very fast

(25) Would you like to make any suggestions for bankers, government or regulators to make banks' loan easy for entrepreneurs?

(1) Awareness campaign for bankers & beneficiaries on various schemes being launched by government for SMEs

(2) Positive transformation of attitude of bankers to follow rules of financing

(3) Banks to bring transparency in their process by introducing on-line tracking of loan applications, reasons of decline etc.

(4) Banks to give equal time to assess person and business activities as compared to financials & securities because later are created by person from activities.

(5) Time is money for doing business, banks to value it for giving treatment in time

(6) Regulators to subsidize SME loans in terms of risk weightage allocation, provisioning norms, interest subvention, benchmarking of SME loans for banks in total advance portfolio, scheme to reward those who settle dues in time.

(7) Any others please specify.

Annexure - 2

QUESTIONNAIRE USED FOR BANKERS

Dear Banker Colleagues,

I am Dr Ram Jass Yadav, your fellow banker colleague working with Bank of Baroda for about three decades and have been closely associated with activities relating to SME financing. The Indian Institute of Banking & Finance (IIBF), an apex institute in our country which encourages research in the field of banking to address contemporary issues which have an impact on the economy. In this backdrop, IIBF proposes to carry out a nation-wide research for current fiscal 2011-12 on 'Issues in SME Financing' and this research project has been assigned to me. The survey is, therefore, conducted on behalf of the IIBF and it is great pleasure for me to inform that you have been selected to participate in the survey. Your support in terms of investing invaluable time with us to respond this questionnaire would be GREAT contribution to accomplish the study and draw useful lessons for the banking industry towards the growth of SME sector in our country.

May I now speak to you on issues relating to SME finance? I assure you that your answers to this survey will be in strict confidence, used for statistical purpose and published in consolidated form.

Name of Your Bank & Branch: ....

Your Designation.......................................State....................................Date of Interview...........................

(1) Since how long you are in Bank, handling advance portfolio & heading Branch? Please circle the relevant row and column of following table.

	Length of service in Bank	Handling advances in Bank	Heading Branch in Bank
1	Less than 1 Year	Less than 1 Year	Less than 1 Year
2	1 Year - 3 Years	1 Year - 3 Years	2 Years - 3 Years
3	3 Years - 5 Years	3 Years - 5 Years	3 Years - 5 Years
4	5 Years - 10 Years	5 Years - 10 Years	5 Years - 10 Years
5	10 Years & more	10 Years & more	10 Years & more

(2) Would you please tell whether any training and learning exposure was offered by your Bank to groom in credit functions in banking?

- (1) Yes, training on credit provided
- (2) No training provided in credit and thus do not have much knowledge of credit

(3) Could you please describe the factors that inspire you to work in credit department?

- (1) I was recruited as specialist officer in bank for credit functions
- (2) Credit experience rewarded better than other general banking experience in terms of promotion, identification for overseas posting etc.
- (3) I was instructed to work in credit because no one was willing to perform in advances
- (4) I was groomed in credit by comprehensive package of training
- (5) Others please specify..

(4) What according to you, a bank should do so that people can own assignment of advance department for giving boost to SME credit?

- (1) Reward and compensation for additional man-hours, meetings with entrepreneurs, business associations etc
- (2) Flexible & lenient view in staff accountability
- (3) Preference in promotion, placement & posting at overseas centers of the Bank
- (4) Setting mutual targets for each officers to canvass & grant loans to SMEs as their one of Key Performance Indicators (KPIs) under Performance Management System
- (5) Any others (please describe) ....

(5) SME is considered to be growth engine of economy and credit in terms of amount increased many folds but still entrepreneurs claims that banks are not providing the sector adequate credit. Could you please mention the factors causing slow pace of growth in SME credit?

(1) Being small size of loans, transaction cost is very high hence not preferred

(2) SME borrowers do not have strong financials

(3) These borrowers do not have collaterals to secure banks' loans

(4) Most of the SME borrowers are first generation entrepreneurs don't have business experience and own contribution towards projects or business

(5) Lack of infrastructure in backward areas

(6) Any others (please describe) ....

(6) Credit Guarantee Scheme was introduced to encourage loans to Micro & Small Enterprises (MSEs) because credit to MSEs is not picking up for wants of collateral provided by them to banks. Would you please share the contributing factors for poor performance under CGTMSE scheme?

(1) Knowledge of such scheme is not available to the branch

(2) Bank does not have any control over borrower if it is financed without collateral

(3) Borrower to bear guarantee & service fees that increases it cost of borrowings, hence they are not interested

(4) Guarantee cover/amount is very less

(5) Any other (Please describe) ....

(7) Would you please describe the measures to increase collateral free loans under CGTMSE scheme by the banks?

(1) Awareness campaign for borrowers and also for bank officers of the Scheme

(2) Waiver of guarantee & service fees from borrowers & tax incentives to banks for such cost born by them on behalf of borrowers

(3) Enhancement in both i.e. guarantee claim at floor rate of 75% of default amount even over Rs. 50 lacs loan limit with cap of Rs. 75 lacs and guarantee limit from Rs.100 lacs to Rs.150 lacs

(4) Introduce 'Presidential National MSME award' for those bankers who exhibited splendid performance under the scheme to recognize their contribution to economy

(5) Any other (Please describe) ....

(8) Would you please describe reasons of not preferring lending to SMEs by banks?

(1) It is highly risky because of higher delinquency

(2) These beneficiaries do not have credit rating or have very low credit rating

(3) Fail to bring own contribution into business

(4) Do not have proper accounting and books of transactions

(5) Inverse relationship between number of account and volume of business, hence higher man-hours in processing and monitoring.

(6) Any other (Please describe) ....

(9) What measures you suggest to make bank loan cheaper and cost competitive for SMEs?

(1) Reward say 1% rebate on loan, to SME borrowers who have repaid loan in time

(2) Interest subvention by Government for all category of borrowers falling under Micro & Small entrepreneurs (MSEs)

(3) Rationalize processing, inspection, legal & file/documents charge for MSEs

(4) Cluster based TEV Study and Project Report by DIC for cluster financing to MSEs

(5) Any other (Please describe) ....

(10) Could you please mention factors contributing default in banks' loan by SMEs?

(1) Promoters' failure to bring their own contribution

(2) Diverting/Siphoning off funds

(3) Inadequate product branding and marketing tie-up

(4) Low technology innovation & cost inefficiency

(5) Delay in receiving payments from big corporate

(6) Lack of professionalism

(7) Under finance by banks, hence over private borrowings

(8) Any other (Please describe) ....

(11) Would you describe SME advances of your branch in terms of percentage (%) share in total advance, total NPA and total interest income of the branch as compared to Agriculture, Retail, Wholesale banking & other advances? Please circle 1- if SME share is over 50% in total advances, NPA, Interest earnings; 2- if SME share is 25-50%, 3- SME share is 10-25%, 4- if SME share is less than 10%.

(1) Per cent share of SME in total advances 1 2 3 4

(2) Per cent share of SME in total NPA 1 2 3 4

(3) Per cent share of SME in total interest income 1 2 3 4

(4) Rate of interest on SME advances as compared to other advances is - High or Low

(12) Do you feel that papers, documentations and processing of SME advances is lengthy, complex and inflexible as compared to other loans mentioned in following statements? Please circle 1-if Yes, 2 if No.

(1) SME vis-à-vis Agriculture advances 1 2

(2) SME vis-à-vis Retail loans 1 2

(3) SME vis-à-vis Wholesale banking & other advances 1 2

(13) What according to you are the possible measures to make processing and documentation procedure simple to reduce turnaround time?

(1) Setting up dedicated SME Care & Counseling (SMECC) Center at district level by each bank fully equipped by skilled man powers

(2) Standardized & simple format for SME loan appraisal on the lines of SME Loan application introduced by IBA

(3) Introduce one composite & common loan agreement for SME borrower that will not save time but also avoid stamp duty and complexities in document execution

(4) Launch tailor made products for SMEs

(5) Any other (Please describe) ....

(14) Would you offer some suggestions to SME clients, to make bank loan easy for them?

(1) Borrower to pay due tax on its turnover to build its equity strong in books

(2) Create good credit history with credit information company such as CIBIL to reduce probability of rejection of sanction and enhancement

(3) Build Product branch and marketing tie-up for uninterrupted purchase as well as sales

(4) Bring technology innovation and use e-business in banking & buyers' networking

(5) Cooperate like business partner in providing information & complying bank's guidelines.

(6) Any other (Please describe) ....

Thank you for your support